ANNUAL REPORT 2014

COMMISSION
DE SURVEILLANCE
DU SECTEUR
FINANCIER

Commission de Surveillance du Secteur Financier

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PREFACE

2014 was a particularly busy year for the CSSF. The two main branches of the financial sector, namely banks and the UCI industry, underwent various paradigm shifts. With the establishment of the European banking union, the prudential supervision of all the banks in the euro area was brought into the remit of the European Central Bank which manages the Single Supervisory Mechanism, within which the CSSF co-operates on a daily basis with the Luxembourg Central Bank. The preparation of this transfer of responsibilities, including the full assessment of the main institutions and the banks' asset quality review, as well as the effective implementation of the SSM on 4 November 2014, have extensively involved the national competent authorities. As for UCIs, the entry into force of the law on alternative investment fund managers required the UCI departments to process, within a very short time frame, a flood of applications for authorisation and registration, as well as to organise adequate supervision for this new pillar of the financial centre.

The CSSF could not have tackled these challenging changes without the extraordinary commitment and availability of the members of the Executive Board more specifically responsible for these aspects and all the agents directly or indirectly involved in this work. Whereas before the crisis, in an international context marked by deregulation and an approach based on principles, the Luxembourg financial centre could do with a less substantial supervisory authority, the by far more demanding requirements imposed on the regulators in the wake of the crisis and with the move towards a European supervision, led the CSSF to pursue, for six years now, a policy aiming to systematically strengthen its staff. There are still areas in which new recruits will need to complement the personnel in place.

But the focus will necessarily shift to the continuous improvement of the competence management so that the CSSF as an institution will be able to fully benefit from the combined experience and knowledge gathered by its agents, from the most senior to the most recently hired. This improvement can be based on the risk mapping established internally with the input of all the heads of department. It will require organising and permanently monitoring the management and disclosure of knowledge, by and for all the CSSF's agents, by using tools such as continuing education, documentation, the redesigned website and "wiki".

The CSSF is entitled to take a certain pride in that international institutions, such as the IMF, and the European institutions as well as its peers certify that it fulfils its role in accordance with the standards imposed nowadays on the regulator of an international financial centre and that they recognise it as such. It is precisely because Luxembourg is considered as a globally systemic financial centre, through its volume and interconnections that are not always well understood, that the CSSF must pursue its efforts in order to credibly demonstrate its capacity to manage the risks of its mission.

The almost unnoticeable transition from controlling or supervisory body to regulator means that the CSSF can no longer simply verify that the rules are complied with. In addition to issuing texts, it is bound to oversee the proper functioning of the financial system under its remit, which may require it to intervene in a corrective manner, or to give a nudge in order to make things go in the right direction. This is why, from early on, the CSSF pushed the financial sector to commit to tax transparency and to persevere down this path. This is why it made proposals and will act so as to eliminate the use of structures within banking groups that escape the consolidated supervision and of non-banking entities likely to mislead investors about their status. This is also why it requires that financial players have on site the necessary substance allowing it to exercise its competences.

In its capacity as regulator with the mission to protect financial consumers, the CSSF will necessarily have to intervene more intrusively in order to ensure compliance with the principles of sound governance and the rules of conduct, as well as to vet financial products and ensure respect of the new requirements for the financial instruments markets.

The CSSF must nonetheless monitor and accompany the emerging developments and innovations which may harbour growth potential for the financial centre. The assets managed by the UCIs are growing continuously and the banking sector shows signs of vitality with the arrival of new institutions from different horizons which are likely to re-inject vigour into the primary business of banks which is granting credits. Almost by an irony of fate, the securitisation of credits originated by the banks would make the latter providers of the parallel banking system and thereby contribute to realising the objectives of the Capital Markets Union. The most visible innovations, roughly labelled Fintech because they are pushed by IT technology, have taken place in the area of payment services and the creation of IT platforms that are new forms of markets for credits and investments. The existing rules that govern, for instance, the different PFS statuses or professional secrecy or the mutualisation and outsourcing of certain activities constitute barriers to the development of new activities. The regulator could contribute to eliminating such obstacles.

Seventy years after the creation of the “banking control” in Luxembourg, the financial centre and its regulator have little in common with their beginnings. The CSSF, successor of the CCB and the IML, full member of the European System of Financial Supervision and the Single Supervisory Mechanism, would deserve an update of its governance, missions and means. The Executive Board of the CSSF has submitted a preliminary draft law to the Minister of Finance for an Authority of the Financial Sector, which, without revolutionising anything, would allow the Government and the legislator to realise this objective of reform within continuity.

Jean GUILL

Director General

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SUMMARY

The 2014 trends for the different financial centre segments may be summarised as follows.

International aspects of supervision

The year 2014 was characterised by the launch, in the context of the European banking union, of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) and by the increased activity of the European supervisory authorities EBA, ESMA and EIOPA in order to harmonise the regulations and apply regulatory and implementing technical standards. The Asset Quality Review exercise of the Comprehensive Assessment carried out by the ECB within the framework of the SSM, the co-operation with the ECB and the national competent authorities in the Joint Supervisory Teams of the SSM, as well as the co-operation between national supervisory authorities within the colleges of supervisors for cross-border banking groups, mobilised many resources within the CSSF.

144 credit institutions

Balance sheet total: EUR 737.24 billion

Net profit: EUR 4,169 million

The number of banks decreased by three entities to 144 as at 31 December 2014. Ten banks started their activities whereas 13 banks ceased their activities during the year.

The aggregated balance sheet total reached EUR 737.24 billion at the end of 2014, representing a 3.3% growth compared to 2013. This rise, shared by 62% of the banks of the financial centre, comes in a context of business upturn or development of new activities. In the latter case, the banks concerned generally originated from non-EU countries. Nevertheless, there is still a downward pressure on the balance sheet total of the Luxembourg banks belonging to European banking groups that had been particularly hit by the 2008 financial crisis.

The net profit of the Luxembourg banking sector reached EUR 4,169 million (+14.8% compared to 2013). This growth is mainly the result of two trends: the fall in general expenses which reflects the efforts of the banking sector to compress costs in a difficult operational environment, and, above all, the recovery of certain risk provisions. However, it should be noted that the upward trend was not shared by all the banks in the financial centre, as evidenced by 45% of the banks whose net results continued to decrease over a year.

315 PFS (111 investment firms, 123 specialised PFS, 81 support PFS)

Balance sheet total:

Investment firms: EUR 3.64 billion; specialised PFS: EUR 10.84 billion; support PFS: EUR 1.05 billion

Net profit:

Investment firms: EUR 153.6 million; specialised PFS: EUR 347.5 million; support PFS: EUR 59.9 million

With 31 new entities authorised during the year, against 30 deregistrations, there have been many ups and downs on the PFS market, but, ultimately, the number of PFS of all categories only increased by one entity in 2014. Indeed, while the net development in number turned positive again for investment firms (+4 entities), the number of specialised PFS started to fall (-3 entities). The number of support PFS remained stable over the year.

The aggregated balance sheet of investment firms increased by 17.4% to EUR 3.64 billion as at 31 December 2014, owing mainly to the substantial growth of the balance sheet of one player authorised since 2010. As a consequence of the fall in the number of specialised PFS, their aggregated balance sheet fell slightly (-0.2%) and amounted to EUR 10.84 billion at the end of 2014. The aggregated balance sheet total of support PFS decreased to EUR 1.05 billion as at 31 December 2014 (-2.9%).

Although, overall, the net results of the investment firms grew by 2.9%, the individual situation of the entities is quite mitigated in 2014. Indeed, a certain number of investment firms showed stable net results, or even on the rise as compared to 2013, whereas other investment firms suffered, during the same period, decreases in their net results. A little less than a quarter of the investment firms even recorded negative results in 2014. The aggregated net result of specialised PFS, however, registered a considerable growth of 58.1%, 70% of which is attributable to two large entities. The majority of specialised PFS showed a net result which increased as compared to 2013. For support PFS, the net profit increased by 39.6% and amounted to EUR 59.9 million at the end of 2014.

9 payment institutions

6 electronic money institutions

The number of payment institutions (+3 entities) and electronic money institutions (+1 entity) slightly increased in an emerging market which seeks its cruising speed. The CSSF noticed a certain interest from several players to establish themselves in Luxembourg to benefit from this market opportunity.

4,193 UCIs[1]

14,237 units

Total net assets: EUR 3,127.7 billion

206 management companies

169 alternative investment fund managers (AIFMs)

In 2014, the UCI sector registered a 18.2% growth in net assets under management, originating for 51.7% from net subscriptions and for 48.3% from the positive performance of financial markets.

The number of UCIs improved again by +0.3% (i.e. +12 entities). Making up 45.2%, UCITS remain the majority in terms of numbers, closely followed by SIFs with 37.9%. In terms of assets under management, the UCITS still predominate with 82.4% of total net assets of UCIs, against 11.1% for SIFs. When taking into account umbrella funds, a total of 14,237 economic entities were active on 31 December 2014, which represents a new record.

With 206 active entities, the number of management companies authorised pursuant to Chapter 15 of the 2010 Law increased by 11 entities, following 21 new authorisations and 10 deregistrations, most of which were due to the restructuring of different groups resulting in mergers and cessation of business.

As evidenced by the 159 AIFM authorisations granted by the CSSF in 2014 (against 10 in 2013), 2014 was mainly characterised by players of the investment fund industry becoming compliant with the AIFM Law.

32 authorised securitisation undertakings

As there was one new authorisation, the number of authorised securitisation undertakings increased by one entity during the year. The balance sheet total of authorised securitisation undertakings also increased by EUR 4.2 billion and amounted to EUR 23.8 billion at the end of the year.

15 pension funds

The number of authorised pension funds rose by one entity in 2014. At the end of 2014, gross assets of pension funds reached EUR 1,385 million, which represents a 62% rise compared to the end of 2013. The number of pension fund members also rose with 16,155 members as at 31 December 2014 (+17.5%). These substantial rises are mainly due to the creation of two new pension schemes within two existing pension funds.

[1] The term UCIs refers to UCITS and UCIs of Part II of the law of 17 December 2010 as well as to SIFs subject to the law of 13 February 2007 and to SICARs subject to the law of 15 June 2004.

Total employment in the supervised entities: 44,038 people

(of which banks: 25,785 people, investment firms: 2,390 people, specialised PFS: 3,431 people, support PFS: 9,043 people, management companies: 3,389 people)

Total employment in the financial sector went down by 0.4%, i.e. 184 people, during 2014. However, depending on the category of financial players, the situation diverges.

Employment in the banking sector fell by 1.7% which is largely due to the continued restructuring and consolidation of activities as well as to the cessation of activities of several banks. This decrease in staff could not be fully offset by the creation of jobs in the credit institutions which started their activities during the year.

Employment in investment firms decreased by 6.6%. This development mainly reflects transfers of activities which, however, had no impact on the aggregate number of jobs in the financial sector, but only changed the breakdown among categories of entities. However, the staff of specialised PFS increased by 7.2%, in particular as a result of a transfer of activities and the creation of new positions. Support PFS staff also increased, although only slightly, by 0.8%.

The positive development of the management companies' staff (+4.2% in 2014) results from the creation of new entities, the staff increases of existing entities and the change of status of some entities leading de facto to a transfer of personnel.

1,731 prospectuses, base prospectuses and other approved documents

634 supervised issuers

0.96 million reported transactions in financial instruments

The number of files submitted in Luxembourg for the approval of prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market rose compared to 2013 (+6.2%).

The CSSF supervises issuers whose securities are admitted to trading on a regulated market and whose home Member State is Luxembourg for the purposes of the Transparency Law. Their number reached 634, of which 224 are Luxembourg issuers. The supervision involves a general follow-up of regulated information to be published by issuers as well as the enforcement of the financial information, i.e. the assessment of compliance of the financial information with the relevant reporting framework, namely the applicable accounting standards.

As regards the supervision of markets and market operators, the CSSF received about 0.96 million reports on transactions in financial assets which allow observing market trends and identifying possible offences. In the framework of the law on market abuse, the CSSF initiated two investigations in relation to insider dealing and/or market manipulation and dealt with 65 requests from foreign authorities.

138 on-site inspections and visits

In addition to the 26 introductory visits which take place, in principle, within the first six months of the authorisation of the new players of the financial centre and aim to accompany them in their business start-up phase, the CSSF carried out, in 2014, more than a hundred on-site inspections covering a wide variety of aspects such as liquidity risk, interest rate risk, the validation of credit risk and operational risk management models, credits, corporate governance, MiFID arrangements, the function of depositary bank, anti-money laundering and terrorist financing, the support PFS activity and the ad hoc missions relating to a specific, or even worrying, situation or issue within a supervised entity.

Public oversight of the audit profession

The public oversight of the audit profession covered 66 *cabinets de révision agréés* (approved audit firms) and 245 *réviseurs d'entreprises agréés* (approved statutory auditors) as at 31 December 2014. The oversight also included 48 third-country auditors and audit firms duly registered in accordance with the law of 18 December 2009 concerning the audit profession.

As regards the missions performed within the framework of statutory audits and other missions exclusively entrusted to them by law, the *réviseurs d'entreprises agréés* and *cabinets de révision agréés* are subject to a quality assurance review, organised according to the terms laid down by the CSSF in its capacity as supervisory authority.

637 customer complaints

Pursuant to its specific competence as regards consumer complaint handling, the CSSF received 637 complaints last year, most of which (46%) concerned electronic payment service issues. Both complaints regarding private banking and those relating to savings accounts and term deposits took the second place with 11% of the total processed complaints.

555 agents

Operating costs of the CSSF in 2014: EUR 66.6 million

The year 2014 was marked by the ongoing increase in the CSSF's staff (+59 agents) in order to face the growing workload resulting notably from the implementation of the SSM at European level, the introduction of new prudential requirements and, in general, the increase in the volume and complexity of financial products. This figure is supplemented by the numerous on-site inspections, which became an important pillar of the prudential supervision exercised by the CSSF.

CHAPTER I

GOVERNANCE AND FUNCTIONING OF THE CSSF

1. PRINCIPLES

The CSSF, established by the law of 23 December 1998, with effect on 1 January 1999, is a public institution with legal personality and financial autonomy. It operates under the authority of the Minister responsible for the financial centre, i.e. the Minister of Finance Mr Pierre Gramegna.

1.1. CSSF bodies

The CSSF's board of directors is composed of seven members appointed by the Grand Duke on the proposal of the Government in Council for a period of five years. The powers conferred upon the board of directors notably include the annual adoption of the CSSF's budget and the approval of the financial statements and of the management report of the CSSF's executive board, which are submitted to the board of directors before their presentation to the Government for approval. It also sets the general policy as well as the annual and long-term investment programmes which are submitted to it by the executive board before being submitted for approval to the Minister of Finance. The meetings and deliberations of the board of directors take place according to its internal rules. The board of directors is not competent to intervene in the CSSF's prudential supervisory matters.

The senior executive authority of the CSSF is the executive board, composed of a director general and between two and four directors, appointed by the Grand Duke on the proposal of the Government in Council for a period of five years. The executive board works out the measures and takes the decisions it deems useful and necessary for the fulfilment of the CSSF's mission and for its organisation. Moreover, it sets up a five-year "target contract" with the Minister of Finance. The executive board is responsible for the reports and proposals it is obliged to address to the board of directors and the Government.

1.2. Decision-making process

According to its internal rules, the executive board must meet collectively at least once a week to take the decisions required to accomplish the mission of the CSSF. The executive board is responsible collectively even if each individual member runs one or several departments.

The decisions taken in the context of the CSSF's mission may be referred to the *Tribunal administratif* (Administrative Court), which decides on the merits of the case. These recourses must be instituted, under penalty of foreclosure, within one month from the notification of the decision.

1.3. Drawing-up of regulations

The CSSF has the power to make regulations within the limits of its competences and missions, in accordance with Article 9(2) of the law of 23 December 1998. Draft regulations must be submitted to the Consultative committee for prudential regulation or the Consultative committee for the audit profession. The CSSF regulations are published in the *Mémorial*.

The legislative framework applicable to the financial sector is complemented by circulars issued by the CSSF with a view to specifying how legal provisions should be applied and issuing recommendations on conducting business in the financial sector.

Following the example of international fora and counterpart authorities, the CSSF has established a broad consultation procedure, which involves, during the stage of drawing up the regulations and circulars, the professionals of the financial sector, as well as any other person concerned, notably via expert committees and ad hoc working groups.

1.4. Financing of the CSSF and account auditing

The CSSF is authorised to levy taxes on supervised persons and undertakings to cover its staff, financial and operating costs. The Grand-ducal Regulation of 28 October 2013 lays down the amounts applicable and

guarantees full financing of the operating costs.

The Government appoints a *réviseur d'entreprises agréé* (approved statutory auditor) on the proposal of the CSSF's board of directors for a period of three years. The mission of the *réviseur d'entreprises agréé* is to audit and certify the CSSF's accounts and to submit a detailed report on the CSSF's accounts to the board of directors and the Government at the close of the financial year. The *réviseur d'entreprises agréé* may be charged by the board of directors with making specific checks.

The CSSF is subject to the control of the Court of Auditors (*Cour des comptes*) as to the appropriate use of the public financial participation it receives.

2. GOVERNING BODIES

Board of Directors

Chairwoman	Isabelle GOUBIN	Director of the Treasury, Ministry of Finance
Members	Rima ADAS	Institut des Réviseurs d'Entreprises
	Serge DE CILLIA	Chief Executive Officer of the Luxembourg Bankers' Association
	Marc SALUZZI	Chairman of the Association of the Luxembourg Fund Industry
	Marny SCHMITZ	Attachée de gouvernement, Ministry of Finance
	Claude WIRION	Chairman of the Executive Committee of the Commissariat aux Assurances
Secretary	Danielle MANDER	

Executive Board

Director General	Jean GUILL
Directors	Simone DELCOURT, Andrée BILLON, Claude SIMON

Executive Board of the CSSF
Left to right: Andrée BILLON, Jean GUILL, Simone DELCOURT, Claude SIMON

3. COMMITTEES

3.1. Consultative committees

3.1.1. Consultative committee for prudential regulation

The Government may seek advice from the committee, constituted by the law of 23 December 1998 establishing a financial sector supervisory commission (Commission de surveillance du secteur financier), on any draft law or Grand-ducal regulation in the field of the financial sector falling within the competence of the CSSF. The CSSF's executive board seeks the opinion of the committee on any draft regulation of the CSSF other than related to statutory audits and the audit profession. Members of the committee may also seek its advice concerning the setting-up or application of prudential regulations overall or for specific issues. The external members of the committee are appointed by the Minister of Finance.

Committee composition:

Executive board of the CSSF:	Jean Guill (Chairman), Andrée Billon, Simone Delcourt, Claude Simon
Members:	Nicolas Buck, Serge de Cillia, Alain Feis, Isabelle Goubin, Robert Scharfe, Carlo Thill, Camille Thommes
Secretary:	Danielle Mander

3.1.2. Consultative committee for the audit profession

The Government may seek advice from the committee, established by the law of 18 December 2009 concerning the audit profession, on any draft law or Grand-ducal regulation related to statutory audits and the audit profession subject to the oversight of the CSSF. The CSSF's executive board seeks the opinion of this committee on any draft regulation of the CSSF related to statutory audits and the audit profession. Members of the committee may also seek its advice concerning the setting-up or application of the regulation of public oversight of the audit profession overall or for specific issues. The external members of the committee are appointed in accordance with Article 15-1 of the law of 23 December 1998 establishing a financial sector supervisory commission (Commission de surveillance du secteur financier).

Committee composition:

Executive board of the CSSF:	Jean Guill (Chairman), Andrée Billon, Simone Delcourt, Claude Simon
Members:	Anouk Agnes, Serge de Cillia, Yasmin Gabriel, Sophie Mitchell, Jean-Michel Pacaud, Victor Rod, Daniel Ruppert, Philippe Sergiel, Anne-Sophie Theissen
Secretary:	Danielle Mander

3.2. Permanent and ad hoc expert committees

The expert committees assist the CSSF in analysing the development of the different areas of the financial sector, give their advice on any issue relating to their activities and contribute to the drawing-up and interpretation of the regulations relating to areas covered by the respective committees. In addition to the permanent committees listed below, ad hoc committees are formed to examine specific subjects.

The permanent expert committees are the following:

- Anti-Money Laundering Committee;
- Banks Issuing Covered Bonds Committee;
- Banks and Investment Firms Committee;

- Bank and Investment Firm Accounting Committee;
- Depositaries Committee;
- Pension Funds Committee;
- AIFM Committee;
- Corporate Governance Committee;
- Undertakings for Collective Investment Committee;
- Financial Consumer Protection Committee;
- SICAR Committee;
- Audit Technical Committee;
- Securitisation Committee.

In 2014, the following people took part in the different expert and ad hoc committees of the CSSF:

ADAS Rima
Institut des réviseurs d'entreprises

AREND Pascale
Commissariat aux Assurances

BAUER Maurice
Société de la Bourse de Luxembourg S.A.

BECHET Marc-André
Association of the Luxembourg Fund Industry

BERGER Michèle
FundPartner Solutions (Europe) S.A.

BIRASCHI Sonia
State Street Bank Luxembourg S.A.

BOURIN Catherine
The Luxembourg Bankers' Association

BRAUSCH Freddy
Linklaters LLP

BRUNET Stéphane
BNP Paribas Investment Partners Luxembourg S.A.

CARRÉ Olivier
PricewaterhouseCoopers

CHAMBOURDON Stanislas
KPMG Luxembourg

CHARLIER Raphaël
Deloitte

CHÈVREMONT Marie-Jeanne
Institut Luxembourgeois des Administrateurs

COLBERT Cheryl
Ministry of Higher Education and Research

CONAC Pierre-Henri
University of Luxembourg

CONTER Marie-Jeanne
Ministry of Finance

CONTZEN Ernst Wilhelm
The Luxembourg Bankers' Association

DE CILLIA Serge
The Luxembourg Bankers' Association

DELVAUX Jacques
Notary

DONDELINGER Germain
Ministry of Higher Education and Research

ELVINGER Jacques
Elvinger, Hoss & Prussen

ENGEL Doris
Banque et Caisse d'Épargne de l'État

EVRARD Amaury
PricewaterhouseCoopers

FEIS Alain
Interinvest S.A.

FISCHER Rafik
KBL European Private Bankers S.A.

GEBHARD Gerd
Pecoma International S.A.

GOEDERT Guy
Union Luxembourgeoise des Consommateurs

GOUBIN Isabelle
Ministry of Finance

GOUDEN Patrick
The Luxembourg Bankers' Association

GRIGNON DUMOULIN Hubert
Société de la Bourse de Luxembourg S.A.

GUAY Michel
Institut des réviseurs d'entreprises

GUERRIER Eric
Banque Privée Edmond de Rothschild Europe

HAAS Christophe
Institut des réviseurs d'entreprises

HALMES-COUMONT Claudia
Pecoma International S.A.

HAUSER Joëlle
Clifford Chance

HELARD Harold
Esofac Luxembourg S.A.

HENGEN Marc
Association des Compagnies d'Assurances

HOFFMANN Robert
Loyens & Loeff

HOSS Philippe
Elvinger, Hoss & Prussen

JANSEN Laurent
BGL BNP Paribas

KHABIRPOUR Sarah
Ministry of Finance

KINSCH Alain
Ernst & Young

KREMER Claude
Arendt & Medernach

KREMER Christian
Clifford Chance

KRIER Pierre
PricewaterhouseCoopers

LEBBE Isabelle
Arendt & Medernach

LENERT Jerry
Ministry of Higher Education and Research

LEQUEUE Jean-Noël
Association Luxembourgeoise des Compliance Officers du Secteur Financier

LHOEST Bernard
Ernst & Young

MARGUE Pierre
SES S.A.

MISSON Christopher
Pictet & Cie (Europe) S.A.

MITCHELL Sophie
Institut des réviseurs d'entreprises

MULLER Charles
KPMG Luxembourg

MULLER Marc
Conférence nationale des professeurs de sciences économiques et sociales

NIEDNER Claude
Arendt & Medernach

OLY Carlo
Société de la Bourse de Luxembourg S.A.

PEETERMANS Marie-Aline
Chamber of Commerce

PÉRARD Frédéric
BNP Paribas Securities Services, succursale de Luxembourg

PETRY Pierre
Banque Internationale à Luxembourg

PIERRE Gilles
The Luxembourg Bankers' Association

RIES Marie-Josée
Ministry of Economy

RUDDY Dee
KPMG Luxembourg

RUPPERT Daniel
Ministry of Justice

SALUZZI Marc
Association of the Luxembourg Fund Industry

SAUVAGE Benoît
The Luxembourg Bankers' Association

SCHARFE Robert
Société de la Bourse de Luxembourg S.A.

SCHINTGEN Gilbert
UBS Fund Services (Luxembourg) S.A.

SCHLEIMER Pierre
Allen & Overy

SCHMITT Alex
Bonn & Schmitt

SCHMITZ Hans-Jürgen
Mangrove Capital Partners S.A.

SCHMITZ Marny
Ministry of Finance

SCHUMAN Thierry
BGL BNP Paribas

SEALE Thomas
European Fund Administration S.A.

SERGIEL Philippe
PricewaterhouseCoopers

SIX Jean-Christian
Allen & Overy

TESTA Sylvie
Ernst & Young

THILL Carlo
BGL BNP Paribas

THOMA Patrick
Ministry of Family, Integration and Greater Region

THOMMES Camille
Association of the Luxembourg Fund Industry

THURMES Vincent
Ministry of Finance

UEBERECKEN Jean-Marc
Arendt & Medernach

VALSCHAERTS Dominique
Fundsquare S.A.

VERACHTERT Eef
Brown Brothers Harriman (Luxembourg) S.C.A.

VINCIARELLI Paolo
Banque et Caisse d'Épargne de l'État

VONCKEN Marc
PricewaterhouseCoopers

VOSS Denise
Franklin Templeton International Services S.à r.l.

WAGNER Henri
Allen & Overy

WARKEN François
Arendt & Medernach

WATELET Patrick
Citibank International Plc, Luxembourg branch

WEBER Alain
Banque LBLux S.A.

WIRION Claude
Commissariat aux Assurances

YIP Johnny
Deloitte

ZIMMER Julien
DZ PRIVATBANK S.A.

ZURSTRASSEN Patrick
Institut Luxembourgeois des Administrateurs

ZWICK Marco
Luxembourg Association for Risk Management

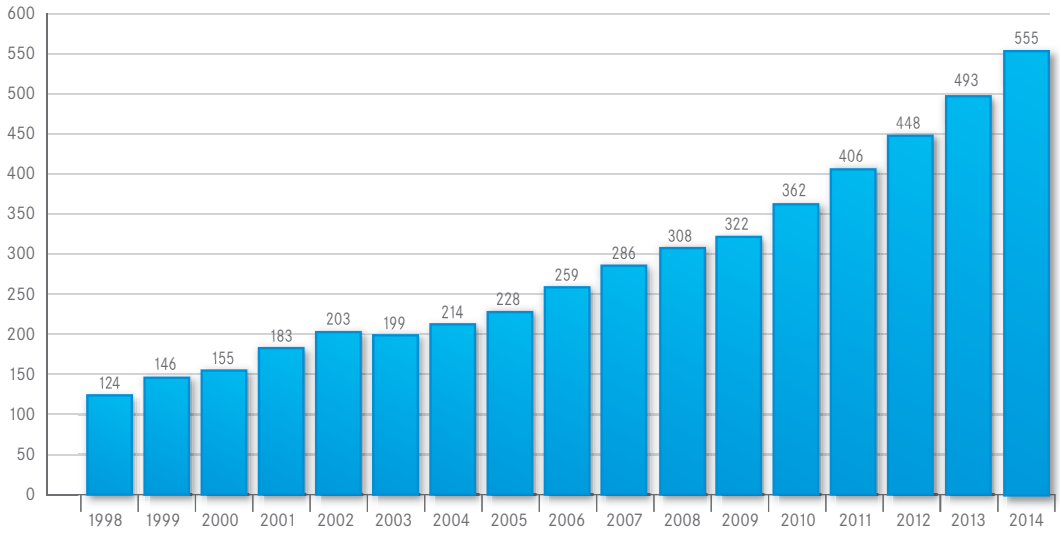
4. HUMAN RESOURCES

4.1. CSSF staff

As far as human resources are concerned, and as in the previous years, 2014 was marked by a significant rise in the number of staff. Thus, 59 agents were recruited. Following the resignation of seven agents over that period, total employment reached 555 units as at 31 December 2014, representing a 12.58% increase compared to 2013. This is the equivalent of 493.55 full-time jobs, i.e. a 13.28% increase compared to 2013.

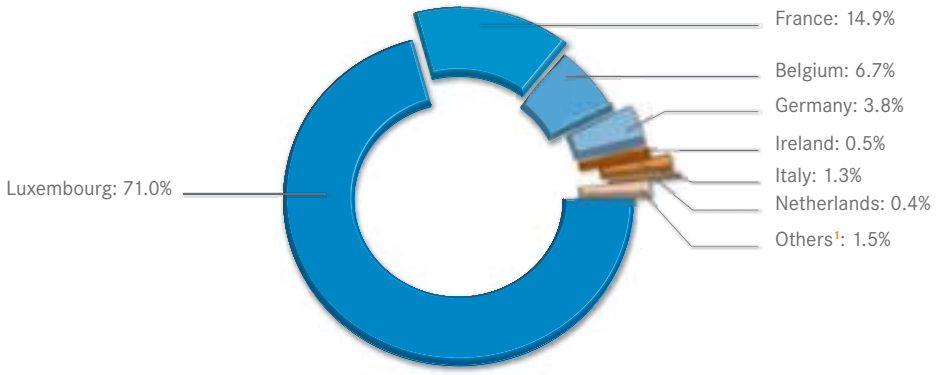
It must be noted the CSSF received 2,710 job applications, including 296 spontaneous applications in 2014. As in the previous years, recruitment mainly focused on University degrees and candidates' competence.

Movements in staff numbers



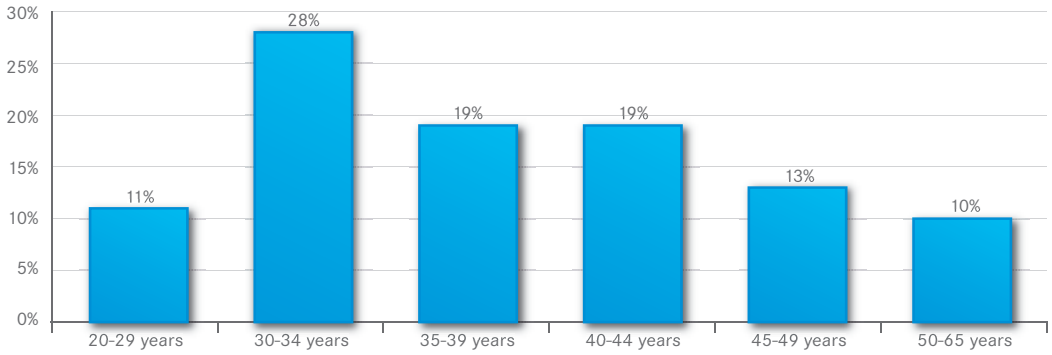
CSSF agents represent 12 nationalities, the Luxembourg nationality being the most represented with 70.96% of the total staff.

Breakdown of staff by nationality



The average age of CSSF staff members increased slightly from 38.17 years as at 31 December 2013 to 38.54 years at the end of 2014. Women make up 48.82% of total staff and men 51.18%.

Breakdown of staff by age



4.2. Staff training

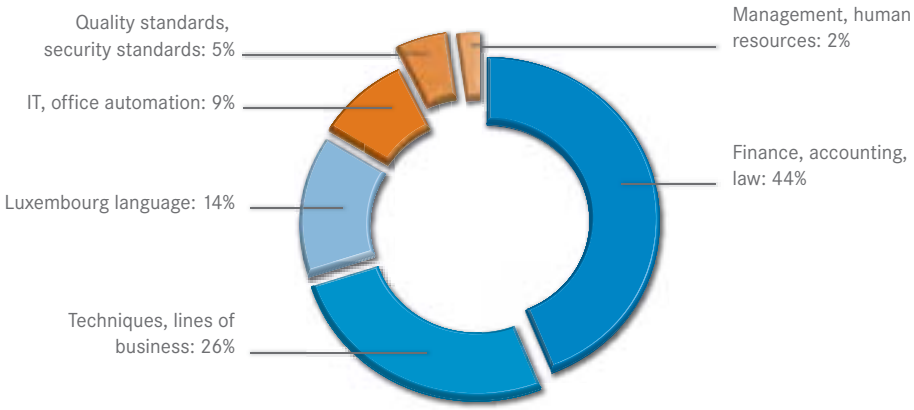
In 2014, CSSF staff attended a total of 467 training sessions, i.e. 3,257 training days. This figure represents an average of 5.82 training days per agent. Efforts in training being encouraged, CSSF staff could total 19,542 training hours.

These training courses consisted both of continuous training, offered to CSSF staff throughout their professional career, and of training during the internship to become a *fonctionnaire* (civil servant). The following graph presents the different topics on which trainings were held.

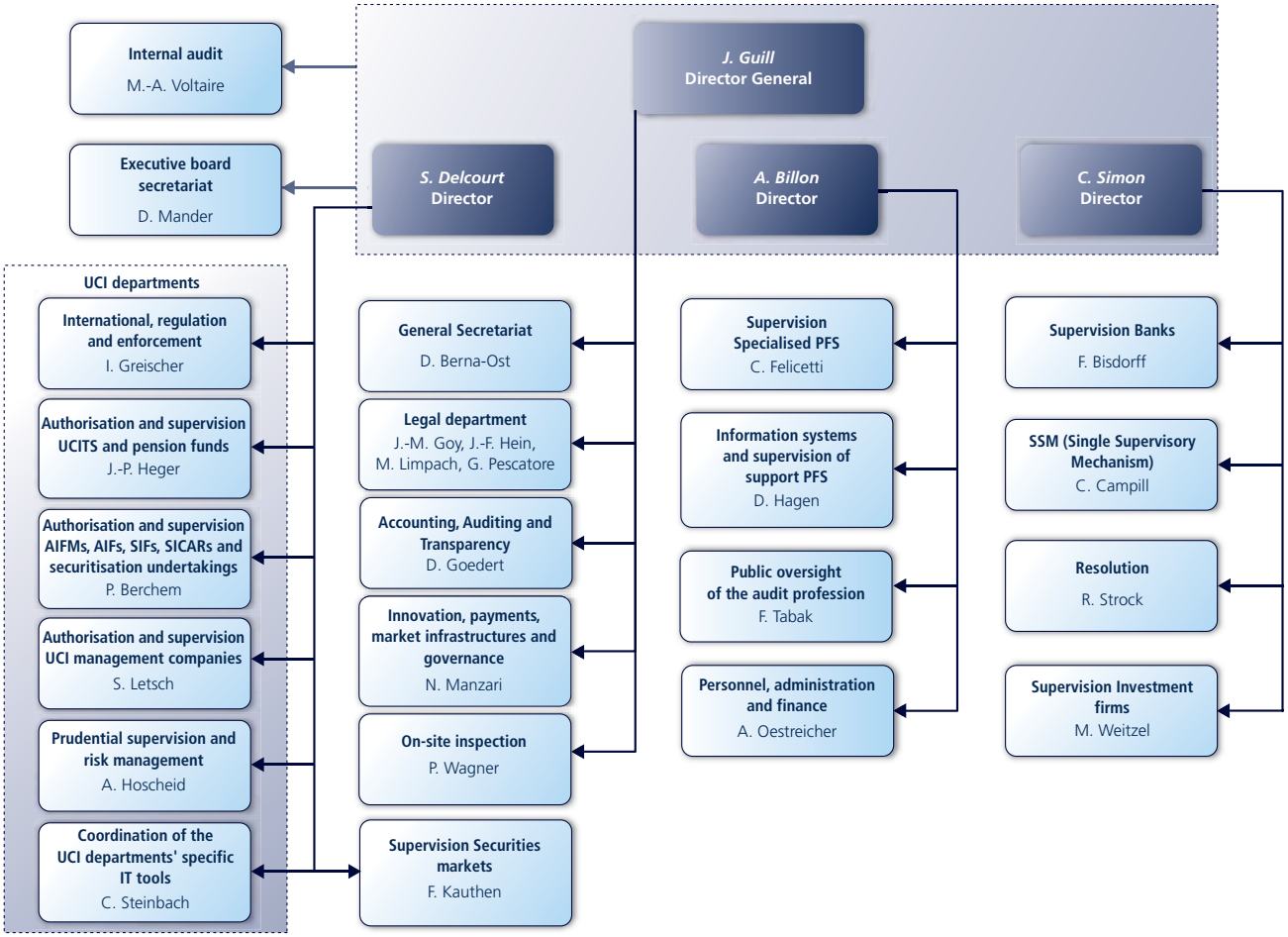
It should be noted that more than half (51%) of the training sessions were held by CSSF in-house trainers.

[1] Austria, Spain, Poland, Portugal, Romania.

Breakdown of training sessions according to topic



4.3. Organisation chart



Detailed information on the CSSF's organisation is available on the CSSF website in the section "The CSSF", sub-section "General organisation".

5. CSSF LIBRARY

The CSSF library is a reference library which is part of the Luxembourg libraries' network bibnet.lu since 2009. It is specialised in banking and financial law as well as financial economy. It contains more than 2,600 books and around 50 periodicals and update publications. The library also has a certain number of specialised electronic databases.

All the books in the library are listed in the general catalogue of the bibnet.lu network. The unified search engine of the collections of the network (www.a-z.lu) enables an easy search of the books available in the CSSF library and in all Luxembourg libraries.

The library is open to the public on prior request and by appointment, Monday through Friday from 9 a.m. to 11 a.m. and from 2 p.m. to 4 p.m..

6. NEW CSSF HEADQUARTERS

With a view to streamlining and efficiency, so as to concentrate on a single site the activities which, at a given time, were spread over three different sites, the CSSF decided in 2011 to build new headquarters to cope with the increasing number of agents and to enhance the processes and, thereby, the functioning of the CSSF when carrying out the missions assigned to it.

On a net surface of 14,200 square meters, the new headquarters will offer about 660 workstations, a canteen, a fitness room, a public library and meeting, conference and training rooms.

In the year 2014, the structural work was completed by the installation of the frames and the white concrete elements of the façade. The interior fitting and technical work is currently under way and its progress corresponds to the contract execution schedule.

South façade (10.07.2014)

Second floor (18.09.2014)

Main entrance (16.10.2014)

Courtyard, waterproofing works (20.11.2014)

Source : Drees & Sommer

As all authorisations have been granted and insofar as there is currently no delay in schedule, the acceptance of the new headquarters is planned for July 2015, so that the CSSF will be able to move into its new offices as from this date.

7. INFORMATION SYSTEMS

The division in charge of the CSSF's IT systems is part of the department "Information systems and supervision of support PFS". This division is in charge of installing, maintaining and developing the CSSF's internal IT infrastructure as well as managing the electronic reporting of supervised entities.

7.1. "Registry" project

The CSSF responded to the exchange requirements of ESMA which initiated in 2012 the "Registry" (formerly "Omnibus") project covering the needs arising from the AIFMD, UCITS Directives and MiFID, i.e. in particular the creation of a register allowing the identification of alternative investment fund managers, management companies of UCITS, investment firms under MiFID and the collection of prospectuses approved in accordance with the Prospectus Directive.

The "Registry" project is now operational and the CSSF provides ESMA with the information as regards the approved prospectuses. As regards the part concerning AIFMs, developments were terminated in 2014. Following the publication of Circular CSSF 14/581 on the new reporting obligations for alternative investment fund managers, the CSSF received the first reports as from 1 November 2014. Since that date, 8,107 files have been received (status March 2015).

7.2. Legal Entity Identifier

The Legal Entity Identifier (LEI), created by the Financial Stability Board (FSB), enables the identification of the persons involved in financial transactions for the purpose of identifying the systemic risk and is now available in Luxembourg at LuxCSD. It is systematically used for reporting, in particular because it was introduced for all the reportings of the EBA (FINREP, COREP and its derivatives).

7.3. FINREP and COREP

The local specificities of FINREP and COREP at CSSF level for banks and investment firms are documented on the following CSSF Internet pages:

- http://www.cssf.lu/en/supervision/banks/legal-reporting/recueil/prudential-reporting/common-european-reporting-extended-corep/
- http://www.cssf.lu/en/supervision/pfs/inv-firm/legal-reporting/

There are, among other things, a set of additional plausibility rules of the CSSF that allow increasing data quality[2].

Also, the EBA regularly publishes taxonomies applicable to FINREP and COREP[3]. After two initial versions in 2014 (V2.0 and V2.1), the applicable version since December 2014 is version V2.2. The integration of the next version V2.3 (published by the EBA at the beginning of March 2015 and applicable as from June 2015) is being finalised by the CSSF.

The CSSF requests XBRL instances that are 100% compatible with these taxonomies, including compliance with the additional EFR rules (European Filing Rules) in revision 3[4].

[2] Website link: http://www.cssf.lu/fileadmin/files/Reporting_legal/Recueil_banques/CSSF_Plausibility_checks_Clean_version_260115.pdf.

[3] Website link: http://www.eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standard-on-supervisory-reporting-data-point-model-.

[4] Website link: http://www.eba.europa.eu/documents/10180/998485/EBA+XBRL+Filing+Rules+revision+3.pdf.

Compliance with the formula in the different taxonomy versions is still mandatory. The list of deactivated rules is, in general, updated by the CSSF in the first working days following the publication by the EBA[5].

The CSSF generates systematically for all instances (containing correct XBRL information) a version of the instance in .xlsx format which includes information on the values of the instance concerned and the infringed validation rules. The files concerned are returned to the entities in order to assist them in correcting the errors.

The CSSF is currently studying additional projects which provide for:

- additional return files, notably FDB files (containing feedback from the CSSF's internal reporting system) and/or FBH files (containing feedback on the results of the submission by the CSSF of the instance to a second-level European institution such as the EBA or the ECB);
- warnings on poor quality reporting aspects. In the long run, these warnings could be integrated by the EBA in the taxonomies or by the CSSF in the internal reporting systems. Contrary to the validation rules currently published by the EBA, non-compliance with some of these warnings will be possible without rejection of the instance, but anomalies must be justified. The envisaged mechanisms to send justifications of non-compliance with warnings would be based on dedicated reports or on the XBRL mechanism of footnotes.
- an improvement of the CSSF's Business Intelligence system.

7.4. Exchanges and connectivity with the Luxembourg Central Bank (BCL)

Following the implementation of the Single Supervisory Mechanism (SSM) steered by the European Central Bank (ECB), the CSSF improved its connectivity with the BCL which itself is connected to the ECB in Frankfurt.

The SSM relies on applications implemented by the ECB which must be accessible from the national authorities. This implies that the CSSF must understand these tools, offer its agents adequate assistance and respect the ECB and BCL-related constraints. This connectivity allowed:

- optimising the exchange of information concerning reportings and other information emanating from the supervised entities;
- setting up a secure infrastructure and encouraging the convergence of the relevant security policies.

7.5. Setting-up of a videoconferencing infrastructure

The CSSF set up a videoconferencing infrastructure compatible with the two major European authorities EBA and ESMA. This equipment allows reducing travel costs and time, without bringing about the usual drawbacks of audio conferencing, i.e. mainly distance with discussion partners. Videoconferencing allows similar closeness as a physical presence and promotes non-verbal communication among speakers.

However, there are limitations to this when the number of participants is too high, which may for instance be the case when all 28 Member States are gathered around the table. Videoconferencing also allows taking part in meetings where transportation fails at the last minute (delays, strikes, cancellations, etc.).

7.6. Website

The CSSF's website has been completely overhauled, with an update of the technical infrastructure. This overhaul became necessary in order to allow users to navigate more easily through the 8,000 or so documents online. Henceforth, the website allows access to information by activity or type of authorisation.

In the context of this redesign, the CSSF added a search tool for supervised entities and their data. Searches may now be performed on the (current or historical) name or part of the name of the entity, or by activity or status. The results take into account the changes made to the data over time.

[5] Website link: http://www.cssf.lu/supervision/banks/legal-reporting/file-transport-and-data-protection/.

7.7. Opening of an additional channel

The CSSF responded favourably to the request of an operator to extend its services to the approval of prospectuses, in cooperation with a company of the financial centre. Following extensive developments linked to the complexity of the business and processes, the service is about to go into production. The market participants may thus choose their channel for the submission of documents. Differentiating between the channels may be made with respect to the quality of upstream value-added services, within the limits of the services offered that do not yet cover all the flows accepted by the CSSF.

7.8. IT equipment of the new headquarters

The construction of the new CSSF headquarters has a material impact on the activities of the IT department, which is in charge of planning the move for the end of 2015. The year 2014 was thus dedicated to defining a strategy to equip the new headquarters, with, among other things, two IT tenders: the first one for internal network equipment and the second one for the computer room. The strategy for moving has also been defined so as to allow a smooth transition without disruption from one building to the other.

7.9. Overhaul of the document management

The FileDoc project, which should replace the electronic document management system in place at the CSSF, is being finalised. Indeed, the CSSF's growth, both in terms of staff and missions, calls for a more formal data management and classification for better search results. In this context, the CSSF set up a division in charge of governing data management and recruited an experienced documentalist. The mission of the division is to guarantee efficient and uniform information structuring, in a transversal manner at the level of the existing tools (electronic document management, Wiki, storage directory, etc.) and in a context of management according to role and not to individual.

8. ANNUAL ACCOUNTS OF THE CSSF - 2014

BALANCE SHEET AS AT 31 DECEMBER 2014

Assets	*EUR*
Fixed assets	
- Intangible fixed assets	
Payments on account and intangible assets	192,475
Payments on account and intangible assets in progress	2,067,927
	2,260,402
- Tangible fixed assets	
Land and constructions	18,161,560
Other fixtures, fittings, tools and equipment	571,092
Payments on account and tangible assets in progress	33,944,325
	52,676,977
- Financial fixed assets	9,534
	9,534
Current assets	
- Trade debtors	
with a residual term of up to one year	2,888,090
- Other debtors	
with a residual term of up to one year	2,594
- Cash at banks, in postal cheque accounts, cheques in hand	49,685,417
	52,576,101
Prepayments and accrued income	3,388,045
Balance sheet total (Assets)	**110,911,058**
Liabilities	
Own capital	
- Profit brought forward	34,391,606
- Result for the financial year	17,381,236
	51,772,842
Non-subordinated liabilities	
- Amounts owed to credit institutions	53,429,521
	53,429,521
- Debts on purchases and provision of services	
with a residual term of up to one year	4,461,370
- Tax and social security debts	
Social security debts	1,068,721
- Other debts	
with a residual term of up to one year	178,605
	5,708,696
Balance sheet total (Liabilities)	**110,911,058**

PROFIT AND LOSS ACCOUNT AS AT 31 DECEMBER 2014

Charges	*EUR*
Consumption of merchandise and consumable raw materials	191,174
Other external charges	12,190,733
Staff costs	
- Wages and salaries	48,856,552
- Social security costs attributable to wages and salaries	2,798,736
Value adjustments on	
- Formation expenses and tangible and intangible fixed assets	321,574
Other operating charges	1,020,576
Interests and other financial charges	
- Other interests and charges	1,174,344
Total charges	**66,553,689**

Income	
Net turnover	83,349,120
Other operating income	427,661
Other interests and financial revenues	158,144
Total income	**83,934,925**
Result for the financial year	**17,381,236**

Financial controller Deloitte Audit

CHAPTER II

THE EUROPEAN DIMENSION OF THE SUPERVISION OF THE FINANCIAL SECTOR

1. SUPERVISION OF BANKS

1.1. Banking Union

The Banking Union which addresses the need for a harmonised framework and a strong consolidated perspective for the supervision and management of the banking system materialised in November 2014 through the implementation of the first pillar, i.e. the single banking supervision (Single Supervisory Mechanism - SSM). The implementation of the common system for the management and resolution of bank crises (Single Resolution Mechanism - SRM) and of the new harmonised system for the protection of the depositors' savings (Deposit Guarantee Schemes) is in progress.

1.2. Single Supervisory Mechanism (SSM)

Since 4 November 2014, the European Central Bank (ECB) has fully assumed its supervisory tasks under the new prudential supervisory architecture for banks within the EU implemented by the SSM Regulation[1]. In this capacity, the ECB supervises directly 123 banking groups (about 1,200 banking institutions), which hold almost 85% of the banking assets in the euro area and indirectly 3,500 less significant institutions through the national competent authorities.

The main principles of the organisational structure of the new supervisory framework were subject to a detailed description in the CSSF's Annual Report 2013.

As a member of the SSM, the CSSF contributed in 2014 to the work of the consultative bodies and support functions of the ECB and, in particular, the CSSF participated in the decision-making process of the SSM at the level of the Supervisory Board.

1.2.1. Establishment of the SSM governance structure

The **Supervisory Board** of the SSM is composed of Ms Danièle Nouy, Chair, Ms Sabine Lautenschläger, Vice-Chair, four ECB representatives and one representative of the national competent authority of each participating Member State. Where the national competent authority is not a national central bank, the Supervisory Board member may decide to be accompanied by a representative from the Member State's national central bank; this representative does not hold a voting right. The CSSF is represented by Mr Claude Simon, Director.

The first meeting of the Supervisory Board took place on 30 January 2014 and 22 other meetings were held throughout the rest of the year.

The adoption of the Rules of Procedure of the Supervisory Board[2] and the subsequent amendment to the Rules of Procedure of the ECB[3] helped to implement the decision-making process within the SSM.

A **Steering Committee** was set up to act as support to the Supervisory Board. The members of the Steering Committee include, in addition to the Chair and Vice-Chair of the Supervisory Board, one representative of the ECB and five representatives of the national competent authorities. The representatives of the national authorities in the Supervisory Board were allocated to four groups and are replaced every year according to a predefined rotation system. Pursuant to this rotation system, Mr Claude Simon (CSSF) will be a member of the Steering Committee for one year as from April 2015.

Under the terms of the SSM Regulation, an **Administrative Board of Review** was set up by the Decision ECB/2014/16 of 14 April 2014[4]. The Administrative Board of Review is composed of five independent members who are not members of the ECB staff or of a national competent authority. Its purpose is to carry out internal administrative reviews of the ECB's supervisory decisions in order to verify their compliance with the SSM Regulation as regards the content as well as the form.

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013.

[2] https://www.bankingsupervision.europa.eu/ecb/legal/pdf/rop_sb_consolidated_version.pdf.

[3] https://www.bankingsupervision.europa.eu/ecb/legal/pdf/l_08020040318en00330041.pdf, https://www.bankingsupervision.europa.eu/ecb/legal/pdf/celex_32014d000101_en_txt.pdf and https://www.bankingsupervision.europa.eu/ecb/legal/pdf/en_ecb_2015_8_f_sign_.pdf.

[4] https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2014_175_r_0017_en_txt.pdf.

The Board started its work in September 2014, immediately after the appointment of its five independent members (Mr Jean-Paul Redouin, Ms Concetta Brescia Morra, Mr Javier Arístegui Yáñez, Mr André Camilleri and Mr Edgar Meister) and two alternates (Mr Kaarlo Jännäri and Mr René Smits). It already dealt with three requests related to decisions determining the significance of institutions.

A **Mediation Panel** was set up on 20 June 2014[5] and met for the first time in November 2014 for organisational purposes. This panel, chaired by the Vice-Chair of the Supervisory Board, is in charge, upon request of a national competent authority, to resolve differences of views regarding an objection by the Governing Council to a draft decision adopted by the Supervisory Board.

The members of the Mediation Panel are designated among the Member States participating in the SSM according to the annual rotation procedure between the representatives of the Governing Council and Supervisory Board. Mr Claude Simon (CSSF) is a member of this panel from 1 October 2014 until 30 September 2015 as part of the first rotation.

During 2014, a lot of time was dedicated to the implementation of the **institutional and governing framework of the SSM**. An important number of texts were adopted in this respect:

- The SSM Framework Regulation published on 25 April 2014 defines the practical modalities of the co-operation between the ECB and the national competent authorities within the SSM. This regulation was a key factor for the specification of the organisation of the prudential supervision within the SSM.
- The SSM Supervisory Manual, a document consisting of internal procedures, describes the processes and the methodology for the supervision of credit institutions and the procedures for co-operation within the SSM and with the authorities outside the SSM. It is a living document, which will be updated periodically. A shortened version of this manual was published by the ECB in November 2014 in the form of a guide relating to the SSM's practices in banking supervision ("Guide to banking supervision")[6].
- A decision on the internal rules necessary in order to separate the ECB's supervisory function from the monetary policy function and any other tasks was adopted by the Governing Council on 17 September 2014[7].
- The regulation on supervisory fees, published on 30 October 2014, sets out the arrangements under which the ECB will levy an annual supervisory fee on banks subject to prudential supervision for the expenditures incurred in relation to its new role as supervisor of banks[8].
- A "Code of Conduct for the ECB staff and management involved in banking supervision" as well as a Code of Conduct for the members of the Supervisory Board[9] were adopted.
- A regulation on reporting of supervisory financial information, published on 26 March 2015 following a public consultation, defines the rules and procedures relating to reporting of supervisory financial information by entities subject to supervision of national competent authorities and the ECB. The reporting covers balance sheet items such as financial assets and liabilities, revenues and expenditures and other relevant financial information of prudential supervision.

1.2.2. Start of the prudential supervision of the SSM

Before the entry into force of the SSM on 4 November 2014, the Supervisory Board adopted 120 decisions determining the credit institutions classified as significant within the meaning of the SSM Regulation. The significance was determined based on the following criteria:

- the total value of the assets (decisive for 97 institutions/groups);
- the economic importance for the country where the institution is located or the EU economy as a whole (13 institutions/groups);
- the significance of cross-border activities (three institutions/groups);
- whether it is one of the three most significant banks of the country (seven institutions/groups).

[5] https://www.bankingsupervision.europa.eu/ecb/legal/pdf/celex_32014r0673_en_txt.pdf.

[6] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmguidebankingsupervision201411.en.pdf?404fd6cb61dbde0095c8722d5aff29cd.

[7] https://www.bankingsupervision.europa.eu/ecb/legal/pdf/oj_jol_2014_300_r_0012_en_txt.pdf.

[8] Further information at http://www.ecb.europa.eu/press/pr/date/2014/html/pr141030.fr.html, https://www.bankingsupervision.europa.eu/ecb/legal/pdf/oj_jol_2014_311_r_0006_en_txt.pdf and https://www.bankingsupervision.europa.eu/ecb/legal/pdf/en_ecb_2015_7_f_sign.pdf.

[9] https://www.bankingsupervision.europa.eu/ecb/legal/pdf/code_of_conduct_for_the_members_of_the_supervisory_board_.pdf.

Most of the credit institutions classified as significant have previously participated in the Comprehensive Assessment of the balance sheets of credit institutions carried out by the ECB together with the national competent authorities and whose results were published on 26 October 2014[10].

The period preceding the publication of the aggregate report on the comprehensive assessment was dedicated to:

- the intense quality assurance activities in relation to the Asset Quality Review (AQR) and the stress test;
- the join-up of the AQR and stress tests results; and
- the direct interaction between the supervisory authorities and the banks, also called "supervisory dialogue", aiming to discuss the partial and preliminary results before finalisation.

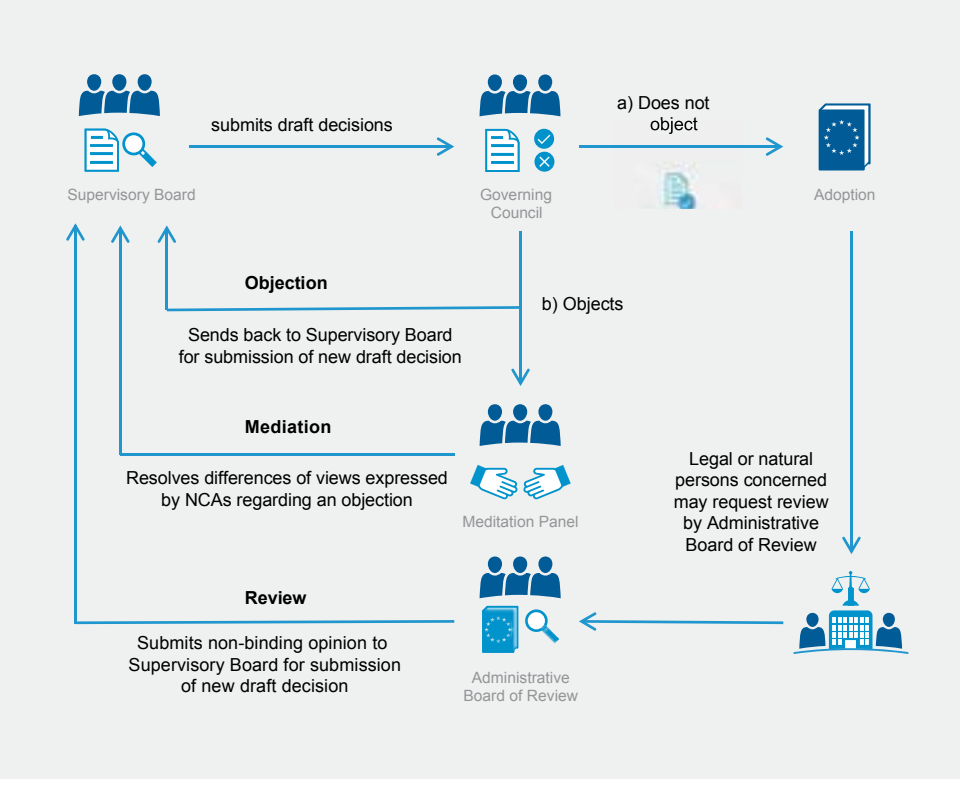
• Decision-making within the SSM

In accordance with the SSM Regulation, the planning and execution of the tasks conferred on the ECB are fully undertaken by the Supervisory Board as an internal body of the ECB.

Executive decisions of the Supervisory Board are taken by a simple majority of its members according to the "one member, one vote" principle and regulations are voted by a qualified majority with a system of weighted vote according to the demographic weight of the Member State of the voting representative.

Draft decisions proposed by the Supervisory Board are submitted to the Governing Council of the ECB for adoption; they are deemed adopted unless the Governing Council objects within a maximum period of 10 working days. Consequently, the decision-making process is based on a non-objection procedure. It should be noted that the Governing Council can adopt the draft decisions or issue objections to them but it cannot change them.

Non-objection procedure



Source : Guide to banking supervision, ECB, November 2014

[10] http://www.ecb.europa.eu/pub/pdf/other/ssmqr20144.fr.pdf.

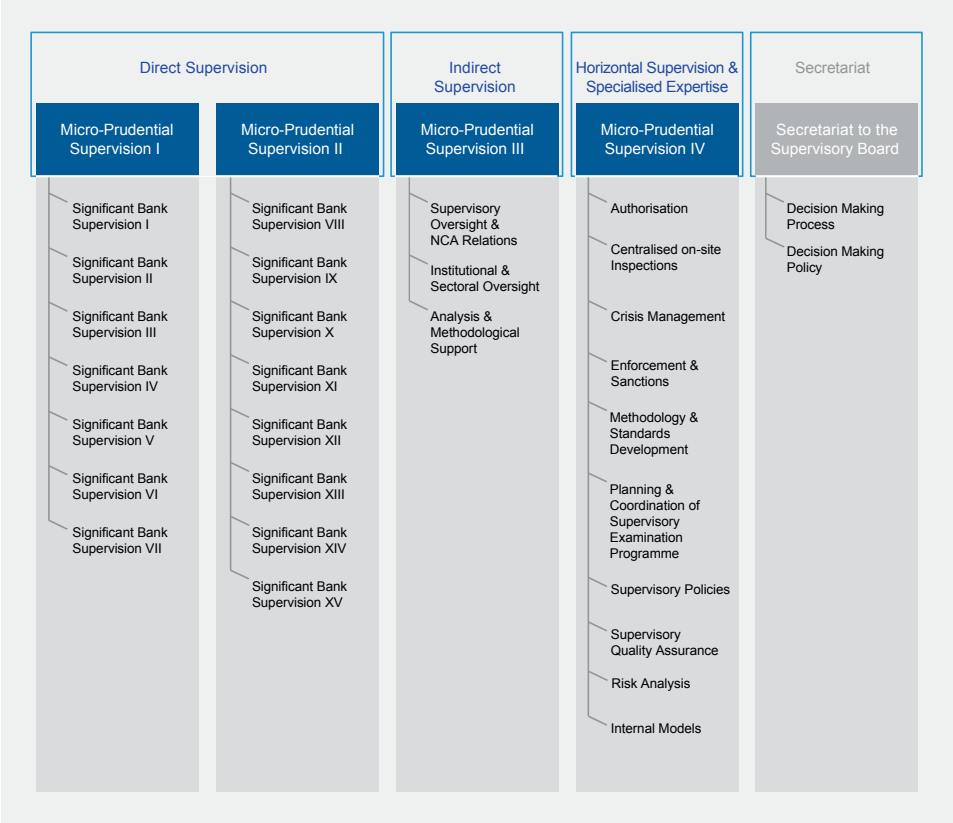
• Operating structure of the SSM

The ECB has established four dedicated Directorates General (DGs) to perform the supervisory tasks conferred on the ECB in co-operation with the national competent authorities:

- DG MS I (Micro-Prudential Supervision I) and DG MS II (Micro-Prudential Supervision II) are responsible for the direct day-to-day supervision of significant institutions;
- DG MS III (Micro-Prudential Supervision III) is responsible for the oversight of the supervision of less significant institutions performed by the national competent authorities;
- DG MS IV (Micro-Prudential Supervision IV) performs horizontal and specialised tasks in respect of all credit institutions under the ECB's supervision and provides specialised expertise on specific aspects of supervision, for example internal models and on-site inspections.

Additionally, a dedicated Secretariat supports the Supervisory Board by assisting in meeting preparations and related legal issues.

Organisation of the SSM supervisory units in the ECB



Source : Guide to banking supervision, ECB, November 2014

The horizontal and specialised divisions of the DG MS IV support JSTs and national competent authorities in the conduct of supervision of both significant and less significant credit institutions. There are 10 divisions, namely: Risk Analysis, Supervisory Policies, Planning and Coordination of Supervisory Examination Programmes, Centralised On-site Inspections, Internal Models, Enforcement and Sanctions, Authorisation, Crisis Management, Supervisory Quality Assurance and Methodology and Standards Development.

The horizontal divisions interact closely with the JSTs in, for example, defining and implementing common methodologies and standards, offering support on methodological issues and helping them to refine their approach. The aim is to ensure consistency across the JSTs' supervisory approaches.

The SSM fosters a common supervisory culture by bringing staff from various national competent authorities together in the JSTs, in the context of the supervision of less significant institutions, and in the horizontal and specialised divisions. This shared culture is the foundation of consistent supervisory practices and approaches throughout the participating Member States.

The SSM's supervisory tasks are supported by the ECB's "shared services", including services for human resources, information systems, communication, budget and organisation, premises and internal audit, legal and statistical services. The SSM is thus able to exploit operational synergies while keeping the required separation between monetary policy and banking supervision.

• Supervisory approach

Use of best practices

The SSM aspires to be a best practice framework, in terms of objectives, instruments and powers used by following the state-of-the-art supervisory practices and processes throughout Europe and incorporating the experiences of various Member States' supervisory authorities. The methodologies are subject to a continuous review process against internationally accepted benchmarks and to a rigorous internal scrutiny of practical operational experience in order to identify areas for improvements.

Risk-based approach

The SSM approach to supervision is risk-based. It takes into account both the degree of damage which the failure of an institution could cause to financial stability and the possibility that such a failure occurs.

Where the SSM judges that there are increased risks to an institution or group of credit institutions, those credit institutions will be supervised more intensively until the relevant risks decrease to an acceptable level.

The SSM approach to supervision is based on qualitative and quantitative approaches and involves judgement and forward-looking critical assessment.

Such a risk-based approach ensures that supervisory resources are always focussed on the areas where they are likely to be most effective in enhancing financial stability.

Proportionality

The supervisory practices of the SSM are commensurate with the systemic importance and risk profile of the credit institutions under supervision.

The implementation of this principle facilitates an efficient allocation of finite supervisory resources. Accordingly, the intensity of the SSM's supervision varies across credit institutions, with a stronger focus on the largest and more complex systemic groups and on the more relevant subsidiaries within a significant banking group. This is consistent with the SSM's risk-based and consolidated supervisory approach.

• Organisation of the supervision

Even if the ECB has been in charge of the direct supervision of significant banks since 4 November 2014, the national competent authorities remain involved. Indeed, given the important expertise in the area of prudential supervision and their geographical proximity to the banks, their mission is to support the ECB in the execution of its supervisory tasks.

The national competent authorities are in charge of preparing draft decisions in areas within the ECB's competence in prudential supervision, to participate in additional supervisory tasks (such as the day-to-day prudential supervision of the situation with respect to credit institutions' risks, verification of compliance with the fit and proper requirements and competences of the members of the board of directors and other supervisory activities), to participate actively in the work of the JSTs and to assist the ECB in the implementation of the execution procedures.

The ECB is in charge of ensuring the smooth functioning of the system and to fulfil certain prudential supervisory tasks with respect to less significant credit institutions. It can also exercise its supervisory powers

over them by requiring any information and by conducting investigations and on-site inspections. Moreover, the national competent authorities keep the ECB informed of their prudential supervisory tasks with respect to less significant banks, in accordance with the general criteria established by the ECB, which take into account the situation in relation to banks' risks and its impact on the financial system.

Authorisation, acquisitions of qualifying holdings, withdrawal of authorisation

The ECB has the power to grant and withdraw the authorisation of any credit institution and to assess the acquisition of holdings in credit institutions in the euro area. The division "Authorisation", set up in the ECB, is in charge of these tasks.

Joint Supervisory Teams (JSTs) [11]

The day-to-day supervision of the significant institutions is conducted by the Joint Supervisory Teams (JSTs). The JSTs comprise staff from both the ECB and the national competent authorities of the countries in which the credit institutions, the banking subsidiaries or the significant cross-border branches of a given banking group are established.

A JST is established for each significant institution. The size, overall composition and organisation of a JST can vary depending on the nature, complexity, scale, business model and risk profile of the supervised credit institution.

Each JST is led by a coordinator at the ECB (who is generally not from the country where the supervised institution is established) who is responsible for the implementation of the supervisory tasks and activities as included in the Supervisory Examination Programme for each individual significant credit institution.

In the case of JSTs comprising a large number of staff, a core JST, consisting of the JST coordinator at the ECB and the (national) sub-coordinators in the national competent authorities, organises the allocation of tasks among JST members, prepares and revises the Supervisory Examination Programme and monitors its implementation. This core JST also reviews the consolidated risk, capital and liquidity assessment and brings the views of the JST members together.

JST coordinators are appointed for a period of three to five years, depending on the risk profile and complexity of the institution. JST coordinators and members are expected to rotate on a regular basis.

Supervisory Review and Evaluation Process

For the purpose of performing the Supervisory Review and Evaluation Process (SREP), the SSM has developed a common methodology for the ongoing assessment of credit institutions' risks, their governance arrangements and their capital and liquidity situation.

The methodology benefits from the national competent authorities' previous experience and best practices and will be further promoted and developed by the JSTs and the ECB horizontal divisions. The SSM SREP is applied proportionately to both significant and less significant institutions, ensuring that the highest and most consistent supervisory standards are upheld.

On-site inspections

The SSM carries out on-site inspections, i.e. in-depth investigations of risks, risk controls and governance with a pre-defined scope and time frame at the premises of a credit institution. These inspections are risk-based and comply with the principle of proportionality.

The ECB has established a Centralised On-site Inspections Division within the DG MS IV, which is, among other things, responsible for planning the on-site inspections on a yearly basis.

Whereas full-scope inspections cover a broad range of risks and activities of the credit institution concerned in order to provide a holistic view of the credit institution, targeted inspections focus on a particular part of the business, or on a specific issue or risk.

Thematic inspections focus on one issue (e.g. business area, types of transactions) across a group of peer credit institutions. The JSTs may request, among others, a thematic review of a particular risk control or the governance process across institutions. Thematic reviews may also be triggered on the basis of

[11] See also point 2.19.2. of Chapter IV "Supervision of banks".

macro-prudential and sectoral analyses that identify threats to financial stability on account of weakening economic sectors or the spread of risky practices across the banking sector.

The head of the inspection team (head of mission) and inspectors are appointed by the ECB in consultation with the national competent authorities. Members of the JST may participate in inspections as inspectors, but not as heads of mission, to ensure that on-site inspections are conducted in an independent manner. Where necessary, the ECB can call on external experts.

In its capacity as supervisor of the whole banking system of the euro area, the SSM started to participate in international fora such as the EBA, the ESRB, the Basel Committee on Banking Supervision and the Financial Stability Board (FSB).

The Supervisory Board also started reporting its activities to the European Parliament and the European Council pursuant to the Inter-Institutional Agreement[12] between the ECB and the European Parliament and to the Memorandum of Understanding[13] between the ECB and the European Council.

1.2.3. The supervisory priorities for 2015

The supervisory priorities for 2015 build on the findings of the Comprehensive Assessment. Particular attention will be paid to the effectiveness and robustness of the banks' credit risk management function, the capital adequacy and liquidity, the banks' internal models as well as the viability of the business models.

The work of the JSTs will also focus on governance of the credit institutions and on the quality of management information (e.g. granularity of risk reports).

For operational risks, the main focus will be the adequacy of the governance framework and the effectiveness of processes to identify risks and mitigate material exposures to losses. Regarding banks' IT systems, the main concerns include underinvestment and gaps in IT solutions and in risk management, cyber security and data integrity.

These priorities apply in the first instance to the significant institutions supervised directly by the ECB. For the less significant institutions, the 2015 objectives of the ECB are to finalise the design and the setting-up of the general and single supervisory approach, which will have to be applied by the national competent authorities. The variety of less significant institutions calls for supervisory approaches that effectively combine local knowledge with common methodologies.

For the SSM horizontal activities, a priority for 2015 will be to foster greater harmonisation of supervisory approaches across the SSM. Moreover, a more intrusive approach to banking supervision will be promoted. Finally, a robust framework for co-operation and information sharing lines will be set up with all the relevant stakeholders.

1.2.4. Integration of the micro- and macro-prudential supervision

With the introduction of macro-prudential measures in the banking regulation and the start of the SSM, the focus of prudential supervision shifted to an approach that further integrates the macro- and micro-prudential dimensions, by insisting on the complementarity of the two functions in order to reach the final goal of fostering the financial stability of the whole financial system.

Even if, at first, the national competent authorities or the authorities designated as national have to implement macro-prudential measures, the ECB may, if it deems necessary, impose stricter requirements in relation to capital buffers than those initially laid down by the national authorities pursuant to Article 5 of Regulation (EU) No 1024/2013 of 15 October 2013.

In this context, the members of the Governing Council and the Supervisory Board hold joint meetings on a quarterly basis within the new forum called the "Macro-Prudential Joint Forum" in order to examine the situation regarding the financial stability in the States participating in the SSM, to detect and discuss the possible appearance of economic imbalances or systemic risks and to review the action of the national macro-prudential

[12] https://www.bankingsupervision.europa.eu/ecb/legal/pdf/celex_32013q113001_en_txt.pdf.

[13] https://www.bankingsupervision.europa.eu/ecb/legal/pdf/mou_between_eucouncil_ecb.pdf.

authorities and, in case of inaction by the latter, to discuss the possibility for the ECB to act. The first meeting of this joint forum took place in November 2014 and the second in March 2015.

The work of the Macro-Prudential Joint Forum is prepared by the Financial Stability Committee (FSC), a committee of the Eurosystem/ESCB. Given the new macro-prudential supervisory tasks allocated to the ECB, arising from the SSM, the FSC meets, henceforth, in different configurations, among which one new SSM enlarged composition, in order to gather the representatives of the national competent authorities for the macro- and micro-prudential supervision. The CSSF is represented within the FSC by Ms Christiane Campill, head of department.

The FSC is mainly in charge of:

- monitoring the development of the risks in the banking sectors of the participating States and assessing the macro-prudential measures implemented at national level by the Member States;
- giving opinions on the proposals for macro-prudential decisions from the Macro-Prudential Coordination Group (MPCG) of the ECB;
- advising on positions of the ECB in relation to macro-prudential policy.

In this regard, the macro-prudential measures contemplated or decided by the designated or competent authorities individually must be examined and discussed in depth in order to both identify and manage systemic risks and deepen and extend the discussion on the determination and operationalisation of macro-prudential tools available to the Member States.

The FSC and the MPCG submit their draft macro-prudential proposals, together with the positions of the Governing Council and the ECB policy stance on prudential issues, to the Supervisory Board.

In order to fulfil such a broad mandate, the ECB decided to create two permanent subgroups of the FSC:

- the Macro-Prudential Analysis Group (MPAG) mainly focusses on the examination and development of analytical tools, i.e. modelled macro-prudential analyses;
- the Macro-Prudential Policy Group (MPPG) is in charge of defining and calibrating the tools as a way to support macro-prudential policy discussions.

The work of these two subgroups is used as basis for discussions at the FSC of the ECB. The CSSF actively contributes to the work of these two subgroups.

At Luxembourg level, the law of 1 April 2015 establishing the Comité du risque systémique (Systemic Risk Board, CRS) was adopted. The task of the CRS is to coordinate the implementation, by the authorities represented in the board, of the macro-prudential policy whose final objective is to contribute to the stability of the Luxembourg financial system, notably by enhancing the resilience of the financial system and decreasing the systemic risk accumulation, thus ensuring that the financial sector contributes to the economic growth in the long run. It is composed of four members, namely the Ministry of Finance, the BCL, the CSSF and the Commissariat aux Assurances, represented, respectively, by the Minister of Finance, the general directors of the BCL and the CSSF and the director of the Commissariat aux Assurances.

The CRS will be in charge, among others, of the follow-up to the recommendations of the ESRB including recommendations ESRB/2011/3[14] and ESRB/2013/1[15], and it will assess periodically the adequacy of the objectives as well as the efficiency of the macro-prudential tools adopted to maintain the stability of the financial system. It should be pointed out that the CSSF already adopted several measures based on micro-prudential and macro-prudential considerations in 2014. Thus, the CSSF issued guidelines the aim of which is to mitigate the risks arising from bank loans in foreign currencies and from asset encumbrance. In addition, the CSSF introduced stricter requirements as regards stress tests of the mortgage loan portfolios held by banks using the Internal Risk-Based Approach (IRB), i.e. an increase of the minimum of the PD by 50% and an LGD of at least 20% applicable as from 31 December 2014. Finally, the CSSF implemented a certain number of options and possibilities provided for in the CRD IV/CRR by imposing, for example through the CSSF Regulation N° 14-01, on banks established in Luxembourg to hold an additional capital buffer (capital conservation buffer) of 2.5% as from 1 January 2014.

[14] Recommendation ESRB/2011/3 of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (OJ C 41 14.2.2012, p. 1) available on the website of the ESRB (www.esrb.europa.eu).

[15] Recommendation ESRB/2013/1 of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (OJ C 170 15.6.2013, p. 1) available on the website of the ESRB (www.esrb.europa.eu).

1.3. European Banking Authority - EBA

The EBA was established by Regulation (EU) No 1093/2010 of 24 November 2010 (hereinafter the "EBA Regulation") in the framework of the establishment of the European System of Financial Supervision (ESFS) and has been operational since 1 January 2011. The EBA is chaired by Mr Andrea Enria and the functions of Executive Director are performed by Mr Adam Farkas.

Ms Christiane Campill, head of department, represents the CSSF as voting member at the Board of Supervisors of the EBA. The Board of Supervisors is the main decision-making body of the EBA. It takes all policy decisions of the EBA, such as adopting draft technical standards, guidelines, opinions, work programmes and reports.

In 2014, the EBA dealt with a growing workload due to the numerous mandates resulting from the sectoral legislation, including, inter alia, Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV), Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) and Directive 2014/49/EU of 16 April 2014 on deposit guarantee schemes (recast) (DGSD).

Indeed, the main focus of the EBA's regulatory work is contributing to the drawing-up of a Single Rulebook in banking. The Single Rulebook provides a single set of harmonised prudential rules for the financial institutions throughout the EU, helping create a level playing field and providing high protection to depositors, investors and consumers.

In this respect, the EBA plays a crucial role in the technical implementation and application of the CRD IV/CRR framework, as it is mandated to prepare nearly 250 deliverables, with many of them published in 2014. Most of this work relates to the development of more detailed technical rules, mostly via the development of draft binding regulatory or implementing technical standards that the European Commission can adopt in the form of European regulations, and the publication of guidelines on the application of the European regulatory framework for the national supervisory authorities or supervised institutions.

As regards the BRRD, the EBA worked on the text even before its adoption in 2014, given the amount and complexity of the mandates which it received in this context and which will end with the drawing-up of draft binding technical standards and guidelines in the framework of the Single Rulebook.

Moreover, the EBA plays a mediation role between the national authorities for cross-border groups and contributes to enhancing international coordination in relation to supervision as it plays a role of point of contact and coordinator for relationships between the EU and third countries.

The CSSF participated in the work of the Board of Supervisors of the EBA, the work of the four permanent committees of the EBA (SCRePol, SCOP, SCARA and SCConFin) and the work of the Review Panel. The CSSF also participated in a growing number of permanent and ad hoc sub-working groups as well as in the Resolution Committee (ResCo) set up at the end of 2014 in relation to the mandates given to the EBA under the BRRD which started work in 2015.

For the year 2014, the following topics should be highlighted in relation to the activities of the EBA working groups[16].

1.3.1. Standing Committee on Regulation and Policy (SCRePol)

The main purpose of the SCRePol is to assist and advise the EBA on regulations relating to banks, payment services and electronic money, capital requirements, early intervention and banking resolution, crisis management and deposit guarantee schemes as well as in relation to corporate governance. In this context, the SCRePol assists the Board of Supervisors of the EBA in the adoption of draft regulatory and implementing technical standards, in the issue of guidelines, recommendations, individual decisions intended for competent authorities or financial institutions, advice and opinions on the aforementioned areas and advice for European institutions as well as in the supervision of regulatory developments at EU and international level.

[16] The EBA 2015 Work Programme is available at http://www.eba.europa.eu/documents/10180/842038/EBA+Work+Programme+for+2015.pdf.

In 2014, the SCRePol and its subgroups analysed the underlying issues of the mandates given to the EBA through the aforementioned legislative texts, drafted technical standards deriving from these mandates and carried out public consultations on these draft standards. Among the draft binding technical standards published in 2014, the following are worth mentioning:

- Final draft Regulatory Technical Standards on own funds (Parts III and IV);
- Final draft Regulatory Technical Standards on countercyclical buffer disclosure;
- Final draft Regulatory Technical Standards on classes of instruments that are appropriate to be used for the purposes of variable remuneration;
- Final draft Regulatory Technical Standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile;
- Final draft Regulatory Technical Standards on securitisation retention rules;
- Final draft Regulatory Technical Standards on resolution planning;
- Final draft Regulatory Technical Standards specifying the information to be included in a recovery plan and the criteria which competent authorities should apply when assessing the recovery plan of an institution or a group;
- Final draft Implementing Technical Standards on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities in the banking sector.

The aforementioned standards were submitted to the European Commission in order to be officially adopted in the form of European Commission regulations.

The work on many other technical standards started in 2014 and is still underway.

In the framework of the drawing-up of the Single Rulebook, the SCRePol and its subgroups also contributed to the drawing-up of a great number of guidelines among which the following guidelines are noteworthy:

- Guidelines on the applicable notional discount rate for variable remuneration;
- Guidelines on disclosure of encumbered and unencumbered assets;
- Guidelines on criteria to assess other systemically important institutions (O-SIIs);
- Guidelines on measures to reduce or remove impediments to resolvability.

The work on many other guidelines started in 2014 and is still underway. Examples are draft guidelines on sound remuneration policies as well as draft guidelines on setting appropriate limits on exposures to shadow banking entities which are currently under public consultation.

In addition to the work on technical standards and guidelines, which is a transversal task that occupied all the subgroups to a greater or lesser extent, the SCRePol and its subgroups developed a range of reports, studies and opinions, either under mandates given to the EBA through European legislative texts or by the European Commission, or on its own initiative. The published reports and advice are, among others:

- Report on the impact of liquidity coverage requirements;
- Report on appropriate uniform definitions of high quality liquid assets (HQLA) and extremely high quality liquid assets (extremely HQLA) and on operational requirements for liquid assets;
- Report on securitisation risk retention, due diligence and disclosure;
- Report on Additional Tier 1 capital instruments;
- Report on the application of the CRD IV regarding the principles on remuneration policies of credit institutions and investment firms and the use of allowances;
- Opinion on the perimeter of credit institutions; and
- Opinion on the potential implications of regulatory measures for business models of banks.

• Liquidity

The Subgroup on Liquidity (SGL) intensified its work in 2014 to develop the binding technical standards provided for in the CRR in relation to liquidity. Having regard to the large number of standards, the subgroup first focussed on the essential standards for the calibration of the short-term liquidity ratio (LCR). To this end, the group drew up the following draft binding technical standards during 2014:

- Draft Implementing Technical Standards on additional liquidity monitoring metrics;
- Draft Implementing Technical Standards on currencies with liquid asset shortage;
- Draft Regulatory Technical Standards on derogations for currencies with constraints on the availability of liquid assets;
- Draft Regulatory Technical Standards on additional liquidity outflows stemming from the impact of an adverse market scenario on an institution's derivatives positions, financing transactions and other contracts, if material.

These draft standards were sent to the European Commission in order to be officially adopted in the form of European Commission regulations.

• Remuneration policies

On 12 June 2014, the Subgroup on Governance and Remuneration (SGGR) published the report on benchmarking of remuneration policies and practices across the EU. This report is based on data collected on a consolidated basis from 2010 to 2012 and allows analysing the remuneration structures in the EU.

In 2014, the EBA published two additional guidelines, namely:

- on 27 March 2014, the Guidelines on the applicable notional discount rate for variable remuneration and clarifying how it should be applied. These guidelines apply to institutions which make use of the option to apply the discount rate for the purpose of calculating the ratio between the variable and fixed components of remuneration, and to competent authorities in Member States which have implemented the option of applying the discount rate;
- on 16 July 2014, the revised Guidelines on (i) the data collection exercise regarding high earners, i.e. staff earning a remuneration of EUR 1 million or more and (ii) the benchmarking of remuneration policies and practices. This update will ensure that the data collection is in line with the amended provisions laid down in the CRD IV. Consequently, it will provide for higher quality of the collected data and will increase transparency of remuneration paid to high earners.

On 15 October 2014, the EBA published its Opinion on the principles on remuneration policies and the use of allowances.

The subgroup started work on the guidelines on governance which it must prepare pursuant to Article 91(12) of the CRD IV and which must be issued by 31 December 2015 at the latest.

Finally, the subgroup continued to revise and update the Guidelines on Remuneration Policies and Practices (initially published by the Committee of the European Banking Supervisors) in the light of the requirements laid down in the CRD IV.

• Crisis management

In 2014, the workload of the Subgroup on Crisis Management (SGCM) was significant due to numerous mandates for draft technical standards, guidelines and reports arising from the BRRD. In addition, there are a certain number of mandates resulting from the DGSD. About one fifth of the 40 documents to be prepared were finalised as at 1 December 2014. Furthermore, some 20 documents were already submitted to public consultation and should be finalised in the summer 2015 at the latest.

As regards more specifically the mandates resulting from the BRRD, the work concerned, among others, the following guidelines/draft technical standards: the minimum qualitative and quantitative recovery plans indicators, the information for resolution plans, the group financial support, the proportionality principle/the

simplified obligations for institutions, the implementation of resolution tools, interrelationship between the bail-in mechanism/write-down of capital instruments and the CRR, contractual recognition bail-in, valuation of derivative liabilities.

As regards the mandates resulting from the DGSD, the work of the SGCM focussed mainly on the draft guidelines on the methods for calculating contributions to Deposit Guarantee Schemes and the draft guidelines on payment commitments as well as on the draft consultation papers on these guidelines. The public consultations on these guidelines are closed.

1.3.2. Standing Committee on Oversight and Practices (SCOP)

The SCOP assists and advises the EBA in the following areas:

- permanent risk assessment in the banking system, including development of instruments in this respect;
- promotion of co-operation among authorities, including the strengthening of colleges and common assessments and decisions;
- reinforced convergence of supervisory practices;
- collection of information on the institutions and national authorities;
- follow-up of the recommendations and warnings of the European Systemic Risk Board.

The main topics dealt with by the SCOP in 2014 were the following:

- risks and vulnerabilities in the European banking sector;
- work in relation to guidelines on the SREP, other systemically important institutions (O-SIIs), funding plan templates and the IRRBB;
- contribution to the drawing-up of documents on the impact of the European restrictive measures against Russia on the European banking sector, on the contingent convertibles obligations (COCOs) and on the internal audit function;
- monitoring of the work progress on the following draft technical standards: joint decision on model validation, functioning of colleges of supervisors and resolution colleges.

1.3.3. Standing Committee on Accounting, Reporting and Auditing (SCARA)

The SCARA assists and advises the EBA by fulfilling its mandate in accordance with Articles 1 to 8 of the EBA Regulation and contributes to the work of the EBA in the following areas:

- accounting: monitor, assess and comment on any development in relation to accountancy and, in particular, the development in the international accounting standards and ensure at the same time an interaction with the EFRAG; contribute to the development of supervisory guidelines when the accounting standards may impact both the supervisory and the prudential frameworks;
- reporting: develop and update prudential reporting schemes and develop draft implementing technical standards pursuant to the CRD IV/CRR;
- audit: monitor, assess and comment on the developments at EU and international level as regards audit and as regards any task of the EBA in relation to audit regulations;
- transparency: assess the transparency of banks concerning their published information vis-à-vis financial market participants, including particularly the information relating to Pillar 3; contribute to the development of supervisory guidelines in relation to Pillar 3 in order to facilitate a harmonised application and review.

In respect of the subgroups of the SCARA, the following work is worth noting for the year 2014.

• Accounting

In the area of accounting, the subgroup prepared comment letters of the EBA on the draft accounting standards of the International Accounting Standards Board (IASB). It also contributed to the drawing-up of the "Report on the impact on the volatility of own funds of the revised IAS 19 and the deduction of defined pension assets from own funds under Article 519 of the Capital Requirements Regulation (CRR)" of the EBA published on 24 June 2014.

• Reporting

As regards the prudential reporting, the subgroup contributed to the draft implementing technical standards published by the EBA concerning non-performing exposures and forbearance. It also answered questions in relation to the prudential reporting schemes submitted by the EBA via the "Q&A" tool (cf. point 1.3.6. below) and contributed to the update of the applicable validation rules for the transmission of prudential information.

• Audit

The subgroup contributed to comment letters of the EBA on draft auditing standards of the International Auditing and Assurance Standards Board (IAASB) as well as on draft guidelines of the EBA in relation to the effective dialogue between, on the one hand, the competent authorities supervising credit institutions and, on the other hand, the statutory auditors carrying out the statutory audit of those institutions. These guidelines should be published, for public consultation, during the second half of 2015.

• Transparency

The subgroup prepared the EBA document titled "Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013". This document includes guidelines on the manner in which the credit institutions must apply the concepts of materiality, proprietary nature and confidentiality in relation to the disclosure requirements and the manner in which they must assess the frequency of disclosures under the CRR (Pillar 3).

1.3.4. Standing Committee on Consumer Protection and Financial Innovation (SCCONFIN)

The main task of the SCCONFIN is to assist, advise and support the work of the EBA in relation to consumer protection.

As far as the work organisation is concerned, the SCCONFIN has set up two subgroups, namely the Subgroup on Consumer Protection (SGCP) and the Subgroup on Innovative Products (SGIP). The CSSF is member of the SCCONFIN and is represented in the two aforementioned subgroups.

• Subgroup on Consumer Protection (SGCP)

The SGCP drew up the "Guidelines on product oversight and governance arrangements for retail banking products" which concern the internal supervision and governance of products. These guidelines lay down the requirements addressed to manufacturers of financial products, distributors actively involved in the design of these products and distributors not involved in the design of these products as well as distributors of products from third countries.

The SGCP also drew up a document titled "Guidelines aimed at standardisation of fee terminology for payments accounts in the EU" addressed to the EBA in the framework of the implementation of Directive 2014/92/EU of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

In the framework of the implementation of Directive 2014/17/EU of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, the SGCP participated in the drawing-up of the following documents subject to public consultation in 2014:

- "Draft requirements for passport notifications for mortgage credit intermediaries across the EU" whose purpose is to facilitate the exchange between authorities of information on credit intermediaries that intend to establish themselves in another EU country;
- "Regulatory Technical Standards (RTS) on Professional Indemnity Insurance (PII) for mortgage credit intermediaries" concerning the determination of the minimum monetary amount of the professional indemnity insurance or comparable guarantee for mortgage credit intermediaries in reference to Article 29(2)(a) of Directive 2014/17/EU;
- "Guidelines on creditworthiness assessment" and "Guidelines on arrears and foreclosure" which adapt the opinions of the EBA on responsible lending to the requirements of Directive 2014/17/EU.

• Subgroup on Innovative Products (SGIP)

The purpose of the SGIP is to identify the risks for banks and consumers linked to innovative banking products and to help developing a coordinated system of prudential rules aiming to warn banks across Member States. Based on the work of this group, the EBA published the following documents in 2014:

- technical advice on structured deposits on 11 December 2014;
- opinion on virtual currencies on 4 July 2014;
- consumer trends report on 28 February 2014.

During 2014, the workstreams of the SGIP dealt with the following topics:

- structured products: this group sent a questionnaire on structured products to several banks in order to collect data allowing it to analyse to what extent banks tend to use this type of products as a source of funding;
- crowdfunding: the SGIP analysed the risks related to crowdfunding and tried to determine the possible regulatory approaches in order to mitigate these risks;
- virtual currencies: this group analysed the possible need of regulation in this area.

The SGIP identified the themes relating to innovative payment products and mobile payments as well as other topics related to payment services as priority for 2014.

Taskforce on virtual currencies (TFVC)

The purpose of the TFVC was to analyse whether virtual currencies could and ought to be regulated. This work was concluded in 2014 with the publication of the document "EBA opinion on virtual currencies" which proposes a regulatory approach in this area and highlights the importance of a comprehensive approach across the EU.

Taskforce on payment services (TFPS)

The TFPS was set up at the end of 2014 with the following mandate: (i) implement the mandates set out in the new directive on payment services for the EBA; (ii) identify the risks, arising from the innovative payment methods, which are not yet dealt with in directives; (iii) develop guidelines on internet payment security, and (iv) issue mandates set out in the new regulation on interchange fees for the EBA.

1.3.5. Review Panel

The Review Panel assists the EBA in its task to ensure a consistent and harmonised implementation of EU legislation in the Member States. To this end, peer review exercises are conducted for specific topics decided annually on the basis of an initial self-assessment by the competent authorities as regards the compliance with EU legislation and EBA guidelines at national level. These peer reviews are explicitly provided for in the EBA Regulation. They cover some or all of the activities of the competent authorities in order to further strengthen convergence of supervisory approaches and consistency in supervisory outcomes. Based on the work of the Review Panel, the EBA may issue guidelines and recommendations and publish the best practices highlighted by the outcome of the work.

In the future, the peer reviews will become increasingly important given the purpose of the convergence of regulatory practices, aiming to ensure a level playing field at European level and for which the EBA is responsible.

In 2014, the status of the different peer reviews was as follows.

The peer review in relation to the "Guidelines on the management of concentration risk under the supervisory review process" (GL31) was finalised. The EBA's report, published on 24 July 2014, indicates that the competent authorities that participated in this review (including Luxembourg) largely comply with the aforementioned guidelines.

Following the EBA's report on the peer review in relation to the "Guidelines on Stress Testing" (GL32), published in 2013, the Review Panel is conducting a follow-up exercise, notably as regards reverse stress testing.

The peer review on national practices in relation to the EBA's "Guidelines on the assessment of the suitability of members of the management body and key function holders" (EBA/GL/2012/06) started at the end of 2014 and should be finalised in 2015.

1.3.6. Working groups reporting directly to the Board of Supervisors

• Network on Single Rulebook Q&As

The CSSF actively participates in the EBA's Q&As process which helps constitute the Interactive Single Rulebook[17] of the EBA and answer questions of any party concerned as regards the CRD IV/CRR. More specifically, the CSSF participated in the drawing-up of draft answers to questions asked. The answers are then validated by the Board of Supervisors before being published on the EBA's website (unless the questions asked fall under the competence of the European Commission, which is the case when questions require an interpretation of the CRD IV/CRR).

• Task Force on Impact Studies (TFIS)

The EBA is mandated pursuant to the CRR to carry out regular impact studies of the regulation on capital and risk weighted assets (RWA), liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and leverage ratio (LR) on the different aspects of the banking sector and EU economy.

To this end, the new working group TFIS was created. It assists the EBA in the framework of the quantitative and qualitative impact studies on the banking legislation in force and legislative proposals. The analyses are carried out on the basis of the legal reporting (COREP and FINREP) and the data of the "Quantitative Impact Study" of the EU. The results are published on a half-yearly basis in the specific report titled "CRD IV-CRR/Basel III monitoring report" which is available on the EBA's website.

• Task Force for Coherence Risk Weighted Assets (TCOR)

In the context of the "SME and residential mortgage portfolios-Benchmarking exercise", the TCOR assessed the banks included in a sample at EU level by defining some indicators based on specific data collected from the sample. Two Luxembourg banks participated in the exercise. The CSSF also contributed to the preparatory work of the benchmarking on large corporate portfolios.

During the last half of 2014, the Task Force for Supervisory Benchmarking (TFSB) took over the tasks of the TCOR and, based on a new mandate, continued drawing up technical standards in relation to supervisory benchmarking of the internal approaches for the calculation of own funds pursuant to Article 78 of the CRD IV.

• Task Force on Macro-Prudential Matters (TFMM)

In 2014, the EBA established a network of experts in the macro-prudential areas and answered a consultation from the European Commission on Article 513 of the CRR to determine if the current macro-prudential rules are adequate and sufficient to mitigate systemic risks. In its opinion, the EBA assessed the efficiency

[17] https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook.

and transparency of the current rules of the CRD IV/CRR as well as the overlap between the different macro-prudential instruments and the consistency of the EU framework and global standards.

1.4. European Systemic Risk Board (ESRB)

The creation of the European Systemic Risk Board (ESRB) in 2010 is part of the implementation of the new European System of Financial Supervision (ESFS) following the global financial crisis. The ESRB is an essential part of the ESFS whose purpose is to ensure the supervision of the financial system in the EU by highlighting also the stability of the financial system as a whole.

The ESRB is responsible for the macro-prudential supervision of the EU financial system. One of the main purposes is to address and mitigate systemic risks that might jeopardise the financial stability of the EU. Therefore, the ESRB must, among others:

- determine and collect the information necessary for its work;

- identify and prioritise systemic risks;

- issue warnings and make them public if necessary;

- recommend measures once the risks are identified.

The ESRB may issue warnings and recommendations for remedial action to be adopted and suggest legislative initiatives. These recommendations may be addressed to the EU, to one or several Member States, to one or several European supervisory authorities or to one or several national supervisory authorities.

The recommendations for the measures to be adopted are issued according to a colour code that varies depending on the risk level. If the ESRB notices that its recommendations were not followed, it informs confidentially the addressee, the Council and, where appropriate, the European supervisory authority concerned.

The ESRB is composed of:

- a General Board ensuring the performance of the tasks;

- a Steering Committee assisting in the decision-making process;

- a Secretariat responsible for the day-to-day business;

- an Advisory Scientific Committee and an Advisory Technical Committee providing advice and assistance.

The President of the ECB, Mr Mario Draghi, chairs the ESRB for five years. The President exercises its functions with the assistance of two Vice-Presidents; one is elected by the members of the General Council of the ECB within the General Council, whereas the second is the Chairman of the Joint Committee. Ms Christiane Campill, head of department, represents the CSSF as non-voting member at the General Board of the ESRB.

The field of investigation of the ESRB comprises the whole financial sector, including banks, insurance companies, financial markets and all the activities covered by the denomination “shadow banking”. Moreover, the systemic approach used by the ESRB involves that the latter analyses the dependencies, interconnections and contagion mechanisms between sub-sectors. The work of the ESRB is in line with that of the Financial Stability Board.

The entry into force on 1 January 2014 of the CRD IV/CRR marked a considerable turning point at European level as regards the macro-prudential policy. New macro-prudential instruments were put in place and the role of the ESRB was enhanced. Thus, the ESRB is called upon to assist in guiding national authorities with respect to the implementation and adoption of macro-prudential measures and to play a centralising role as regards the notifications addressed by the authorities. This new framework enhances also the role of the authorities in charge of conducting the macro-prudential policy in the Member States pursuant to the recommendation ESRB/2011/3.

In Luxembourg, the Comité du risque systémique is in charge of this task. Similarly to its European counterpart, this committee has the power to issue warnings and recommendations. The new CRD IV/CRR framework calls upon the Member States to also designate the authority responsible for taking the necessary measures

to prevent or mitigate the systemic risk or macro-prudential risks which constitute a threat for the national financial stability. The draft law transposing the CRD IV into Luxembourg law appoints the CSSF as the designated authority. The CSSF will act in this context in concert with the BCL.

On 18 June 2014, the ESRB published a recommendation on guidance for setting countercyclical buffer rates (ESRB/2014/1). The purpose of the countercyclical capital buffer is to counter pro-cyclicality in relation to the bank lending activity. This tool, introduced by the Basel III framework, was transposed at European level by the CRD IV. It requires the banks to accumulate capital during an expansion phase characterised by a significant growth of credit and an increase of the systemic risk. Similarly, during recession when the activity retracts, this buffer will be "released" in order to help the banks maintain the supply of credit. Thus, the countercyclical capital buffer allows increasing the resilience of the banking sector in case of economic downturn.

Moreover, the ESRB published two follow-up reports in relation to the recommendation on lending in foreign currencies (ESRB/2011/1) and to the recommendation on the macro-prudential mandate of national authorities (ESRB/2011/3). Moreover, the ESRB issued decisions on the extension of certain deadlines set by the following recommendations:

- Recommendation ESRB/2011/3 on the macro-prudential mandate of national authorities (ESRB/2014/3);
- Recommendation ESRB/2012/2 on funding of credit institutions (ESRB/2014/4).

All the aforementioned recommendations are available on the website of the ESRB under "Publications", section "Recommendations"[18].

In addition, the ESRB published the following reports in 2014:

- Occasional Paper No. 5: Operationalising the countercyclical capital buffer: indicator selection, threshold identification and calibration options;
- Occasional Paper No. 6: An analysis of the ESRB's first data collection on securities financing transactions and collateral (re)use;
- Reports of the Advisory Scientific Committee, No. 4/June 2014: Is Europe Overbanked?;
- Reports of the Advisory Scientific Committee, No. 5/November 2014: Allocating macro-prudential powers.

The following documents which are of macro-prudential interest were also published:

- Flagship Report on Macro-prudential Policy in the Banking Sector;
- ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector;
- ESRB response to the call for advice by the European Commission on macro-prudential rules in the CRD/CRR;
- Adverse stress test scenarios for EU-wide stress test of insurance firms carried out by EIOPA in 2014;
- Adverse stress test scenarios for EU-wide stress test of banks carried out by EBA in 2014.

At the ESRB, the CSSF participated, in 2014, in the Advisory Technical Committee (ATC) and its subgroups: the Task Force on Stress Testing, the Expert Group on Shadow Banking and the Expert Group on Cross-border Effects of Macro-Prudential Policy and Reciprocity.

2. SUPERVISION OF FINANCIAL MARKETS

2.1. European Securities and Markets Authority - ESMA

ESMA was established by Regulation (EU) No 1095/2010 of 24 November 2010 and has been operational since 1 January 2011. ESMA is chaired by Mr Steven Maijoor and the functions of Executive Director are performed by Ms Verena Ross. Mr Jean Guill, Director General, represents the CSSF in the Board of Supervisors. Mr Guill was also a member of ESMA's Management Board until 31 October 2014.

[18] https://www.esrb.europa.eu/pub/recommendations/html/index.en.html.

The Securities and Markets Stakeholder Group, which is composed of 30 stakeholders appointed in a personal capacity, including one Luxembourg representative, aims to facilitate the consultation with stakeholders in areas relevant to ESMA's tasks. The group is also consulted on matters covered by regulatory technical standards and implementing technical standards.

In 2014, the CSSF participated as a member in the work of ESMA and its permanent standing committees with their task forces/working groups (permanent or ad hoc).

All the publications of ESMA are available on the website www.esma.europa.eu. For 2014, the following topics should be noted in relation to the activities of ESMA, its working groups and its task forces.

2.1.1. Review Panel

The Review Panel, chaired by Mr Guill, is responsible for assisting ESMA in its task to ensure consistent and harmonised implementation of EU legislation in the Member States.

In 2014, the Review Panel continued the peer review on the supervisory practices as regards Conduct of business under MiFID, especially the practices with regard to the rules on fair, clear and not misleading information. In this context, ESMA has, for the first time, conducted on-site visits at the premises of certain supervisory authorities, which were assessed based on the answers they had provided and on the outcome of the on-site visits. The CSSF was assessed as fully applying the supervisory criteria in this area. The report was published on 11 December 2014 (ref.: ESMA/2014/1485).

Moreover, a peer review on best execution under MiFID was carried out. Following an on-site visit, the CSSF was assessed as broadly applying the supervisory criteria in relation to MiFID conduct of business rules dealing with best execution. The report as well as the country statements, among which the statement of Luxembourg, were published on 25 February 2015.

Finally, the Review Panel continued a peer review of ESMA guidelines relating to systems and controls in an automated trading environment. Given that the systems and controls of the automated trading systems for trading platforms within the meaning of the ESMA guidelines are not of significant importance in Luxembourg, the CSSF was not subject to a peer review and only participated in the first phase of the work relating to the self-assessment of the implementation of the ESMA guidelines. The report was published on 18 March 2015.

It should be pointed out that in the framework of the three above-mentioned peer reviews, ESMA did not only analyse in depth the implementation of the European legislation and guidelines but assessed also, based on the day-to-day work of the competent authorities, the effective and actual supervision in order to foster convergence of the supervisory practices among its members. Thus, ESMA analysed, among others, the on-site inspections carried out by the authorities themselves and the desk-based supervision exercised by the competent authorities based on the report of the *réviseurs d'entreprises agréés* (approved statutory auditors), the compliance officers and the internal auditors of the supervised entities. Since confidential information has to be provided by the competent authorities for these peer reviews, the staff of ESMA, the members of the review team and the members of the visiting team are subject to strict obligations of professional secrecy. As requested by the competent authorities, the information provided to ESMA was anonymous.

2.1.2. Market Integrity Standing Committee (MISC)

The MISC notably contributes to ESMA's work on issues relating to market integrity. It facilitates enhanced co-operation between national competent authorities as regards investigations, coordination of supervision and enforcement actions in the fields of market abuse and short selling. Moreover, the MISC contributes to ESMA's development of a single rulebook in the fields of market abuse, transaction reporting (TAF) under MiFID and short selling. Through the enhancement of supervisory convergence and the exchange of supervisory practices, the MISC also promotes the building of a common culture on market integrity supervision and enforcement. In addition, the MISC works to improve ESMA's involvement in non-cooperative jurisdictions in matters related to market abuse investigations.

The development of the network for the dissemination of warnings relating to illicit offers of financial services by investment firms or individuals that have not been granted the required authorisations continued.

The MISC has also continued to work in the fields of short selling and certain aspects of credit default swaps (CDS). In this context, ESMA published, on 27 October 2014, its opinion (ref.: ESMA/2014/1312) in relation to the emergency measure by the CONSOB under Section 1 of Chapter V of Regulation (EU) No 236/2012 and, on 11 November 2014, its opinions (ref.: ESMA/2014/1355) in relation to the renewal of emergency measure by the CONSOB under Section 1 of Chapter V of the aforementioned Regulation.

Finally, following the answers received during the public consultation in relation to the discussion paper on policy orientations on possible implementing measures under the proposed Market Abuse Regulation (ref.: ESMA/2013/1649) and the comments received during an open hearing, ESMA published two consultation papers on 15 July 2014.

The first consultation paper (ref.: ESMA/2014/808) dealt with the draft technical advice on:

- the indicators of market manipulation;
- the minimum thresholds for the purpose of the exemption for certain participants in the emission allowance market from the requirements to publicly disclose inside information;
- the determination of the competent authority for notification by the issuer or a participant in the emission allowance market of the decision of delays in the public disclosure of inside information;
- the types of transactions triggering the transactions notification and disclosure duties by the persons discharging managerial responsibilities and persons closely associated with them as well as circumstances under which trading during a closed period may be permitted by the issuer including the circumstances that would be considered as exceptional and the types of transaction that would justify the permission for trading;
- procedures for the receipt of reports of infringements as well as procedures for the protection of persons who report the infringement or natural persons who allegedly committed the infringement.

Following the analysis of the responses received during the public consultation, ESMA submitted to the European Commission its advice on possible delegated acts in relation to the aforementioned topics on 2 February 2015.

The second consultation paper (ref.: ESMA/2014/809) dealt with:

- conditions for buy-back programmes and stabilisation measures;
- market soundings;
- accepted market practices;
- suspicious transaction and order reporting;
- technical means for public disclosure of inside information and delays;
- insider list;
- format and template for transactions notification and disclosure by persons discharging managerial responsibilities as well as persons closely associated with them;
- investment recommendations and statistics.

After analysing all the responses received, ESMA will submit its advice on the technical standards to the European Commission in June 2015 at the latest.

2.1.3. Corporate Reporting Standing Committee (CRSC)

As high-quality financial statements are important for the smooth operation of the financial markets, ESMA is involved in the process of drawing up financial information standards and co-operates in this respect, inter alia, with the IASB (International Accounting Standards Board) and the EFRAG (European Financial Reporting Advisory Group).

Thus, through its permanent committee, the CRSC, ESMA drew up comment letters on various discussion papers and exposure drafts of the IASB and the EFRAG.

Moreover, through its subgroup, the European Enforcers Coordination Sessions (EECS)[19], the CRSC ensures that the financial information standards are consistently applied in the EU.

In this respect, ESMA took the following initiatives.

- **Consultation paper: "ESMA Guidelines on Alternative Performance Measures"**

On 13 February 2014, ESMA published a consultation paper on the review of the recommendations on the reporting of specific performance indicators by listed companies. The CESR recommendations, issued by ESMA's predecessor in 2005, will be re-issued as ESMA guidelines with the objective of strengthening the principles contained in it.

- **Report: "Review on the application of accounting requirements for business combinations in IFRS financial statements"**

On 16 June 2014, ESMA published a report on the accounting practices in relation to business combinations in 2012 financial statements of a sample of 56 listed companies. In particular, the report evaluates the consistency of application of the requirements of IFRS 3 - Business Combinations and how compliant and entity-specific disclosures are.

- **Final report: "ESMA Guidelines on enforcement of financial information"**

On 10 July 2014, ESMA published the final guidelines aimed to strengthen and promote convergence in enforcement practices amongst EU regulators. These guidelines entered into force on 29 December 2014.

- **Public statement: "European common enforcement priorities for 2014 financial statements"**

On 28 October 2014, ESMA published the list of priorities to be taken into account for the review of the financial statements of issuers as at 31 December 2014 by the national competent authorities, in order to promote the consistent application of the IFRS. The priorities are as follows: preparation and presentation of consolidated financial statements and related disclosures, financial reporting by entities which hold interests in jointly controlled entities (joint arrangements) and information to be published, recognition and measurement of deferred tax assets.

Moreover, ESMA responded to the public consultation of the European Commission on the IAS Regulation on 7 November 2014.

The work of the CRSC in relation to Directive 2004/109/EC (Transparency Directive) is carried out by the following working groups.

- **European Electronic Access Point Task Force**

The Transparency Directive as amended by Directive 2013/50/EU (revised Transparency Directive) has mandated ESMA with the task of developing and operating a European electronic access point to the officially appointed mechanisms (OAM) of the Member States in order to facilitate the search for regulated information at EU level by 1 January 2018 at the latest.

The working group started its work at the end of 2013 and is in charge of drawing up regulatory technical standards as provided for by the revised Transparency Directive on the technical requirements relating to the development and operation of this European electronic access point. A public consultation was carried out by ESMA on this topic between December 2014 and March 2015.

- **European Single Electronic Format Task Force**

The revised Transparency Directive provides for the preparation of annual financial reports in a single electronic reporting format as from 1 January 2020, provided that a cost-benefit analysis has been undertaken by ESMA.

[19] See also point 5.5. of Chapter X "Supervision of securities markets".

The working group is in charge of developing draft regulatory technical standards to specify the electronic reporting format, with due reference to current and future technological options. The task force started its work at the end of 2013 and analyses different options in this context in order to launch a public consultation in 2015.

- **Joint Task Force on TD Related Issues**

In September 2014, the CRSC and the CFSC decided to create a temporary Joint Task Force on TD Related Issues in order to clarify certain issues of common interest. The purpose is to promote greater harmonisation of the supervisory practices in relation to areas relevant to the revised Transparency Directive. The work of the Joint Task Force on TD Related Issues covers the interpretation of articles of this directive as well as the update of ESMA's document titled "Questions and answers regarding the Transparency Directive". The Joint Task Force on TD Related Issues met several times and sent a questionnaire to different national authorities at the end of December 2014.

2.1.4. Corporate Finance Standing Committee (CFSC)

The CFSC is in charge of the work regarding the Prospectus Directive, some aspects of the Transparency Directive and corporate governance. The following work may be highlighted for the year 2014.

- **Prospectus**

The CFSC's work on the Prospectus Directive is conducted by a permanent operational working group (OWG) and specific temporary working groups (Task Forces) in which the CSSF participates actively.

On 1 April 2014, ESMA updated its publication which summarises the linguistic requirements of the different national supervisory authorities acting as home Member State and host Member State for the purpose of the drawing-up of a prospectus and its summary.

On 26 September 2014, ESMA published a consultation paper relating to several draft RTS provided for in the Omnibus II Directive. These draft standards specify:

- the procedures for the approval of the prospectus;
- the information to be incorporated by reference in a prospectus;
- the provisions relating to the publication of a prospectus; and
- the provisions concerning the dissemination of advertisements announcing the intention to offer securities to the public or to admit securities to trading on a regulated market.

However, it should be pointed out that ESMA will not include the draft standards on the information to be incorporated by reference in a prospectus in its final report and agreed with the European Commission to rediscuss this topic in the framework of the review of the Prospectus Directive.

In order to promote common approaches between national supervisory authorities, ESMA published Q&As relating to:

- the format for the individual summary relating to several securities which differ only in some very limited details;
- the applicability of the registration document schedule in case of convertible debt securities which fall within the scope of the definition of "equity securities";
- the obligation to present key financial information of the issuer in the summary even if the annexes to the Prospectus Regulation do not require disclosure of selected financial information in the prospectus;
- the presentation of key information on the key risks specific to the securities, the issuer or its industry in the summary; and
- the items that can be included in the summary of the issue attached to the final terms issued under the base prospectus.

• **Transparency**

The work of the CFSC in relation to the Transparency Directive is carried out by the following working groups: Transparency Task Force, Operational Working Group on Transparency Related Issues and Joint Task Force on TD Related Issues.

The Transparency Task Force was created at the beginning of 2013 with the objective of developing regulatory technical standards relating to the new notification rules for major shareholdings as provided for by the revised Transparency Directive. Following the publication of a consultation paper in March 2014, the final report on the Draft Regulatory Technical Standards on major shareholdings and an indicative list of financial instruments subject to notification requirements under the revised Transparency Directive were published at the end of September 2014 and sent to the European Commission at the end of November 2014.

The Operational Working Group on Transparency Related Issues, whose objective is to identify and discuss the issues in relation to major shareholdings, started its work in November 2014. In co-operation with the working group Joint Task Force on TD Related Issues, a questionnaire was sent to the different authorities in order to identify their needs regarding the identified issues in relation to major shareholdings.

The work of the Joint Task Force on TD Related Issues is described in more detail under point 2.1.3. above.

• **Takeover Bids Network (TBN)**

The CSSF participated in the discussions of this group composed of representatives of the competent authorities on takeover bids in the Member States, whether they are members of ESMA or not. Exchanges notably covered the derogations relating to the obligation to launch a takeover bid.

2.1.5. Investor Protection and Intermediaries Standing Committee (IPISC)

In 2014, the IPISC drew up technical advice and standards on delegated acts concerning MiFID II/MiFIR related to investor protection. Prior to this work, a public consultation took place to which the public widely responded. It should be pointed out that the most sensitive aspect concerned inducements, the conditions for receiving and paying of which were specified. The initial text proposal concerning inducements, included in the consultation paper of 22 May 2014, was reviewed in order to better take into account the economic realities. The final report which includes the technical advice (ref.: ESMA 2014/1569) was sent to the European Commission in December 2014. The latter will continue its work so that the delegated acts are expected to be adopted around the end of the first half of 2015 and to be published in January 2016 in the Official Journal of the EU at the latest. Since the European Commission wishes to leave at least a year's time for the financial players to implement the necessary measures in order to comply with the requirements of MiFID II/MiFIR, the provisions of MiFID II and MiFIR will be applicable as from 3 January 2017.

2.1.6. Secondary Markets Standing Committee (SMSC)

The task of the SMSC is to deal with topics relating to the structure, transparency and efficiency of secondary markets for financial instruments, including trading platforms and OTC markets.

In 2014, in the framework of its mandate, the SMSC discussed a great number of documents which were included in the final technical advice sent to the European Commission in December 2014. This technical advice covers topics such as the classification into liquid and illiquid instruments, the definition of systematic internaliser, the legal framework for the SME growth markets, the access to central counterparties and the algorithmic and high frequency trading.

Moreover, the SMSC participated in the preparation of a consultation paper relating to technical standards provided for in MiFID II/MiFIR. The topics dealt with by the SMSC in this context mainly concern the pre-trade and post-trade transparency, the publication and access of data relating to market, microstructural issues and organisational requirements applicable to and on the trading platforms. The draft technical standards are under consultation until 2 March 2015. An open hearing covering the topic took place in February 2015.

In 2014, the SMSC also met several times with the Consultative Working Group (CWG) in order to request its opinion on the direction to take regarding the development of the regulatory framework.

2.1.7. Post-Trading Standing Committee (PTSC)

In 2014, the PTSC notably studied the application of EMIR.

It drew up two consultation papers on the clearing obligation of OTC interest rate swaps and OTC credit derivatives which were published on 11 July 2014 in order to seek the stakeholders' views. The final report on draft regulatory technical standards on the clearing obligation of interest rate swaps was submitted to the European Commission on 1 October 2014.

In order to clarify certain aspects of the voting procedure for the adoption of an opinion by central counterparties' colleges, the PTSC issued an opinion on the voting procedures for central counterparties' colleges on 28 May 2014.

Given the many questions raised by the market participants concerning the application of certain EMIR provisions, the Questions and Answers document was regularly updated.

In addition, the PTSC oversaw the drafting of regulatory and implementing technical standards within its sub-working group, the CSD Task Force. These standards are provided for in Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (CSDR).

Moreover, following a mandate from the European Commission, the PTSC adopted a draft technical advice for the European Commission on certain implementing measures of the CSDR based on the proposed drafts drawn up by the CSD Task Force.

The draft standards and technical advice were submitted for public consultation on 19 December 2014.

2.1.8. Investment Management Standing Committee (IMSC)

ESMA contributes to the creation of common standards and practices in relation to regulations and supervision of financial markets at EU level in the form of, inter alia, advice, recommendations, guidelines and regulatory technical standards. These ESMA documents are drawn up by the IMSC (and its subgroup, the Operational Working Group on Supervisory Convergence) which brings together experts of the financial market regulators from the EEA Member States, assisted by ESMA employees. After being finalised at the IMSC level, the documents are submitted to ESMA's Board of Supervisors for final approval and publication on ESMA's website[20]. The CSSF actively contributes to the work of the IMSC.

In 2014, the IMSC worked in particular on the following topics:

- ESMA's guidelines, consultation papers and questions and answers concerning certain topics relating to Directive 2011/61/EU on alternative investment fund managers (AIFMD);
- ESMA's draft implementing technical standards, consultation papers and questions and answers in relation to Regulation (EU) No 345/2013 on European venture capital funds (EuVECA) and Regulation (EU) No 346/2013 on European social entrepreneurship funds (EuSEF);
- ESMA's guidelines, consultation papers and questions and answers in relation to certain topics under Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV Directive) and Directive 2014/91/EU amending UCITS IV Directive (UCITS V Directive).

[20] http://www.esma.europa.eu/page/investment-management-0.

- **ESMA's guidelines, consultation papers and questions and answers under the AIFMD**

Following the entry into force of the AIFMD (Level 1) on 1 July 2011 and the adoption by the European Commission, on 19 December 2012, of Delegated Regulation (EU) No 231/2013 (Level 2) supplementing the AIFMD with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, the AIFMD regime has been applicable since 22 July 2013. In this context, ESMA continues to develop and adopt (Level 3) documents that must clarify certain subjects and ensure consistent application of the provisions of the AIFMD.

Consequently, ESMA developed and published, among others, the following documents concerning the AIFMD regime:

- Questions and Answers on the application of the AIFMD: the last version of this document, which was updated several times, dates from 9 January 2015 (ref.: ESMA/2015/11);
- translations in all EU official languages of the Guidelines on reporting obligations of AIFMs to national competent authorities (ref.: ESMA/2014/869);
- updates of AIFMD reporting IT technical guidance and document formats (ref.: ESMA/2013/1358 and ESMA/2013/1361);
- technical advice to the European Commission on the quarterly information on AIFMs managing AIFs that EU competent authorities should provide to ESMA pursuant to Article 67(3) of the AIFMD (ref.: ESMA/2014/312);
- call for evidence on a technical advice that ESMA has to submit to the European Commission by 22 July 2015 at the latest and that concerns (i) the functioning of the EU passport under the AIFMD, (ii) the functioning of the marketing of non-EU AIFs by EU AIFMs in the EU and the management and/or marketing of EU AIFs by non-EU AIFMs, and (iii) a possible extension of the passporting regime to the management and/or marketing of EU AIFs by non-EU AIFMs and the marketing of non-EU AIFs by EU AIFMs (ref.: ESMA/2014/1340);
- consultation paper on asset segregation requirements under the AIFMD and, in particular, in case of delegation of safe-keeping duties by a depositary of an AIF (ref.: ESMA/2014/1326).

- **Draft implementing technical standards, consultation papers and Questions and Answers in relation to the EuVECA and EuSEF Regulations**

The EuVECA and EuSEF Regulations were already subject to detailed comments in the CSSF's Annual Reports 2011 and 2013. It should be noted that the managers of these funds must comply with the requirements of the AIFMD.

In 2014, ESMA drafted and published the following documents in relation to the EuVECA and EuSEF Regulations:

- draft implementing technical standards on notification to national competent authorities and ESMA of events related to the passport of the managers of EuVECA and EuSEF (ref.: ESMA/2014/160 and ESMA/2014/161); these drafts were the basis of Commission Implementing Regulations (EU) No 593/2014 and 594/2014 of 3 June 2014 laying down implementing technical standards with regard to the format of notification according to Article 16(1) and 17(1), respectively of the EuVECA and EuSEF Regulations;
- Questions and Answers on the application of the EuVECA and EuSEF Regulations: the last version of this document, which was updated several times, dates from 11 November 2014 (ref.: ESMA/2014/1354);
- a consultation paper on a technical advice that ESMA has to submit for approval to the European Commission at the end of April 2015 and that concerns the implementing measures of the EuVECA and EuSEF Regulations; these implementing measures relate to (i) the types of goods and services and methods of production for goods and services embodying a social objective, (ii) the conflicts of interest of EuVECA and EuSEF managers, (iii) the social impacts of EuSEF, and (iv) the information that EuSEF should provide to investors.

- **ESMA's guidelines, consultation papers and Questions and Answers in relation to certain subjects under UCITS IV and UCITS V**

Following the consultation launched on 20 December 2013 on the revision of the provisions on diversification of collateral in ESMA's Guidelines on ETFs and other UCITS issues (ref.: ESMA/2013/1974), ESMA published

its final report on 24 March 2014 (ref.: ESMA/2014/294) and the updated version of these guidelines on 1 August 2014 (ref.: ESMA/2014/937). Moreover, the document Questions and Answers – ESMA's Guidelines on ETFs and other UCITS issues was also updated several times, the last version dating from 9 January 2015 (ref.: ESMA/2015/12).

On 22 July 2014, ESMA launched a consultation on the calculation of counterparty risk by UCITS for OTC financial derivative transactions subject to clearing obligations (ref.: ESMA/2014/876).

On 22 August 2014, ESMA published an opinion on the review of the CESR guidelines of 2010 (ref.: CESR/10-049) on money market funds (ref.: ESMA/2014/1103). The amendments concern the use of credit rating agencies for the assessment of the quality of instruments eligible in assets of the European money market funds (i.e. UCITS and UCIs regulated under the national law of a Member State and subject to supervision and risk-spreading rules).

On 28 November 2014, ESMA published the final version of its technical advice to the European Commission on implementing measures regarding requirements linked to the safekeeping under UCITS V (ref.: ESMA/2014/1417). This advice which follows the consultation launched on 26 September 2014 (ref.: ESMA/2014/1183) covers the following two topics: (i) protection in the event of insolvency of a third party to whom the custody of assets was delegated, and (ii) requirement for management companies and depositaries to act independently, professionally and solely in the interest of the UCITS and the investors of UCITS. It is expected that the European Commission adopts and publishes the delegated acts (based on ESMA's technical advice) by mid-March 2015, i.e. one year before 18 March 2016 which is the deadline for the transposition of the UCITS V by Member States.

Finally, on 23 December 2014, ESMA announced a consultation on different share classes of UCITS. The purpose of this consultation is to establish a common position on the use of share classes and on the extent of differentiation between them (ref.: ESMA/2014/1577).

2.1.9. Financial Innovation Standing Committee (FISC)

The FISC's mission, as defined in Article 9 of Regulation (EU) No 1095/2010 establishing ESMA, is to assist ESMA in its tasks and responsibilities relating to consumer protection.

To this end, the FISC's tasks include the collection, analysis and report of consumer trends. In 2014, the FISC improved its reporting system in order to monitor consumer trends on the European market. In particular, it reviewed, modified and simplified the questionnaire that the national authorities have to fill in each quarter for the reporting of consumer complaints in relation to the application of MiFID.

The FISC also analysed the risks associated with investing in Contingent Convertible Bonds or COCOs. This analysis led to a statement issued by ESMA on the risks associated with investing in COCOs.

Moreover, based on an analysis carried out by the FISC, ESMA issued an investor warning on the risks to which investors are exposed when investing in complex financial products.

The FISC studied the investments in virtual currencies and was interested in alternative indices, crowdfunding (by creating a dedicated sub-working group), robo advice and contracts for difference (CFDs).

In addition, the FISC coordinated the organisation of the "ESMA Financial Innovation Day", in April 2014, a day during which representatives of the European supervisory authorities and the market industry as well as representatives of the academic community exchanged their views on the following topical issues: Exchange Traded Funds (ETFs), alternative indices, securitisation and Big Data.

2.1.10. Credit Rating Agencies Technical Committee (CRA TC)

In 2014, the work of the CRA TC mainly covered the implementation of Regulation (EU) No 462/2013 (CRA 3 Regulation) amending Regulation (EU) No 1060/2009 (CRA Regulation).

In this context, the CRA TC drafted technical standards which were submitted to the European Commission. The three Delegated Regulations (EU) No 2015/1, (EU) No 2015/2 and (EU) No 2015/3 were published in the

Official Journal of the EU on 6 January 2015. The first two regulations are intended for credit rating agencies (the supervision of which is entrusted to ESMA), whereas the third regulation on the disclosure requirements for structured finance instruments according to the provisions of Article 8b of the CRA Regulation, as amended by the CRA 3 Regulation, concerns the issuers, originators and sponsors of such instruments established in the EU.

Moreover, the CRA TC discussed (internally and with representatives of the credit rating agencies) the practical implementation of Articles 8c and 8d of the CRA Regulation, as amended by the CRA 3 Regulation. Following the observation that the users of credit rating agencies do not always seem to know the implications of these articles, the members of the CRA TC were encouraged to carry out awareness raising. Thus, on 26 January 2015, the CSSF published a press release in order to draw the attention of the industry to the relevant provisions.

2.1.11. Market Data Reporting Working Group (MDR WG)

The MDR WG contributes to the work of ESMA in relation to questions on the reporting obligations under EMIR[21] and MiFID II/MiFIR[22] to provide reference data regarding financial instruments and to store the relevant data relating to all the orders. More specifically, these obligations are laid down in Article 9 of EMIR and Article 25 of MiFID II and Articles 25, 26, and 27 of MiFIR. The MDR WG seeks to harmonise as far as possible the requirements arising from these different legal bases and to avoid any kind of duplication resulting from the different reporting obligations.

In 2014, the MDR WG met six times to discuss draft regulatory technical standards to submit pursuant to Articles 25, 26 and 27 of MiFIR to the European Commission by 3 July 2015 at the latest. The proposals were an integral part of the "Discussion Paper on MiFID II/MiFIR" published in May 2014. By taking into account the reactions to these proposals, the MDR WG finalised draft regulatory technical standards which were integrated in the consultation paper on technical standards laid down in MiFID II/MiFIR published in December 2014. Among the most discussed themes during the year were:

- the definition of an execution of a transaction (representing the scope of the reporting obligation);
- the change in the general approach from "client, counterparty" to "buyer, seller";
- the short selling flag;
- the IT format to use for the transaction reporting (XML, FpML, ISO 20022, etc.); and
- the information allowing the identification of clients on behalf of which the investment firm executed the transaction (Client ID).

In the context of this last point, it should also be highlighted that the consultation paper lays down, for future transaction reporting under MiFIR, that clients, natural persons from Luxembourg, must be identified through their passport number and, if unavailable, through the number of their identity card or a concatenated number.

Two meetings with the Consultative Working Group (CWG), whose members represent the different categories of market participants, allowed the work of the MDR WG to benefit from the specific professional expertise provided by the members of this group.

2.1.12. IT Management and Governance Group (ITMG)

Additional explanations on the work performed in 2014 by the ITMG are provided under point 1.3.1. of Chapter XI "Supervision of information systems".

[21] Article 9, EMIR: reporting obligation of details of any derivative contract to a trade repository.

[22] Article 26, MiFIR: obligation for investment firms to report details to the competent authority following the execution of a transaction in a financial instrument.

3. CO-OPERATION WITHIN THE OTHER EUROPEAN BODIES

3.1. European Insurance and Occupational Pensions Authority (EIOPA)

EIOPA, composed of the representatives of the EEA insurance and occupational pensions authorities, assists the European Commission in the preparation of technical measures relating to EU legislation on insurance and occupational pensions. Its mission is to ensure the harmonised and continuous application of the European legislation in the Member States. One of the main objectives of EIOPA, which is currently chaired by Mr Gabriel Bernadino (ISP, Portugal), is the protection of the policyholders and of the members and beneficiaries of occupational pension schemes.

In 2014, the CSSF participated as a member in the work of EIOPA and of the following permanent working groups.

3.1.1. Occupational Pensions Committee (OPC)

Following the impact study carried out in 2013, EIOPA continued to work during 2014 on different aspects of the common assessment of the means, used by institutions for occupational retirement provision to ensure the security of the affiliates, with the view to present new advice to the European Commission on this topic.

In 2014, EIOPA also published a report on the decumulation phase practices of institutions for occupational retirement provision and drew up reports on investment options for occupational defined-contribution (DC) pension scheme members and on costs and charges of institutions for occupational retirement provision. Moreover, EIOPA published its annual report on market development which is part of a set of reports allowing monitoring the changes in cross-border activities of institutions for occupational retirement provision since March 2007. Finally, in 2014, EIOPA applied its first technical standard on the transmission of information on national prudential provisions by the national supervisory authorities.

At the end of 2014, EIOPA started to collect, with the help of the national supervisory authorities, data used to calibrate the parameters of the stress test of the institutions for occupational retirement provision which is planned in 2015.

3.1.2. Review Panel

The Review Panel is responsible for assisting EIOPA in its task to ensure consistent and harmonised implementation of EU legislation in the Member States.

In 2014, the CSSF contributed to the finalisation of the outcome of the peer review on the conditions of operation and the cross-border activities of institutions for occupational retirement provision. The outcome of this exercise should be published in the first quarter of 2015.

3.2. Joint Committee (of the European supervisory authorities EBA, ESMA and EIOPA)

3.2.1. Sub-Committee on Financial Conglomerates (JCFC)

The CSSF follows the work of the JCFC and contributes to it when necessary. As no financial conglomerate has been identified for which the CSSF would need to act as coordinator, its involvement remains limited.

The JCFC contributes to the work of the other European supervisory authorities in areas related to the drawing-up of rules on the supplementary supervision of financial conglomerates. Among the draft technical standards and guidelines arising from the mandates given to sub-committees by the Financial Conglomerates Directive, the following documents are worth mentioning for 2014:

- guidelines for the convergence of supervisory practices relating to the consistency of supervisory coordination arrangements; and

- regulatory technical standards in order to clarify the definition in Article 2 and to coordinate the provisions adopted in accordance with Articles 7 (Risk concentration) and 8 (Intra-group transactions) and with Annex II of the Financial Conglomerates Directive.

3.2.2. Sub-Committee on Consumer Protection and Financial Innovation (SC CPFI)

The mission of the SC CPFI is to intervene in areas relating to consumer protection and financial innovation in a trans-sectoral manner (EBA, ESMA, EIOPA). In 2014, the main work carried out in the sub-groups of the SC CPFI included:

- development of the "Guidelines for cross-selling practices" in order to steer the behaviour of the professionals carrying out cross-selling for their clients;
- reflection which led to a reminder addressed to the professionals of the sector as regards their obligations pursuant to MiFID;
- contribution to the publication of a press release concerning the consumer protection aspects related to self placement;
- participation in the drawing-up of the "Guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors" and of a discussion paper on the implementation of a "Key Information Document" (KID) whose purpose is to help retail investors in the EU to better understand the Packaged Retail and Insurance-based Investment Products (PRIIPs).

3.2.3. Anti-Money Laundering Committee (AMLC)

As regards AML/CFT, the CSSF contributed in 2014 to the work of the Anti-Money Laundering Committee (cf. point 2.1.2. of Chapter XIV "Financial crime").

3.3. European Group of Auditors' Oversight Bodies (EGAOB)

In 2014, the CSSF took part in the works of the European Group of Auditors' Oversight Bodies (EGAOB) and its sub-working group, the EGAOB Preparatory.

In 2014, the EGAOB Preparatory notably started the assessment of the adequacy of the public supervisory authorities of 12 countries recognised as equivalent. This analysis was carried out pursuant to Article 47(3) of Directive 2006/43/EC.

3.4. European Audit Inspection Group (EAIG)

In 2014, the CSSF participated in the work of this working group (cf. point 2. of Chapter XII "Public oversight of the audit profession").

3.5. Accounting Regulatory Committee

The CSSF participates as a member in the work of the Accounting Regulatory Committee of the European Commission.

3.6. Expert Group on Money Laundering and Terrorist Financing (EGMLTF)

As regards AML/CFT, the CSSF contributed in 2014 to the work of this working group of the European Commission (cf. point 2.1.3. of Chapter XIV "Financial crime").

4. LIST OF EUROPEAN GROUPS IN WHICH THE CSSF PARTICIPATES

At EU level, the CSSF participates as a member in the work of the following committees, working groups and subgroups.

European Systemic Risk Board (ESRB)

- **General Board**
- **Advisory Technical Committee and the subgroups**
  - Task Force on Stress Testing
  - Expert Group on Cross-border Effects of Macro-Prudential Policy and Reciprocity
  - Expert Group on Shadow Banking
  - Expert Group on Money Market Funds

European Banking Authority (EBA)

- **Board of Supervisors**
- **Standing Committee on Regulation and Policy (SCRePol) and the subgroups**
  - Subgroup on Credit Risk
  - Subgroup on Crisis Management
  - Subgroup on Governance and Remuneration
  - Subgroup on Liquidity
  - Subgroup on Market Risk
  - Subgroup on Operational Risk
  - Subgroup on Own Funds
  - Subgroup on Securitisation and Covered Bonds
  - Network on ECAIs (External Credit Assessment Institutions)
  - Task Force on Leverage Ratio
  - Task Force on Macroprudential Matters
  - Task Force on Market Infrastructure
  - Task Force on Model Validations
  - Task Force on Supervisory Benchmarking
  - Task Force on Supervisory Disclosure
  - Project Team on Investment Firms
  - Project Team on NSFR
  - Drafting Team on Large Exposures
- **Standing Committee on Oversight and Practices (SCOP) and the subgroups**
  - Subgroup on Analysis Tools
  - Subgroup on Supervisory Effectiveness and Convergence
  - Subgroup on Vulnerabilities
  - Task Force on Resolution Colleges and Notifications
- **Standing Committee on Accounting, Reporting and Auditing (SCARA) and the subgroups**
  - Subgroup on Accounting
  - Subgroup on Auditing
  - Subgroup on Reporting
  - Subgroup on Transparency

- **Standing Committee on Consumer Protection and Financial Innovation (SCCONFIN) and the subgroups**
  - Subgroup on Consumer Protection
  - Subgroup on Innovative Products
  - Task Force on Crowdfunding
  - Task Force on Virtual Currencies
- **Standing Committee on IT and the subgroups**
  - Information Technology Sounding Board
  - IT Security Task Force
  - Subgroup on XBRL
  - Eurofiling Initiative
- **Resolution Committee (ResCo)**
- **Review Panel**
- **Task Force on Impact Assessment**
- **Expert Group on EU-wide stress-testing**
- **Network on Equivalence**
- **Network on Single Rulebook Q&A**
- **Task Force on Payment Services**
- **Task Force on Stress Testing**
- **Task Force on Stress Test Methodology**
- **Credit Institutions Register**
- **Asset Quality Review**
- **Human Resources Network**
- **Press Officers**

European Securities and Markets Authority (ESMA)

- **Board of Supervisors**
- **Review Panel and the subgroup**
  - Assessment Group Prospectus
- **Market Integrity Standing Committee (MISC) and the subgroup**
  - Working Group on Market Abuse Regulation
- **Corporate Reporting Standing Committee (CRSC) and the subgroups**
  - Project Group on IFRS
  - European Enforcers Coordination Sessions
  - Audit Task Force
  - European Electronic Access Point Task Force
  - European Single Electronic Format Task Force
  - Task Force on ESMA guidelines on enforcement of financial information
  - Joint Task Force on TD Related Issues (mandated jointly with the CFSC)

- **Corporate Finance Standing Committee (CFSC) and the subgroups**
  - Task Force on Omnibus II related Prospectus Issues
  - Task Force on Transparency Issues
  - Operational Working Group on Prospectus related Issues
  - Operational Working Group on Transparency related Issues
  - Joint Task Force on TD related Issues (mandated jointly with the CRSC)
  - Takeover Bids Network
  - Consultative Working Group
- **Investor Protection and Intermediaries Standing Committee (IPISC) and the subgroup**
  - IPISC Task Force
- **Secondary Markets Standing Committee (SMSC) and the subgroup**
  - Pre-trade Transparency Waiver Review Group
- **Post-Trading Standing Committee (PTSC) and the subgroup**
  - Task Force on CSD
- **Investment Management Standing Committee (IMSC) and the subgroups**
  - Operational Working Group on Supervisory Convergence
  - Task Force on AIFMD Reporting
- **Financial Innovation Standing Committee (FISC)**
- **Committee for Economic and Markets Analysis (CEMA)**
- **IT Management and Governance Group**
- **Credit Rating Agencies Technical Committee**
- **Market Data Reporting Working Group and the subgroups**
  - EMIR reporting Subgroup
  - Transaction reporting Subgroup
  - Instrument reference Subgroup
  - Order book Subgroup
- **Human Resources Network**
- **ESMA Legal Network**
- **ESMA Consumer Network**
- **ESMA International Relations Network**
- **Press Officers**

European Insurance and Occupational Pensions Authority - EIOPA

- **Board of Supervisors**
- **Occupational Pensions Committee (OPC) and the subgroup**
  - Workstreams recast IORP Directive
- **Financial Stability Committee**
- **Review Panel**
- **Press Officers**

Joint Committee of the three European Supervisory Authorities EBA, ESMA, EIOPA

- **Sub-Committee on Financial Conglomerates**
- **Sub-Committee on Anti-Money Laundering (AMLC) and the subgroup**
  Risk Based Supervision Working Group
- **Sub-Committee on Consumer Protection and Financial Innovation**
- **Task Force on Qualified Holdings**

Single Resolution Board (SRB)

- **SRB Committee on Crisis Management and Resolution**
- **IT and Security**

European Central Bank (ECB)/Single Supervisory Mechanism (SSM)

- **Supervisory Board**
- **Mediation Panel**
- **Eurosystem/ESCB Communications Committee (ECCO)**
- **Financial Stability Committee (FSC) and the subgroups**
  Macroprudential Policy Group
  Expert Group on legal acts
  Macroprudential Analysis Group
  Drafting Team on CRR/CRD IV
- **Information Technology Committee (ITC) and the subgroups**
  Working Group on Infrastructure Portfolio Management, Operations and Service Management
  Transport Layer Security Project
  Business Management Project Working Group
- **Budget Committee**
- **Human Resources Committee and the subgroup**
  Task Force on Training and Development
- **Internal Auditors Committee (IAC)**
- **Legal Committee (LEGCO)**
- **Organisational Development Committee (ODC)**
- **Statistics Committee (STC) and the subgroups**
  Working Group on Supervisory Statistics
  Working Group on Statistical Information Management
- **Senior Management Network**
- **Planning & Coordination of SEP**
- **Enforcement & Sanctions**

- Supervisory Policies (SPO)
- Network of Authorisation Experts
- Methodology and Standards Development (MSD Network)
- Crisis Management
- Centralised On-site Inspection (COI)
- On-site Inspections Methodology
- SSM Risk Analysis
- Internal Models
- Supervisory Quality Assurance & Benchmarking (SQA)
- On-site Methodological Working Group on Business model and profitability
- European Forum on the Security of Retail Payments (SecuRe Pay Forum)
- ELIS – Task Force on SSM relevant legislation
- Task Force CRMS
- Network on the User Requirements for Supervisory Reporting
- IMAS User Group
- Status of IT Development of the SSM IT supervision tool
- LSI Data Collection Exercise
- IT Cross Jurisdictional Contact Group
- Informal Contact Group on National Parliaments

Council of the EU

- Investor Compensation Schemes
- MiFID II
- Venture Capital and Social Entrepreneurship Funds
- Market Abuse Regulation (MAR)
- PRIPS
- Banking Resolution and Recovery Directive
- Ad hoc Working Party on the Banking Supervision Mechanism
- Deposit Guarantee Schemes
- Central Securities Depositories Regulation
- Regulation on European Long Term Investment Funds
- Regulation on Money Market Funds
- Benchmark Regulation
- IORP II

European Commission

- **Accounting Regulatory Committee (ARC)**
- **Audit Regulatory Committee**
- **European Group of Auditors' Oversight Bodies (EGAOB) and the subgroup**
  EGAOB Preparatory
- **European Audit Inspection Group (EAIG)**
- **Expert Group on Money Laundering and Terrorist Financing (EGMLTF)**
- **Working Party on Financial Services - SEPA**
- **Working Party on Financial Services – CSDR**
- **Expert Group Banking, Payments, Insurance**

European Financial Reporting Advisory Group - EFRAG

- **Consultative Forum of Standard Setters**

Others

- **Passport Experts Network**
- **PSD Passport Liaison Group**
- **FIN-NET**

CHAPTER III

THE INTERNATIONAL DIMENSION OF THE CSSF'S MISSION

1. CO-OPERATION WITHIN INTERNATIONAL INSTITUTIONS

Article 3 of the law of 23 December 1998 establishing a financial sector supervisory commission (Commission de surveillance du secteur financier) appoints the CSSF, inter alia, to deal with and take part in the negotiations on the financial sector issues at international level. In accordance therewith, the CSSF participates in the work of the international fora mentioned below.

1.1. Basel Committee on Banking Supervision

The Basel Committee is chaired by Mr Stefan Ingves (Sweden) and the CSSF is represented by Mr Claude Simon, Director.

The CSSF participates in the work of the Basel Committee, of the main sub-committees (Accounting Experts Group, Supervision and Implementation Group and Policy Development Group) and of some working groups which are particularly relevant for the prudential supervision in Luxembourg, notably the Working Group on Liquidity, the Working Group on Operational Risk and the Large Exposures Working Group.

In 2014, the issues dealt with by the Basel Committee were largely dominated by the reform agenda adopted by the G20 as a response to the financial crisis. The Basel Committee finished the conception of the fundamental regulatory standards in response to the crisis with the final publications of the regulatory framework governing the leverage ratio, published on 12 January 2014, and the net stable funding ratio (NSFR), published on 31 October 2014. The three big projects still in progress concern the improvement of the monitoring and assessment programme for the implementation of the agreed reforms (cf. point 1.1.5. below), the further review of the balance between simplicity, comparability and risk sensitivity of the Basel III framework[1] and, finally, the improvement of the supervisory effectiveness.

The work mentioned hereafter is of particular interest for the Luxembourg banking sector. All the publications by the Basel Committee and information on its mission and organisational structure are available on the website www.bis.org.

1.1.1. Credit risk

At the end of December 2014, the Basel Committee published a consultative document on the revisions to the standardised approach for credit risk. The purpose of the revisions is, in particular, to reduce the use of external ratings, to review risk sensitivity of the Basel III framework and to further align the definitions used in the standardised approach and more advanced approaches. According to this document, the applicable risk weights for bank exposures would hence be based on the asset quality (fraction of the non-productive commitments) and the solvency of the counterparty (Common Equity Tier 1 capital ratio). As regards exposures to corporates, the reference to the external credit rating would be replaced by a reference to revenue and leverage. As regards residential real estate credits, the preferential treatment of 35% would be removed in favour of a risk weight based on loan-to-value ratio and the borrower's reimbursement capacity as measured by the debt-service coverage ratio. Moreover, the Basel Committee intends to simplify the credit risk mitigation framework (reduction of the number of eligible approaches, update of the eligibility criteria and recalibration of the supervisory haircuts).

In March 2014, the Basel Committee already published new rules on the simpler approaches for measuring counterparty credit risk exposures. The final text proposes to replace the two current methods (Current Exposure Method (CEM) and Standardised Method (SM)) with a new single approach called Standardised Approach[2] as from 1 January 2017. This approach seeks a balance between the risk sensitivity, reflected through calibration based on the level of volatilities observed over the recent stress periods, and the simplicity and comparability through limitation of national discretions and the banks' estimates of parameters.

[1] Cf. the discussion paper "The regulatory framework: balancing risk sensitivity, simplicity and comparability" published by the Basel Committee in July 2013.

[2] The working paper of August 2014 called "Foundations of the standardised approach for measuring counterparty credit risk exposures" explains the assumptions used by the Basel Committee to develop the new standardised approach.

As regards the advanced methods, the Basel Committee continues its work aiming to guarantee the bases of a level playing field between banks. Indeed, in the framework of its regulatory consistency assessment programme in relation to Basel III (cf. point 1.1.5. below), the Basel Committee noted that there is a significant variation in the regulatory capital ratios of banks which use advanced methods to calculate capital requirements. Where these variations do not result from the inherent risk degree but only depend on choices of modelling, a risk of competitive distortion between banks is created. In order to keep the level playing field, the Basel Committee committed with the G20 to take all the necessary measures. Among these measures is the revision of the capital thresholds that the Basel II framework introduced in order to limit the reductions of the capital requirements that the banks could receive by implementing more advanced methods. Thus, the Basel Committee published on 22 December 2014 a consultative document which proposes to adapt the current treatment, still based on the Basel I framework. Other measures which are being studied should limit the banks' choice of modelling, particularly in the areas where the modelling possibilities are deemed less strong.

1.1.2. Large exposures

The rules published by the Basel Committee on sound management of concentration risk towards a counterparty or a group of connected counterparties used to be published as mere guidelines which allowed the banks a wide measure of discretion in their application. The financial crisis, which revealed the existence of excessive risk concentrations towards connected counterparties, showed that a stricter regulatory response was needed. The applicable solvency standards, although enhanced with the Basel III framework, remain based on the assumption of a perfect risk diversification according to the underlying counterparty. Consequently, they do not protect efficiently a bank from large losses resulting from the sudden default of a single counterparty. In this situation, the regulations on large exposures make sense.

Following the public consultation of 2013, the Basel Committee published a final text of its standard on large exposures on 15 April 2014. This text is similar, from a conceptual point of view, to the large exposure regime which is already in place in the EU (cf. Part Four of the CRR). Nevertheless, there are some significant differences between the standard proposed by the Basel Committee and the CRR. Thus, the former uses only Tier 1 capital as base for measuring large exposures, whereas the CRR refers to eligible own funds in their entirety. As regards credit risk mitigation techniques, unlike the CRR, the Basel Committee does only allow the use of eligible techniques in the standardised approach for credit risks. The collateral which is only eligible in the internal ratings-based approach may thus not be taken into account to reduce the value of the exposures. It should also be noted that the Basel Committee provides for stricter limits, namely 15% instead of 25% of the Tier 1, for exposures of a global systemically important banking institution (G-SII) to another G-SII (at consolidated level). The implementation of this standard, planned for 1 January 2019, should take place in Luxembourg via arrangements made at European level. On this occasion, the EU will have to decide, in particular, to what extent it will spread the stricter treatment reserved for G-SII to exposures of smaller banks to G-SII as well as of subsidiaries of G-SII to other (subsidiaries of) G-SII. Based only on the consolidated level, the standard of the Basel Committee does not indicate the treatment that the banks should apply at individual or sub-consolidated level. In the same context, it should be noted that intra-group exposures, substantially present in Luxembourg banks, are not covered by the new standard of the Basel Committee on large exposures.

1.1.3. Liquidity

In December 2010, as a response to the financial crisis which revealed that the regulatory liquidity framework was insufficient, the Basel Committee suggested the introduction of two minimum liquidity standards at an international level: the Liquidity Coverage Ratio (LCR) forcing banks to hold a certain stock of liquid assets allowing them to face significant liquidity shortfalls on the short-term and the NSFR which requires banks to refinance at least a proportion of their longer-term assets through stable resources.

The Basel Committee agreed in January 2013 on the fundamental architecture of the LCR. On 12 January 2014, the Committee finalised all the rules applicable to the LCR and specified those governing the disclosure

relating to the LCR. According to the Basel Committee, the banks should adopt a common LCR disclosure template, the main components of which are to be reported in the form of arithmetic averages of the daily observations over a quarter.

Within the EU, the work of the Basel Committee was used as basis for the drawing-up of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 which introduces the LCR with a 60% level as from 1 October 2015. This level will increase linearly to reach 100% as at 1 January 2018. The disclosure requirements which will apply in the EU are not yet finalised.

Following the last consultation which closed in April 2014, the Basel Committee also finished the conceptual work relating to the NSFR. This work has been subject to an observation period since 2010 allowing the Basel Committee to assess possible unintended consequences of the NSFR on the functioning of the financial markets and on the economy. The final rules follow the outlines of the proposal made in December 2010. They particularly endorse the more favourable treatment of the operational deposits which was announced in the consultative document in 2014. These operational deposits which are particularly important for the Luxembourg banking centre are thus recognised at 50% in the final regulation. The final rules, adopted on 31 October 2014, provide for an implementation of the NSFR as at 1 January 2018.

In the EU, the implementation of the NSFR will go through a legislative proposal that the European Commission has to submit for 31 December 2016 at the latest to the European Parliament and to the Council in accordance with Article 510(3) of the CRR.

1.1.4. Operational risk

In October 2014, the Basel Committee published a consultative document in order to review the simpler approaches for operational risk, the BIA (Basic Indicator Approach) and the TSA/ASA (Standardised Approach/Alternative Standardised Approach). The consultative document presents modification proposals by the Basel Committee to replace the current BIA and the TSA/ASA with a new standardised approach, addressing weaknesses identified in the two current approaches and balancing simplicity, comparability and risk sensitivity. These proposals provide for the abandonment of the gross income as proxy indicator in favour of a new measure called Business Indicator which takes into account three main components of a bank's income statement, namely the interest margins, the commissions received and paid and the net profit and loss on banking and trading book. Moreover, the Basel Committee proposes a recalibration, without distinction per activity sector, but which includes new coefficients increasing in a layered manner with the volume of business.

1.1.5. Basel III Regulatory Consistency Assessment Programme

Initiated in 2012, the Basel III Regulatory Consistency Assessment Programme (RCAP) aims at assessing and documenting to which extent domestic rules which result from the transposition of the Basel III framework comply with this framework. The objective is to ensure, through common rules, a fair competition between banking groups that act on a cross-border basis. The public document titled "Basel III Regulatory Consistency Assessment Programme (RCAP)" (October 2013) details the approach implemented by the Basel Committee to this effect.

In 2014, four new assessment reports were published which cover the regulatory framework of Canada, Australia, the United States and the EU. The global regulatory capital framework of Canada and Australia was deemed compliant with the Basel III framework. As regards the United States, the overall mark is "largely compliant" while as regards the EU, the transposition was deemed to be materially non-compliant. This insufficient mark is due to the rules in relation to counterparty credit risk (marked non-compliant with the Basel III framework) and the internal ratings-based approaches (deemed materially non-compliant). The other components of the CRR, i.e. 12 subsections out of 14, were deemed compliant or largely compliant. As regards the internal ratings-based approach, the reasons for the bad mark are based on two observations. First, unlike the Basel III framework, the CRR allows banks, which opted for an internal ratings-based approach, to apply permanently the standardised approach (exemption called "permanent partial use") to asset classes or

business lines without restriction in terms of materiality. Second, the exposures to small and medium-sized enterprises receive an accommodating treatment (multiplication factor of 0.7619) which is not included in the Basel III standard. As regards counterparty credit risk, the non-compliance comes from the fact that the CRR includes significant exemptions to the capital charge requirements for credit valuation adjustment (CVA).

The European bodies must ensure that the standards adopted by the Basel Committee under the aegis of the G20 are transposed in the EU so as to fully guarantee a level playing field between the European and foreign banks on an international level.

1.1.6. Anti-Money Laundering Expert Group (AMLEG)

In 2014, the CSSF participated in the work of this group of experts in AML/CFT of the Basel Committee (cf. point 2.1.4. of Chapter XIV "Financial crime").

1.2. International Organisation of Securities Commissions (IOSCO)

1.2.1. 39th IOSCO Annual Conference

The regulatory authorities of the securities and futures markets, including the CSSF, and other members of the international financial community met in Rio de Janeiro from 28 September to 2 October 2014, on the occasion of the 39th Annual Conference of IOSCO.

During the Annual Conference, IOSCO confirmed, in particular, its intention to work on the following:

- finalise the methodologies for identifying non-bank non-insurance systemically important financial institutions (NBNI SIFIs);
- work with the Basel Committee on Banking Supervision to support the development of sustainable securitisation markets as an important source of funding for the real economy;
- strengthen audit quality through (i) investigating the important role of audit committees in improving audit quality, (ii) strengthening IOSCO's co-operation with other strategic partners, like the International Forum of Independent Audit Regulators (IFIAR) and (iii) contributing to reforms considered necessary in order to further strengthen the public interest in the Audit-Related Standard Setting Governance;
- take forward the work on credible deterrence;
- examine how markets can play their role as a source of financing for small and medium-sized enterprises and for infrastructure;
- continue work to develop a tool kit of regulatory measures to address cross-border issues;
- carry out work on the voluntary termination of collective investment schemes and examine the products offered by credit rating agencies other than issuer or subscriber-paid credit rating.

IOSCO also continued to work on the IOSCO Multilateral Memorandum of Understanding (MMoU) by agreeing to gradually replace it with an enhanced Multilateral Memorandum of Understanding (enhanced MMoU). Under this new MMoU, it will be possible, in the framework of the international co-operation, to exchange reports drawn up by external auditors as well as phone or electronic records, to hear forced witnesses and to freeze assets.

At the end of the Annual Conference, the number of signatories of the MMoU amounted to 103.

The 40th IOSCO Annual Conference will be held in London from 14 to 18 June 2015.

1.2.2. Committee 1 on Issuer Accounting, Audit and Disclosure

On 8 September 2014, IOSCO published a consultation document called "Statement on Non-GAAP Financial Measures". The public consultation period ended on 5 December 2014. After the finalisation, this document

will replace the document "Cautionary Statement Regarding Non-GAAP Results Measures" published in 2002 by IOSCO.

The Accounting subcommittee (ASC) closely follows the activities of the IASB (International Accounting Standards Board), especially by analysing the exposure drafts and discussion papers issued by the IASB and submitting comment letters relating thereto.

The Audit subcommittee (AuSC) follows the development of the auditing and independence standards issued by the IAASB (International Auditing and Assurance Standards Board) and the IESBA (International Ethics Standards Board for Accountants) of the IFAC (International Federation of Accountants).

1.2.3. Committee 5 on Investment Management

The Committee 5 focussed, among others, on the following topics:

- 2013 Hedge Fund Survey;
- Non-Bank Non-Insurer Global Systemically Important Financial Institutions (NBNI SIFIs);
- Reducing Reliance on Credit Rating Agencies;
- Custody Institutions Safekeeping of Assets of CIS;
- CIS fees and expenses;
- Termination of CIS;
- Impact of the Revised Framework for Updating the IOSCO Principles and Methodology (developed by the Implementation Task Force Sub-Committee of the Assessment Committee);
- C5 contribution to work of the Assessment Committee (MMF Review and CIS Disclosure).

Within the Committee 5, the CSSF notably participates in the working groups Good Practices for Custody Institutions Safekeeping of Assets of CISs, Framework for the Termination of CIS and Fees and Expenses for CIS. Moreover, the CSSF is a member of the common working group composed of the Committee 5 and the IOSCO Task Force on Unregulated Financial Entities (TFUFE) on systemically important financial institutions (SIFIs).

In 2014, IOSCO published the following documents which had been prepared by the Committee 5:

- the consultation document called "Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions" which was published jointly with the Financial Stability Board (8 January 2014);
- the consultation document on "Good Practices on Reducing Reliance on Credit Rating Agencies (CRAs) in asset management" (4 June 2014);
- the consultation document relating to "Principles regarding the Custody of Collective Investment Schemes" (10 October 2014).

1.2.4. Committee 8 on Retail Investors

The CSSF also participates in the work of the Committee 8 (cf. point 1.1.3. of Chapter XV "Financial consumer protection").

1.2.5. Assessment Committee

The CSSF is a member of the IOSCO Assessment Committee and of the sub-committee Implementation Task Force which met four times in 2014. Their objective is to foster a full, efficient and consistent implementation of the IOSCO principles and standards among its members. In this context, the committee carries out thematic reviews and country reviews with respect to IOSCO standards. The CSSF participates in these reviews by

contributing as assessor and as authority answering the surveys of the committee provided that these surveys are relevant for the CSSF and/or Luxembourg.

In 2014, the CSSF participated in the work of the committee in the framework of thematic reviews on the regulations applicable to monetary funds and on the speed and frequency of communication to investors by issuers and investment funds. As regards country reviews, the CSSF participated in the review on the implementation level of the IOSCO principles by Pakistan.

1.3. Enlarged Contact Group "Supervision of Undertakings for Collective Investment"

The CSSF attended the annual meeting of the Enlarged Contact Group "Supervision of Undertakings for Collective Investment". The following topics were discussed: issues relating to supervision, conflicts of interests/code of conduct, legal topics, financial issues, reporting and disclosure, management and administration of investment funds and UCITS and other investment funds.

1.4. Others

In 2014, the CSSF participated in the work of the Institut francophone de la régulation financière (IFREFI), the Groupe des Superviseurs Bancaires Francophones (GSBF, Group of francophone banking supervisors), the FSB Regional Consultative Group for Europe, the IT Supervisors Group[3] and the International Forum of Independent Audit Regulators (IFIAR).

Furthermore, within the context of the fight against money laundering and terrorist financing, the CSSF contributed, in 2014, to the work of the Financial Action Task Force (FATF) of the OECD and its subgroups and to the work of the Wolfsberg Group (cf. point 2.1. of Chapter XIV "Financial crime").

The CSSF also contributed to the work of several international groups whose objective is the protection of the financial consumer and the development of financial education (cf. point 1.1. of Chapter XV "Financial consumer protection").

[3] Cf. point 1.3.2. of Chapter XI "Supervision of information systems".

2. LIST OF INTERNATIONAL GROUPS IN WHICH THE CSSF PARTICIPATES

At international level, the CSSF participates as a member in the work of the following committees, working groups and subgroups.

Basel Committee on Banking Supervision

- **Policy Development Group (PDG) and the subgroups**
  - Leverage Ratio Working Group
  - Risk Measurement Working Group
  - Working Group on Large Exposures
  - Working Group on Liquidity
  - Capital Monitoring Working Group
  - Corporate Governance Group
  - QIS Working Group
  - Task Force on Interest Rate Risk (TFIR)
  - Task Force on Standardised Approaches (TFSA)
  - Task Force on Sovereign Risk
- **Supervision and Implementation Group (SIG) and the subgroups**
  - Working Group on Operational Risk
  - Network on Pillar 2
  - Task Force on Colleges
- **Accounting Experts Group (AEG) and the subgroup**
  - Audit Subgroup
- **Anti-Money Laundering Expert Group (AMLEG)**

Financial Stability Board

- **European Regional Consultative Group**

International Organisation of Securities Commissions (IOSCO)

- **IOSCO Annual Conference**
- **IOSCO European Regional Conference**
- **Committee 1 on Issuer Accounting, Audit and Disclosure and the subgroups**
  - Accounting Subcommittee
  - Auditing Subcommittee
  - IOSCO IFRS Database
- **Committee 5 on Investment Management**
- **Committee 8 on Retail Investors**
- **Assessment Committee and the subgroup**
  - Implementation Task Force Subcommittee

Financial Action Task Force (FATF)

- **Plenary Meeting**
- **International Cooperation Review Group**
- **Policy Development Group**
- **Evaluations and Compliance Group**
- **Risks, Trends and Methods**
- **Global Network Coordination Group**

Organisation for Economic Co-operation and Development (OECD)

- **Working Group on Private Pensions**
- **Task Force on Financial Consumer Protection and the subgroups**
  - Subgroup on Principle 6 : Responsible Business Conduct of Financial Service Providers and Authorised Agents
  - Subgroup on Principle 9 : Complaints Handling and Redress
- **International Network on Financial Education (INFE)**

Others

- **Enlarged Contact Group "Supervision of Undertakings for Collective Investment"**
- **IT Supervisors Group**
- **International Forum of Independent Audit Regulators (IFIAR) and the subgroup**
  - Inspection Workshop
- **Institut francophone de la régulation financière (IFREFI)**
- **Groupe des Superviseurs Bancaires Francophones (GSBF - Group of francophone banking supervisors)**
- **The Wolfsberg Group**
- **Financial Consumer Protection Network (FinCoNet) and the subgroup**
  - Working Group 2 – Strengthen supervisory tools by identifying gaps and weaknesses
- **Child and Youth Finance International**

Agents hired in 2014 and 2015: Legal Department and Department "Single Supervisory Mechanism (SSM)"

Left to right: Fernando PEREZ, Marco DEFENDI, Anne VAISSIERE, Dimitra MICHALA,
Maxence DILLENSCHNEIDER, Jean-François CARPANTIER, Minh-Xuan NGUYEN, Damian RYCHLICKI,
Claire BRAUN, Stéphanie THEIS, Admir BULJUBASIC

CHAPTER IV

SUPERVISION OF BANKS

1. DEVELOPMENTS IN THE BANKING SECTOR IN 2014

1.1. Major events in 2014

1.1.1. Introduction of the Single Supervisory Mechanism (SSM)

The date of 4 November 2014 marks an important turning point for the organisation of the supervision of banks in the euro area, as the European Central Bank (ECB) took over the direct supervision of significant entities. Less significant entities continue to be supervised directly by the CSSF, under the control of the ECB.

Since 4 November 2014, 64 Luxembourg banks are being directly supervised by the ECB, either because they exceed the criteria for being considered as significant entities at solo or consolidated level, or because they are part of a group considered significant. These banks represent 75.5% of the assets of the Luxembourg banks.

Seventy banks are considered less significant and 10 banks are branches of banks whose registered office is established outside the EU and which do not fall under the SSM.

Supervision of significant banks is exercised by the Joint Supervisory Teams (JSTs) formed of staff members from the ECB and from the national competent authorities. The CSSF is currently taking part in 32 JSTs for as many banking groups. Twenty-five CSSF agents are involved in this supervisory system.

Supervision of less significant entities remains the responsibility of the national competent authorities. The ECB ensures a quality control over this supervision. In the context of these quality checks, the CSSF is required to send a certain number of ex ante or ex post notifications concerning the measures taken in the context of the supervision of these entities. Moreover, the ECB endeavours to promote harmonisation of this supervision.

The SSM's supervisory approach is described in detail in the document "Guide to banking supervision"[1]. Moreover, the CSSF specified the entry point for various types of requests in Circular CSSF 14/596 on the communication regime under the SSM for significant entities and the repeal of the VISA procedure for the published annual accounts.

1.1.2. Comprehensive Assessment

Before taking over the banking supervision in the euro area on 4 November 2014, the ECB completed in accordance with the regulation establishing the Single Supervisory Mechanism (SSM Regulation) a Comprehensive Assessment (CA) of the European banks considered significant by virtue of Article 6(4) of the SSM Regulation.

This assessment of 128 banking groups of the euro area, including six Luxembourg banks, was carried out in co-operation with the national competent authorities (NCAs) of the Member States participating in the SSM, i.e. the CSSF in Luxembourg.

The CA comprised two consecutive pillars:

- an asset quality review (AQR) to examine the banks' assets as at 31 December 2013, including asset adequacy, assessment of guarantees and related provisions according to the consistent rules set down by the ECB[2]; and
- a stress test, conducted jointly by the ECB and the EBA, which examined the banks' resilience to two hypothetical scenarios (baseline and adverse) for the period between 2014 and 2016[3].

[1] Weblink: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmguidebankingsupervision201411.en.pdf?404fd6cb61dbde0095c8722d5aff29cd.

[2] The manual, which defines the assessment methodology, was published on 11 March 2014 on the ECB's website (http://www.ecb.europa.eu/press/pr/date/2014/html/pr140311.en.html).

[3] The methodology and the scenarios were published on 29 April 2014 on the EBA's website (https://www.eba.europa.eu/-/eba-publishes-common-methodology-and-scenario-for-2014-eu-banks-stress-test).

• Human resources assigned to the CA in Luxembourg

During the CA process, the AQR was the most intensive in terms of workload for the supervisory authorities. Indeed, the AQR covered a wide range of credit and market risk exposures, on- and off-balance sheet positions and domestic and non-domestic risk exposures. As a consequence, the CSSF's internal organisation needed to be adapted through the creation of a National Steering Committee, six Bank Teams, one Quality Assurance team and one Project Management Office team.

According to this internal organisation, 20 CSSF agents were permanently assigned to the CA. Around 12 additional agents worked between four to six months on the quality assurance of the AQR or stress tests. Additional resources of Oliver Wyman, a consulting firm that also supported the ECB, were taken on by the CSSF in order to ensure high quality standards for the execution of the CA.

Moreover, more than 100 additional auditors of *cabinets de réviseurs d'entreprises* (audit firms) contributed to the execution of the AQR in Luxembourg alone. Taking on these third parties was necessary for objectivity reasons and in order to ensure an independent assessment. The ECB had expressly invited the supervisory authorities to seek assistance from third-party audit firms, selected through a public tendering procedure.

In order to coordinate the participating internal and external parties, including the ECB, the banks and the supervisory authorities of the Member States, around 200 meetings were held, more than 1,000 documents analysed or drawn up and more than 8,000 emails were processed by the CSSF agents.

The Credit File Review took up most of the resources of the external auditors, but also within the banks. Three of the six Luxembourg banks underwent a Credit File Review in the framework of which some 1,400 debtors were analysed and more than 800 collateral items valued. As for the other three Luxembourg banks subject to the CA, the nature of their assets excluded a material credit risk and it was not deemed necessary to analyse any individual credit file. Moreover, 24 collective provisioning challenger models were built and 90 non-exchange-traded assets (level 3 assets) were re-valued.

The total cost of the CA, excluding the significant internal resources made available within the banks themselves and excluding those of the supervisory authority, amounted to EUR 8.7 million.

• Results of the CA

The following six Luxembourg banks were included in the CA:

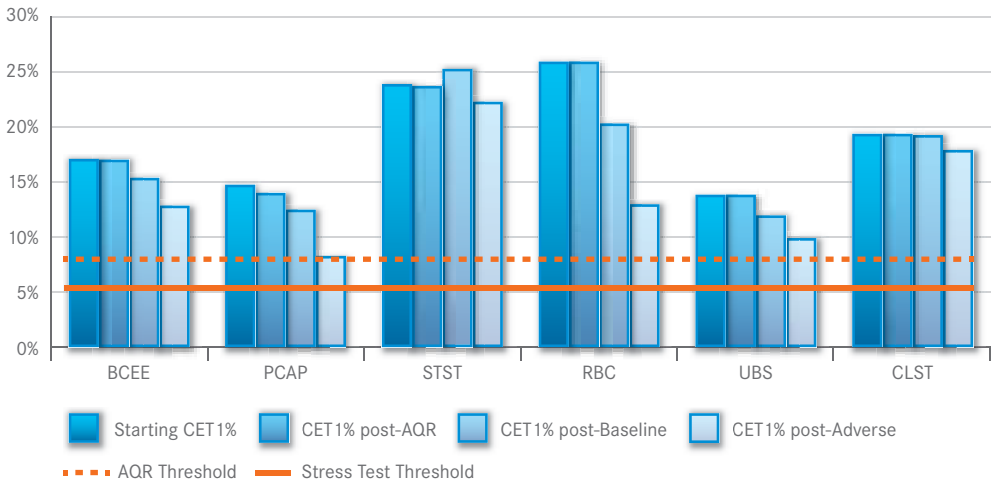
- Banque et Caisse d'Épargne de l'État, Luxembourg (hereinafter BCEE);
- Precision Capital S.A. (entity consolidating Banque Internationale à Luxembourg and KBL European Private Bankers S.A.; hereinafter PCAP);
- State Street Bank Luxembourg S.A. (hereinafter STST);
- RBC Investor Services Bank S.A. (hereinafter RBC);
- UBS (Luxembourg) S.A. (hereinafter UBS);
- Clearstream Banking S.A. (hereinafter CLST)[4].

The following graph compares the minimum Common Equity Tier 1 capital ratio (CET1) with the thresholds defined by the ECB. For the AQR, a minimum threshold of 8% was applied. Any bank whose CET1 ratio fell below 8% after taking into account the AQR results was considered as having failed the CA and was going to be subject to recapitalisation measures. The 8% threshold was set by reference to the regulatory requirements governing the solvency of banks according to the CRD IV/CRR. These requirements include the capital ratio (CET1) of 4.5%, the capital buffer of 2.5% and an add-on of 1% to take into account the systemic relevance of the banks considered significant. The stress test under the adverse scenario was supposed to reflect the situation of the banks in acute crisis. For this exercise, the ECB lowered the reference thresholds of the CA to 5.5% (Adverse Scenario Threshold), considering the fact that the capital conservation buffer, which is an additional capital buffer allowing banks to resist adverse situations, may be absorbed by losses incurred under stress.

[4] Clearstream Banking S.A. is no longer considered as a significant bank within the meaning of Article 6(4) of the SSM Regulation.

Considering the CA's results, under the most pessimistic scenario, the CET1 solvency ratio would decrease by 4.97% on average compared to its starting level, i.e. before the CA (Starting CET1%). At individual level, all of the Luxembourg banks would remain above 8%, including under the adverse scenario (CET1% post-Adverse) where the minimum threshold was set at 5.5%. Thus, even under the adverse scenario, the losses incurred by these banks would not be severe enough to have an impact on the capital conservation buffer.

Results of the CA for Luxembourg banks



• Results of the Asset Quality Review (AQR)

The impact of the AQR on Luxembourg banks is very weak. This reflects the asset quality of these banks and their prudent approach regarding granting and management of credit and market risk. All the Luxembourg banks have a post-AQR CET1 capital ratio that greatly exceeds the minimum threshold of 8% set by the ECB. In total, the impact of the AQR was limited for the six banks concerned to an average drop of the CET1 ratio by 21 basis points. This margin impact can be subdivided into three sub-effects, of equal importance, resulting from the re-valuation of assets measured at fair value, the taking into account of the credit valuation adjustments (CVA) related to derivative instruments and additional provisions for some of the existing credits. It must be stressed that the implementation of the CVA was required, from a prudential standpoint, only as from the year 2014.

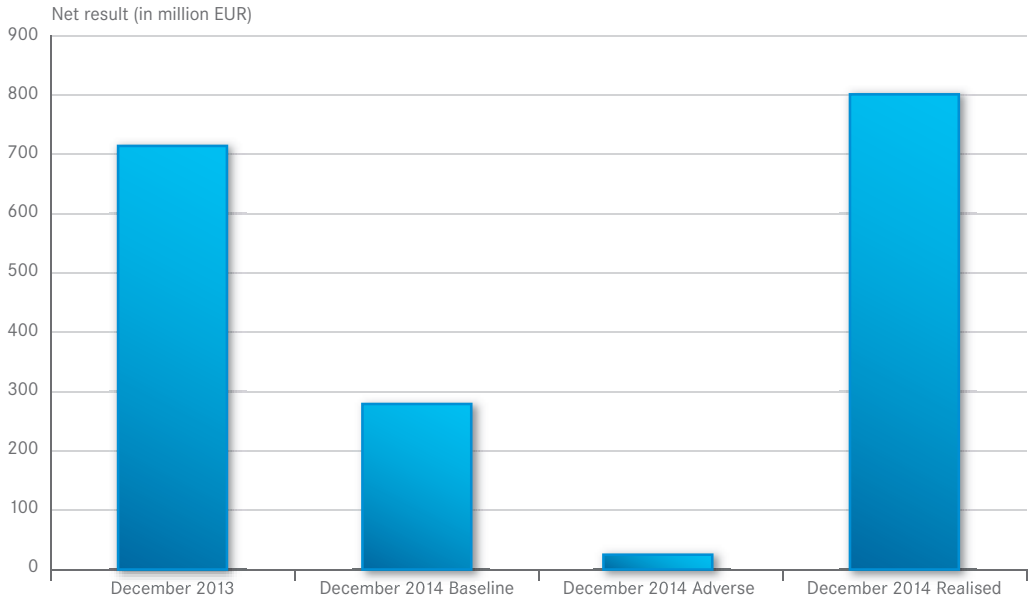
• Results of the stress tests

The six Luxembourg banks have solid capitalisation which allows them to face both scenarios under the stress test of the CA and to fully comply with all the prudential requirements to which they are subject. Nevertheless, the impact of the adverse scenario is not negligible: the average CET1 solvency ratio dropped by 476 basis points.

This drop in the CET1 ratio equals a shortfall of EUR 720 million CET1 capital (numerator of the ratio) combined with an increase by EUR 8.7 billion of risk exposure (denominator of the ratio).

The drop in equity originates from depreciations of banking assets and the substantial fall in net profits. As shown in the following graph, net profit generated in 2013 by the Luxembourg banks participating in the CA amounted to EUR 713 million.

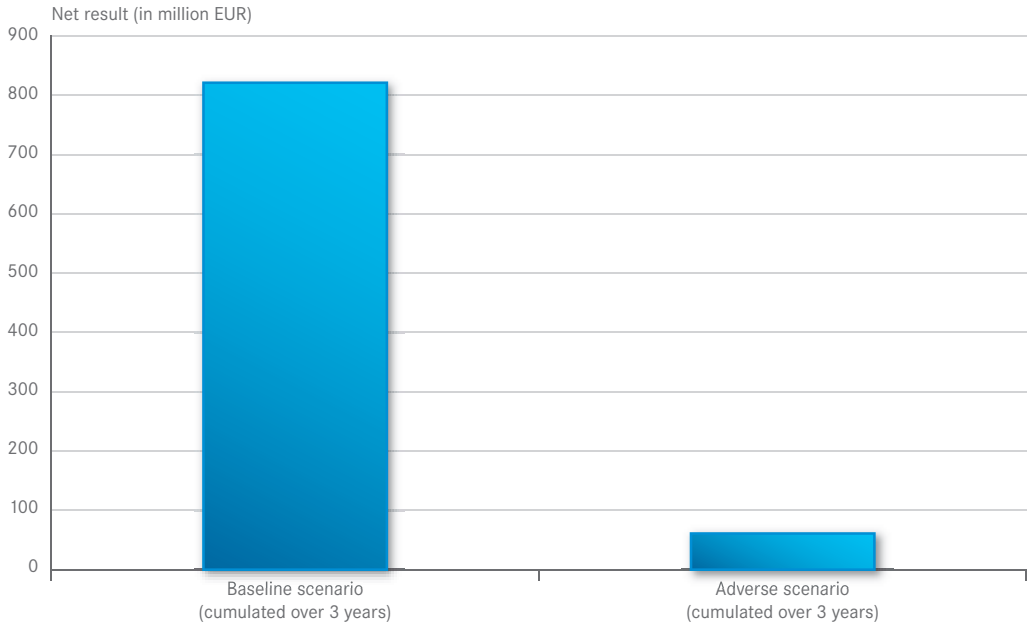
Aggregated net result of the stress test for Luxembourg banks



After application of the baseline scenario, supposed to reflect the expected ("real") economic situation, net profits as at 31 December 2014 (December 2014 Baseline) reached only EUR 279 million, which is an expected fall of 61%. But it must be noted that the net aggregated result, as at 31 December 2014, reached EUR 801 million, i.e. +12% compared to the aggregated net result of 2013. As far as the adverse scenario is concerned, the net result for 2014 would fall further to merely EUR 25 million (-96% compared to the aggregated result of 2013).

The following graph compares the net income cumulated over three years (2014 to 2016) under the baseline scenario with that under the adverse scenario. Net income over three years fell from EUR 821 million under the baseline scenario (whose impact is very conservative as shown above) to EUR 61 million (-93%) under the adverse scenario.

Net aggregated result of the stress test: baseline scenario vs adverse scenario



The conservatism of the results of the Luxembourg banks can be explained by two factors. On the one hand, the methodology imposed on the banks to determine the impact of the scenarios on their interest income does not take into account the very specific business models of depositary banks or market infrastructures. This type of banks, which are the majority in the sample of Luxembourg banks included in the CA, is not dependent on deposit liabilities to refinance operations. Consequently, their interest margin is not eroded by a rise in refinancing costs. On the other hand, there has been a distortion of the results linked to the "sophistication" of banks. At European level, less significant banks, which do not have large modeller departments, were struggling to have their calculation methodologies recognised given the expectations of the ECB, which required that all results be duly justified by a set of econometric and statistical analyses.

As a consequence, the results of the stress tests of Luxembourg banks reflect less their underlying risk profile than a lack of technical resources, which are, by the way, not required to exercise banking activities in a sound and prudent manner.

1.1.3. Single rulebook for banks

The EU introduced the Basel III standards by way of a single rulebook for the banking sector, which is composed of Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR) applicable as of 1 January 2014. The single rulebook was supplemented in May 2014 by Directive 2014/59/EU (BRRD) establishing a European framework for the recovery and resolution of credit institutions and investment firms. Most of the measures of this directive shall apply as of 1 January 2015.

The CRD IV, to be transposed into national law, covers some areas regarding capital adequacy, but also includes new elements such as the strengthening of governance, provisions relating to sanctions and capital buffers.

The CRR covers, among others, the definition of own funds and regulatory capital requirements, the liquidity risk ratios as well as the leverage ratio. This regulation is directly applicable to banks in the EU Member States. It does not require transposition into national law, thus avoiding discrepancies among Member States. Consequently, it replaces some of the provisions of the CSSF circulars, including Circular CSSF 06/273.

The BRRD, to be transposed into national law, covers all the stages of crisis management, from the preparation to its resolution and funding. It establishes a regime that provides authorities with a set of tools to intervene in a failing institution so as to ensure the continuity of its financial and economic functions, while minimising as much as possible the impact of its failure on the economy and financial system.

In order to improve the preparation of crisis management, the directive provides for the preparation of recovery plans by the institutions and resolution plans by the resolution authority.

These European texts also include the obligation for the EBA to develop binding technical standards aiming to define the manner in which some aspects (e.g. in the area of prudential reporting or recovery plans) will be implemented. Upon approval by the European Commission, these delegated regulations are directly applicable to banks and do not need to be transposed by the EU Member States. Until now, the EBA has issued about 90 binding technical standards and plans to finalise another 50 until the end of 2015.

The EBA developed an interactive online tool allowing a concrete visibility of the single rulebook by providing a compendium of the CRD IV, the CRR and the BRRD and the corresponding delegated regulations, guidelines and standards issued by the EBA, as well as related Q&As. The purpose is to create a common legal framework as well as a common culture and uniform supervisory practices throughout the EU.

1.1.4. Risks in the Luxembourg banking sector

In the following, the notion of risk refers to banking commitments or activities the nature of which may jeopardise the financial stability of certain individual credit institutions or of the entire banking sector in case these commitments or activities develop in an extremely adverse manner. Whereas such an adversity cannot be excluded, its imminence is generally difficult to predict. Hence, the CSSF does not venture to make predictions but ensures that banks duly take into account their inherent risks.

There are no risk-free banking activities. The purpose of a bank is to take and manage risks in a sound and prudent manner. Traditionally, the analysis of the risk structure in the Luxembourg banking sector reveals three risk concentrations which require particular management and monitoring by the relevant Luxembourg credit institutions, namely: sovereign risks, risks linked to the financing of residential real estate in Luxembourg and intra-group risks. The nature and the level of these "systemic" risks vary greatly among banks and according to the activities performed.

• Sovereign risks

Sovereign risks are credit exposures to the public sector which include central, regional and local administrations.

For a majority of Luxembourg banks, the excess structural liquidity gathered within the context of wealth management activities is reinvested in sovereign debt. In theory, a sovereign State is able to meet its financial obligations by giving effect to its taxing rights to this end. The sovereign exposure thus appears as less risky and better suited for the conservative risk profile of Luxembourg banks. However, in the event of an opposite trend, like the sovereign debt crisis in Europe, an increased concentration on sovereign debtors may jeopardise the financial stability.

Overall, the sovereign risks incurred by the banks of the Luxembourg financial centre do not challenge the financial stability of the sector as a whole. However, for a limited number of banks taken individually, these exposures represent a more significant risk concentration. This is the case for banks issuing public-sector covered bonds whose business model corresponds precisely to public sector financing.

At the end of 2014, the aggregated exposure of Luxembourg banks to the public sector amounted to EUR 68.7 billion, which represents an increase of 21% over one year. This rise is linked to the new regulatory standards regarding liquidity, as provided for in the Basel III framework. Indeed, these standards require that banks hold liquidity buffers made up of "high-quality liquidity assets" which include mainly low-credit risk sovereign and supranational debt securities. The pride of place given to sovereign exposures in banking regulations is therefore strengthened.

As regards solvency regulatory standards, Article 114(4) of Regulation (EU) No 575/2013 maintains, to date, a 0%-preferential risk weight assigned to exposures to central administrations of Member States denominated and funded in the domestic currency of that central administration. This treatment, the rationale of which has been undermined by the sovereign debt crisis in Europe, is now under review by the international community of banking regulators.

The rise in sovereign exposures in 2014 mostly concerned the public sector of European countries that were less impacted by the sovereign debt crisis. Thus, the commitments towards the Netherlands, Austria, Finland, Germany and the United Kingdom each rose by at least EUR 1 billion over a year.

At the same time, the exposure of the Luxembourg banking sector towards higher-risk countries increased slightly. For the group of GIIPSC countries (Greece, Ireland, Italy, Portugal, Spain and Cyprus), the exposure increased from EUR 13 billion in December 2013 to EUR 14 billion at the end of 2014, mainly due to new commitments towards Spain (+ EUR 0.6 billion). This rise took place against the background of an improvement of the situation in Spain and the credit rating upgrade of Spain by the main rating agencies.

As at 31 December 2014, the main sovereign debtors of Luxembourg banks were as follows.

Exposures of Luxembourg banks to the public sector

Public sector	Exposures *(in million EUR)*
France	9,587
Italy	9,162
Germany	8,550
Belgium	4,814
United States	4,393
United Kingdom	4,348
Luxembourg	4,067
Spain	3,531
Netherlands	3,084
Austria	3,015
Canada	1,752
Portugal	1,016

While regulations provide for specific treatments of sovereign risks, the CSSF would like to remind banks of their own risk assessment obligations. In this respect, banks shall assess the risks they incur, their link to the bank's business model and the bank's ability to manage these risks and to face risk materialisation in an adverse situation. This ability is reflected in particular in the liquidity and capital buffers which banks hold in order to face the incurred risks and which shall adequately reflect the concentration risk, for example the fact that the sovereign exposure represents a significant portion of the own funds.

• Risks linked to residential real estate in Luxembourg

The local mortgage market is served only by a limited number of the financial centre's banks. The activity on this market remains sustained, as proven by the 6% increase in 2014 of the mortgage loans that these banks granted to their retail customers. However, the growth slowed down slightly compared to the previous years where annual growth rates exceeded 8%.

In the past, granting mortgage loans generally presupposed an own contribution by the future buyer amounting to about 20% of the value of the real estate. Over the last ten years, this practice has been replaced by more developed funding models which provide for, in extreme cases, the full funding without any personal contribution. This practice raises for the bank a greater risk insofar as the reduction of the own contribution of the acquirer coincides with the decrease in the net value of the guarantee for the bank. Where this safety cushion disappears and in the event of defaults, the bank is protected against decreases in value of the mortgaged property only up to the capital requirements determined in accordance with Regulation (EU) No 575/2013. For Luxembourg banks, these capital requirements, which are meant to cover losses in the event of a severe downturn in the real estate market, represent, on average, only between 1% and 3% of the total amount of their mortgage loans.

Circular CSSF 12/522, which introduced new real estate financing rules as from 2013, aims at strengthening and upholding prudent policies as regards the granting of mortgage credit in Luxembourg. The information gathered in 2014 indicates that the loan-to-value ratio (LTV) for residential mortgage credits granted in 2014 by the main stakeholders in Luxembourg remained within prudent ranges around 70%.

In accordance with Article 6 of CSSF Regulation N° 14-01, Luxembourg banks, including those operating on the residential mortgage market, must hold an additional Common Equity Tier 1 capital buffer of 2.5% of their total risk exposure amount. This measure replaced and reinforced a previous decision of the CSSF, which has, since 2009, imposed on banks that are highly exposed to the local real estate sector compliance with a total capital ratio of 10% corresponding to an additional capital buffer of 2% as compared to the regulatory minimum.

• Risks linked to intra-group exposures

There are many subsidiaries of large international banking groups in the Luxembourg banking centre. Generally, these subsidiaries have no competence in investment banking in Luxembourg and the deposits they receive in the context of the wealth management services they provide are lent to the group. In this context, the CSSF normally accepts, in accordance with the intra-group exemption provided for in the European regulations governing large exposures, that a portion of these deposits are invested by a Luxembourg banking subsidiary with its parent company, exceeding the 25% limit of own funds usually applicable under the regulation on large exposures. This position is justified by inside information that the CSSF has on the risks associated with these investments, in particular through the colleges of supervisors of the banking groups in question, as compared to other types of investment which offer less visibility and potentially carry higher risks. With the establishment of the SSM, this visibility increased for major banking groups directly supervised by the ECB. Unlike the meetings held periodically by the colleges of supervisors, the supervision within the SSM is exercised through permanent structures, the Joint Supervisory Teams, in which the CSSF participates on a day-to-day basis.

The intra-group exemption is subject to requirements of sound and prudent management of the intra-group exposures, particularly in relation to the absence of risky business of liquidity transformation and high credit risk-taking. These requirements are laid down in Article 20 of CSSF Regulation N° 14-01 on the implementation of certain discretions of Regulation (EU) No 575/2013. It should also be noted that pursuant to the European regulation, all intra-group exposures remain subject to regulatory capital requirements.

Besides the above-mentioned risks, the following risks are also worth mentioning.

• Risks related to the activity of a depositary bank

The custody activity carried out by Luxembourg banks providing wealth management services amounts to around EUR 3,600 billion total assets. By adding the assets deposited in connection with payment and securities settlement transactions to the previous figure, the total amounts to EUR 15,400 billion.

Given the high amount of assets deposited with the Luxembourg banks, an interruption of the services provided by the depositary bank might jeopardise the orderly functioning of the global financial markets. Contrary to the aforementioned risks, the business continuity risk of a depositary bank is mainly a risk that the financial centre implies for the global financial system.

This risk is limited by rules that aim to safeguard depositors' ownership rights and to ensure business continuity. Thus, the legal obligation for banks as regards infrastructure in accordance with Article 5(1a) of the law of 5 April 1993 on the financial sector includes business continuity management. The sixth indent of point (10) of Circular CSSF 12/552 specifies that business continuity management arrangements, which apply, in particular, to the activity of depositary banks, aim to limit the risks of serious disruption of business activities and to maintain key operations. As regards the depositors' protection, the Luxembourg regulations include, in addition to the texts of general application, sectoral rules such as Article 37-1 of the law of 5 April 1993 on the financial sector which relates to the provision of investment services or the performance of investment activities, or Section 4 of Chapter 3 of the law of 12 July 2013 on alternative investment fund managers.

Moreover, it should be noted that on 11 July 2014, the CSSF published Circular CSSF 14/587 on the provisions applicable to credit institutions acting as UCITS depositary subject to Part I of the law of the 17 December 2010 relating to undertakings for collective investment and to all UCITS, where appropriate, represented by their management company. This circular specifies, among other things, the requirements in terms of organisation that depositary banks of UCITS under Luxembourg law must comply with when exercising the activity of depositary bank. This regime is largely based on the regime that applies to the depositaries of alternative investment funds as applicable since 22 July 2014 in accordance with the law of 12 July 2013 on alternative investment fund managers. The provisions applicable under this law are specified in the Commission Delegated Regulation (EU) No 231 of 19 December 2012 supplementing Directive 2011/61/EU with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

These regulatory requirements will be further strengthened, in particular within the context of the implementation of efficient recovery and resolution mechanisms.

The function of depositary bank is a key activity at the intersection of the banking and investment fund sector. Identifying these points of intersection is paramount when it comes to assessing the financial stability of the Luxembourg market as a whole and the risks of contagion between sectors in particular. Intersections which are important for the financial stability of banks include loan commitments to investment funds as well as deposits received from investment funds. On the asset side, when a bank grants a loan to an investment fund (or promises such a commitment), the assets of the fund serve as collateral. On the basis of a cautious over-collateralisation policy, banks are assured of recovering the full amounts lent. It should be reminded that the UCIs referred to in Part I of the law of 17 December 2010 relating to undertakings for collective investment, which represent the major portion of the assets under management, are required under Article 50(2)(a) of that law to comply with an upper indebtedness limit set at 10% of their assets. The result is de facto an over-collateralisation of the loans which would be granted by banks to these investment funds and, consequently, a very limited credit risk for the lending credit institution. It should also be noted that as regards loan commitments, no (depositary) bank has the legal obligation to support the investment funds whose assets have been deposited with such bank. Any contractual commitment in this regard shall remain compatible with the legal requirements aiming to ensure the financial stability of the lending institution.

On 31 December 2014, the loans granted by the Luxembourg banks to investment funds amounted only to EUR 3.9 billion. On the liability side, the deposits of investment funds with Luxembourg banks are more significant. They amounted to EUR 99 billion which represents 3.1% of the investment funds' net assets. However, these are mostly "operational deposits" which investment funds maintain permanently with their depositary banks for their day-to-day operations. These deposits represent, due to their stability, a limited liquidity risk (deposit withdrawal risk).

• Profitability risk

Luxembourg banks do not escape the general pressure in Europe on their profitability owing to historically low interest rates. The development of the 2014 profit and loss account reflects the downward trend of the interest-rate margin of the banks of the Luxembourg financial centre (EUR 5.0 billion in December 2014 against EUR 5.1 billion in December 2013) due, among other things, to the extremely low interest rate.

The banks of the financial centre, mostly subsidiaries of international groups, have, in general, excess liquidity positions owing to substantial deposits linked to wealth management activities. In general, the excess liquidity is lent to the parent company or invested as high quality sovereign debt, with now insignificant yields.

The profitability is also eroded by the steady rise in costs related to the regulatory changes. Compliance with the new regulations (such as the CRD IV, AIFMD, EMIR, SEPA or the directive on the recovery and resolution of banks) and the functioning of the SSM generate substantial additional costs for the banks of the Luxembourg financial centre, and in particular for small and medium-sized banks, despite the fact that these rules are supposed to be applied in a proportionate manner.

• Other risks

As early as 2011, the General Board of the European Systemic Risk Board (ESRB) had adopted two recommendations on lending in foreign currencies (ref.: ESRB/2011/1) and US dollar denominated funding of credit institutions (ref.: ESRB/2011/2). The follow-up reports established by the ESRB show that the measures taken by the CSSF (including the joint publication with the BCL of Circulars CSSF 12/537 on US dollar denominated funding of credit institutions and CSSF 12/538 on lending in foreign currencies and the setting-up of a prudential monitoring framework for these risks) comply with the requirements laid down in these recommendations.

In addition to the two aforementioned recommendations, which already include a section on sound liquidity management, the General Board of the ESRB approved a recommendation on the funding of credit institutions (ref.: ESRB/2012/2). This recommendation requires that the supervisory authorities strengthen their assessment of the funding and liquidity risks incurred by credit institutions as well as that of their funding

risk management, with a particular attention to the feasibility of the funding plans, innovative funding instruments and uninsured deposit-like financial instruments which are sold to retail customers. Moreover, it is recommended that the supervisory authorities monitor the asset encumbrance and require banks to implement policies and procedures to manage this encumbrance risk. The latter sub-recommendation was transposed in Luxembourg through the update, on 24 November 2014, of Circular CSSF 12/522 on central administration, internal governance and risk management. It should be borne in mind that the asset encumbrance for Luxembourg credit institutions is low: only 17 of 144 banks have asset encumbrance that exceeds 5% of the total balance sheet.

1.2. Characteristics of the Luxembourg banking sector

The Luxembourg banking legislation provides for two types of banking licences, namely that of universal banks (139 institutions had this status on 31 December 2014) and that of banks issuing covered bonds (five institutions had this status on 31 December 2014). The main characteristics of the banks issuing covered bonds are the monopoly of covered bonds issuance (cf. point 1.9. below) and the prohibition to collect deposits from the public.

Depending on their legal status and geographical origin, the banks belong to one of the following three groups:

- banks incorporated under Luxembourg law (105 such banks on 31 December 2014);
- branches of banks incorporated in an EU Member State or assimilated (30 on 31 December 2014);
- branches of banks incorporated in a non-EU Member State (9 on 31 December 2014);

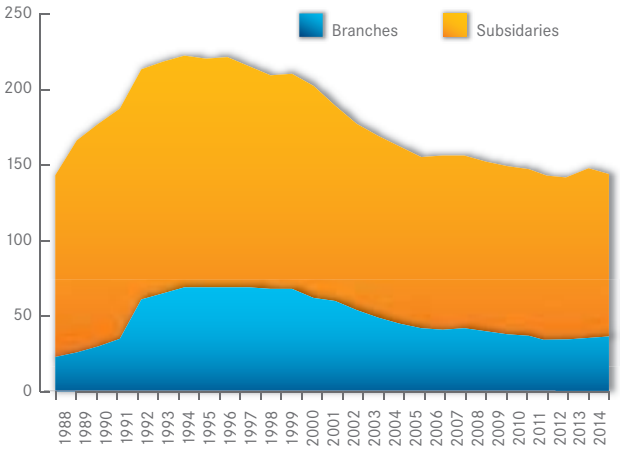
Furthermore, there is one special case: the *caisses rurales* (13 on 31 December 2014) and their central establishment, Banque Raiffeisen, are to be considered as a single credit institution, according to the law on the financial sector.

1.3. Development in the number of credit institutions

With 144 entities authorised at the end of the financial year 2014, the number of banks dropped by three entities as compared to 31 December 2013 (147 entities).

Development in the number of banks established in Luxembourg

Year	Branches	Subsidiaries	Total
1988	24	119	143
1989	27	139	166
1990	31	146	177
1991	36	151	187
1992	62	151	213
1993	66	152	218
1994	70	152	222
1995	70	150	220
1996	70	151	221
1997	70	145	215
1998	69	140	209
1999	69	141	210
2000	63	139	202
2001	61	128	189
2002	55	122	177
2003	50	119	169
2004	46	116	162
2005	43	112	155
2006	42	114	156
2007	43	113	156
2008	41	111	152
2009	39	110	149
2010	38	109	147
2011	36	107	143
2012	35	106	141
2013	38	109	147
2014	39	105	144



Thirteen banks were withdrawn from the official list during the year:

• Svenska Handelsbanken S.A.	Merger with Svenska Handelsbanken AB (Publ), Luxembourg Branch on 2 January 2014.
• Landesbank Berlin International S.A.	Merger with Landesbank Berlin AG, Niederlassung Luxemburg on 27 March 2014.
• LBBW Luxemburg S.A.	Cross-border merger with Landesbank Baden-Württemberg AöR on 6 May 2014.
• Banco Itaú Europa Luxembourg S.A.	Cessation of activities on 26 May 2014.
• Landesbank Berlin AG, Niederlassung Luxemburg	Cessation of activities on 30 June 2014.
• Banco Espirito Santo, S.A., succursale de Luxembourg	Activities taken over by Novo Banco S.A., succursale de Luxembourg on 3 August 2014.
• Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg	Merger with Hypothekenbank Frankfurt International S.A. on 1 September 2014.
• Deutsche Postbank International S.A.	Transfer of the activities to the branch Deutsche Postbank AG Zweigniederlassung Luxemburg on 27 October 2014.

• RBS Global Banking (Luxembourg) S.A.	Transformation into a branch (The Royal Bank of Scotland Plc, Luxembourg Branch) on 3 November 2014.
• HSBC Securities Services (Luxembourg) S.A.	Transfer of the activities to HSBC Bank Plc., Luxembourg branch on 9 December 2014.
• HSBC Trinkaus & Burkhardt (International) S.A.	Cessation of activities on 10 December 2014.
• BHF-BANK Aktiengesellschaft, Frankfurt (Allemagne), succursale de Luxembourg	Activities taken over by BHF Bank International on 31 December 2014.
• Bayerische Landesbank, München (Allemagne), succursale de Luxembourg	Cessation of activities on 31 December 2014.

Ten banks started their activities in 2014:

• Mirabaud & Cie (Europe) S.A.	1 January 2014: the bank of Swiss origin is active in private banking.
• Société Générale Capital Market Finance S.A.	1 January 2014: the bank of French origin took over the securitisation activity exercised by another entity of the group.
• Danieli Banking Corporation S.A.	16 January 2014: the bank is active in corporate banking.
• BTG Pactual Luxembourg S.A.	11 February 2014: the bank of Brazilian origin is active in corporate banking.
• RCB BANK LTD, Luxembourg Branch	7 April 2014: the Cypriot bank is active in private banking.
• BTG Pactual, Luxembourg Branch	8 April 2014: the Brazilian bank is active in corporate banking.
• Allfunds Bank S.A.	25 April 2014: the bank of Spanish and Italian origin is active in UCI intermediation.
• Deutsche Postbank AG Zweigniederlassung Luxemburg	1 July 2014: takeover of Deutsche Postbank International S.A.'s activities.
• Novo Banco S.A., succursale de Luxembourg	3 August 2014: the Portuguese bank took over the activities of Banco Espirito Santo, S.A., succursale de Luxembourg.
• The Royal Bank of Scotland, Luxembourg Branch	3 November 2014: the UK bank took over the activities of RBS Global Banking (Luxembourg) S.A..

1.4. Development in banking employment

As at 31 December 2014, the Luxembourg credit institutions employed 25,785 people. Compared to the situation as at 31 December 2013 when banking employment registered 26,237 people, it decreased by 452 people over a year.

It is important to stress that this data is based on the BCL's new statistical reporting which was set up in December 2014. In this respect, the collection of employment data from banks has been entirely revised. This overhaul provided an opportunity for credit institutions to review their methods of counting their staff.

In its press release of 9 February 2015, the BCL took care to identify and isolate staff variations that were directly linked to the effects induced by the introduction of the new statistical reporting in order to only count real staff movements of banking sector employees. Thus, the effective fall, excluding statistical effects, calculated in comparison to the data as at 30 September 2014 would be limited to 48 jobs.

The breakdown of aggregated employment shows that the female employment rate remained stable at 45.5%.

Breakdown of the number of employees per bank

	Number of banks							
Number of employees	2007	2008	2009	2010	2011	2012	2013	2014
> 1,000	5	5	5	6	6	5	5	5
500 to 1,000	9	8	9	8	9	10	9	9
400 to 500	2	4	3	1	3	3	2	2
300 to 400	10	11	9	9	7	6	7	6
200 to 300	9	8	8	7	5	7	8	8
100 to 200	18	16	18	16	15	17	18	15
50 to 100	21	20	20	21	21	16	15	20
< 50	82	80	77	79	77	77	83	79
Total	**156**	**152**	**149**	**147**	**143**	**141**	**147**	**144**

Situation of employment in credit institutions

	Total		Management			Employees			Total staff			Variation	
	Luxemb.	Foreigners	Men	Women	Total	Men	Women	Total	Men	Women	Total	in number	in %
1998	7,829	12,005	2,900	577	3,477	7,893	8,464	16,357	10,793	9,041	19,834	745	3.9%
1999	7,797	13,400	3,119	670	3,789	8,396	9,012	17,408	11,515	9,682	21,197	1,363	6.9%
2000	7,836	15,232	3,371	783	4,154	9,065	9,849	18,914	12,436	10,632	23,068	1,871	8.8%
2001	7,713	16,148	3,581	917	4,498	9,255	10,108	19,363	12,836	11,025	23,861	793	3.4%
2002	7,402	15,898	3,654	977	4,631	8,966	9,703	18,669	12,620	10,680	23,300	-561	-2.4%
2003	7,117	15,412	3,720	1,049	4,769	8,509	9,251	17,754	12,229	10,300	22,529	-771	-3.3%
2004	7,001	15,553	3,801	1,111	4,912	8,470	9,172	17,642	12,271	10,283	22,554	25	0.1%
2005	6,822	16,405	3,948	1,183	5,131	8,661	9,435	18,096	12,609	10,618	23,227	673	3.0%
2006	6,840	17,912	4,280	1,294	5,574	9,172	10,006	19,178	13,452	11,300	24,752	1,525	6.6%
2007	6,962	19,177	4,669	1,475	6,144	9,557	10,438	19,995	14,226	11,913	26,139	1,387	5.6%
2008	6,898	20,307	5,101	1,672	6,773	9,673	10,759	20,432	14,774	12,431	27,205	1,066	4.1%
2009	6,599	19,821	5,221	1,781	7,002	9,199	10,219	19,418	14,420	12,000	26,420	-785	-2.9%
2010	6,623	19,631	5,048	1,875	6,923	9,033	10,298	19,331	14,081	12,173	26,254	-166	-0.6%
2011	6,270	20,425	5,175	1,905	7,080	9,265	10,350	19,615	14,440	12,255	26,695	441	1.7%
2012	6,220	20,317	5,122	1,966	7,088	9,258	10,191	19,449	14,380	12,157	26,537	-158	-0.6%
2013	6,082	20,155	5,163	1,982	7,145	8,987	10,105	19,092	14,150	12,087	26,237	-300	-1.1%

Situation of employment in credit institutions (as from 2014)[5]

	Total		Below BAC and/or BAC (high school diploma)			BAC+2 and/or BAC+3			Above BAC+3			Total staff			Variation	
	Residents	Non-residents	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	in number	in %
2014	11,989	13,796	4,439	4,712	9,151	4,189	3,661	7,850	5,429	3,355	8,784	14,057	11,728	25,785	-452	-1.7%

[5] The 2014 figures are based on the new table S2.9 («Effectif du personnel»; staff number) of the BCL. These figures cannot be directly compared with the figures of the previous years.

1.5. Development of balance sheet and off-balance sheet accounts

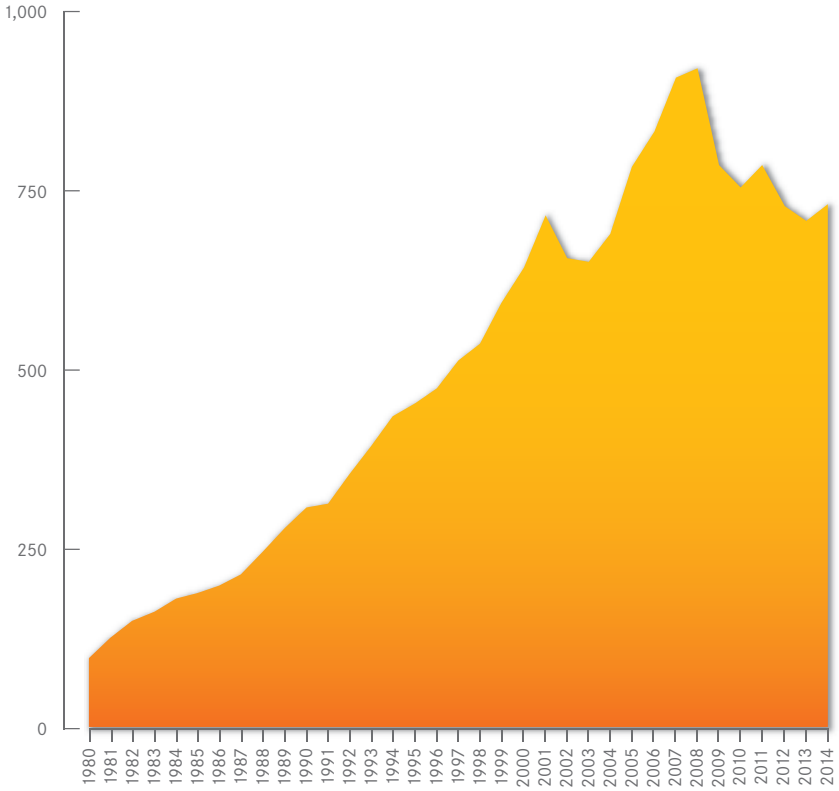
1.5.1. Balance sheet total of credit institutions

As at 31 December 2014, the total assets of credit institutions amounted to EUR 737.2 billion against EUR 713.4 billion as at 31 December 2013. This represents a 3.3% rise on an annual basis. Thus, the banking sector resumed the upward trends following the declines in activity recorded in 2013 (-2.9%), 2012 (-7.3%) and 2010 (-3.8%).

The rise in the balance sheet total in 2014 was shared by 62% of the financial centre's banks. This reflects a context of business upturn or development of new activities. In the latter case, the banks concerned generally originated from non-EU countries. Nevertheless, there is still downward pressure on the balance sheets of the Luxembourg banks belonging to European banking groups that had been particularly hit by the 2008 financial crisis.

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

1980	97.10
1981	125.95
1982	148.41
1983	163.41
1984	181.73
1985	189.09
1986	198.49
1987	215.32
1988	246.36
1989	281.04
1990	309.37
1991	316.09
1992	357.56
1993	397.15
1994	438.01
1995	455.47
1996	477.37
1997	516.59
1998	540.89
1999	598.01
2000	647.63
2001	721.98
2002	662.70
2003	655.60
2004	695.36
2005	791.25
2006	839.57
2007	915.34
2008	929.45
2009	792.54
2010	762.32
2011	792.89
2012	734.77
2013	713.40
2014	**737.24**[6]



1.5.2. Development of the aggregated balance sheet structure

On the asset side, the increase in activity was reflected in all the items, except for loans and advances to central banks and central governments. The growth in the total balance sheet (+3.3% year-on-year) was dependent on the increases recorded in loans and advances to customers (+7.5%), fixed-income transferable securities (+9.7%) and loans and advances to credit institutions (+1.4%), these items accounting for almost 90% of the balance sheet assets.

[6] Preliminary figure.

Loans and advances to credit institutions increased by 1.4% over a year to EUR 346.6 billion at the end of December 2014. With a growth of EUR 4.6 billion on an annual basis, the loans and advances reached a level comparable to the situation as at the end of 2011 (EUR 351.1 billion). Dominated by intra-group commitments, interbank loans and advances remained predominant on the asset side with 47.0% in 2014, compared to 47.9% in 2013.

Loans and advances to customers, which include corporates and retail customers, rose by 7.5% to EUR 169.9 billion at the end of 2014 (against EUR 158.1 billion in 2013). Among these loans and advances, the exposures to retail customers, which were mainly from Luxembourg, rose by 8.3% over a year. These exposures, which had grown by almost 5.6% in 2013, were worth EUR 46.8 billion as at 31 December 2014. In 2014, loans and advances to corporates grew by 9.4% (against -7.8% in 2013 and -11.4% in 2012). As regards the balance sheet structure, the proportion of loans and advances to customers rose slightly, representing 23.0% of the balance sheet total as at 31 December 2014 (against 22.2% as at 31 December 2013).

At the end of 2014, **loans and advances to central banks and central governments** reached EUR 32.2 billion, against EUR 40.0 billion at the end of 2013. This drop is due to deposits with central banks whose amount decreased by almost a quarter over a year. In this period, the ECB lowered the deposit facility rate below 0%. It should be noted that exposures in the form of loans and advances to central administrations grew slightly to EUR 9.0 billion at the end of 2014, against EUR 8.3 billion in the previous year.

Fixed-income securities, which represented over 90% of the total transferable securities, rose by 9.7% during 2014. The positions in sovereign bonds continued to grow substantially by 23.0% in 2014 (+5.3% in 2013 and +14.4% in 2012). As regards positions of Luxembourg banks in bonds issued by banks or corporates, the trend has reversed for banking counterparties (+2.5% in 2014, against -14.7% in 2013), but remains the same for corporates (-12.4% in 2014 and -9.6% in 2013).

As the growth in the fixed-income transferable securities portfolio exceeded the growth in the aggregated balance sheet, the portion of fixed-income transferable securities in the balance sheet total rose to 20.3% (against 19.1% at the end of 2013). The sector-based composition of this portfolio continued to show mainly bank (42%) and government (40%) securities. It is interesting to note the strong increase in government securities with 40% compared to 35% in 2013. These developments should be put in the context of the introduction of the liquidity ratio LCR (Liquidity Coverage Requirement) in October 2015.

Amounts owed to credit institutions, mainly in the form of intra-group operations, dropped by 0.7% to EUR 282.1 billion at the end of December 2014. These amounts represented 38.3% of the Luxembourg banks' balance sheet total, against 39.8% at the end of 2013.

Amounts owed to customers, consisting of deposits made by companies, private customers or retail customers, as well as of assets held in account of investment funds, rose by 9.2%. These amounts reached EUR 301.7 billion as at 31 December 2014. As in the past, the volume of deposits from customers (40.9%) played a prominent role among the refinancing means of the banking activities of the financial centre and allowed the Luxembourg banking sector to easily fund its loans and advances to customers.

Amounts owed to central banks reached EUR 5.5 billion as at 31 December 2014. With a drop of 27.4% over a year, these amounts represented only 0.7% of the aggregated liabilities.

Since 2012, the banks have been using less and less **debt represented by securities**. With -6.2% over a year, the drop in this item is slightly less significant than in 2013 (-7.7%). With a total of EUR 56.7 billion, they represented 7.7% of the aggregated liabilities as at 31 December 2014 (against 8.5% in 2013).

Provisions reached a volume of EUR 3.5 billion, against EUR 4.6 billion in 2013. This substantial cut came in the context of Circular CSSF 14/599 which amends the treatment of the lump sum provision and the AGDL provision in the prudential reporting[7]. Thus, it concerns the provisions other than those covering legal or financial risks. Reference should be made to the results of the Comprehensive Assessment of the ECB which confirmed the good quality of the assets held by the Luxembourg banks.

At the end of 2014, **equity** accounted for EUR 58.1 billion. Equity grew by 12.8% under the effect of hoarding operations and the reclassification of provisions following Circular CSSF 14/599. Equity represented 7.9% of the total balance sheet as at 31 December 2014.

[7] As regards the aggregated balance sheet, established according to the IFRS standards, the lump sum provision and the AGDL provision are now recognised in the item "Equity". However, only the lump sum provision is eligible as own funds for the calculation of the solvency ratio (cf. point 1.7.3. below).

This figure includes an amount of EUR 1,092 million for the lump sum provision and an amount of EUR 723 million for the deposit guarantee (AGDL). In 2014, banks increased their volume of provisions by EUR 156 million, including EUR 37 million under the AGDL provision. This increase comes in the context of the CSSF's decision to require that the AGDL provision of every bank reaches at least 1% of the guaranteed deposits as at 31 December 2016. The stock of provisions arising therefrom shall enable the quick and smooth compliance by the Luxembourg deposit guarantee scheme with the future pre-financing requirements defined at European level.

Aggregate balance sheet total – in million EUR

ASSETS	2013	2014 (*)	Variation	LIABILITIES	2013	2014 (*)	Variation
Loans and advances to central banks and central governments	40,008	32,225	-19.45%	Amounts owed to central banks	7,619	5,529	-27.43%
Loans and advances to credit institutions	341,795	346,550	1.39%	Amounts owed to credit institutions	284,090	282,056	-0.72%
Loans and advances to customers	158,112	169,893	7.45%	Amounts owed to customers	276,276	301,659	9.19%
Financial assets held for trading	11,566	11,947	3.29%	Amounts owed represented by securities	60,462	56,695	-6.23%
Fixed-income transferable securities	136,380	149,603	9.70%	Liabilities (other than deposits) held for trading	10,798	10,690	-1.01%
Variable-yield transferable securities	12,461	13,334	7.01%	Provisions	4,582	3,544	-22.67%
Fixed assets and other assets	13,075	13,692	4.71%	Subordinated liabilities	5,912	5,883	-0.48%
				Other liabilities	12,202	13,125	7.57%
				Capital and reserves	51,457	58,063	12.84%
Total	**713,397**	**737,244**	**3.34%**	**Total**	**713,397**	**737,244**	**3.34%**

(*) Preliminary figures

Structure of the aggregated balance sheet

ASSETS	2013	2014 (*)	LIABILITIES	2013	2014 (*)
Loans and advances to central banks and central governments	5.61%	4.37%	Amounts owed to central banks	1.07%	0.75%
Loans and advances to credit institutions	47.91%	47.01%	Amounts owed to credit institutions	39.82%	38.26%
Loans and advances to customers	22.16%	23.04%	Amounts owed to customers	38.73%	40.92%
Financial assets held for trading	1.62%	1.62%	Amounts owed represented by securities	8.48%	7.69%
Fixed-income transferable securities	19.12%	20.29%	Liabilities (other than deposits) held for trading	1.51%	1.45%
Variable-yield transferable securities	1.75%	1.81%	Provisions	0.64%	0.48%
Fixed assets and other assets	1.83%	1.86%	Subordinated liabilities	0.83%	0.80%
			Other liabilities	1.71%	1.78%
			Capital and reserves	7.21%	7.87%
Total	**100.00%**	**100.00%**	**Total**	**100.00%**	**100.00%**

(*) Preliminary figures

1.5.3. Use of derivative financial instruments by credit institutions

Banks in the financial centre used derivative financial instruments for a total nominal amount of EUR 692.0 billion in 2014, representing an increase of EUR 51.3 billion over a year, i.e. 8.0%. The use of derivative instruments by credit institutions mainly takes place in the context of hedging of own positions and transactions on behalf of their clients. The use of derivative financial instruments only rose for derivative financial instruments linked to the exchange rate and to title deeds.

Use of derivative financial instruments by credit institutions

Notional amounts *(in billion EUR)*	2013	2014 (*)	Variation		Structure	
			in volume	in %	2013	2014 (*)
Transactions related to interest rate	**176.3**	**167.5**	**-8.8**	**-5.0%**	**27.5%**	**24.2%**
of which: options	*6.5*	*7.0*	*0.5*	*7.1%*	*3.7%*	*4.2%*
of which: interest rate swaps	*154.7*	*146.6*	*-8.0*	*-5.2%*	*87.7%*	*87.6%*
of which: future or forward rate agreements (FRA)	*0.4*	*0.9*	*0.5*	*125.8%*	*0.2%*	*0.5%*
of which: interest rate futures	*14.7*	*12.9*	*-1.7*	*-11.9%*	*8.3%*	*7.7%*
Transactions related to title deeds	**15.6**	**21.3**	**5.7**	**36.7%**	**2.5%**	**3.1%**
of which: futures	*8.5*	*10.8*	*2.3*	*27.0%*	*54.3%*	*50.5%*
of which: options	*7.1*	*10.6*	*3.4*	*48.1%*	*45.7%*	*49.5%*
Transactions related to exchange rates	**431.5**	**491.9**	**60.5**	**14.0%**	**67.3%**	**71.1%**
of which: forward foreign exchange transactions	*351.7*	*380.0*	*28.2*	*8.0%*	*81.5%*	*77.2%*
of which: cross-currency IRS	*70.2*	*106.8*	*36.5*	*52.0%*	*16.3%*	*21.7%*
of which: options	*9.5*	*5.2*	*-4.3*	*-45.3%*	*2.2%*	*1.1%*
Transactions related to credit quality	**17.3**	**11.3**	**-6.0**	**-34.9%**	**2.7%**	**1.6%**
Total	**640.7**	**692.0**	**51.3**	**8.0%**	**100.0%**	**100.0%**

(*) Preliminary figures

1.5.4. Off-balance sheet

As at 31 December 2014, the contingent exposure of the Luxembourg banking sector through loan commitments and financial guarantees given amounted to EUR 124.5 billion, against EUR 123.4 billion at the end of 2013 (+0.9% increase year-on-year).

The assets deposited by UCIs and the assets deposited by other professionals acting on financial markets increased by 19.3% and 8.5% in 2014, respectively (+10.2% and +4.8% in 2013). These rises reflect the dynamism of the Luxembourg investment fund sector as well as the development of the stock prices of certain assets in safe custody.

Assets deposited by customers as in the off-balance sheet - in billion EUR

	2013	2014 (*)	Variation	
			in volume	in %
Assets deposited by UCIs	2,686.6	3,205.4	518.8	19.3%
Assets deposited by clearing or settlement institutions	1,204.2	1,309.7	105.5	8.8%
Assets deposited by other professionals acting in the financial markets	7,260.2	7,880.0	619.8	8.5%
Other deposited assets	341.0	366.3	25.3	7.4%

(*) Preliminary figures

1.6. Development in the profit and loss account

The profit and loss account of the Luxembourg banking sector showed a net result of EUR 4,169 million as at 31 December 2014, i.e. an increase of EUR 538 million (+14.8%) compared to 2013.

The 2014 profit and loss account is mainly the result of two trends: the fall in general expenses which reflects the efforts of the banking sector to compress costs in a difficult operational environment and, above all, the recovery of certain risk provisions. As regards banking income, the diverging developments according to the underlying activity led to a slight fall in banking income.

Development in the profit and loss account – in million EUR

	2013	Relative share	2014 (*)	Relative share	Variation 2013/2014	
					in volume	in %
Interest-rate margin	5,090	49%	4,999	48%	-92	-1.8%
Net commissions received	3,962	38%	4,072	39%	110	2.8%
Other net income	1,403	13%	1,296	13%	-108	-7.7%
Banking income	**10,455**	**100%**	**10,367**	**100%**	**-89**	**-0.8%**
General expenses	-5,198	-50%	-5,001	-48%	-197	-3.8%
of which: staff costs	*-2,745*	*-26%*	*-2,623*	*-25%*	*-122*	*-4.4%*
of which: general administrative expenses	*-2,453*	*-23%*	*-2,378*	*-23%*	*-75*	*-3.1%*
Profit before provisions	**5,258**	**50%**	**5,366**	**52%**	**108**	**2.1%**
Net creation of provisions	-865	-8%	-405	-4%	-459	-53.1%
Tax	-762	-7%	-792	-8%	30	3.9%
"Real" tax burden	-546		-643			
Net result for the financial year	**3,631**	**35%**	**4,169**	**40%**	**538**	**14.8%**

(*) Preliminary figures

As far as income is concerned, the **interest-rate margin**, which amounted to EUR 4,999 million, dropped by 1.8% over a year. This development reflects the market conditions where intermediation margins remain at a very low, if not negative, level. Since its highest level reached in 2008, the interest-rate margin decreased by more than one-third. The persistence of extremely low interest rates reduces the profitability of the intermediation activity significantly and poses a real challenge to banks in Luxembourg and in the other SSM countries. Moreover, it implies that the part of the **net commissions received** in the recurring banking income increased significantly. Indeed, its level increased from 40% in 2010-2012 to 45% in 2014. It should be borne in mind that the net commissions received mainly result from asset management activities on behalf of private and institutional clients, including financial services provided to investment funds. In a very favourable stock market context, this income amounted to EUR 4,072 million (+2.8% over a year), a historical high. Thus, in 2014, the fall in interest income has been more than offset by the rise in net commission income. This result is notably due to the diversification within the Luxembourg banking sector which allows mitigating the negative consequences linked to specific developments, i.e. the unusually low level of interest rates. Unlike 2013, the positive stock market context does not automatically entail a rise in other net income, an item which is very volatile over time and which includes mostly non-recurring effects generally recorded by a limited number of banks. The **other net income** fell by 7.7% over a year, whereas this item was particularly high in 2013, based notably on capital gains on securities that certain banks had decided to realise at that time.

The total operating income, as measured by the banking income, amounted to EUR 10,367 million as at 31 December 2014, which is a slight decrease (-0.8% over a year).

General expenses fell substantially (-3.8% year-on-year). This fall concerns staff costs (-4.4%) as well as general administrative expenses (-3.1%). Given the development of the general expenses, the **gross profit before provisions and taxes** increased by 2.1% over a year.

As at 31 December 2014, **net creation of provisions** reached EUR 405 million, i.e. a drop by 53.1% compared to 2013. This decrease, which is due to a limited number of banks, is attributable to reasons specific to each bank. It is not the result of a less prudent risk provisioning policy.

Tax charges recorded in the 2014 profit and loss account amounted to EUR 792 million. This amount represents the overall booked tax charges, including taxes due in Luxembourg and abroad, without distinction between current and deferred taxes. Current taxes in Luxembourg on which the accounting calculation of the taxes due in Luxembourg for the financial year 2014 was based, reached EUR 643 million, against EUR 546 million in 2013.

Overall, the above-indicated factors taken as a whole resulted in 2014 in a **net income** growth of 14.8% compared to last year. The upward trend was not shared by all the banks in the financial centre, as evidenced by 45% of the banks whose net results decreased over a year.

Long-term development of profit and loss account – in million EUR

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (*)
Interest-rate margin	3,913	3,905	4,830	6,002	7,298	6,571	5,479	5,865	5,551	5,090	4,999
Net commissions received	2,771	3,209	3,674	4,010	3,644	3,132	3,587	3,832	3,705	3,962	4,072
Other net income	734	1,140	2,296	964	-505	850	483	-830	578	1,403	1,296
Banking income	**7,418**	**8,255**	**10,800**	**10,976**	**10,437**	**10,553**	**9,549**	**8,868**	**9,834**	**10,455**	**10,367**
General expenses	-3,461	-3,693	-3,981	-4,420	-4,560	-4,451	-4,609	-4,789	-5,017	-5,198	-5,001
of which: staff costs	*-1,798*	*-1,945*	*-2,160*	*-2,372*	*-2,461*	*-2,449*	*-2,497*	*-2,535*	*-2,637*	*-2,745*	*-2,623*
of which: general administrative expenses	*-1,663*	*-1,748*	*-1,821*	*-2,048*	*-2,099*	*-2,002*	*-2,112*	*-2,253*	*-2,381*	*-2,453*	*-2,378*
Result before provisions	**3,957**	**4,562**	**6,819**	**6,556**	**5,877**	**6,102**	**4,939**	**4,080**	**4,816**	**5,258**	**5,366**
Net depreciation	-344	-296	-305	-1,038	-5,399	-3,242	-498	-1,572	-761	-865	-405
Tax[8]	-746	-768	-843	-780	-259	-804	-625	-18	-458	-762	-792
"Actual" tax burden					-654	-449	-599	-503	-544	-546	-643
Net result for the financial year	**2,866**	**3,498**	**5,671**	**4,739**	**218**	**2,056**	**3,817**	**2,490**	**3,597**	**3,631**	**4,169**

(*) Preliminary figures

1.7. Solvency ratios

1.7.1. Legal framework

Regulation (EU) No 575/2013, which came into force on 1 January 2014, reflects the Basel III Accord drawn up at international level as a response to the financial crisis. It aims at strengthening both the qualitative and quantitative requirements for banks with respect to solvency, notably through the introduction and redefinition of three capital ratios, i.e.:

- a Common Equity Tier 1 capital ratio (CET1 ratio);
- a Tier 1 capital ratio; and
- a total capital ratio.

In accordance with Article 5 of the CSSF Regulation N° 14-01 on the implementation of certain discretions of Regulation (EU) No 575/2013 and Article 92 of Regulation (EU) No 575/2013, the Luxembourg institutions are required to observe, as of 1 January 2014:

- a Common Equity Tier 1 capital ratio of 4.5%;
- a Tier 1 capital ratio of 6%; and
- a total capital ratio of 8%.

[8] As from 1 January 2008, the prudential reporting is based on the IFRS standards. These standards allow, in particular, activating future tax charges by crediting the tax charges account. Due to these positive tax charges, there are, depending on the year, material deviations from the "actual" tax burden which, based on the Lux-Gaap standards, is used to determine the basis for the calculation of the taxes due to the tax administration.

In addition, the CSSF having anticipated the implementation of the capital conservation buffer[9], the Luxembourg banks are required, under Article 6 of CSSF Regulation N° 14-01 to hold, as of 1 January 2014, a capital conservation buffer (made up of Common Equity Tier 1) equal to 2.5% of the total amount of their risk exposure.

1.7.2. Solvency ratios

The total capital ratio for the financial centre is 20.8% as at 31 December 2014. It largely exceeds the minimum threshold of 8% and 10.5% (minimum threshold of 8% plus the capital conservation buffer of 2.5%), respectively.

Given the methodological changes to the determination of capital and capital requirements and, to a lesser extent, the changes regarding the eligibility of capital items, the total capital ratio of 20.8% cannot be directly compared to the total capital ratio of 19.7% as at 31 December 2013. Nevertheless, it still bears witness to the high level of capitalisation of the banks in the financial centre. The impact of the Basel III Accord on Luxembourg banks also highlights the orientation of the Luxembourg banks toward high-quality capital instruments, as well as the orientation of the activities that protect them from any non-anticipated negative regulatory impact.

The Tier 1 capital ratio, whose numerator only includes own funds which absorb losses in going-concern situations, was 19.6%. The Common Equity Tier 1 capital ratio (CET1 ratio) was 19.6% as at 31 December 2014. The levels of the CET1 and Tier 1 capital ratios, which largely exceed the regulatory minima (including the capital conservation buffer) of 8.5% and 10.5% respectively, bear witness to the preponderance of the presence of high-quality capital items in the banking sector.

1.7.3. Elements of own funds

Aggregate own funds, eligible for complying with the minimum solvency requirements, amounted to EUR 46,147.8 million as at 31 December 2014. Whereas Common Equity Tier 1 capital represented 94% of own funds, the additional Tier 1 capital items (0.3%) and the Tier 2 capital items (5.7%) only played a subordinated role.

As regards the composition of Common Equity Tier 1 capital, the capital issued and the relating share premium represent a significant part of the eligible instruments. The level of issued capital (and share premium) remains relatively stable year-on-year. The capital increases of existing entities, as well as the equity of the institutions that decided to establish themselves in Luxembourg in 2014, were enough to offset the capital reduction of the 12 entities that stopped their activities during the year.

The retained earnings, the eligible results of the current year and the funds for general banking risks represent the other dominating part of own funds. This category of own funds grew in 2014, in particular following the hoarding of 2013 profits and the eligibility, under Regulation (EU) No 575/2013, of the lump sum provision as Common Equity Tier 1 instrument[10].

The provisions regarding deductions as introduced by Regulation (EU) No 575/2013, compared to the regulation in force in 2013, have an impact of similar scale. Under the effect of the deductions, Common Equity Tier 1 capital decreased by almost 15.3%. The deductions of intangible assets, the deductions for holdings in entities of the financial sector, as well as the neutralisation of unrealised gains recognised as revaluation reserve accounted for around 70% of the total deductions to be made from Common Equity Tier 1 capital.

In line with the historical situation, the small proportion of additional Common Equity Tier 1 instruments (0.3%) and the limited number of banks that use this type of instrument underline the preference of the Luxembourg credit institutions for high-quality capital instruments.

The reduction of Tier 2 capital items is attributable to the anticipated redemption of Tier 2 capital items, to the non-renewal of Tier 2 capital instruments that fell due and to the non-eligibility of part of the instruments issued by the Luxembourg banks. The non-eligibility, under Regulation CSSF N° 14-01 implementing certain discretions of Regulation (EU) No 575/2013, of unrealised gains recognised in the revaluation reserve (and treated as Tier 2 capital under the regulation in force in 2013) also contributes to the reduction of Tier 2 capital.

[9] According to European regulations, the capital conservation buffer is to be implemented by 1 January 2019 at the latest.

[10] Circular CSSF 14/599.

Elements of own funds

	Amount *(in million EUR)*	Relative share
Own funds	**46,147.8**	**100.0%**
Tier 1 capital	**43,531.6**	**94.3%**
Common Equity Tier 1 (CET1)	**43,373.5**	**94.0%**
Capital instruments that qualify as CET1 capital	27,300.8	
Retained earnings, other reserves, funds for general banking risks	21,245.1	
Other accumulated comprehensive income	2,691.9	
Minority interests	25.1	
Adjustments of CET1 deriving from prudential filters	-86.5	
(-) Intangible assets, goodwill and differed tax assets	-2,128.5	
(-) Holdings in financial instruments of financial sector entities	-1,139.0	
(-) Other deductions	-4,535.4	
Additional Tier 1 capital (AT1)	**158.1**	**0.3%**
Capital instruments that qualify as AT1 capital	158.1	
Other items that qualify as AT1 capital	0.0	
(-) Deductions from AT1 capital	0.0	
Tier 2 capital (T2)	**2,615.7**	**5.7%**
Capital instruments and subordinated loans that qualify as T2 capital	2,565.5	
Other items that qualify as T2 capital	84.4	
(-) Deductions from T2 capital	-34.2	

1.7.4. Risk exposure amounts

The risk exposure amounts fell by EUR 27,577.2 million (-11.1%) between the end of 2013 and the end of 2014 to EUR 221,620.8 million. This development is mainly influenced by the reduction of the capital charge for credit risk of one credit institution, owing to certain major transactions having fallen due. In addition, the “other capital requirements” (of which the requirements for capital floors were a major component) fell year-on-year by around EUR 11,034.9 million.

As regards the composition of risk exposure amounts, credit risk exposures continue to mobilise the highest risk-weighted exposure amounts, with 89.2% as at 31 December 2014. The capital charge for operational risk represents 9.0% at the end of the year. Owing to the activities carried out in the financial sector, the capital charge for market risks remains, as in the past, limited (1.0% of the total risk exposure amounts). The introduction by Regulation (EU) No 575/2013 of the capital charge for credit valuation adjustment (CVA) risk only had a limited impact. Indeed, at the end of 2014, it represented 0.7% of the risk exposure amounts.

Given the methodological change to the calculation of the floor threshold for banks applying an advanced measurement method, such as the internal ratings-based approach for credit risk or the advanced measurement approach for operational risk, the “other capital requirements” only play a subordinated role, for the time being.

Risk exposure amounts

(in million EUR)	2013	in %	2014	in %
Total risk exposure amount	**249,198**	**100.0%**	**221,620.8**	**100.0%**
Risk-weighted credit risk, counterparty risk and dilution risks and free deliveries	215,346	86.4%	197,786.2	89.2%
of which: Standardised Approach (STA)	*164,628*		*150,373.8*	
of which: Internal ratings-based approach (IRB)	*50,718*		*47,411.9*	
Total clearing/settlement risk exposure amount	0	0.0%	4.1	0.0%
Total position risk, foreign-exchange risk and commodity risk exposure amount	1,477	0.6%	2,132.5	1.0%
Total operational risk exposure amount	21,140	8.5%	19,858.2	9.0%
Total credit valuation adjustment risk exposure amount			1,641.0	0.7%
Other risk exposure amount	11,234	4.5%	198.6	0.1%

1.7.5. Calculation approaches implemented by the banks of the financial centre

As at 31 December 2014, 13 banks are authorised to use an internal ratings-based approach regarding credit risk, eight of which have used advanced methods allowing not only own estimates of probabilities of default but also of the loss given default and/or of the conversion factors. Compared to the end of 2013, the number of banks that used the internal ratings-based approach decreased by five units: three banks stopped their activities in the course of the year and two banks migrated, in accordance with Article 149 of Regulation (EU) No 575/2013, towards a less advanced approach and now apply the standardised approach for credit risk.

These 13 banks represented 30.1% of the balance sheet total of the financial centre as at 31 December 2014.

As regards operational risk, 10 banks were authorised to use the advanced measurement approach (AMA). Following the merger of two entities of the financial centre[11], the number of banks that apply the AMA approach decreased by one unit as compared to the end of 2013. The other banks used the basic indicator approach (70 banks) and the standardised approach (26 banks) to determine the capital requirements for operational risk.

Basel II calculation methods implemented by the banks of the financial centre

	Number of banks
Credit risk	**106**
Standardised approach	93
Internal ratings-based approach	13
of which: foundation IRB approach	*5*
of which: advanced IRB approach	*8*
Operational risk	**106**
Basic indicator approach	70
Standardised approach	26
Advanced measurement approaches	10

[11] The two banks concerned applied the advanced measurement approach (AMA).

1.7.6. Distribution of the solvency ratios

The high level of capitalisation, as shown by the respective aggregate solvency ratios, is also reflected at disaggregated level.

As regards the total capital ratio as at 31 December 2014, three banks were within the weaker capitalisation bands, i.e. below 10.5%, but still above the regulatory minimum of 8%[12]. For banks with a total ratio below 10.5%, the restrictions in terms of bonus and dividend payments apply (Article 141 of the CRD IV). In this context, the CSSF had taken certain decisions in 2014 that aimed at limiting the distribution of dividends and strengthening the solvency of certain banks. The ECB's recommendation of 28 January 2015 (ref.: ECB/2015/2) on dividend distribution policies lies within the same context and addresses possible distribution of dividends based on the results of 2014.

The distribution of the Tier 1 capital ratios and Common Equity Tier 1 capital ratios also reflects the high-quality level of the elements composing the regulatory own funds of the stakeholders. All the banks comply with the minimum thresholds. Only one bank, subject to restrictions as regards the distribution of dividends in 2014, does not comply with the 8.5% threshold for the Tier 1 capital ratio.

Distribution of the solvency ratios

Common Equity Tier 1 capital ratio (CET1)	Number of banks	Tier 1 capital ratio	Number of banks	Total capital adequacy ratio	Number of banks
0%-4.5%	0	<6%	0	<8%	0
4.5%-7%	0	6%-8.5%	1	8%-10.5%	3
7%-8%	1	8.5%-9%	0	10.5%-11%	0
8%-9%	0	9%-10%	1	11%-12%	2
9%-10%	1	10%-11%	3	12%-13%	7
>10%	104	>11%	101	>13%	94
Total	**106**		**106**		**106**

[12] The minimum threshold is 8%; the capital conservation buffer of 2.5% is added to that threshold.

1.8. International presence of Luxembourg banks

Freedom to provide services within the EU/EEA as at 31 December 2014

Country	Luxembourg banks providing services in the EU/EEA	EU/EEA banks providing services in Luxembourg
Austria	47	31
Belgium	66	22
Bulgaria	27	-
Croatia	5	-
Cyprus	28	3
Czech Republic	27	-
Denmark	49	7
Estonia	25	1
Finland	45	8
France	71	74
Germany	68	62
Gibraltar	-	4
Greece	43	2
Hungary	26	8
Iceland	8	2
Ireland	40	32
Italy	59	13
Latvia	26	7
Liechtenstein	10	8
Lithuania	27	1
Malta	30	10
Netherlands	56	31
Norway	23	1
Poland	30	1
Portugal	47	7
Romania	29	-
Slovakia	25	1
Slovenia	26	-
Spain	55	8
Sweden	45	8
United Kingdom	60	80
Total number of notifications	**1,123**	**432**
Total number of banks concerned	**81**	**432**

Branches established in the EU/EEA as at 31 December 2014

Country	Branches of Luxembourg banks established in the EU/EEA	Branches of EU/EEA banks established in Luxembourg
Austria	2	-
Belgium	14	1
Cyprus	-	1
Denmark	2	-
France	5	3
Germany	4	13
Gibraltar	1	-
Greece	1	-
Ireland	4	-
Italy	8	-
Netherlands	4	1
Poland	2	-
Portugal	3	2
Spain	8	1
Sweden	3	2
United Kingdom	4	6
Total	**65**	**30**

1.9. Banks issuing covered bonds

Following the merger by takeover of Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg by Hypothekenbank Frankfurt International S.A.[13], the financial centre only counts five banks issuing covered bonds at the end of 2014.

The market of banks issuing covered bonds developed only moderately in 2014. The banks can still be sub-divided into two types, namely the banks that only manage their existing cover assets or reduce their portfolios (controlled run-off) and those wishing to take advantage of the possibilities offered by the Luxembourg legislator and seek to further develop their activities in the years to come.

As at 31 December 2014, the aggregate balance sheet total of the five banks issuing covered bonds amounted to EUR 37.8 billion. Given the run-off of certain banks, the volume of public-sector covered bonds issued by the five banks dropped substantially to EUR 15.7 billion at the end of 2014, against EUR 21.0 billion at the end of 2013.

Issues of covered bonds were guaranteed by total cover assets amounting to EUR 18.5 billion. Consequently, covered bonds benefited, on average, from an over-collateralisation of 17.8% according to the nominal value and from an over-collateralisation of 15.6% according to the net present value as at 31 December 2014.

The rating of the issues of the different banks issuing covered bonds varies from AAA to BBB and the banks willing to maintain the best quality rating should do so by offsetting their risks within the cover assets by a considerable level of over-collateralisation. In 2014, certain banks reduced their portfolios and the related risks by selling, among other things, part of their exposures to US central, regional and local administrations.

The activities of the banks issuing covered bonds continued to be limited to financing the public sector and no bank has made use of the possibilities offered by the legislator to issue other types of covered bonds such as real estate, moveable-property or common covered bonds.

[13] The merged entity took the name of “Erste Europäische Pfandbrief- und Kommunalkreditbank, Aktiengesellschaft in Luxemburg”.

2. PRUDENTIAL SUPERVISORY PRACTICE

2.1. Purpose of prudential supervision

It is commonly admitted that the purpose of the prudential supervision of banks is to maintain financial stability and protect the public's savings, i.e. to preserve the non-professional customers' deposits. This objective is an obligation of means, not of results. Prudential supervision is not an absolute guarantee against bank failures involving losses for depositors.

2.2. Monitoring of quantitative standards

In order to ensure financial stability and risk spreading, credit institutions must observe the following quantitative standards:

- minimum share capital;
- capital ratios (a Common Equity Tier 1 capital ratio (CET1 ratio), a Tier 1 capital ratio and a total capital ratio);
- a limitation of risk concentration to a single debtor or a group of associated debtors;
- a liquidity ratio;
- a limitation of qualifying holdings;
- a reference limit set at 20% of own funds for non-trading book interest rate risk (cf. point 2.6. below).

The CSSF monitors compliance with these standards and follows the banks' activities by means of a reporting harmonised at European level. The reporting includes information on:

- the capital requirements;
- the financial information (balance sheet, profit and loss accounts and relating detailed tables);
- the losses stemming from lending collateralised by immovable property;
- large exposures;
- the leverage ratio;
- asset encumbrance;
- the liquidity coverage requirements; and
- the net stable funding requirements.

In addition, the CSSF requires periodic tables on, among other things, the liquidity ratio, the transferable securities, the participating interests and shares in affiliated undertakings, and tables with descriptive information on the supervised entity.

Within the scope of monitoring compliance with large exposure limits, the CSSF intervened 11 times in writing in 2014 (18 times in 2013), notably to inform that the maximum level of large exposures had been exceeded and to request the bank concerned to provide information on the measures it intended to take in order to bring the commitments back within the regulatory limits.

The sanctions imposed by the CSSF on Luxembourg banks for non-compliance with the regulatory provisions are described in Chapter XIII "Instruments of supervision".

2.3. Monitoring of qualitative standards

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

- analytical reports prepared by the *réviseurs d'entreprises* (statutory auditors);
- management letters and similar reports prepared by the *réviseurs d'entreprises*;

- on-site inspections by CSSF agents within the banks;
- reports prepared by the banks' internal auditors;
- compliance reports;
- ICAAP reports.

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

During 2014, the CSSF sent 218 deficiency letters to banks based on shortcomings in terms of organisation or due to the exercise of the activities.

The CSSF intervened 36 times with respect to quality deficiencies of internal reports, notably ICAAP reports. As regards the ICAAP, the CSSF requested a more precise description of:

- the stress tests and their inclusion in the day-to-day management;
- the management of concentration risk, including the indirect concentrations resulting from risk mitigation techniques;
- the plans for the management of capital and liquidity crises; and
- the definition of risk appetite.

These subjects are generally dealt with in the ICAAP report, but their description does not always adequately reflect the specificity of the business model of banks and all inherent risks.

The sanctions imposed by the CSSF on banks for non-compliance with the regulatory provisions are described in Chapter XIII "Instruments of supervision".

2.4. Supervisory review process

The term "Supervisory Review Process" (SRP) refers to the assessments, controls and measures as a whole, implemented by the CSSF in order to assess and preserve the capacity of a credit institution to manage and support the risks it incurs.

Articles 97 to 101 of Directive 2013/36/EU (CRD IV) lay down the basic rules applicable to the SRP-related assessments operated by the supervisory authorities in the EU. The rules also apply to the Single Supervisory Mechanism (SSM) which is responsible for the direct supervision of the significant banks since 4 November 2014.

In accordance with the third paragraph of Article 107 of the CRD IV, the EBA published in December 2014 guidelines for the competent authorities which specify the common procedures and methodologies for the SRP. These Guidelines (ref.: EBA/2014/13) shall apply as from 1 January 2016.

The EBA Guidelines cover the whole Supervisory Review and Evaluation Process (SREP) according to the CRD IV. This framework is built around four themes:

- business model analysis;
- assessment of internal governance and institutions-wide control arrangements;
- assessment of capital adequacy to cover the risks incurred; and
- assessment of the adequacy of liquidity resources to cover the risks incurred.

These themes are in line with the previous Guidelines of the EBA as regards SREP. In terms of innovation, it is worth noting the details regarding proportionality, which is an important regulatory aspect for the Luxembourg banking sector and which, until now, had been left to the discretion of the national supervisory authorities. The EBA Guidelines provide for a classification of the banks into four categories according to their importance and complexity. Every category is associated with a minimum supervisory engagement model depending on the risk inherent in the specific category.

Based on the EBA Guidelines, the SSM is in the progress of implementing, via its supervisory manual, a methodology relating to the SREP. This methodology encompasses three main elements[14]:

- a Risk Assessment System (RAS) which evaluates the risks and the relevant internal controls;
- a comprehensive review of the credit institutions' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP);
- a capital and liquidity quantification methodology, which evaluates credit institutions' capital and liquidity needs given the results of the risk assessment and the prudential stress tests.

This approach should be ready for the SREP 2015 based on the consolidated situation of the significant banks within the SSM. However, as the work implementing the proportionality is still in progress, the SREP for the other Luxembourg banks will be performed according to CSSF procedures.

With the entry into force of the CRR and of the Regulation CSSF N° 14-01, the Luxembourg banks shall satisfy the capital ratios whose regulatory minimum is that laid down in Article 92(1) of the CRR[15], increased by a capital conservation buffer of 2.5% in accordance with Article 6 of Regulation CSSF N° 14-01. In accordance with Article 104(1)(a) of the CRD IV, these minimum regulatory requirements are supplemented by specific capital requirements, should the results of the SREP show that the minimum requirements do not fully cover the risks incurred. These requirements are imposed by the SSM on significant banks, including their Luxembourg subsidiaries, and they are communicated via a single letter sent by the SSM to the parent undertaking of the banking group. For the other Luxembourg banks, the CSSF continues to exercise the prerogatives of Article 104(1)(a) of the CRD IV.

2.5. Developments regarding liquidity supervision

In general, the liquidity situation of the Luxembourg credit institutions is adequate. Although the liquidity situation has not fundamentally changed in 2014, there has been, nevertheless, an adjustment of investment strategies of banks in view of the future liquidity regulation, in particular the Liquidity Coverage Requirement (LCR) which will enter into force on 1 October 2015. This adjustment is made for the benefit of "high quality liquid assets" that the new regulation accepts as buffer against liquidity risk.

The Luxembourg financial centre remains characterised by a surplus of liquidity, generated for a large part by credit institutions that offer wealth management services or provide investment fund services. The deposits linked to these activities allow the banks to ensure their own refinancing, the surplus being invested in securities portfolios or deposited within their group. Some banks experience a liquidity gap as a result of their credit activities, which is covered either autonomously or by using resources from the group. The liquidity management of Luxembourg banks is thus widely part of the liquidity management of their groups.

The Luxembourg regulatory framework which is the basis for the CSSF's supervision of liquidity remains defined in four circulars:

- Circulars CSSF 07/301 and CSSF 12/552 which lay down the main guiding principles for sound risk management;
- Circular CSSF 09/403 which sets out the qualitative requirements in regard to a sound liquidity risk management;
- Circular IML 93/104 which limits the structural liquidity risk by imposing a liquidity ratio (table B1.5).

In 2014, the regulatory framework was supplemented by Regulation (EU) No 575/2013 (CRR) whose Articles 412 and 413 lay down general liquidity requirements. This Regulation together with the Implementing Technical Standards on supervisory reporting (EU) No 680/2014 are the legal basis of the new prudential reporting on liquidity based on which banks are required to report in detail the elements that compose the new liquidity ratios LCR and NSFR (Net Stable Funding Requirement).

The CSSF monitors the development of the liquidity situation of banks through these new liquidity reportings as well as through the other existing prudential reportings and self-assessments to be provided in the context

[14] The "Guide to Banking Supervision" published by the SSM in November 2014 provides additional explanations.

[15] 4.5% for the Common Equity Tier 1 capital ratio, 6% for the Tier 1 capital ratio and 8% for the total capital ratio.

of ICAAP reports which must include an assessment on the materiality, the management and the mitigation of liquidity risk. The liquidity risk supervision experienced a strong European integration in 2014. In accordance with Article 113(1)(b) of the CRD IV, the permanent supervision of liquidity risk of banks belonging to cross-border banking groups at EU level has been explicitly integrated in the joint supervisory process of the colleges of supervisors. In this regard, an individual analysis of the liquidity situation of the banks is made within the framework of the Supervisory Review and Evaluation Process (SREP), before taking a joint decision on the adequacy of liquidity management and liquidity reserves of credit institutions. Within the SSM, this process is internalised in the Joint Supervisory Teams (JST) which perform the prudential controls of the significant banks on a day-to-day basis.

In practice, the CSSF performs on-site inspections in co-operation with the BCL in order to assess, in a detailed manner, the situation and management of the liquidity risk within credit institutions. In 2014, three on-site inspections were carried out. The weaknesses observed concerned inaccurate accounting for local specificities when applying group procedures and group strategies, as well as in determining the hypotheses used to set up stress tests. In addition, there was a certain lack of detail in the crisis management plans for liquidity which should include more quantitative triggers.

The European Commission specified through a delegated act, published on 10 October 2014, that a minimum threshold of 60% for the LCR would be mandatory as from 1 October 2015. This threshold should then be raised in stages to reach 100% as at 1 January 2018. The quantitative regime regarding liquidity as laid down in Circular IML 93/104 (table B1.5 “Liquidity ratio”) will be repealed with the entry into force of the minimum threshold of the LCR. As regards the NSFR, work is in progress at European level on the revision of this ratio which is still planned to be implemented for 2018.

The delegated act of the European Commission provides several regulatory details with respect to the general liquidity coverage requirement (LCR-CRR, Article 412). The new regulatory arrangements of this act require adjustments of the new liquidity reportings. To this end, the EBA published a consultation paper on 16 December 2014 in which the new reporting tables were exposed. As the European Commission needs to approve the proposal, these templates will become applicable only in the fourth quarter of 2015. In order to cover the transitional period until the implementation of the new reporting templates, the CSSF launched a specific inquiry with the Luxembourg banks in order to obtain, on a monthly basis, information on the evolution of the major components of the LCR.

Moreover, under Article 415(3)(b) of the CRR, the EBA developed Additional Liquidity Monitoring Metrics for banks and suggested an entry into force for 1 July 2015. These additional tools, including notably a maturity ladder template, will allow competent authorities to obtain a comprehensive view of the liquidity risk profile of credit institutions.

2.6. Supervision of interest rate risk according to Circular CSSF 08/338

In Luxembourg, the diversification of the traditional banking activity, by means of private banking and investment fund services, entails that the interest rate risk as a whole is less marked. Moreover, the wide range of available interest rate risk hedging instruments allows reducing this risk efficiently. On the other hand, the instruments concerned could be used to take on higher interest rate risk positions.

Circular CSSF 08/338 of 19 February 2008 on the implementation of a stress test to assess the interest rate risk arising from non-trading book activities requires banks to submit, on a half-yearly basis, the results of a simulation of interest rate changes to the CSSF (stress test). On the basis of these results, the CSSF analyses, in accordance with Article 98(5) of the CRD IV, to what extent the interest rate risk is likely to result in a decline in the economic value of an institution.

The CSSF analyses the results of these stress tests based on a ratio whose numerator is the result of the simulation of interest rate changes according to Circular CSSF 08/338 and whose denominator is determined by the own funds defined in Article 72 of the CRR. This ratio measures the percentage of own funds mobilised through the (unrealised) value losses resulting from an adverse change in interest rates. According to Article 98(5) of the CRD IV, the CSSF shall “take measures” should this ratio fall below -20%. Such measures aim to ensure that the own funds of an institution remain adequate with respect to its overall risk situation, which includes in particular non-trading book interest rate risk. It should be borne in mind that the non-trading

book interest rate risk is not subject to a capital requirement according to the CRR, as opposed to the interest rate risk inherent in the trading book portfolio.

The analysis of the stress test results according to Circular CSSF 08/338 as at 31 December 2013 and 30 June 2014 confirmed that the Luxembourg banking sector as a whole is exposed only moderately to structural interest rate risk. Indeed, average assessment ratios amounted to -3.9% on a stand-alone basis and to -4.4% on a consolidated basis as at 30 June 2014. The impact of an immediate 2% rise in overall interest rates would cut the intrinsic value of the financial centre's banks only by about 4.4% of their own funds.

On 30 June 2014, the structural interest rate risk, on a stand-alone basis, slightly increased compared to the results as at 31 December 2013 where the average ratio was -3.6%. As far as dispersion of results is concerned, 76% of the banks of the financial centre had a ratio higher than or equal to -5% and only 3.6% of the banks had a ratio of less than -15% as at 30 June 2014. The average assessment ratios, on a consolidated basis, amounted to -4.1% as at 31 December 2013. Moreover, the dispersion showed that 55% of the banks had a ratio above -5% and 3.4% of the banks had a ratio below -15% as at 30 June 2014. Two banks in the financial centre had an outlier ratio below the threshold of -20%. The CSSF contacted both banks and will monitor the development of the outlier ratio in the stress test results of December 2014 by performing an on-site inspection and planning a meeting with the managers in 2015.

In order to supplement its analyses, the CSSF made an on-site inspection in 2014 on the implementation of Circular CSSF 08/338. The objective of the mission was to discuss and to verify the reported outlier at the bank's premises. It was the first time that the bank recorded an outlier at individual and consolidated level as a result of the interest rate increase scenario. Following the intervention of the CSSF, the bank adapted its exposure by using interest rate hedges in order to bring the IRRBB position back within the 20% limit of regulatory own funds. The bank's initiatives reflect an improvement of the outlier ratio at individual and consolidated level in the stress test results.

Supervision of the interest rate risk according to Circular CSSF 08/338 did not lead the CSSF to adopt specific prudential measures in 2014.

2.7. Developments regarding operational risk supervision

For the Luxembourg financial centre, controlling operational and compliance risks has always been crucial. The CSSF's supervisory practice has two objectives: controlling risk management practices as well as measuring operational risk and determining the ensuing capital requirements.

As regards the measurement of operational risk, the CSSF performed four on-site inspections in 2014 within the framework of its monitoring of the operational risk management models.

For the banks that have opted for the AMA approach, the CSSF insists on the active and reactive management of operational risks in Luxembourg. Beyond the application of a model generally set by the parent undertaking, the CSSF ensures that within the Luxembourg entity, the capital allocated to operational risks is duly analysed, argued and justified as to its adequacy for the entity's operation in Luxembourg. The capital allocated to operational risks through an internal process under an AMA approach should fully and accurately reflect the entity's specific risk profile. This is true, in particular, for the mandatory inclusion of stress scenarios within the AMA approaches. It is essential that these scenarios correspond to the intrinsic risks of the Luxembourg entity. More generally, the comparison of scenarios with historic losses, the extent of expected losses as well as the analysis of the adequacy of scenarios with local characteristics shall enable Luxembourg banks to make judgments on the adequacy of the AMA approach implemented at local level and, in case of identified shortcomings, to implement the required improvements.

In all cases, the CSSF ensures that Luxembourg subsidiaries are not confined to exclusively providing data to be integrated in their groups' models but seek to better understand, quantify and manage their operational risks, allowing them to take the necessary measures, at local level, to mitigate or to reduce these risks.

The same applies to the own funds which Luxembourg banks hold on the basis of the ICAAP process as provided for in Article 73 of the CRD IV. The internal capital allocated locally to operational risks arising from the ICAAP should, in general, exceed the regulatory capital requirements determined on the basis of an AMA model of the group due to a lesser risk diversification at the local level alone.

In June 2014, the EBA launched a consultation paper in order to establish regulatory technical standards (RTS) aiming to define a consistent methodology for assessing AMA models. These RTS aim at harmonising AMA model assessment throughout the EU and will be part of the "single rulebook" applicable to all the banks within the EU. In July 2014, the EBA also published final RTS on the conditions for assessing the materiality of extensions and changes to AMA models for the operational risk of credit institutions.

In October 2014, the Basel Committee on Banking Supervision launched a consultation for the revision of the simpler approaches for operational risk: the Basic Indicator Approach (BIA) and the Standardised Approach (TSA). These proposals are further specified in point 1.1.4. of Chapter III "The international dimension of the CSSF's mission".

Finally, on 22 September 2014, the Joint Committee of the European supervisory authorities published its half-yearly report on the risks and vulnerabilities in the EU financial system. This report identified a certain number of risks to the stability of the financial system, among which the Committee also named the risks linked to business conduct and the IT-related cyber risk. The report underlined in particular the increased importance of the risks related to the sale of inadequate products and the manipulation of reference rates.

2.8. Co-operation with other authorities

Besides the institutionalised co-operation in Joint Supervisory Teams and colleges (cf. point 2.19. below), the CSSF works closely with the foreign supervisory authorities within the context of the consultations provided for by the European directives and in all circumstances in which co-operation is needed. Co-operation generally takes place in the form of requests for advice, information or assistance initiated or received by the CSSF. In this context, the CSSF sent 127 letters to supervisory authorities in 2014.

The CSSF also co-operates with the national judicial and law enforcement authorities in accordance with Article 2 of the law of 23 December 1998 establishing a financial sector supervisory commission (Commission de surveillance du secteur financier) and Article 9-1 of the law of 12 November 2004 on the fight against money laundering and terrorist financing. Moreover, within the context of the assessment of the professional standing conditions to be complied with by the persons called upon to form part of the authorised management or the board of directors of a bank, the CSSF refers to the State Prosecutor's office of the *Tribunal d'Arrondissement* (Luxembourg District Court) and to the Grand-ducal police.

2.9. Intervention in commercial policies

One of the important lessons to be learnt from the 2008 financial crisis is that prudential supervision must not be limited to verifying compliance with regulations. Some banks had to be supported by their respective State or have their payments suspended despite their strict compliance with prudential regulations. Within the process of prudential supervision laid down in Circular CSSF 07/301, the CSSF requires banks to maintain a sound relation between their risk exposures and their capacity to bear these risks. As indicated in point 2.4. above, Article 98(1)(c) of the CRD IV includes the control and assessment of the banks' business model in the scope of application of the SRP. This analysis aims to establish the viable and sustainable nature of the business model.

During 2014, the CSSF intervened 10 times (idem in 2013) to require actions to be taken such as restricting the payment of dividends, reducing risks, setting up a maximum framework for risks, covering risks through dedicated own funds or increasing the level of own funds.

2.10. Long form reports

The long form report drawn up by the *réviseur d'entreprises* contributes to the assessment of the quality of the organisation and of the exposure to the different risks of credit institutions. The CSSF requires, on a yearly basis, a long form report from every Luxembourg credit institution as well as from Luxembourg branches of non-EU credit institutions. Furthermore, the credit institutions supervised on a consolidated basis are required to submit, on a yearly basis, a consolidated long form report and individual long form reports for each subsidiary included in the consolidation and carrying out an activity of the financial sector.

The CSSF examines the individual and consolidated long form reports drawn up by the *réviseurs d'entreprises agréés* as well as the long form reports of Luxembourg banks' subsidiaries. It takes these conclusions into account for the overall assessment of the supervised institution's situation. Where appropriate, the CSSF intervenes within the institution.

2.11. Co-operation with *réviseurs d'entreprises*

Article 54 of the law of 5 April 1993 on the financial sector governs the relationship between the CSSF and the *réviseurs d'entreprises*. All the reports prepared by the *réviseur d'entreprises* in connection with the audits of accounting documents are to be communicated to the CSSF by the supervised professionals.

Furthermore, the *réviseurs d'entreprises* are required by law to promptly inform the CSSF of any serious findings, defined more specifically under Article 54(3) of the aforementioned law, which have come to their attention in the course of their duties.

The CSSF holds annual meetings with the major audit firms in order to exchange opinions on specific issues encountered within the supervised institutions. The discussions may also cover the quality of the reports produced.

2.12. On-site inspections

The programme of inspections to be carried out by CSSF agents is drawn up at the beginning of the year. This programme is based on the assessment of the risk areas of the different credit institutions. On-site inspections generally follow standard inspection procedures, in the form of discussions with the people responsible, the assessment of procedures and the verification of files and systems.

For the banks that are directly under the ECB's supervision, the programme has been established jointly with the ECB. These controls are performed by teams that may be composed of agents of several authorities, in accordance with an SSM methodology.

Detailed explanations on on-site inspections are provided in Chapter XIII "Instruments of supervision".

2.13. Management letters

Management letters drawn up by the *réviseurs d'entreprises* for the attention of the banks' management are an important source of information on the quality of the credit institutions' organisation. The CSSF analysed these management letters in which the external auditors list, for instance, the internal control system weaknesses identified during their audit.

2.14. Meetings

The CSSF attaches particular importance to meetings with bank managers in order to discuss the course of business as well as any issues. It also requires prompt notification by the banks if a serious problem arises. These meetings include "structured dialogues" through which the CSSF presents to the authorised bank managers the results and prudential measures arising from its assessment of the financial soundness and the risks of the bank.

In 2014, 228 meetings were held between CSSF representatives and bank executives (218 in 2013). Moreover, 71 meetings with, among others, *réviseurs d'entreprises,* foreign authorities, the BCL, applicants for the establishment of a bank, rating agencies or supranational organisations took place on the CSSF's premises in 2014.

2.15. Specific audits

Article 54(2) of the law of 5 April 1993 on the financial sector allows the CSSF to require a *réviseur d'entreprises* to conduct an audit on a specific subject in a given institution. In 2014, the CSSF made use of this right just once (idem in 2013).

2.16. Internal audit and compliance reports

The CSSF takes the work of the internal audit into account when assessing the quality of the organisation and the risk management, by analysing the summary report drawn up by the internal auditor on an annual basis, as well as the report of the Compliance officer. It requests, where relevant, specific reports from the internal audit in order to obtain more detailed information on certain subjects.

2.17. Supervision on a consolidated basis

As at 31 December 2014, 21 Luxembourg-incorporated banks (24 in 2013), as well as three Luxembourg-incorporated financial holding companies (idem in 2013) were supervised by the CSSF on a consolidated basis.

Fifteen of these 21 banks are part of banking groups considered as significant and their supervision, including the consolidated supervision, is now exercised by the ECB, and in particular by the Joint Supervisory Teams that have been set up in the framework of the SSM. The consolidated supervision of the other six banks, considered as less significant according to the criteria laid down in the SSM framework regulation, continue to be under the supervision of the CSSF, under the control of the ECB.

Likewise, one of the three financial holding companies is now subject to the consolidated supervision of the ECB while the other two remain under the consolidated supervision of the CSSF.

The conditions governing submission to a consolidated supervision, the scope, content and means of supervision on a consolidated basis are specified in Chapter 2, Title II of Part I of Regulation (EU) No 575/2013. The practical arrangements for implementing rules governing supervision on a consolidated basis are laid down in Circular IML 96/125.

In accordance with the new European regulations, the main prudential standards and norms to be complied with by an institution or a financial holding company at a consolidated level concern:

- consolidated own funds;
- observance of the consolidated solvency ratios;
- large exposure control requirements on a consolidated basis;
- arrangements concerning exposures to transferred credit risk;
- consolidated liquidity;
- consolidated leverage ratio;
- information to be published (Pillar III).

For those entities that remain subject to its consolidated supervision, the CSSF pays special attention to the "group head" function set up at the Luxembourg institution under its consolidated supervision. It takes a particular interest in the way the Luxembourg parent company communicates its policies and strategies to its subsidiaries as well as in the controls set up at the Luxembourg parent undertaking in order to monitor the organisation and activities of the subsidiaries, and their exposures.

The means available to the CSSF to exercise its supervision on a consolidated basis are manifold:

- The CSSF requires periodic reports reflecting the financial situation and the consolidated risks of a group subject to its consolidated supervision.
- Pursuant to Circular CSSF 07/301, the ICAAP report shall provide an assessment of the consolidated capital

adequacy in relation to the risks taken by the group or sub-group. Part of this report concentrates on the consolidated risk profile of the group or sub-group subject to the consolidated supervision.

- Circular CSSF 12/552 on the central administration, internal governance and risk management applies to a banking group, i.e. the entire group represented by the parent undertaking and the legal entities attached thereto. Thus, the internal control functions (risk, compliance and internal audit) which are in place at group level shall also include, in their reports to be submitted annually to the CSSF, the aspects which concern more specifically consolidated entities or risks.
- The reports prepared by the external auditors represent another source of information. Circular CSSF 01/27 on practical rules regarding the mission of the *réviseur d'entreprises* requires that a consolidated long form report of a group subject to the consolidated supervision of the CSSF is drawn up. The purpose of this consolidated report is to provide the CSSF with an overview of the group's situation and to provide guidance on the risk management and structures of the group.
- The CSSF requires, moreover, an individual long form report to be drawn up for each major subsidiary.
- The CSSF's information is supplemented by contacts, exchange of letters and meetings with supervisory authorities of the subsidiaries' host countries. Within the scope of its supervision on a consolidated basis, the CSSF expects to obtain systematically, from the banks and financial holding companies subject to consolidated supervision, information on any intervention of the host country authorities with the subsidiaries, where these interventions concern non-compliance with domestic regulations and aspects regarding organisation or risks of these subsidiaries.
- As regards groups with an important network of subsidiaries, the CSSF follows the development of the financial situation and the risks of the subsidiaries included in the consolidated supervision by holding regular meetings with the management of the credit institution or of the financial holding company under its consolidated supervision.
- The CSSF performs on-site inspections that cover, on the one hand, the manner in which the parent company establishes its policies and implements its strategies within the subsidiaries and, on the other hand, the follow-up applied to the subsidiaries.

The CSSF also analyses, in accordance with the provisions of Circular IML 96/125, application files for indirect participations to be taken by banks under its consolidated supervision.

2.18. Supplementary supervision of financial conglomerates

A group qualifies as financial conglomerate if it includes at least one important regulated entity within the banking sector or investment services sector as well as one important entity within the insurance sector. In accordance with Directive 2002/87/EC on financial conglomerates, supplementary supervision of these groups shall be exercised.

The ECB now assumes the role of coordinator of this supplementary supervision of a financial conglomerate in accordance with the criteria defined in the European Directive where a banking group is considered as significant. For banks and banking groups considered as less significant, the CSSF assumes, in accordance with Chapter 3b, Part III of the law of 5 April 1993 on the financial sector, the role of coordinator of the supplementary supervision and is thus the authority responsible for the coordination and exercise of the additional supervision of the financial conglomerate.

The ECB's or the CSSF's supplementary supervision of financial conglomerates does not have any incidence on the sectoral prudential supervision by the relevant competent authorities, both on the individual and consolidated level.

As things stand, the practical consequences of these provisions for Luxembourg credit institutions and investment firms are limited. Indeed, the CSSF has not, at this stage, identified any financial conglomerate for which it should exercise the role of coordinator of this supplementary supervision.

2.19. International co-operation in banking supervision

2.19.1. Colleges of supervisors

The co-operation between competent European authorities is governed by Articles 112 to 118 of Directive 2013/36/EU. This co-operation may also extend to non-European authorities. These articles require intensive co-operation between the competent authorities of cross-border banking groups and strive towards a more centralised and harmonised supervision of these large cross-border groups at EU level via, among others, the establishment of colleges of supervisors for these cross-border groups.

In 2014, the CSSF organised five colleges of supervisors for the supervision of banking groups for which it exercises an ultimate consolidated supervision at European level (RBC Investor Services Ltd, State Street Bank Luxembourg S.A., KBL European Private Bankers S.A., Quilvest Wealth Management S.A., EFG Investment (Luxembourg) S.A.).

As a large number of banking groups are present in the Luxembourg financial centre via subsidiaries which, on the one hand, are subject to the supervision of the CSSF on an individual basis and, on the other hand, belong to the scope of consolidated supervision carried out by their home authorities, the CSSF participates, as host supervisor, in many colleges of supervisory authorities set up for these banking groups. In 2014, the CSSF participated in 37 meetings of colleges of supervisors, among which four colleges of supervisors organised by the supervisory authorities from non-EEA countries, which concerned in total 27 banking groups.

The establishment and functioning of the colleges are based on written agreements (Memorandum of Understanding, MoU) signed between the different authorities participating in the colleges. In 2014, the CSSF was a signatory to 47 MoUs (45 in 2013). It should be noted that not all colleges of supervisors necessarily meet physically or hold conference calls. In these cases, the tasks of the colleges of supervisors are carried out through letters or emails.

Since 2011, the EBA has contributed to promoting the establishment of colleges of supervisors and controls their effective, efficient and consistent functioning. To this end, it is a full member of the colleges.

The objectives of the colleges of supervisory authorities are mainly the Joint Risk Assessment and the Joint Capital Decision. Since 2014, the colleges are also required to give their opinion on the adequacy of the institutions' liquidity. They must achieve a joint assessment of the financial situation, the organisation and the risks of banking groups carrying out cross-border activities and of their individual banking subsidiaries. To that end, the different authorities which are members of the colleges provide the authorities in charge of the consolidated supervision (home supervisor) with their risk assessment. The latter aggregate the information received by taking into account the entities established in their own country. Based on this Joint Risk Assessment, the colleges assess the capital adequacy of the banking groups and their subsidiaries with regard to the incurred risks, as well as their liquidity situation. The colleges then draw up a Joint Decision on Capital and Liquidity which either confirms the adequacy or imposes capital surcharges that the banking groups and/or their subsidiaries must comply with at a consolidated and/or individual level. These Joint Decisions on Capital and Liquidity, which state the motivations underpinning the decision, are formally transmitted to the banking groups and their subsidiaries.

Furthermore, the colleges aim at promoting the joint missions carried out by the authorities from different countries participating in the colleges, as well as the delegation of work between authorities.

With the implementation of the SSM, the colleges will continue to exist because only 12% of the current supervisory colleges concern banks which are only present in SSM countries. The ECB will thus be called upon to assume the role of either the authority responsible for the consolidated supervision or the host authority for banking groups and sub-groups for which it exercises supervision. As regards the banks which will not be directly supervised by the ECB, the local authorities will continue to play their current role at the colleges.

In order to improve the functioning of the colleges of supervisors, the EBA drew up Binding Technical Standards (BTS) on the functioning of the colleges. These BTS were transmitted to the European Commission for adoption.

2.19.2. Joint Supervisory Teams - JST

By way of Regulation (EU) No 468/2014 of 16 April 2014 establishing the framework for co-operation within the SSM between the ECB and national competent authorities and with national designated authorities (SSM Framework Regulation), the supervision of significant entities is entrusted with the Joint Supervisory Teams.

The JSTs are composed of staff members from the ECB as well as from the national competent authorities. An ECB staff member shall act as coordinator of the JST. The coordinator shall be assisted by sub-coordinators designated by the national competent authorities among the JST members, in case the national competent authorities appoint more than one staff member to the team. The CSSF is a member of the JSTs of 32 significant entities.

Since 4 November 2014, the date on which the ECB took over the supervision of the entities considered as significant, around 25 CSSF agents participated in 56 JST meetings that concerned 22 significant entities. The topics discussed during these meetings mainly concerned the practical organisation of the supervision under the new organisation and the drawing-up of Joint Decisions on Capital and Liquidity which are now part of the ECB's missions.

2.20 Review of risk management models

In 2014, the CSSF continued its review of the risk management models[16]. In this context, a distinction is made between the risk management models eligible for the calculation of regulatory capital requirements (Pillar 1 models) and the models which may be used for the calculation of internal capital requirements (economic capital models or Pillar 2 models).

The risk management models used for Pillar 1 purposes cover three categories of risks[17], namely:

- credit risk with models relating to the internal rating systems (internal ratings-based approach - IRB approach) as well as the internal model method (IMM) for the calculation of the exposure value with respect to counterparty credit risk[18];
- market risk, with "internal models" to cover general and specific market risk, including stress VaR as well as incremental default and migration risks for the trading book positions of the credit institution (incremental risk charge - IRC); and
- operational risk with the advanced measurement approach (AMA).

As the banks established in Luxembourg are often subsidiaries of European banking groups, the review of risk management models takes place in close coordination between the CSSF and either the home supervisory authorities of these groups, or the ECB in the context of the SSM.

In order to allow for a better overview of the internal models used by banks under the IRB approach, an adequate off-site monitoring of the backtesting activities and a better medium-term planning of the review of risk management models (notably in the context of Article 101 of Directive 2013/36/EU), the CSSF introduced a "map of internal models" used by the banks at the beginning of 2014. The tables relating to the map of models shall be provided to the CSSF, on a half-yearly basis, by all the banks authorised to use an IRB approach.

The implementation of the map of internal models used by the banks was deemed useful and necessary as the internal models for credit risks used by the banks in the financial centre multiply, owing to the progressive roll-out of internal models to less material portfolios, but also owing to the fact that Delegated Regulation (EU) No 529/2014 of 12 March 2014 for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement Approach came into force. This regulation establishes a classification of the materiality of changes (material/less material) and specifies the procedure to be followed by the banks (application for approval, ex ante notification, ex post notification) according to the changes made to the internal approaches.

[16] Cf. Chapter XIII "Instruments of supervision" for on-site inspections.

[17] Cf. point 1.7. of this chapter.

[18] No bank established in Luxembourg has so far submitted an application file to the CSSF in order to use the internal model method (IMM).

Agents hired in 2014 and 2015: Department "Supervision of banks"

Left to right: Tiago FINS JOAQUIM, Yannick MORENO, Jean DU BOUËTIEZ DE KERORGUEN, Li DECKENBRUNNEN, Frédéric CHRISTOPHE, Filippos GAVRIIL, Sophie GODIN, Laurent DA SILVA, Ricky WONG, Sophie FALL, Abderrahim DYB, Matteo BEGA

Absent : Tom DHAENENS

CHAPTER V

SUPERVISION OF PFS

1. Investment firms
2. Specialised PFS
3. Support PFS

1. INVESTMENT FIRMS

Pursuant to Part I, Chapter 2, Section 2, Sub-section 1 of the law of 5 April 1993 on the financial sector, the professionals of the financial sector falling within the following categories are defined as investment firms:

- investment advisers (Article 24);
- brokers in financial instruments (Article 24-1);
- commission agents (Article 24-2);
- private portfolio managers (Article 24-3);
- professionals acting for their own account (Article 24-4);
- market makers (Article 24-5);
- underwriters of financial instruments (Article 24-6);
- distributors of units/shares in UCIs (Article 24-7);
- financial intermediation firms (Article 24-8);
- investment firms operating an MTF in Luxembourg (Article 24-9).

The scope of the CSSF's prudential supervision of investment firms governed by Luxembourg law includes the activities performed by these institutions in another EU/EEA Member State, both by means of a branch or under the freedom to provide services. Certain aspects of the prudential supervision, in particular compliance with the rules of conduct for the provision of investment services to clients, fall however within the jurisdiction of the supervisory authority of the host Member State[1].

Conversely, the supervision of branches set up in Luxembourg by investment firms originating from another EU/EEA Member State is performed by the home Member State authority. Nevertheless, certain specific aspects of the supervision of these branches fall within the competence of the CSSF in its capacity as host Member State authority[2].

Furthermore, the prudential supervision carried out by the CSSF also extends to Luxembourg branches of investment firms originating from non-EU/EEA countries.

1.1. Development of investment firms in 2014

1.1.1. Developments in the legal framework

In the context of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter the "CRR"), certain categories of investment firms must comply, since 1 January 2014, with the new requirements on prudential reporting. Details relating to the periodic information to be provided to the CSSF by investment firms falling within the scope of the CRR as well as the new tables and instructions relating to them are available on the CSSF website under: http://www.cssf.lu/supervision/pfs/inv-firm/legal-reporting/. Circular CSSF 15/606 provides details on the classification of investment firms announced in Circular CSSF 13/575 following the entry into force of the CRR. It reviews in full detail the criteria allowing determining whether an investment firm falls within the scope of the CRR or whether it is excluded from it.

1.1.2. Key figures for 2014

As at 31 December 2014, the 111 investment firms subject to the prudential supervision of the CSSF employed 2,390 persons in total. This figure decreased compared to the previous year, but it does not necessarily reflect a loss of jobs in the financial sector, as explained in point 1.1.4. hereafter.

[1] In accordance with the law of 13 July 2007 on markets in financial instruments transposing the MiFID into Luxembourg law.

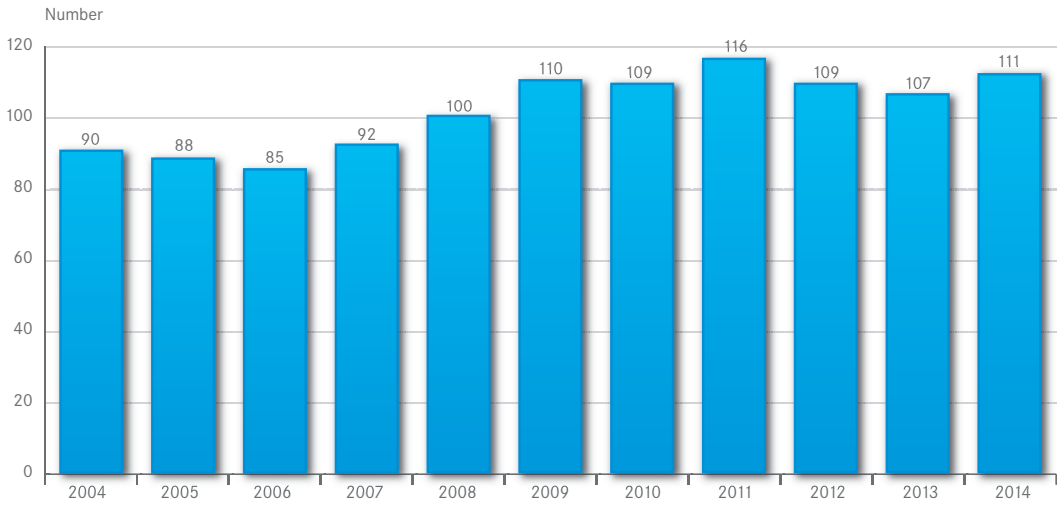
[2] Cf. footnote No 1 above.

Investment firms increased their net profit, which grew from EUR 149.1 million as at 31 December 2013 to EUR 153.6 million as at 31 December 2014. The balance sheet total of all investment firms also rose to EUR 3,643 million as at 31 December 2014, as against EUR 3,101 million as at 31 December 2013.

1.1.3. Development in the number of investment firms

The downward trend in the number of investment firms which has been observed since 2012 experienced a turnaround in 2014. Indeed, the number of investment firms subject to the supervision of the CSSF increased from 107 entities as at 31 December 2013 to 111 entities at the end of 2014. The number of entities which have been granted an authorisation as investment firm in 2014 grew substantially compared to the previous year (16 new entities in 2014 as against six in 2013). Twelve entities abandoned their investment firm status during the year under review compared to eight in 2013.

Development in the number of investment firms



Among the investment firms, the activity of private portfolio manager was found most widely with 80 entities authorised in this respect as at 31 December 2014. It is also worth mentioning that a majority of the new entities registered on the official list adopted the status of private portfolio manager.

The following 16 investment firms were registered on the official list in 2014:

- Association Coopérative Financière des Fonctionnaires Internationaux (AMFIE)
- ABTS & Partners S.à r.l.
- Amundi Global Servicing
- ANF Luxembourg S.A.
- Asteo Luxembourg S.A.
- Belair House
- DWPT Deutsche Wertpapiertreuhand GmbH, Niederlassung Luxemburg
- Forte Securities Limited, Luxembourg Branch
- Kornhaaβ & Cie Vermögensverwaltung AG, Niederlassung Luxemburg
- Liontrust Investment Partners LLP, Luxembourg Branch
- MIM 3 S.A. Luxembourg
- Nord/LB Vermögensmanagement Luxembourg S.A.

- Obsieger Capital Management S.A.
- Saphir Partner S.A.
- Spirit Asset Management S.A.
- Valeur Asset Management S.A.

The following 12 entities abandoned their status of investment firm in 2014:

a) change or cessation of activities, implying that the entity no longer required an authorisation as investment firm, as it no longer fell within the scope of the law of 5 April 1993 on the financial sector (two entities):
   - Alpha Wealth Management Luxembourg S.A.
   - Jumilla Invest

b) voluntary liquidation (two entities)
   - Axinite Securities Services S.A.
   - Espirito Santo Wealth Management (Europe) S.A.

c) judicial liquidation (one entity)
   - Assya Asset Management Luxembourg S.A.[3]

d) merger (one entity)
   - Intertrust (Luxembourg) S.A.[4]

e) change into a credit institution (one entity)
   - Allfunds International S.A.

f) closing of EU/EEA investment firm branches established in Luxembourg (five entities)
   - Amrego Kapitalförvaltning AB, Luxembourg Branch[5]
   - DWPT Deutsche Wertpapiertreuhand GmbH, Niederlassung Luxemburg
   - Nevsky Capital LLP, Luxembourg Branch
   - Superfund Asset Management GmbH, Luxembourg Branch
   - Thames River Capital LLP, Luxembourg Branch

1.1.4. Development in employment

Employment in all investment firms amounted to 2,390 persons as at 31 December 2014, as against 2,560 persons at the end of December 2013, i.e. a decrease of 170 jobs (-6.6%). This decline reflects mainly transfers of activities which, however, had no impact on the aggregate number of jobs in the financial sector, but only changed the breakdown among the entities of the financial sector, as set forth below.

Employment in investment firms

Year	Number of investment firms	Total staff
2010	109	2,358
2011	116	2,411
2012	109	2,662
2013	107	2,560
2014	111	2,390[6]

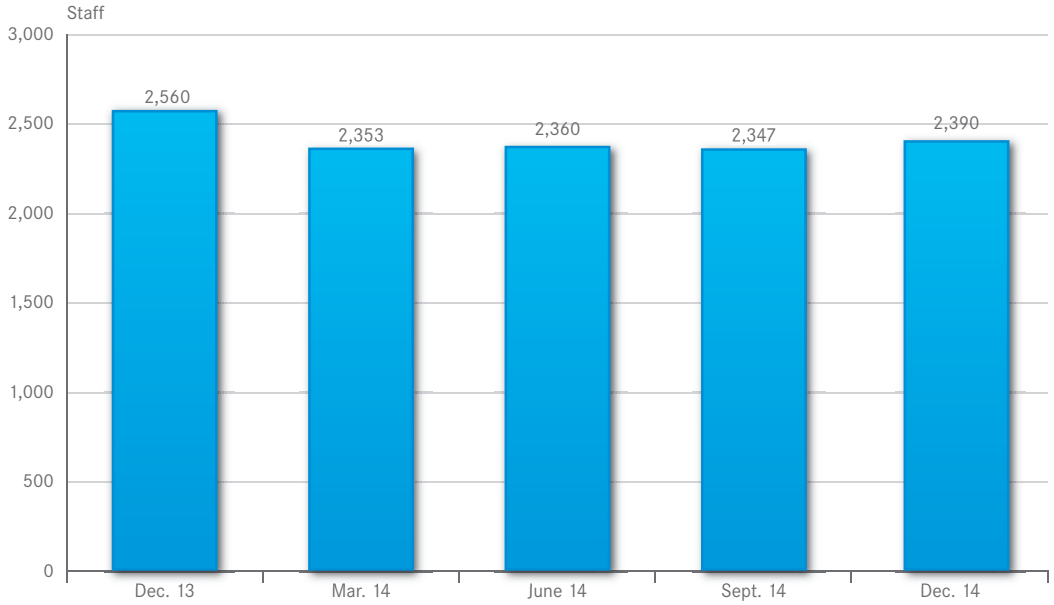
[3] Upon having ordered the suspension of payments of Assya Asset Management Luxembourg S.A. on 30 October 2014, the Luxembourg District Court (*Tribunal d'Arrondissement de et à Luxembourg*), sitting in commercial matters, ordered the dissolution and judicial liquidation of Assya Asset Management Luxembourg S.A. on 17 November 2014.

[4] Merger by acquisition by the specialised PFS Intertrust (Luxembourg) S.à r.l., formerly ATC Corporate Services Luxembourg S.A..

[5] Transfer of activities from the branch to the Luxembourg law management company Söderberg & Partners Asset Management S.A..

[6] Preliminary figure.

Quarterly development in employment



The first quarter of 2014 was characterised by a decrease in the total employment, dropping from 2,560 persons as at 31 December 2013 to 2,353 persons as at 31 March 2014. This decline was largely attributable to an investment firm with a large number of employees which was deregistered from the official list of investment firms due to its merger by acquisition by a specialised PFS. This transfer of activities did not impact the employment in the financial sector as a whole, but only affected the breakdown between the different categories of financial players.

During the last three quarters of 2014, employment in investment firms remained relatively stable, shifting from 2,353 persons as at 31 March 2014 to 2,360 as at 30 June 2014, to 2,347 persons as at 30 September 2014 and to 2,390 persons as at 31 December 2014. In this period of time, some investment firms of a certain size showed slight positive or negative fluctuations in their staff figures which did, however, not affect significantly the total number of staff. Minor variations in employment related to newly authorised investment firms and abandoned statuses during 2014 must be added to the previous figure.

1.1.5. Development of balance sheets and profit and loss accounts

The provisional balance sheet total of all investment firms established in Luxembourg reached EUR 3,643 million[7] as at 31 December 2014, against EUR 3,101 million as at 31 December 2013, i.e. an increase of 17.4%. This increment was primarily due to the significant growth of the balance sheet total of one financial player authorised in 2010. Moreover, the decrease in the balance sheet total linked to the statuses abandoned in 2014 and registered by certain investment firms could not offset the upward trend of several investment firms and of the newly authorised entities.

Investment firms recorded a positive development also in their net results. Indeed, provisional net results amounted to EUR 153.6 million[8] as at 31 December 2014, against EUR 149.1 million as at 31 December 2013, representing a slight increase of 2.9%. The development of the investment firms' net results considered individually evidenced however mixed results for 2014. Indeed, a certain number of investment firms showed relatively stable net results, or even increasing figures as compared to the previous year, whereas other investment firms experienced, during the same period, decreasing net results. It should finally also be noted that a little less than one fourth of the investment firms, including notably several entities authorised during the last three years, registered negative results as at 31 December 2014.

[7] The figures of the branches established in Luxembourg by investment firms originating from another EU/EEA Member State and included since 2009 in the total number of investment firms are not included in these figures.

[8] Cf. footnote No 7 above.

Development of the balance sheet total and of the net results of investment firms

(in million EUR)	2013	2014	Variaton in %
Balance sheet total	3,101	3,643	+17.4%
Net results	149.1	153.6	+2.9%

1.1.6. International expansion of investment firms

• Subsidiaries created and acquired abroad during 2014

In 2014, one Luxembourg investment firm converted its Swiss branch into a subsidiary.

• Freedom of establishment

In 2014, four branches have been established in other EU/EEA Member States by investment firms incorporated under Luxembourg law and two branches were closed. Moreover, following the deregistration of one investment firm in 2014, its branch is no longer registered on the list of investment firm branches incorporated under Luxembourg law established in one or more EU/EEA countries at the end of 2014. The total number of branches of Luxembourg investment firms in other EU/EEA Member States amounted to 30 entities at the end of the year, compared to 29 entities as at 31 December 2013.

Following the opening of four branches (of which two originate from Germany and two from the United Kingdom) and the closing of five branches (origin: Germany, Sweden, Austria and, in two cases, the United Kingdom) in 2014, the total number of branches established in Luxembourg by investment firms originating from another EU/EEA Member State amounted to nine entities as at 31 December 2014.

Branches established in the EU/EEA as at 31 December 2014

Country	Branches of Luxembourg investment firms established in the EU/EEA	Branches of EU/EEA investment firms established in Luxembourg
Austria	3	-
Belgium	11	-
France	3	-
Germany	5	1
Italy	2	-
Netherlands	1	1
Spain	2	-
Sweden	1	-
United Kingdom	2	7
Total	**30**	**9**

As for countries outside the EU/EEA, one investment firm incorporated under Luxembourg law converted its Swiss branch into a subsidiary in 2014, so that no branches of investment firms incorporated under Luxembourg law are established outside the EU/EEA any more.

• Freedom to provide services

In 2014, 16 investment firms incorporated under Luxembourg law applied to pursue business in one or several EU/EEA Member States by way of free provision of services. The total number of investment firms which were active in one or more EU/EEA countries following a notification amounted to 73 entities as at

31 December 2014 (71 in 2013). The majority of the investment firms concerned carried out their activities in several EU/EEA countries by way of free provision of services.

The target countries of investment firms incorporated under Luxembourg law, whose total number of notifications amounted to 554 units as at 31 December 2014, are mainly Luxembourg's neighbouring countries (Belgium, France and Germany). Luxembourg investment firms also show major interest in the Netherlands, the United Kingdom, Italy and Spain.

The total number of investment firms established in the EU/EEA and authorised to perform activities under the freedom to provide services within the Luxembourg territory amounted to 2,580 entities at the end of 2014 (against 2,601 entities as at 31 December 2013).

The geographical breakdown of EU/EEA investment firms operating by way of free provision of services in Luxembourg reveals that UK investment firms are by far the most important in number.

Similarly, among the 226 new notifications for free provision of services on the Luxembourg territory received in 2014 (slightly decreasing number as compared to the 304 new notifications in 2013), those originating from the United Kingdom represented a large majority. Apart from the United Kingdom, the significant upward trend observed for Cyprus since 2010 was once again confirmed in 2014 with 35 new entities. Moreover, the entities of countries close to Luxembourg like Germany and the Netherlands show ongoing interest in exercising their activities in Luxembourg by way of free provision of services.

Free provision of services in the EU/EEA as at 31 December 2014

Country	Luxembourg investment firms providing services in the EU/EEA	EU/EEA investment firms providing services in Luxembourg
Austria	21	21
Belgium	58	14
Bulgaria	9	4
Croatia	3	-
Cyprus	14	132
Czech Republic	11	2
Denmark	18	32
Estonia	9	1
Finland	16	11
France	48	88
Germany	46	155
Gibraltar	-	13
Greece	12	7
Hungary	13	1
Iceland	5	-
Ireland	12	52
Italy	32	7
Latvia	10	1
Liechtenstein	6	25
Lithuania	10	1
Malta	11	14
Netherlands	37	107
Norway	11	32
Poland	13	3
Portugal	16	4
Romania	9	4
Slovakia	11	2
Slovenia	10	2
Spain	30	27
Sweden	22	13
United Kingdom	31	1,805
Total number of notifications	**554**	**2,580**
Total number of investment firms concerned	**73**	**2,580**

1.2. Prudential supervisory practice

1.2.1. Instruments of prudential supervision

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

- financial information submitted periodically to the CSSF enabling it to continuously monitor the activities of investment firms and the inherent risks, and the periodic control of the capital ratio and large exposures limits;
- the documents established yearly by the *réviseur d'entreprises agréé* (approved statutory auditor): the audit report and audited annual accounts, the long form report and, where applicable, the management letter;

- the internal audit reports relating to the audits carried out during the year, the compliance confirmation signed by all the members of the authorised management as provided for in point 61 of Circular CSSF 12/552 (as amended by Circulars CSSF 13/563 and 14/597), the summary report of the Compliance function, the summary report of the risk management function as well as the authorised management's report on the implementation of the internal capital adequacy assessment process (ICAAP) [9];
- introductory visits and on-site inspections carried out by the CSSF; in 2014, six introductory visits and 15 on-site inspections were carried out at investment firms[10].

1.2.2. Compliance with the quantitative standards by investment firms

• Capital base

In accordance with Articles 24 to 24-9 of the law of 5 April 1993 on the financial sector, the authorisation of investment firms is subject to the production of evidence showing the existence of minimal capital base. This capital base consisting of a subscribed and paid-up capital, share premiums, legally formed reserves and profits brought forward, after deduction of possible losses for the current financial year, shall be permanently available to the investment firm and invested in its own interest.

In this context, the CSSF reminds that subordinated loans or the profits for the current financial year shall not be taken into account for the determination of the minimum capital base of a professional of the financial sector[11].

Based on the financial data that investment firms shall provide to the CSSF on a monthly basis in accordance with Circular CSSF 05/187 (completed by Circular CSSF 10/433), the CSSF verifies particularly the compliance of investment firms with the minimal capital base conditions. In 2014, the CSSF intervened at four investment firms for non-compliance with the legal provisions relating to capital base. For one of these cases, the CSSF followed up by issuing an injunction, in accordance with Article 59 of the law of 5 April 1993 on the financial sector, for lasting deficiency in capital base.

• Capital ratio

Investment firms falling under the scope of Circular CSSF 07/290 (as amended by Circulars CSSF 10/451, 10/483, 10/497 and 13/568) defining the capital ratios pursuant to Article 56 of the law of 5 April 1993 on the financial sector and investment firms falling under the scope of Regulation (EU) No 575/2013[12], as indicated in point 1.1.1. above, shall permanently fulfil the capital ratio requirements.

In 2014, the CSSF recorded five cases of non-compliance with the capital ratio. Most investment firms concerned already regularised the situation of non-compliance or are in the process of being regularised shortly. One of the investment firms concerned was subject to an administrative fine of EUR 15,000, as it repeatedly infringed the legal requirements relating to the capital adequacy ratio. The CSSF attaches particular importance to permanent compliance with the structural ratios that investment firms are required to observe and closely monitors the regularisation processes undertaken by investment firms in case of capital adequacy ratio deficiency.

• Large exposures limits

In the context of the supervision of compliance with large exposures limits[13], the applicable limits were not exceeded in 2014 so that the CSSF did not have to intervene.

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[9] The ICAAP report shall be established by the investment firms falling within the scope of the CRR or Circular CSSF 07/290 defining capital ratios pursuant to Article 56 of the law of 5 April 1993 on the financial sector.

[10] Detailed explanations on on-site inspections are provided in Chapter XIII "Instruments of supervision".

[11] Pursuant to Article 20(5) of the law of 5 April 1993 on the financial sector.

[12] Investment firms falling under the scope of the CRR due to their classification (cf. point 1.1.1. of this chapter) do consequently no longer fall under the scope of Circular CSSF 07/290 and shall comply with the requirements of Directive 2013/36/EU of 26 June 2013 (CRD IV) and Regulation (EU) No 575/2013 of 26 June 2013 (CRR) on capital ratios and large exposure limitation.

[13] Pursuant to Circular CSSF 07/290 as amended by Circular CSSF 10/483, investment firms, whose authorisation does not allow either the dealing on own account or the underwriting of financial instruments and/or the placing of financial instruments on a firm commitment basis, no longer fall within the scope of the regulations governing large exposures since 31 December 2010.

1.2.3. Meetings

During the year under review, a total of 53 meetings in relation to investment firms activities took place on the CSSF's premises. In the context of a closer dialogue, the CSSF attaches particular importance to these meetings with the financial players subject to its supervision.

The meetings with investment firm representatives covered the following areas:

- information requests on the qualification of the activities performed (scope of the law of 5 April 1993 on the financial sector);
- new requests for authorisation;
- initial meetings with the persons in charge of the newly authorised investment firms in order to deal with the practical aspect of ongoing supervision;
- changes to the authorisation of active investment firms (activity, acquisition of subsidiaries, legal form, etc.);
- planned changes notably relating to the shareholding structure, day-to-day management and internal control;
- discussions concerning problems or specific issues noticed in the framework of the prudential supervision exercised by the CSSF;
- information requests in the context of prudential supervision;
- presentation of the general context and activities of the companies concerned;
- courtesy visits.

1.2.4. Specific controls

Article 54(2) of the law of 5 April 1993 on the financial sector entitles the CSSF to require a *réviseur d'entreprises agréé* to carry out a specific audit at a financial professional, covering one or several specific aspects of the business and operation of the entity concerned. The ensuing costs are to be borne by the professional concerned. The CSSF did not use this right in 2014.

1.2.5. 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 and in particular by Chapter 3a of Part III[14]. The relevant articles define the conditions governing the supervision on a consolidated basis and its scope. The form, extent, content and means of supervision on a consolidated basis are also laid down therein.

The CSSF carries out supervision on a consolidated basis for investment firms falling within the scope of application of the above-mentioned law. An in-depth study of the financial groups to which most investment firms belong is required in order to determine whether or not, 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 carried out by the CSSF specifies the practical aspects of the rules as regards this type of supervision.

As at 31 December 2014, the following 10 investment firms were submitted to the supervision on a consolidated basis by the CSSF:

- CapitalatWork Foyer Group S.A.
- CBRE Global Investors Luxembourg S.à r.l.
- Crédit Agricole Luxembourg Conseil S.A., in abbreviated form CAL Conseil
- European Value Partners S.A.

[14] The draft law No 6660 whose aim is, inter alia, to transpose the CRD IV into Luxembourg law, will amend the legislation relating to consolidated supervision by partly repealing some provisions of Chapter 3 and Chapter 3a articles of Part III of the law of 5 April 1993 on the financial sector and by adapting these provisions to the ones set out in the CRR. The CRR includes part of the rules relating to the consolidated supervision of CRR institutions (credit institutions and investment firms falling within the scope of the CRR).

- FIL (Luxembourg) S.A.
- Fuchs & Associés Finance S.A.
- Fund Channel S.A.
- Hottinger & Cie Groupe Financière Hottinguer Société Anonyme
- Petercam (Luxembourg) S.A.
- Ycap Asset Management (Europe)[15].

2. SPECIALISED PFS

Pursuant to Part I, Chapter 2, Section 2, Sub-section 2 of the law of 5 April 1993 on the financial sector, the professionals of the financial sector falling within the following categories are defined as specialised PFS:

- registrar agents (Article 25);
- professional depositaries of financial instruments (Article 26);
- professional depositaries of assets other than financial instruments (Article 26-1);
- operators of a regulated market authorised in Luxembourg (Article 27);
- currency exchange dealers (Article 28-2);
- debt recovery (Article 28-3);
- professionals performing lending operations (Article 28-4);
- professionals performing securities lending (Article 28-5);
- Family Offices (Article 28-6);
- mutual savings fund administrators (Article 28-7);
- corporate domiciliation agents (Article 28-9);
- professionals providing company incorporation and management services (Article 28-10);
- professionals of the financial sector authorised to exercise any activity referred to in Part I, Chapter 2, Section 1 of the law of 5 April 1993 on the financial sector, with the exception of the PFS categories also referred to in Section 2 of the same chapter (Article 13);
- establishments authorised to exercise all the PFS activities permitted by Article 1 of the law of 15 December 2000 on postal financial services.

The prudential supervision of the CSSF extends to specialised PFS incorporated under Luxembourg law, including the activities which they carry out by means of a branch, and to Luxembourg branches of entities originating from abroad.

2.1. Development of specialised PFS in 2014

2.1.1. Major events in 2014

• Development in the legal framework

Article 28-8 of the law of 5 April 1993 on the financial sector concerning the status of management company of non-coordinated UCIs has been repealed by the law of 12 July 2013 on alternative investment fund managers, with effect from 22 July 2014.

[15] Consolidated supervision by the CSSF on the parent financial holding company in Luxembourg.

• Key figures for 2014

The sector of specialised PFS experienced an overall stable year in 2014.

Thus, as at 31 December 2014, 123 specialised PFS were subject to the prudential supervision of the CSSF. They employed a total of 3,431[16] persons, a figure which increased as compared to last year.

The balance sheet total of all specialised PFS amounted to EUR 10,842 million[17] as at 31 December 2014, as against EUR 10,862 million as at 31 December 2013. The aggregate net results increased from EUR 219.8 million as at 31 December 2013 to EUR 347.5 million[18] as at 31 December 2014.

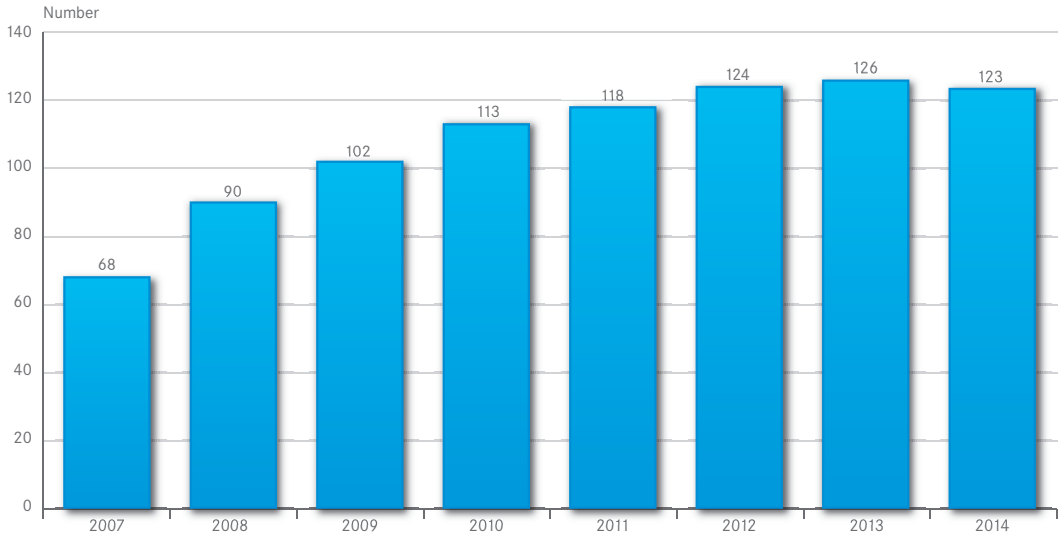
2.1.2. Development in the number of specialised PFS

The rising trend in the number of specialised PFS over the last years has been reversed in 2014. Thus, the number of specialised PFS fell from 126 entities at the end of 2013 to 123 entities as at 31 December 2014.

The number of entities which received an authorisation as specialised PFS in 2014 is nevertheless higher than the previous year. Twelve entities were granted an authorisation in 2014, compared to seven in 2013.

Fifteen entities abandoned their status as specialised PFS in 2014, against six in 2013. This important figure of entities having abandoned their PFS status should however not be assimilated to a substantial reduction of the financial sector activities, as, among these 15 entities, one specialised PFS extended its scope to take on an investment firm status, two specialised PFS converted into AIFMs and three other entities transferred their business to a Luxembourg bank belonging to their shareholder group or to a Luxembourg investment firm.

Development in the number of specialised PFS



Among all specialised PFS, the corporate domiciliation agent activity is the most widespread with 91 entities authorised under this status as at 31 December 2014, followed by the registrar agent activity (which can be automatically cumulated with the activities of administrative agent of the financial sector and client communication agent) which counts 57 authorised entities at the same date. It should also be noted that eight entities are authorised as professional depositaries of assets other than financial instruments as at 31 December 2014 (no entity as at 31 December 2013).

[16] Preliminary figure.

[17] Preliminary figure.

[18] Preliminary figure.

The following 12 entities were registered on the official list of specialised PFS in 2014:

- 1875 Finance (Luxembourg) S.A.
- Alter Domus Depositary Services S.à r.l.
- Concilium (Luxembourg) S.A.
- globeSettle S.A.
- HedgeServ (Luxembourg) S.à r.l.
- Langham Hall Luxembourg S.à r.l.
- Liberation Management (Luxembourg) S.à r.l.
- LRI Depositary S.A.
- Partners Group (Luxembourg) S.A.
- PricewaterhouseCoopers Alternative Fund Services
- RHC Management S.à r.l.
- W & Cie S.A.

Seven of these entities requested, among others, the status of corporate domiciliation agent, five the status of registrar agent and three the status of professional depositary of assets other than financial instruments.

The following 15 entities abandoned their status of specialised PFS on a voluntary basis in 2014:

a) change or cessation of activities implying that the entity no longer requires an authorisation under the law of 5 April 1993 on the financial sector and subsequent amendment of the corporate purpose (10 entities)
   - Ameo Luxembourg S.A.
   - Arminius Fund Management S.à r.l.
   - CLdN Accounts S.A. (formerly Ascendo S.A.)
   - Custom S.A.
   - Georges & Associés S.à r.l.
   - HSBC Fund Services (Luxembourg) S.A.
   - IREIM Services Luxembourg PSF S.à r.l.
   - InvestYor Corporate Services S.A.
   - Novator (Luxembourg) S.à r.l.
   - Société Générale Securities Services Luxembourg

b) transformation into an AIFM (two entities)
   - BNP Paribas Real Estate Investment Management Luxembourg S.A.
   - Golding Capital Partners (Luxembourg) S.à r.l.

c) transformation into an investment firm (one entity)
   - Association Coopérative Européenne des Fonctionnaires Internationaux (AMFIE)

d) registration as a Trade Repository with ESMA (one entity)
   - Regis-TR S.A.

e) voluntary liquidation (one entity)
   - AMS Fund Services S.A.

2.1.3. Development in employment

During 2014, the number of people employed by all specialised PFS rose by 230 units, representing an increase of 7% as compared to the end of 2013.

Employment in specialised PFS

Year	Number of specialised PFS	Total staff
2010	113	3,552
2011	118	3,127
2012	124	3,046
2013	126	3,201
2014	123	3,431[19]

In 2014, the increase in employment was mainly attributable to:

- a net increase by 56 people, resulting from the transfer of activities (jobs transferred following the merger by acquisition of an investment firm by a specialised PFS and the subsequent development of the latter, and from the number of jobs transferred by another specialised PFS to a bank, incorporated in Luxembourg, during the migration of all its fund administration activities which have been integrated within the bank);
- jobs created by newly authorised specialised PFS in 2014 (63 people);
- jobs created by specialised PFS which extended their authorisation in 2014 (78 people).

According to the figures as at 31 December 2014, nine specialised PFS employed more than 100 people and half of the specialised PFS employed 10 or less people (68 entities).

2.1.4. Development of balance sheets and profit and loss accounts

The provisional balance sheet total of all specialised PFS reached EUR 10,842 million as at 31 December 2014, as against EUR 10,862 million as at 31 December 2013, i.e. a marginal drop of EUR 20 million (-0.18%). This development is largely explained by the decrease in the number of specialised PFS during the period concerned (123 as at 31 December 2014 against 126 as at 31 December 2013).

However, specialised PFS recorded a substantial increase in their net results over a year. Indeed, the provisional net results amounted to EUR 347.5 million as at 31 December 2014, as against EUR 219.8 million as at 31 December 2013, representing an increase of EUR 127.7 million (+58.12%). This rise is attributable for 70% to two major entities. It should also be noted that most specialised PFS showed a net result which improved as compared to last year.

2.1.5. International expansion of specialised PFS

As at 31 December 2014, three specialised PFS (against two in 2013) were represented by means of branches abroad, one in the United Kingdom, one in Switzerland and one in Denmark.

2.2. Prudential supervisory practice

2.2.1. Instruments of prudential supervision

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

- financial information submitted periodically to the CSSF enabling it to continuously monitor the activities of the supervised entities and the inherent risks, in addition to the monthly control of compliance with the minimum own funds requirement;

[19] Preliminary figure.

- the documents established yearly by the *réviseur d'entreprises agréé*, including the audit report and audited annual accounts, the control report relating to the fight against money laundering and terrorist financing and, where applicable, the management letter;
- the internal audit reports relating to the audits carried out during the year and the management's report on the state of the internal audit of the specialised PFS;
- introductory visits and on-site inspections carried out by the CSSF.

2.2.2. Compliance with the quantitative and qualitative standards by specialised PFS

• Capital base

In accordance with Article 20 and Articles 25 to 28-10 of the law of 5 April 1993 on the financial sector, the authorisation of specialised PFS is subject to the production of evidence showing the existence of minimum capital base. The concept of capital base includes the own assets of a specialised PFS authorised as a natural person as well as the own funds of a specialised PFS established as a legal person.

The CSSF reminds that, pursuant to Article 20(4) of the above-mentioned law, own funds must be available to the PFS permanently and invested in its own interest. Moreover, the legislator indicated in the comment to that article that "(...) the first requirement aims at ensuring that the capital base is not invested in participations nor blocked for credits granted. The second requirement aims at ensuring that the capital base is used in the interest of the PFS and of its clients and not in the interest of its shareholder or its group.".

In this context, the CSSF points out that the funds invested in a participation shall be deducted from the capital base of the PFS, where applicable.

Based on the financial data that specialised PFS shall provide to the CSSF on a monthly basis in accordance with Circular CSSF 05/187, the CSSF verifies compliance with the minimum capital base condition. In 2014, the CSSF registered cases of non-compliance with the legal provisions relating to own funds for 10 entities. Eight of them regularised their situation in a satisfactory manner within the month following the non-compliance. Two entities regularised their situation within a period which did not exceed four months.

• Compliance of the day-to-day management

During 2014, the CSSF intervened nine times (against 13 times in 2013) by way of deficiency letters for situations of non-compliance of the day-to-day management of specialised PFS, mainly linked to insufficient presence and/or effective implication of the second director (*dirigeant*) in the day-to-day management of the entity.

As a consequence of these interventions, the CSSF would like to reiterate the importance of the two-man management principle pursuant to Article 19(2) of the law of 5 April 1993 on the financial sector. This principle allows mutual control and common decision-taking, with at least two day-to-day managers who must, in practice, be empowered to direct the business of the specialised PFS as they are jointly and directly responsible for the efficient, sound and prudent management of all the activities carried out and of the inherent risks.

• Corporate Governance

In 2014, the CSSF initiated its controls on specialised PFS having developed an activity on a large scale to verify the implementation of robust governance arrangements, by analogy, in particular, with the rules applicable to credit institutions and investment firms.

• Loan granting activity

The CSSF reminds that, due to prudential considerations, a specialised PFS cannot grant loans to its shareholders, managers, employees or third parties. Indeed, it is essential that, on the one hand, all holding in the authorised capital of a professional of the financial sector is financed through own funds and not through

borrowed funds. The granting of advances and loans to shareholders, however, results in the return of the authorised capital to the shareholders. On the other hand, the CSSF considers that granting loans does not fall within the context of the usual business of a PFS, except for professionals authorised pursuant to Article 28-4 of the law of 5 April 1993 on the financial sector, which are authorised to grant loans to the public.

• Shareholder of a PFS

Private equity structures and SICARs are, in principle, not acceptable as shareholders of a PFS or of another supervised entity unless they plausibly justify that their presence in the shareholder structure does not threaten the stability of the entity concerned, for example by committing to remain for an extended period in the shareholder structure or through an agreement concluded with other shareholders or partners of this entity (shareholders' agreement).

2.2.3. Meetings

The CSSF attaches particular importance to meetings with the directors (*dirigeants*) of specialised PFS in order to discuss the context of an application file for authorisation, their business development, upcoming amendments to the shareholding structure or internal organisation, new ongoing projects and any serious issues that arise.

During the year under review, 33 meetings were held (39 in 2013) with representatives of specialised PFS. They covered the following areas:

- presentation of application files for authorisation as specialised PFS;
- initial meetings with the persons in charge of the newly authorised specialised PFS in order to deal with the practical aspect of ongoing supervision;
- changes to the authorisation of active PFS (takeover of business portfolio, acquisition of subsidiaries, legal form, etc.);
- planned changes relating notably to the shareholding structure, day-to-day management and internal control;
- regularisation of problems or specific issues noticed in the framework of the prudential supervision exercised by the CSSF;
- information requests in the context of prudential supervision;
- presentation of the general context and activities of the entities concerned;
- courtesy visits.

In addition to the meetings with the supervised entities, the department in charge of the supervision of specialised PFS also participated, jointly with other departments of the CSSF, in meetings held with the *réviseurs d'entreprises agréés* of some of these entities, notably in relation to the recognition of the *cabinet de révision agréé* (approved audit firm) or the poor quality of the audit documents and reports produced by it.

2.2.4. Specific controls

Article 54(2) of the law of 5 April 1993 on the financial sector entitles the CSSF to require a *réviseur d'entreprises agréé* to carry out a specific audit at 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. In 2014, the CSSF did not make use of this right with any specialised PFS.

3. SUPPORT PFS

Pursuant to Part I, Chapter 2, Section 2, Sub-section 3 of the law of 5 April 1993 on the financial sector, the professionals of the financial sector falling within the following categories are defined as support PFS:

- client communication agents - ACC (Article 29-1);
- administrative agents of the financial sector - AA (Article 29-2);
- primary IT systems operators of the financial sector - OSIP (Article 29-3);
- secondary IT systems and communication networks operators of the financial sector - OSIS (Article 29-4).

One characteristic of support PFS is that they do not as such exercise a financial activity themselves, but act as subcontractors of operational functions on behalf of other financial professionals.

3.1. Development of support PFS in 2014

3.1.1. Development in the number of support PFS

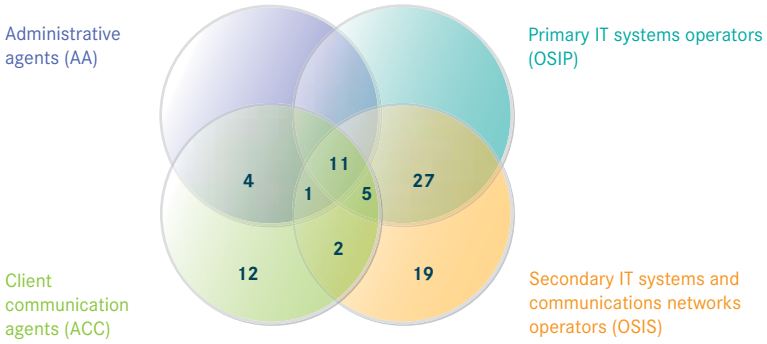
In 2014, the total number of support PFS remained stable after three years of consolidation. The number of support PFS amounted to 81 entities as at 31 December 2014 (idem at the end of 2013).

Three support PFS received an authorisation in 2014:

- one primary IT systems operator of the financial sector and secondary IT systems and communication networks operator of the financial sector (OSIP-OSIS);
- one secondary IT systems and communication networks operator of the financial sector (OSIS);
- one entity cumulating the statuses of client communication agent, administrative agent of the financial sector and secondary IT systems and communication networks operator of the financial sector (ACC-AA-OSIS).

Three support PFS were deregistered from the official list in 2014, as they ceased their activities during the year.

As at 31 December 2014, the 81 support PFS broke down as follows:



One of the entities, in addition to the authorisation to perform the four support PFS activities, is also authorised to perform the activities of corporate domiciliation agent (Article 28-9) and as professional providing company incorporation and management services (Article 28-10).

It should be noted that administrative agents are *ipso jure* authorised to exercise the activities of client communication agents. As a result, no entity has only the status of administrative agent. The same applies to primary IT systems operators which are *ipso jure* authorised to carry out the activities of secondary IT systems and communication networks operators of the financial sector.

3.1.2. Development in employment

The number of staff of support PFS rose from 8,971 persons as at 31 December 2013 (81 active entities) to 9,043 persons as at 31 December 2014 (81 active entities), representing an annual increase of 72 positions (+0.80%).

Leaving aside the support PFS which received authorisation in 2014 and those which relinquished their authorisation over the year, the recorded increase concerned 77 positions, which means, on average, one person hired per support PFS in 2014.

It is also worth mentioning that part-time work increased by 4.35%. However, this growth remains marginal as it concerns only 37 persons.

Employment in support PFS

	2013			2014			Variation
	Luxembourg	Foreigners	**Total**	Luxembourg	Foreigners	**Total**	
Executives	131	455	**586**	140	438	**578**	-1.37%
Employees	1,065	7,320	**8,385**	1,189	7,276	**8,465**	0.95%
of which part-time	*79*	*771*	***850***	*110*	*777*	***887***	*4.35%*
TOTAL	**1,196**	**7,775**	**8,971**	**1,329**	**7,714**	**9,043**	**0.80%**
of whom men	*984*	*6,083*	***7,067***	*1,063*	*6,059*	***7,122***	*0.78%*
of whom women	*212*	*1,692*	***1,904***	*266*	*1,655*	***1,921***	*-0.89%*

3.1.3. Development of balance sheets and profit and loss accounts

The balance sheet total of all support PFS established in Luxembourg amounted to EUR 1,053.3 million as at 31 December 2014, as against EUR 1,085.3 million as at 31 December 2013, i.e. a decrease of 2.94%.

Over one year, the net results of support PFS rose from EUR 42.9 million as at 31 December 2013 to EUR 59.9 million as at 31 December 2014 (+39.62%).

3.2. Prudential supervisory practice

The CSSF exercises its prudential supervision based on several instruments, mainly financial and ad hoc information, the documents to be submitted in the context of the Risk Assessment Report (RAR) and the Descriptive Report (DR), the introductory visits and on-site inspections. This supervision also includes the sending of deficiency letters.

3.2.1. Development of the Risk Assessment Report (RAR)

The examination of the RARs shows that the quality remains poor and that the contents are difficult to analyse, or even inconsistent, and do not allow drawing comparative conclusions for similar business areas. This diversity makes any macroeconomic analysis impossible.

The purpose of the RAR was to set up a system allowing finding a common typology of risks for all current risks, for each business activity and for each support PFS category.

Based on the examination of the RARs drawn up in the last two years, the CSSF decided to develop the RARs by means of a two-fold strategy: on the one hand, pursuing the ongoing co-operation with support PFS to increase the quality of the RARs, and, on the other hand, introducing a risk classification for each support PFS category and for each business activity by drawing up risk frameworks.

This new approach has been communicated to support PFS in a circular letter dated 9 January 2015, which announced a more standardised approach in order to restrict the total freedom which had been granted in selecting the risks to be reported and in order to define *a minima* risk frameworks. The risk frameworks will thus be established based on the different support PFS categories and will take into account the different types of activities carried out by support PFS. This work should lead to a risk classification convergence.

The preparation of this new approach has been initiated concretely in the last quarter of 2014, in co-operation with the Luxembourg Institute for Science and Technology (LIST), established as a result of the merger between the Gabriel Lippmann and the Henri Tudor public research centres.

The knowledge, experience and research work of LIST on risk management framework projects proved to be complementary to the experience acquired by the CSSF in the area of risks specifically related to support PFS. A co-operation between the CSSF and LIST allows thus delivering results rapidly. This co-operation concerns the implementation of a proof of concept restricted to the definition of a framework for two categories of support PFS and for two business areas only and aims at, on the one hand, verifying the functioning of the analysis model and defining the adequacy of the tool envisaged to perform this task, and, on the other hand, listing the difficulties experienced to extrapolate them and use them for calculating the time and resources needed to cover all the categories and business areas of support PFS.

The CSSF intends thus to develop frameworks adapted to each category and to each activity in order to focus only on the most relevant operational risks. LIST strongly contributes to establishing the methods and frameworks.

The major steps of this co-operation are:

• Implementation of a proof of concept

Two support PFS have been selected and have agreed to participate in this project: one support PFS is active in “paper and electronic archiving” and the other one carries out an IT systems operator activity. The aim is to identify if the methodology adopted for the identification and definition of frameworks corresponds to the needs of the CSSF and is consistent with an implementation with other support PFS.

In this approach, proof of concept PFS will have to identify the different resources linked to the different process functions for each activity carried out in the financial sector. Indeed, each of these elements is likely to represent risks and to influence the risk profile of each support PFS.

• Implementation of frameworks

Upon completion of this first step and validation of the first two models, the CSSF and LIST will start drawing up frameworks for each PFS category.

The risk frameworks will be largely inspired by the established international norms and standards on IT systems security, as for example ISO standards. They will also include all the discussions between the CSSF and LIST in order to cover all specific risks of support PFS.

Although these frameworks are intended for setting a frame, they will still allow some flexibility. Indeed, it is expected that support PFS suggest other risks to be included in order for the CSSF to enhance and complete, through regular updates and at its discretion, the predefined frameworks. These developments are particularly relevant for niche activities or very specific activities of certain support PFS, for which the new frameworks might not have a sufficient level of maturity as from the initial stage of the process.

This potential contribution of support PFS over time should allow enriching the model if the risks identified are relevant and if they can be found within different support PFS.

• Choice of modelling tool

The CSSF is aware that this more prescriptive approach will be all the more accepted since it is supported by an IT tool. MONARC (an optimised risk assessment methodology) by Cyberworld Awareness & Security Enhancement Services (CASES) appears to be particularly suitable for this purpose and its tool is the most advanced available today.

If applied to the RAR framework, MONARC allows providing support PFS with an efficient risk management tool which facilitates the input of any specific information in the pre-established frameworks, fed by the RAR model. This tool is expected to be available to support PFS in the form of a web platform.

One of the objectives of this approach is the improvement of the current RAR, both at the level of its drawing-up by support PFS and at the level of its a posteriori analysis by the CSSF. Indeed, a more prescriptive approach ensures a more efficient supervision, principally based on operational risks stemming from the services offered by support PFS to financial sector players.

The other objectives are improving the analysis of the interrelations between the different support PFS, defining the importance and systemic nature of each support PFS in relation to the financial sector and identifying the subcontracting chains. The CSSF will notably be in a position to identify market concentration risks and adapt its prudential supervision depending on the individual importance of each support PFS.

The publication of the new circular which will replace Circular CSSF 12/544 is planned for early 2016. Up until this publication, support PFS shall continue to submit their RARs and DRs as before in order to ensure continuity in the analysis. Moreover, the CSSF reminds support PFS to take into account the recommendations and comments issued by the CSSF in its deficiency letters and annual reports.

3.2.2. Meetings

In the year under review, 71 meetings were organised in relation with the activities of support PFS, either on the premises of the CSSF or on the premises of the concerned support PFS. These meetings covered the following areas:

- information requests on business solutions that support PFS intend to offer to their financial sector clients;
- information requests on the qualification of the activities carried out;
- presentation of authorisation files;
- planned amendments to functions submitted to authorisation (day-to-day management, external audit, shareholding structure, etc.);
- information requests on prudential supervision;
- discussions concerning problems or specific issues noticed in the framework of the prudential supervision exercised by the CSSF;
- amendments to the authorisation (project for a new activity, holding, corporate purpose, etc.);
- courtesy visits.

3.2.3. Letters

In 2014, a total of 388 letters have been sent to support PFS. These letters mainly covered the following areas:

- insufficient capital base;
- comments on the RARs, descriptive reports and closing documents;
- planned amendments to functions submitted to authorisation (day-to-day management, external audit, shareholding structure, etc.);
- information requests on prudential supervision;
- information requests relating to the compliance with the legislative framework for the activities carried out with financial sector clients;
- injunction letters.

3.2.4. On-site inspections

In 2014, the department in charge of the prudential supervision of support PFS carried out four introductory visits and three on-site inspections[20].

3.2.5. Practical rules on the role of *réviseurs d'entreprises agréés*

The general principles set out in Circular CSSF 12/544 of 18 July 2012 were intended to refocus the prudential supervision exercised on support PFS in two steps.

First, Circular CSSF 12/544 introduced the RAR and the DR, of which it specified the content and which must be submitted to the CSSF.

Then, in a second step, a further circular had to define the practical rules concerning the mission of the *réviseurs d'entreprises agréés* of support PFS and the content of the long form audit report, completing thus the procedure for the optimisation of supervision. Subsequently, for efficiency and rationalisation purposes, the long form report was replaced by the Agreed Upon Procedures. Indeed, the Agreed Upon Procedures are better suited to the future work to be carried out by the *réviseur d'entreprises agréé*. This second circular has however not yet been set up as the CSSF decided to work as a priority on the improvement of the RARs. The work on this circular has not been reconsidered in its substance, but it has been postponed to a later date.

[20] Detailed explanations on on-site inspections are provided in Chapter XIII "Instruments of supervision".

CHAPTER VI

SUPERVISION OF PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

1. PAYMENT INSTITUTIONS

1.1. Regulatory framework

The law of 10 November 2009 on payment services (hereinafter LPS) transposed into national law Directive 2007/64/EC of 13 November 2007 on payment services in the internal market. This directive aims at establishing a coherent legal framework in order to establish a single European market for payment services and to ensure its proper functioning.

The LPS introduced a new financial institution status, i.e. the payment institutions authorised to carry out payment services activities, and imposes authorisation, exercise and supervisory conditions on them. The payment services concerned are specifically listed in the annexe to the LPS.

Article 31(1) of the LPS designates the CSSF as the competent authority for the supervision of payment institutions.

The main prudential provisions applicable to payment institutions may be summarised as follows:

- quantitative prudential standards, i.e. minimum capital and capital requirements calculated according to one of the three methods provided for in the LPS; the CSSF monitors the proper application and the compliance with these quantitative standards based on a specific reporting pursuant to Circular CSSF 11/511;
- rules for the protection of funds received for the execution of payment transactions;
- anti-money laundering and counter-terrorist financing rules;
- guarantee of a sound and prudent management and existence of a robust internal governance system.

As regards the last indent, the rules are, in principle, those applicable to credit institutions and to investment firms but they are applied to payment institutions according to a proportionality principle based, among others, on the type of payment services provided and the risks incurred.

The activities exercised by the Luxembourg payment institutions in another EU/EEA Member State through the establishment of a branch, through the intermediary of an agent or under the freedom to provide services, are also subject to the prudential supervision of the CSSF.

By way of compensation for the simplified rules to access the profession and the lighter prudential supervision compared to those applicable to credit institutions, the payment institutions are subject to activity restrictions and prohibitions:

- strict control of credit granting according to the provisions of Article 10(3) of the LPS;
- prohibition to conduct the business of taking deposits or other repayable funds within the meaning of Article 2(3) of the law of 5 April 1993 on the financial sector;
- exclusive use of payment accounts opened by payment institutions for payment transactions;
- rules for protection of funds for the execution of activities other than the provision of payment services in accordance with Articles 10 and 14 of the LPS.

Circular CSSF 12/550 relating to the practical rules concerning the mission of the *réviseurs d'entreprises agréés* (approved statutory auditors) of payment institutions specifies the scope of the mandate for the audit of annual accounting documents and sets the rules relating to the content of the long form report that payment institutions have to communicate to the CSSF pursuant to Article 37 of the LPS.

1.2. Payment institutions authorised in Luxembourg

In 2014, four new payment institutions have been granted an authorisation and one institution ceased its activities. As a result, eight payment institutions incorporated under Luxembourg law were listed in the public register of payment institutions established in Luxembourg as at 31 December 2014 (five as at 31 December 2013):

- CYBERservices Europe S.A.;

- Digicash Payments S.A.;
- FIA-NET Europe S.A.;
- Huellemann & Strauss Onlineservices S.à r.l.;
- Olky Payment Service Provider S.à r.l.;
- Rakuten Payment Services S.à r.l.;
- SIX Payment Services (Europe) S.A.;
- StubHub Services S.à r.l..

In addition, there is Deutsche Post Zahlungsdienste GmbH, Niederlassung Luxemburg, a branch of a payment institution under German law.

The company Cetrel S.A. acts as an agent on behalf of SIX Payment Services (Europe) S.A..

2. ELECTRONIC MONEY INSTITUTIONS

2.1. Regulatory framework

Directive 2009/110/EC of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions repealing the first Directive 2000/46/EC on electronic money, was transposed into national law by the law of 20 May 2011, amending the LPS.

The major purpose of this directive is to provide electronic money with a sustainable and attractive regime and, in particular, to make the prudential supervisory regime of electronic money institutions (hereinafter EMIs) consistent with that applicable to the payment institutions governed by Directive 2007/64/EC (i.e. simplified rules to access the profession and lighter prudential supervision compared to credit institutions).

The directive creates an autonomous regime for the EMIs that are no longer considered as credit institutions. At national level, the CSSF has been designated as the competent authority to supervise the EMIs.

Following the entry into force of Directive 2009/110/EC, electronic money is viewed from a wider perspective insofar as the definition given by the directive covers, in principle, all the situations where an issuer of electronic money issues a prepaid stored value in exchange for funds. Electronic money is defined as a monetary value represented by a claim on the issuer, which is:

- stored electronically, including magnetically;
- issued upon receipt of funds for the purpose of making payment transactions; and
- accepted by a natural or legal person other than the electronic money institution.

Pursuant to Article 24-6 of the LPS, the EMIs are entitled to carry out, in addition to the issuance of electronic money, each of the following activities:

- provision of payment services listed in the annexe to the LPS;
- granting of credit subject to compliance with the provisions of Article 24-6(1)(b) of the LPS;
- provision of operational services and ancillary services closely related to the issuance of electronic money or to the provision of payment services;
- management of payment systems;
- other commercial activities.

The LPS imposes authorisation, exercise and supervisory conditions on the EMIs. The main prudential provisions applicable to the EMIs may be summarised as follows:

- quantitative prudential standards, i.e. minimum capital and capital requirements in accordance with Articles 24-11 and 24-12; the CSSF monitors the proper application and compliance with these quantitative

standards based on a specific reporting pursuant to Circular CSSF 11/522;

- rules for the protection of funds received in exchange for electronic money in accordance with the provisions of Article 24-10 of the LPS;
- anti-money laundering and counter-terrorist financing rules;
- guarantee of a sound and prudent management and existence of a robust internal governance system.

As regards the last indent, the rules are, in principle, those applicable to credit institutions and to investment firms but they are applied to the EMIs according to a proportionality principle based, among others, on the type of risks incurred.

The protection of funds as mentioned in the second indent above is a key element of the electronic money regime. The purpose of this regime is to guarantee electronic money holders the redemption of their funds in case of insolvency of the EMI.

In accordance with this requirement, the funds received by the EMI in exchange for electronic money may either be deposited in a separate bank account, in order not to be commingled with the funds of persons other than electronic money holders, or invested in certain assets according to the criteria defined in Article 24-10(1)(a) of the LPS or covered by an insurance policy. Consequently, the funds thus segregated shall not form part of the EMI's own assets and shall be deducted, in the sole interests of the electronic money holders, from the claims of other creditors of the institution. Investments of these funds are legally limited to investments in "secure and low-risk assets" in accordance with the provisions of Article 24-10(4).

The activities exercised by the Luxembourg EMIs in another EU/EEA Member State through the establishment of a branch, through intermediaries or agents or under the freedom to provide services, are also subject to the prudential supervision of the CSSF.

Similarly to payment institutions, the EMIs are subject to activity restrictions:

- prohibition to conduct the business of taking deposits or other repayable funds within the meaning of Article 2(3) of the law of 5 April 1993 on the financial sector;
- strict control of credit granting according to the provisions of Article 24-6(1) of the LPS.

The EMIs shall comply with the provisions of Article 48-2 of the LPS relating to the issuance and redeemability of electronic money. Moreover, they are not allowed granting interest or any other benefit related to the length of time during which an electronic money holder holds electronic money.

Circular CSSF 13/569 relating to the practical rules concerning the mission of the *réviseurs d'entreprises agréés* (approved statutory auditors) of electronic money institutions specifies the scope of the mandate for the audit of annual accounting documents and sets the rules relating to the content of the long form report that the EMIs have to communicate to the CSSF pursuant to Article 37 of the LPS.

2.2. Electronic money institutions authorised in Luxembourg

As at 31 December 2014, six EMIs (five as at 31 December 2013) were listed in the public register of the EMIs authorised in Luxembourg:

- Amazon Payments Europe S.C.A.,
- iPay International S.A.[1],
- Leetchi Corp S.A.,
- FLASHiZ S.A. (formerly MOBEY S.A.)
- PayCash Europe S.A.,
- YAPITAL Financial A.G..

Furthermore, it should be noted that the main activity of the company PayPal (Europe) S.à r.l. et Cie, S.C.A., authorised as a credit institution in Luxembourg, is the issuance of electronic money.

All EMIs authorised in Luxembourg issue electronic money in accordance with point (29) of Article 1 of the LPS. The methods of use of electronic money and payment channels may nevertheless vary according to the

[1] Electronic money institution authorised in 2014.

corporate model of each EMI. Thus, according to the EMI's business model chosen, the holder of electronic money may either carry out payments to a merchant (B2C), or make fund transfers from his/her electronic money account to the electronic money account of another user (C2C).

Payments may be made:

- online: through the EMI's website, the merchant's website (checkout), a mobile phone, a prepaid card, etc.;
- offline: through a mobile phone (e.g. NFC, BLE, QR code), a prepaid card, etc..

CHAPTER VII

SUPERVISION OF UCIS

1. EVOLUTION OF THE UCI SECTOR IN 2014

1.1. Major events in 2014

In Luxembourg, the UCI[1] sector recorded a growth of 18.22% in the net assets and of 0.29% in the number of UCIs in 2014.

The developed markets performance was largely positive in 2014 for both shares and bonds. In a context of low inflation, the European and Japanese central banks continued their accommodating monetary policy, unlike the US central bank which ended its asset buy-back programme in the face of the good economic growth in the United States. Consequently, the rates of return of the euro area reached historically low levels and the euro depreciated by more than 12% against the US dollar over the period under review.

Thus, the equity index "MSCI WORLD Standard (Large + Mid Cap)" in EUR increased by 19.50% and the "JPMorgan GBI Global Traded Index Hedged Index Level Euro", index representing bonds of developed countries, registered a positive performance of 8.47%.

However, the financial markets of emerging countries developed in a heterogeneous way in 2014. The overall positive performances of Asian markets in connection with sound macro-economic figures contrast with the negative performances of the financial markets of Eastern Europe affected by the geopolitical tension linked to the crisis in Ukraine and low oil prices. The general slump in the financial markets of Latin America is linked to the structural problems of certain countries in this region and the decrease in commodity prices.

The index "MSCI (EM) Standard (Large + Mid Cap)" in EUR, representing emerging market equities, realised a positive performance of 11.38% in 2014 and the index "JPMorgan EMBI Global (Hedged Euro)", representing the emerging market bonds, grew by 5.12% over 2014.

As regards the development of the Luxembourg UCI sector, the inflow of new capital and the performance of the major financial stock markets resulted in an increase in Luxembourg of UCIs' global net assets of EUR 482.0 billion to reach EUR 3,127.7 billion as at 31 December 2014. A positive net capital investment of EUR 249.1 billion (+9.42%) and a positive impact of financial markets of EUR 232.9 billion (+8.80%) were responsible for this growth.

Most UCI categories recorded positive net capital investments; the most significant inflow amounting to EUR 93 billion was recorded by diversified UCIs. Despite very low or even negative rates of return in 2014, the UCIs[2] investing in liquidity, money market instruments and other short term securities experienced net subscriptions amounting to EUR 0.3 billion.

At the end of 2014, the total number of UCIs reached 4,193, against 4,181 at the end of the previous year (+12 entities), while the number of entities increased by 189 in 2014. Taken separately, the UCITS, which represented 82% of the net assets of the Luxembourg UCI sector as at 31 December 2014, increased by 76 entities and 494 units over the course of the year.

As regards management companies subject to Chapter 15 of the law of 17 December 2010 relating to undertakings for collective investment (hereinafter the "2010 Law"), 21 new management companies were registered on the official list in 2014, of which 11 with the double AIFM[3]/UCITS authorisation. Ten management companies were deregistered from the official list over the year.

In total, 169 AIFMs were authorised as at 31 December 2014, of which 111 management companies subject to Chapter 15 which opted for the double authorisation. In this context, it should be noted that the transitional provisions of the law of 12 July 2013 on alternative investment fund managers (hereinafter the "AIFM Law"), from which certain managers could benefit, ended on 22 July 2014. Consequently, since this date, all the entities subject to the AIFM Law had to submit a registration or authorisation file to the CSSF and the UCIs qualifying as alternative investment funds within the meaning of this law had to appoint their alternative investment fund manager.

As far as regulations are concerned, the CSSF published on 17 July 2014 in anticipation, in particular, of the depositary regime applicable as from 18 March 2016 under the UCITS V Directive, Circular CSSF 14/587 defining the new organisational provisions which must be put in place as from 18 March 2016 by credit institutions acting as UCITS depositaries subject to Luxembourg law.

[1] Unless otherwise provided for, the word "UCI" refers to UCITS and UCIs of Part II subject to the law of 17 December 2010 as well as to SIFs subject to the law of 13 February 2007 and to SICARs subject to the law of 15 June 2004.

[2] Including only UCITS, UCIs of Part II and SIFs.

[3] AIFM: Alternative Investment Fund Manager.

1.2. Evolution of the UCI sector

1.2.1. Evolution of the number of UCIs

As at 31 December 2014, a total of 4,193 UCIs were registered on the official list, against 4,181 UCIs at the end of the previous year, representing an increase of 12 entities (+0.29%). During the year, 371 UCIs were registered on the official list and 359 entities were deregistered from the official list.

Evolution of the number of UCIs

Year	Number of UCIs	Registrations on the list	Deregistrations from the list	Net variation	Variation in %
2004	1,971	205	104	101	5.40%
2005	2,107	310	174	136	6.90%
2006	2,353	415	169	246	11.68%
2007	3,050	895	198	697	29.62%
2008	3,592	759	217	542	17.77%
2009	3,699	435	328	107	2.98%
2010	3,914	503	288	215	5.81%
2011	4,121	509	302	207	5.29%
2012	4,117	403	407	-4	-0.10%
2013	4,181	384	320	64	1.55%
2014	4,193	371	359	12	0.29%

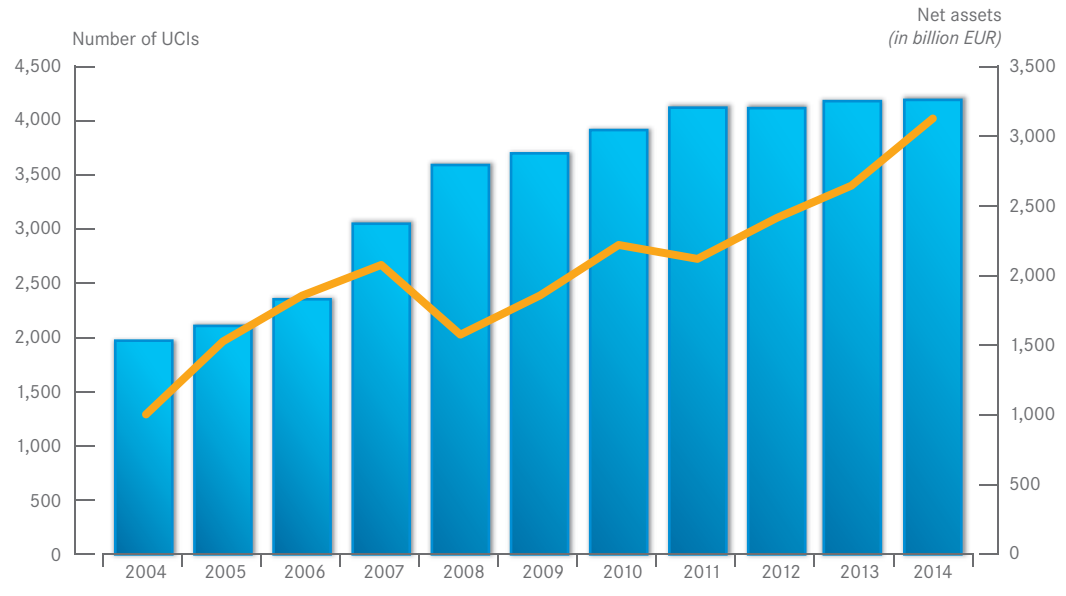
1.2.2. Evolution of the net assets of UCIs

Through the inflow of new capital and the positive developments in the financial markets, the total net assets of Luxembourg UCIs grew by EUR 482.0 billion over one year to EUR 3,127.7 billion as at 31 December 2014 (+18.22%). This increase originates partially from net subscriptions (51.68%) and partially from a positive impact of the financial markets (48.32%). Net capital investments in Luxembourg UCIs amounted to EUR 249.1 billion in 2014, which proves the investors' confidence in the financial markets.

Evolution of UCI net assets - in billion EUR

Year	Net assets	Net subscriptions	Net assets variation	Variation in %	Average net assets per UCI
2004	1,106.3	113.8	153.0	16.05%	0.561
2005	1,527.7	237.2	421.4	38.09%	0.725
2006	1,856.4	248.1	328.7	21.52%	0.789
2007	2,076.8	197.3	220.4	11.87%	0.681
2008	1,576.5	-75.0	-500.3	-24.09%	0.439
2009	1,858.4	86.4	281.9	17.88%	0.502
2010	2,220.4	163.8	362.0	19.48%	0.567
2011	2,120.0	6.6	-100.4	-4.52%	0.514
2012	2,413.7	126.5	293.7	13.85%	0.586
2013	2,645.7	193.4	232.0	9.61%	0.633
2014	3,127.7	249.1	482.0	18.22%	0.746

Evolution of the number and net assets of UCIs



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
UCIs	1,971	2,107	2,353	3,050	3,592	3,699	3,914	4,121	4,117	4,181	4,193
Net assets	1,106.3	1,527.7	1,856.4	2,076.8	1,576.5	1,858.4	2,220.4	2,120.0	2,413.7	2,645.7	3,127.7

1.2.3. Evolution of the number of UCI entities[4]

As at 31 December 2014, 2,602 UCIs out of a total of 4,193 had adopted an umbrella structure. As the number of operating sub-funds rose from 12,451 to 12,646 (+1.57%), the total number of entities increased from 14,048 as at 31 December 2013 to 14,237 as at 31 December 2014 (+1.35%). However, traditionally structured UCIs decreased by six entities.

Evolution of the number of UCI entities

Year	**Total number of UCIs**	of which traditionally structured UCIs	*As % of total*	of which umbrella funds	*As % of total*	Number of sub-funds	*Average number of sub-funds per umbrella fund*	**Total number of entities**	Variation in %
2004	1,971	745	*37.80%*	1,226	*62.20%*	7,134	*5.82*	7,879	4.93%
2005	2,107	809	*38.40%*	1,298	*61.60%*	7,735	*5.96*	8,544	8.44%
2006	2,353	966	*41.05%*	1,381	*58.95%*	8,622	*6.22*	9,588	12.22%
2007	3,050	1,362	*44.66%*	1,688	*55.34%*	9,935	*5.89*	11,297	17.82%
2008	3,592	1,573	*43.79%*	2,019	*56.21%*	10,973	*5.43*	12,546	11.06%
2009	3,699	1,581	*42.74%*	2,118	*57.26%*	10,891	*5.14*	12,472	-0.59%
2010	3,914	1,585	*40.50%*	2,329	*59.50%*	11,618	*4.99*	13,203	5.86%
2011	4,121	1,652	*40.09%*	2,469	*59.91%*	11,943	*4.84*	13,595	2.97%
2012	4,117	1,603	*38.94%*	2,514	*61.06%*	12,154	*4.83*	13,757	1.19%
2013	4,181	1,597	*38.20%*	2,584	*61.80%*	12,451	*4.82*	14,048	2.12%
2014	4,193	1,591	*37.94%*	2,602	*62.06%*	12,646	*4.86*	14,237	1.35%

[4] The word "entity" refers to both traditionally structured UCIs and sub-funds of umbrella funds. The number of new "entities" therefore means, from an economic point of view, the number of asset portfolios created.

1.2.4. Evolution of UCIs and their net assets according to legal status and applicable law

• Evolution of UCIs and their net assets according to legal status

The breakdown of UCIs between *fonds communs de placement* (FCP), *sociétés d'investissement à capital variable* (SICAV), *sociétés d'investissement à capital fixe* (SICAF) and *sociétés d'investissement en capital à risque* (SICAR) reveals that, on 31 December 2014, SICAVs were still the prevailing form with 2,095 entities out of a total of 4,193 active UCIs, against 1,763 entities operating as FCPs, 47 as SICAFs and 288 as SICARs.

At the end of 2014, SICAVs' net assets represented 74.03% of the total net assets of UCIs and FCPs' net assets represented 24.38% of the total net assets of UCIs. The net assets of SICAFs and SICARs remained at the margins with 0.54% and 1.05%, respectively, of the total net assets of UCIs.

• Evolution of UCIs and their net assets according to applicable law

UCIs break down as follows according to applicable law: they fall either under Part I of the 2010 Law or under Part II of the same law or under the law of 13 February 2007 relating to specialised investment funds (hereinafter the "SIF Law") or under the law of 15 June 2004 relating to investment companies in risk capital (hereinafter the "SICAR Law").

As at 31 December 2014, 45.15% of the UCIs registered on the official lists were UCITS governed by Part I of the 2010 Law and 10.06% were UCIs governed by Part II of the same law (non-coordinated UCIs). SIFs represented 37.92% and SICARs 6.87% of the 4,193 Luxembourg UCIs.

Net assets were distributed at the end of 2014 as follows: 82.44% for UCIs under Part I, 5.40% for UCIs under Part II, 11.11% for SIFs and 1.05% for SICARs.

As regards Part I, the number of UCIs increased by 4.18% compared to 2013 and net assets increased by 21.54%, whereas the number of UCIs under Part II decreased by 19.31% and their net assets by 9.82%. The number of SIFs increased by 1.79% and their net assets by 13.37%. The number of SICARs increased by 3.23% and their net assets by 7.92%.

The following table compares the evolution in 2014 of the number of UCIs and net assets according to both the legal status and applicable law.

Evolution of the number of UCIs and their net assets according to legal status and applicable law

	2013				2014				Variation 2013/2014			
Number of UCIs	FCPs	SICAVs	Others	Total	FCPs	SICAVs	Others	Total	FCPs	SICAVs	Others	Total
Part I	1,046	771	0	1,817	1,087	806	0	1,893	-3.92%	4.54%	0.00%	4.18%
Part II	256	263	4	523	199	219	4	422	-22.27%	-16.73%	0.00%	-19.31%
SIFs	529	998	35	1,562	477	1,070	43	1,590	-9.83%	7.21%	22.86%	1.79%
SICARs	0	0	279	279	0	0	288	288	0.00%	0.00%	3.23%	3.23%
Total	1,831	2,032	318	**4,181**	1,763	2,095	335	**4,193**	-3.71%	3.10%	5.35%	0.29%
Net assets *(in billion EUR)*	FCPs	SICAVs	Others	Total	FCPs	SICAVs	Others	Total	FCPs	SICAVs	Others	Total
Part I	483.4	1,638.0	0.0	2,121.4	552.4	2,026.0	0.0	2,578.4	14.27%	23.69%	0.00%	21.54%
Part II	76.9	109.6	0.9	187.4	71.5	96.6	0.9	169.0	-7.02%	-11.86%	0.00%	-9.82%
SIFs	131.7	162.1	12.8	306.6	138.8	192.7	16.1	347.6	5.39%	18.88%	25.78%	13.37%
SICARs	0.0	0.0	30.3	30.3	0.0	0.0	32.7	32.7	0.00%	0.00%	7.92%	7.92%
Total	692.0	1,909.7	44.0	**2,645.7**	762.7	2,315.3	49.7	**3,127.7**	10.22%	21.24%	12.95%	18.22%

1.2.5. Net subscriptions

In 2014, UCITS under Part I of the 2010 Law recorded net subscriptions totalling EUR 242.4 billion. However, UCIs under Part II recorded net redemptions totalling EUR 14.4 billion. Net subscriptions of SIFs amounted to EUR 21.0 billion and those of SICARs to EUR 0.1 billion.

Breakdown of net subscriptions according to Parts I and II of the 2010 Law, SIFs and SICARs

(in billion EUR)	FCPs	SICAVs	Others	Total	in %
Part I	27.1	215.3	0.0	242.4	97.31%
Part II	-2.3	-12.1	0.0	-14.4	-5.78%
SIFs	1.9	16.5	2.6	21.0	8.43%
SICARs	0.0	0.0	0.1	0.1	0.04%
Total	**26.7**	**219.7**	**2.7**	**249.1**	**100.00%**

1.2.6. Valuation currencies used

As regards the valuation currencies used, most entities (9,224 out of a total of 14,237, i.e. 64.79%) were denominated in euro, followed by those denominated in US dollars (3,705, i.e. 26.02%) and those in pound sterling (334, i.e. 2.35%).

In terms of net assets, the entities denominated in euro accounted for EUR 1,661.0 billion of a total of EUR 3,127.7 billion (i.e. 53.11%), ahead of entities expressed in US dollars (countervalue EUR 1,221.1 billion, i.e. 39.04%) and in pound sterling (countervalue EUR 68.1 billion, i.e. 2.18%).

1.2.7. UCIs' investment policy

The table below describes the development in the number of UCIs and net assets according to their investment policy.

Net assets and entities of UCIs according to their investment policy

Investment policy	2013		2014		Variation in %	
	Number of entities	Net assets *(in billion EUR)*	Number of entities	Net assets *(in billion EUR)*	Number of entities	Net assets
Fixed-income transferable securities	3,105	838.2	3,083	994.8	-0.71%	18.68%
Variable-yield transferable securities	3,442	783.9	3,593	922.0	4.39%	17.62%
Mixed transferable securities	3,996	505.7	4,065	640.4	1.73%	26.64%
Fund of funds	2,021	175.0	2,011	196.9	-0.49%	12.51%
Money market instruments and other short-term securities	307	233.0	274	249.7	-10.75%	7.17%
Cash	66	4.2	37	3.3	-43.94%	-21.43%
Non-listed transferable securities	130	13.2	135	16.2	3.85%	23.73%
Venture capital	25	1.0	26	1.2	4.00%	20.00%
Real estate	279	30.5	303	33.9	8.60%	11.15%
Futures, options, warrants	166	13.3	156	14.0	-6.02%	5.26%
In risk capital (SICARs)	363	30.3	388	32.7	6.89%	7.92%
Other assets	148	17.4	166	22.6	12.16%	29.89%
Total	**14,048**	**2,645.7**	**14,237**	**3,127.7**	**1.35%**	**18.22%**

Apart from UCIs investing in liquid assets ("Liquidity") which suffered from capital withdrawals, all the other UCI categories benefited from quite significant net subscriptions and a positive development of financial markets in 2014.

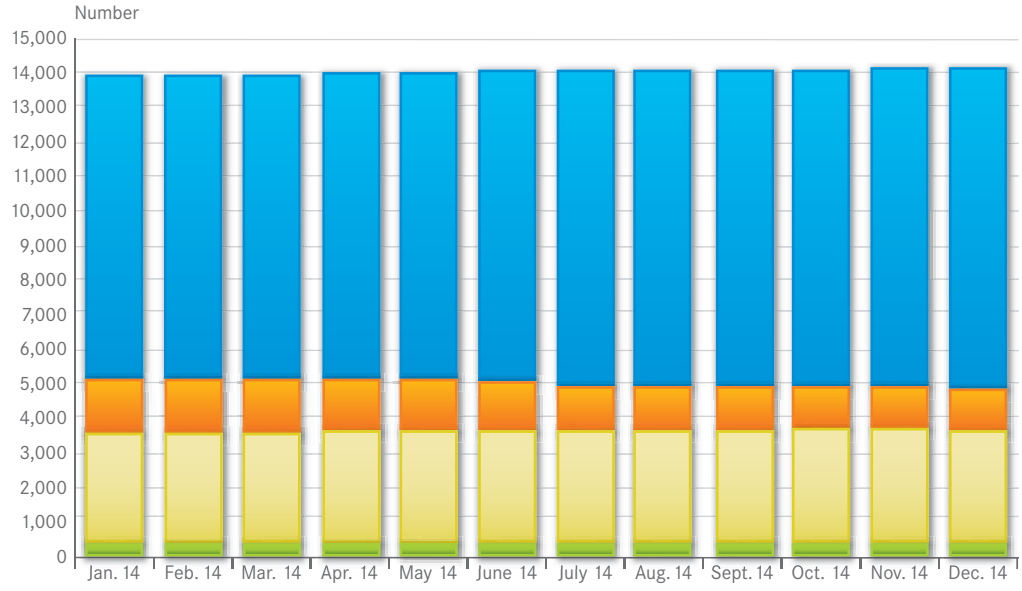
Investment policy of UCIs according to Parts I and II of the 2010 Law, SIFs and SICARs

Situation as at 31 December 2014	Number of entities	Net assets *(in billion EUR)*	Net assets *(in %)*
UCITS subject to Part I			
Fixed-income transferable securities	2,352	903.0	28.87%
Variable-yield transferable securities	3,174	856.2	27.37%
Mixed transferable securities	2,626	482.2	15.42%
Fund of funds	894	101.0	3.23%
Money market instruments and other short-term securities	200	225.8	7.22%
Cash	18	2.2	0.07%
Futures and/or options	60	6.5	0.21%
Other assets	6	1.5	0.05%
Sub-total	**9,330**	**2,578.4**	**82.44%**
UCIs subject to Part II			
Fixed-income transferable securities	171	22.1	0.71%
Variable-yield transferable securities	94	21.5	0.69%
Mixed transferable securities	326	50.9	1.63%
Fund of funds	432	41.4	1.32%
Money market instruments and other short-term securities	63	21.5	0.69%
Cash	14	1.1	0.03%
Non-listed transferable securities	18	2.6	0.08%
Venture capital	4	0.1	0.00%
Real estate	23	1.2	0.04%
Futures and/or options	44	4.1	0.13%
Other assets	14	2.4	0.08%
Sub-total	**1,203**	**168.9**	**5.40%**
SIFs			
Fixed-income transferable securities	560	69.6	2.22%
Variable-yield transferable securities	325	44.3	1.42%
Mixed transferable securities	1,113	107.4	3.43%
Fund of funds	685	54.5	1.74%
Money market instruments and other short-term securities	11	2.4	0.08%
Cash	5	0.0	0.00%
Non-listed transferable securities	117	13.7	0.44%
Venture capital	22	1.1	0.03%
Real estate	280	32.7	1.05%
Futures and/or options	52	3.3	0.11%
Other assets	146	18.7	0.60%
Sub-total	**3,316**	**347.7**	**11.12%**
SICARs - In risk capital			
Public-to-private	3	0.1	0.00%
Mezzanine	10	1.3	0.04%
Venture capital	120	8.2	0.26%
Private equity	255	23.1	0.74%
Sub-total	**388**	**32.7**	**1.04%**
Total	**14,237**	**3,127.7**	**100.00%**

1.2.8. Evolution of UCI entities

In 2014, the number of entities grew by 189 (+1.35%) to 14,237 entities at the end of the year.

Monthly evolution of the number of entities



	Jan. 14	Feb. 14	Mar. 14	Apr. 14	May 14	June 14	July 14	Aug. 14	Sept. 14	Oct. 14	Nov. 14	Dec. 14
Part I	8,852	8,854	8,902	8,947	8,970	9,049	9,177	9,211	9,212	9,247	9,298	9,330
Part II	1,569	1,557	1,523	1,490	1,474	1,439	1,298	1,281	1,267	1,236	1,236	1,203
SIFs	3,268	3,263	3,265	3,288	3,314	3,303	3,315	3,309	3,320	3,342	3,351	3,316
SICARs	362	364	366	366	374	376	381	380	384	388	387	388

• Entities approved in 2014

In 2014, 2,132 new entities were authorised. In absolute terms, this figure represents an increase of 35 entities (+1.67%) compared to the previous year.

	2009	2010	2011	2012	2013	2014
Newly approved entities	2,040	2,418	2,227	2,159	2,106	2,132
of which Part I	*56.27%*	*61.37%*	*55.41%*	*60.49%*	*58.41%*	*66.37%*
of which Part II	*12.06%*	*6.37%*	*7.54%*	*4.56%*	*4.84%*	*3.00%*
of which SIFs	*29.66%*	*29.94%*	*33.95%*	*32.53%*	*34,14%*	*28.61%*
of which SICARs	*2.01%*	*2.32%*	*3.10%*	*2.42%*	*2.61%*	*2.02%*

The breakdown by investment policy of entities authorised in 2014 shows that the proportion of entities investing in variable-yield transferable securities and of funds of funds increased compared to 2013. The proportion of new entities investing in fixed-income transferable securities and that of entities investing in mixed transferable securities decreased in 2014.

Investment policy of entities approved in 2014

Investment policy	2013		2014	
	Number of entities	As % of total	Number of entities	As % of total
Fixed-income transferable securities	541	25.69%	522	24.48%
Variable-yield transferable securities	416	19.75%	498	23.36%
Mixed transferable securities	673	31.96%	585	27.44%
Fund of funds	238	11.30%	321	15.06%
Money market instruments and other short-term securities	13	0.62%	10	0.47%
Cash	3	0.14%	4	0.19%
Non-listed transferable securities	38	1.81%	22	1.03%
Venture capital	3	0.14%	2	0.09%
Real estate	63	2.99%	52	2.44%
Futures, options, warrants	26	1.23%	28	1.31%
In risk capital (SICARs)	55	2.61%	43	2.02%
Other assets	37	1.76%	45	2.11%
Total	**2,106**	**100.00%**	**2,132**	**100.00%**

• Entities closed in 2014

In 2014, 1,417 entities were closed, which was 48 entities less (-3.28%) than in the previous year.

	2009	2010	2011	2012	2013	2014
Liquidated entities	980	653	759	945	887	965
Matured entities	92	111	143	157	135	125
Merged entities	482	381	511	401	443	327
Total	**1,554**	**1,145**	**1,413**	**1,503**	**1,465**	**1,417**

The breakdown by investment policy shows that most of the entities closed in 2014 had invested in mixed transferable securities.

Investment policy of entities closed in 2014

Investment policy	2013		2014	
	Number of entities	As % of total	Number of entities	As % of total
Fixed-income transferable securities	332	22.66%	372	26.25%
Variable-yield transferable securities	377	25.73%	258	18.21%
Mixed transferable securities	424	28.94%	412	29.08%
Fund of funds	203	13.86%	212	14.96%
Money market instruments and other short-term securities	28	1.91%	41	2.89%
Cash	16	1.09%	34	2.40%
Non-listed transferable securities	3	0.21%	7	0.49%
Venture capital	1	0.07%	1	0.07%
Real estate	10	0.68%	23	1.62%
Futures, options, warrants	31	2.12%	28	1.98%
In risk capital (SICARs)	24	1.64%	17	1.20%
Other assets	16	1.09%	12	0.85%
Total	**1,465**	**100.00%**	**1,417**	**100.00%**

1.2.9. Evolution of some specific categories of UCIs

• Guarantee-type UCIs

The purpose of guarantee-type UCIs is to offer investors security from fluctuations inherent in financial markets. According to the investment policy pursued by the UCIs concerned, the guarantee ensures that the investor is reimbursed a proportion of the invested capital or is fully reimbursed the initial investment or even receives a return on investment at the end of one or several pre-determined periods.

In 2014, the number of guarantee-type UCIs fell from 154 to 142 and the total number of entities from 276 to 236. The fall in entities can be explained by the launch of 16 new entities whereas the guarantees either expired or were not extended for 56 entities.

As at 31 December 2014, the 236 entities broke down into 32 entities guaranteeing unitholders only a proportion of the capital commitment, 129 entities guaranteeing repayment in full of the capital commitment (money-back guarantee) and 75 entities offering their investors a return in addition to the initial subscription price.

As at 31 December 2014, the net assets of guarantee-type UCIs decreased by EUR 2.8 billion to EUR 33.3 billion (-7.8%). It is also worth noting that the guarantee-type UCIs set up by German promoters accounted for 94.1% of the total net assets of all guarantee-type UCIs.

Evolution of guarantee-type UCIs

Year	Number of UCIs (excluding SICARs)	Number of entities	Net assets *(in billion EUR)*
2005	104	248	24.7
2006	121	297	32.6
2007	154	360	43.7
2008	176	382	44.8
2009	194	409	45.8
2010	192	400	42.0
2011	190	360	40.3
2012	168	297	37.5
2013	154	276	36.1
2014	142	236	33.3

• Real estate UCIs

In 2014, net assets of UCIs (excluding SICARs) investing mainly in real estate increased by 11.1%. It should be noted that SIFs remain the preferred vehicles for real estate investments.

Evolution of real estate UCIs

Year	Number of entities (excluding SICARs)	of which active entities	of which Part II	of which SIFs	Net subscriptions *(in billion EUR)*	Net assets *(in billion EUR)*
2005	52	41	16	36	1.6	5.3
2006	76	64	22	54	2.7	8.1
2007	104	80	21	83	6.5	15.5
2008	137	111	16	121	7.1	20.9
2009	150	125	15	135	2.0	19.0
2010	179	149	13	166	0.0	21.4
2011	210	192	27	183	2.9	24.1
2012	244	220	26	218	2.0	25.9
2013	279	253	27	252	5.9	30.5
2014	303	255	23	280	2.9	33.9

• Sharia UCIs

The number of Sharia UCIs (excluding SICARs) and entities grew by six entities in 2014 and the net assets rose by 20.0%.

Evolution of Sharia-compliant UCIs

Year	Number of entities (excluding SICARs)	Net assets *(in million EUR)*
2005	7	75
2006	8	94
2007	9	202
2008	22	213
2009	23	308
2010	24	473
2011	24	525
2012	28	1,277
2013	37	1,899
2014	43	2,278

• Microfinance UCIs

The number of UCIs (excluding SICARs) investing in microfinance only increased by one entity in 2014. However, their net assets rose by 22.9%.

Evolution of UCIs in the microfinance sector

Year	Number of entities (excluding SICARs)	Net assets *(in million EUR)*
2005	3	105
2006	11	505
2007	15	771
2008	18	1,200
2009	29	1,676
2010	32	1,938
2011	30	2,430
2012	36	3,130
2013	34	3,599
2014	35	4,423

• Money market UCIs

The number of UCIs which comply with the rules of the "CESR's Guidelines on a common definition of European money market funds" decreased significantly in 2014, whereas their net assets increased by 5.8%.

Evolution of money market UCIs

Year	Number of entities			Net assets *(in billion EUR)*		
	Short-term money market funds	*Money market funds*	**Total**	*Short-term money market funds*	*Money market funds*	**Total**
2012	91	107	**208**	176.4	44.8	**221.2**
2013	89	109	**208**	143.2	52.7	**195.9**
2014	67	87	**154**	170.3	36.8	**207.1**

• SICARs

Investment strategies inherent in SICARs may be broken down into four main types: buy, build and sell; buyout instruments; mezzanine instruments and risk capital funds. In practice, combined strategies are generally used for risk capital.

Evolution of SICARs

Investment strategy	2013		2014	
	Number of entities	Net assets *(in billion EUR)*	Number of entities	Net assets *(in billion EUR)*
Buy, build and sell	198	11.2	208	12.4
Buyout instruments	32	8.6	38	7.9
Mezzanine instruments	18	2.5	19	2.6
Risk capital funds	115	8.0	123	9.8
Total	**363**	**30.3**	**388**	**32.7**

As regards the sector-based distribution, 184 entities preferred not to limit their investment policy to a particular investment sector. Among the entities having adopted a specialised policy, there was a certain concentration in the "Real estate", "Services", "Technology" and "Energy" sectors.

As at 31 December 2014, the capital commitments in entities reached EUR 20.8 billion and their balance sheet total amounted to EUR 34.2 billion.

1.2.10. Initiators of Luxembourg UCIs

The breakdown of Luxembourg UCIs according to the geographic origin of their initiators highlights the internationalisation of the Luxembourg financial centre. Initiators of Luxembourg UCIs are spread over 69 countries.

Initiators of UCIs in Luxembourg are mostly from the United States, United Kingdom, Germany, Switzerland, Italy, France and Belgium.

Origin of the initiators of Luxembourg UCIs

Situation as at 31 December 2014	**Net assets** *(in billion EUR)*	**in %**	**Number of UCIs**	**in %**	**Number of entities**	**in %**
United States	702.3	22.45%	178	4.24%	1,025	7.20%
United Kingdom	505.3	16.16%	279	6.65%	1,489	10.46%
Germany	459.1	14.68%	1,511	36.04%	2,844	19.98%
Switzerland	437.1	13.98%	576	13.74%	2,647	18.59%
Italy	256.8	8.21%	163	3.89%	1,235	8.67%
France	237.2	7.58%	334	7.97%	1,308	9.19%
Belgium	142.5	4.56%	187	4.46%	1,088	7.64%
Luxembourg	72.3	2.31%	218	5.20%	539	3.79%
Netherlands	67.0	2.14%	56	1.33%	225	1.58%
Sweden	53.2	1.70%	101	2.41%	296	2.08%
Others	194.9	6.23%	590	14.07%	1,541	10.82%
Total	**3,127.7**	**100.00%**	**4,193**	**100.00%**	**14,237**	**100.00%**

1.2.11. Impact of Directives 2009/65/EC and 2011/61/EU on the Luxembourg UCI sector

Directives 2009/65/EC (UCITS Directive) and 2011/61/EU (AIFM Directive), transposed into Luxembourg law by the law of 17 December 2010 relating to undertakings for collective investment and by the law of 12 July 2013 on alternative investment fund managers, aim to support the development of a common investment fund market.

Thus, the regulatory framework provides for measures which enable a UCITS to be managed on a cross-border basis by a management company and for an alternative investment fund (AIF) to be managed by an alternative investment fund manager established in an EU Member State other than the home Member State of the UCITS or the AIF, respectively. The UCITS Directive also provides for measures which enable:

- cross-border merger operations so that a UCITS initiator having established UCITS in several EU Member States may encompass assets and benefit from economies of scale,
- streamlining platforms marketed through a more advanced specialisation or the use of master-feeder structures.

• Freedom to provide services under the UCITS Directive

As at 31 December 2014, 45 management companies established in another EU Member State exercised their activities under the freedom to provide services in Luxembourg.

Luxembourg UCITS managed by a management company established in another EU Member State

Home Member State of the management companies	Number of management companies managing Luxembourg UCITS	Number of managed UCITS	Number of managed entities	Total net assets managed *(in million EUR)*
United Kingdom	6	8	169	118
Germany	2	71	168	69
Ireland	2	4	123	38
France	28	39	207	22
Italy	6	8	118	17
Netherlands	1	1	13	3
Total	**45**	**131**	**798**	**267**

During 2014, three Luxembourg management companies (six in 2013) notified their intention to manage UCITS in another EU Member State under the freedom to provide services. Their host Member States are Germany, France and Sweden.

• Freedom to provide services under the AIFMD

During 2014, 10 companies authorised as alternative investment fund manager notified their intention to manage AIFs in another EU Member State under the freedom to provide services. Their host Member States are Germany, Belgium, France, Ireland, United Kingdom and Sweden.

• Free establishment of branches under the UCITS Directive and the AIFMD

As at 31 December 2014, two management companies of another Member State (Malta and Germany) are represented by a branch in Luxembourg to provide UCITS and AIF management services.

At the same date, 19 collective management players established in Luxembourg are represented by a branch in one or several other EU Member States under the UCITS Directive or the AIFMD, which corresponds in total to 42 branches.

• Cross-border mergers and creation of master-feeder structures

As in 2013, the mergers undertaken in 2014 were mainly motivated by the search for economies of scale, particularly by the pooling of UCITS' assets, which offer similar or even identical investment policies, into one Luxembourg UCITS to create a group UCITS platform specifically intended for international distribution.

In 2014, the CSSF dealt with the following merger projects in accordance with the provisions and requirements of Chapter IV of the UCITS Directive:

- 75 cross-border merger projects (+183% compared to 2013) from France, Ireland, Portugal, Belgium, Spain, Italy and the Netherlands;
- 14 cross-border merger projects (+233% compared to 2013) intended for UCITS from Ireland, Sweden, Belgium, Italy and Germany.

Similarly, in order to seek economies of scale, some initiators of UCITS interested in limiting parallel and redundant structures chose to create master-feeder structures where a merger operation was not selected.

As regards master-feeder structures, the CSSF replied to 15 requests from Luxembourg UCITS to certify that they are eligible to act as master UCITS in accordance with Article 58 of the UCITS Directive, i.e. a decrease in number by 31 operations compared to 2013. The home Member States of the feeder UCITS were France, Germany, Spain, the Netherlands, Finland, United Kingdom and Norway.

• Notification procedure of Luxembourg UCITS

Luxembourg UCITS wishing to market their units in another EU Member State must comply with the notification procedure provided for in the UCITS Directive. Notifications shall be made directly between the supervisory authorities of the Member States by means of a complete file that the UCITS must submit to the supervisory authority of the home Member State.

In 2014, the CSSF received a total of 5,202 notification requests, i.e. an increase of 13.9% compared to the previous year. 3,245 requests were sufficiently complete to be transmitted, without further intervention, to the relevant competent authorities of the host Member States concerned. The other requests had to be returned to the intermediary in order to correct the errors in the formats and/or the content in accordance with the applicable rules.

One of the aims of the UCITS regulation is to speed up the registration procedure for UCITS in another EU Member State. The CSSF has five days to process a notification request. Unfortunately, the CSSF notes again that almost 39% of the notification requests must be returned at least once to the applicant for correction before it can be transmitted to the competent authority of the host Member State.

Many requests must be denied due to non-compliance with the technical rules set out in Circulars CSSF 11/509 and CSSF 08/371, including in particular the fact that the documents included in the notification to be made to the host authority have not yet been submitted beforehand to the CSSF in the manner prescribed by the aforementioned circulars or that the prior deposit could not have been validated due to a non-compliant nomenclature.

3,174 of the 3,245 complete notifications that the CSSF transmitted in 2014 to the competent authorities of other host Member States were accepted without any objection.

In relation to the notifications which had to be revised, the CSSF recommends that professionals carefully analyse the motives for refusal which are communicated to them and put in place appropriate internal controls in order to ensure that, even before the first notification to the CSSF, the rules laid down for the marketing of UCITS comply with the laws, regulations and administrative provisions applicable in the host Member States concerned.

Breakdown of the notifications accepted per EU/EEA Member State

Member State	Number
Germany	438
Italy	318
Austria	264
United Kingdom	256
France	248
Spain	227
Sweden	206
Netherlands	198
Belgium	196
Finland	169
Norway	131
Denmark	111
Portugal	70
Ireland	69
Liechtenstein	44
Greece	43
Czech Republic	28
Hungary	26
Slovakia	23
Iceland	18
Estonia	17
Poland	13
Latvia	12
Lithuania	12
Cyprus	11
Bulgaria	8
Malta	8
Romania	5
Gibraltar	4
Slovenia	1
Total	**3,174**

• Notification procedure of AIFs

The AIFMs established in Luxembourg wishing to market the AIFs they manage in another EU Member State must comply with the notification procedure provided for in Article 32 of the AIFM Directive. Notifications are made directly between the supervisory authorities of the Member States by means of a complete file that the AIFM must submit to the supervisory authority of the home Member State. It is important to note that the marketing of AIFs pursuant to this Article is reserved for professional investors. If the AIFM wishes to market units or shares of AIFs to retail investors, it must first request the supervisory authorities of the targeted host Member State to provide it with the marketing conditions applicable on this territory.

In 2014, the CSSF received a total of 1,022 notification requests. A notification file submitted to the CSSF is transmitted to the competent authority of the host Member State concerned no later than 20 working days after its receipt and provided that the CSSF considers that the file is complete with respect to the regulatory

requirements in force. An incomplete file cannot be transmitted to the receiving authority and will be returned to the intermediary.

Only around 30 requests were sufficiently complete to be transmitted, without further intervention, to the relevant competent authorities of the host Member States concerned. Unfortunately, the CSSF had to return almost 97% of the notification requests to the applicant at least once for error correction as to the formats and/or the completeness of the content in accordance with the rules in force. The reasons for refusal are communicated to the intermediary which submitted the request. A duly completed and corrected notification request may be submitted at any time and the above-mentioned legal deadline starts running afresh.

It is worth recalling that the documents to be provided as part of the notification procedure must be named in accordance with the requirements set out in Circular CSSF 11/509, compliance with which is verified when the CSSF processes the request. The most frequently observed reasons for refusal are the use of non-compliant nomenclature, the absence of electronic signature on the issue document or the AIFM statement as well as the submission of an incomplete notification letter with regard to the applicable regulation. In order to ensure smooth processing, the CSSF reminds professionals of the importance of subjecting the documents to be notified to upstream compliance and quality checks and to only submit a complete and reviewed notification file to the CSSF.

Breakdown of the notifications transmitted to EU/EEA Member States

Member State	Total number of sub-funds
Belgium	142
Germany	122
United Kingdom	91
Netherlands	81
Sweden	80
Austria	63
France	61
Denmark	58
Italy	55
Spain	53
Finland	51
Norway	39
Ireland	22
Portugal	13
Greece	12
Estonia	10
Latvia	10
Lithuania	10
Poland	9
Czech Republic	8
Malta	7
Slovakia	7
Cyprus	6
Hungary	3
Bulgaria	2
Romania	2
Slovenia	2
Croatia	1
Iceland	1
Liechtenstein	1
Total	**1,022**

2. MANAGEMENT COMPANIES AND ALTERNATIVE INVESTMENT FUND MANAGERS

2.1. Management companies set up under Chapter 15 of the 2010 Law

2.1.1. Evolution in number

As at 31 December 2014, the number of authorised management companies totalled 206 entities against 195 as at 31 December 2013.

Among the 21 management companies authorised in 2014, six entities either changed from management companies set up under Chapter 16 of the 2010 Law or from companies subject to the law of 10 August 1915

on commercial companies. Two authorisations were granted to players who established in Luxembourg for the first time and who considered the creation of a management company as the logical corollary to the launch of their funds in Luxembourg.

The deregistration of 10 management companies in 2014 is, as in the past, mainly due to restructuring within different groups leading to mergers and cessations of business.

Evolution of the number of management companies set up under Chapter 15 of the 2010 Law

Year	Number of management companies	Registrations on the list	Deregistrations from the list	*Companies providing collective management services*	*Companies benefiting from the extended scope of activity*	Companies authorised as AIFM
2012	180	6	5	*157*	*23*	/
2013	195	21	6	*165*	*30*	10
2014	206	21	10	*173*	*33*	111

2.1.2. Scope of activity

The corporate purpose of 20 out of the 21 management companies authorised in 2014 exclusively covers the collective management within the meaning of Article 101(2) of the 2010 Law. One entity benefited from an extended scope of activity.

It should also be noted that four management companies extended their scope of activity to discretionary management whereas one management company gave up its authorisation to provide discretionary management services.

The AIFM law provides management companies subject to Chapter 15 of the 2010 Law with the possibility to adopt the AIFM status. As at 31 December 2014, 111 out of the 206 management companies were authorised as AIFMs.

2.1.3. Geographical origin

In recent years, the management companies from Germany, Switzerland, France and Italy have been predominant in Luxembourg.

This trend was confirmed in 2014 with over one-third of the 21 newly authorised management companies coming from these countries. It can also be noted that other countries like the United Kingdom or Sweden are increasing their presence in Luxembourg through the creation of management companies.

Geographical origin of management companies

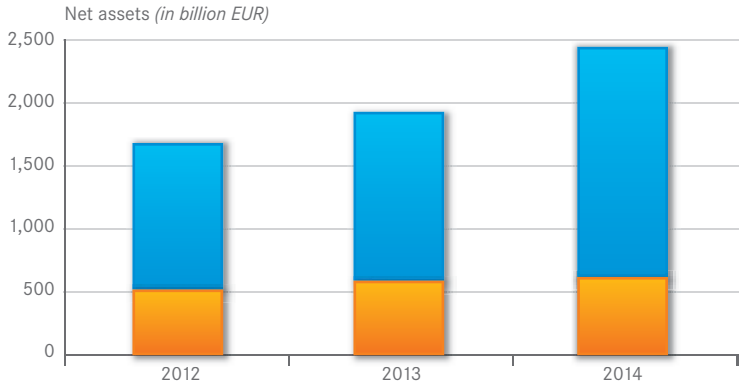
Country	2012	2013	2014
Germany	40	38	34
Switzerland	30	31	32
France	20	23	27
Italy	19	20	21
United Kingdom	12	13	14
United States	9	12	16
Luxembourg	8	10	11
Belgium	8	9	10
Others	34	39	41 [5]
Total	**180**	**195**	**206**

[5] Andorra (3), Austria (2), Canada (2), Denmark (3), Spain (2), Greece (3), Iceland (1), Japan (2), Jersey (1), Liechtenstein (2), Malta (1), Norway (1), Netherlands (3), Portugal (2), Qatar (2), Republic of Mauritius (1), Russia (2), Sweden (8).

2.1.4. Assets under management

As at 31 December 2014, the management companies subject to Chapter 15 of the 2010 Law managed 78.39% of the net assets of UCIs (i.e. EUR 2,451.9 billion, against EUR 1,935.8 billion in 2013). This increase of EUR 516.1 billion is not exclusively attributable to positive net subscriptions and to the rising stock markets. The increase is also linked to newly authorised companies as a result of changes in existing structures and the integration of old self-managed investment companies into management companies of their choice after abandoning their status, insofar as they all already had their asset portfolio under management.

Evolution of the net assets managed by management companies



	2012	2013	2014
Net assets under management	1,717.1	1,935.8	2,451.9
of which: in investment companies	1,164.4	1,342.6	1,829.4
of which: in commun funds	552.7	593.2	622.5

Breakdown of management companies in terms of assets under management

Assets under management *(in EUR)*	**2012**	**2013**	**2014**
> 20 billion	26	30	33
10 to 20 billion	15	14	16
5 to 10 billion	10	22	26
1 to 5 billion	52	52	57
500 million to 1 billion	14	9	8
100 to 500 million	32	32	38
< 100 million	31	36	28
Total	**180**	**195**	**206**

2.1.5. Evolution of employment

Management company staff recorded an upward trend in 2014. The number of employees rose from 3,253 as at 31 December 2013 to 3,389 as at 31 December 2014, i.e. by 136 people over a year. This growth is due to the creation of new entities and the staff rise within already existing players. It is also due to the change of status of some entities leading de facto to a staff transfer.

2.1.6. Balance sheet and profit and loss account

The provisional balance sheet total of management companies reached EUR 11,218 million as at 31 December 2014, against EUR 9,865 million as at 31 December 2013.

The provisional aggregate net profits amounted to EUR 2,436 million as at 31 December 2014, against EUR 2,012 million as at 31 December 2013. This growth resulted from the rise in net assets under management boosting current operating income.

2.2. Alternative investment fund managers subject to the AIFM Law

2.2.1. Number of AIFMs

At the end of 2014, 169 entities were authorised as AIFMs. Most of these entities already benefited from another authorisation from the CSSF and wished to complete or transform their existing structures. The profile of these companies is as follows:

- 111 are management companies set up under Chapter 15 of the 2010 Law;
- 39 are management companies set up under Chapter 16 of the 2010 Law;
- 11 are companies only interested in the authorisation under Article 5 of the AIFM Law without adopting the status of management company;
- eight are internal management alternative investment funds.

161 of these entities requested authorisation as external AIFM within the meaning of Article 4(a) of the AIFM Law. On the other hand, as at 31 December 2014, eight entities were authorised by the CSSF as internal AIFMs within the meaning of Article 4(b) of the AIFM Law. For further explanations on the difference between an external and an internal AIFM, reference is made to Question 1.e) of the document “Frequently Asked Questions” (FAQ) on AIFMs published by the CSSF (cf. point 2.2.6. below).

2.2.2. Analysis of the AIFM authorisation files

As evidenced by the 159 AIFM authorisations granted in 2014 (against 10 in 2013), 2014 was mainly characterised by the compliance of the players of the investment fund industry with the AIFM Law.

Access to the AIFM activity, whether for an external or an internal AIFM, is subject to prior authorisation granted by the CSSF. To this end, the CSSF carries out a qualitative analysis of the authorisation file with special emphasis on the following:

- the transparency of the direct and indirect shareholder structure of the AIFM;
- the quality of the shareholders that have a qualifying holding in the AIFM;
- the persons composing the AIFM bodies;
- the internal organisation of the AIFM with the number of persons, including the managers, employed by the AIFM in Luxembourg, the setting-up of an administrative centre and a decision-making centre at the level of the AIFM, the internal governance framework of the AIFM;
- the extent of delegated activities in relation to portfolio management and risk management; and
- the risk management method.

In order to meet the qualitative criteria listed above, reference is made to Circular CSSF 12/546 that the CSSF applies by analogy to the authorisation requests and organisation of AIFMs. Similarly to management companies of UCITS, the CSSF insists that AIFMs that are established in Luxembourg or that have to adapt to the AIFM Law set up the necessary substance to assume their responsibilities and to provide the alternative funds they manage with quality services.

2.2.3. AIFM activities

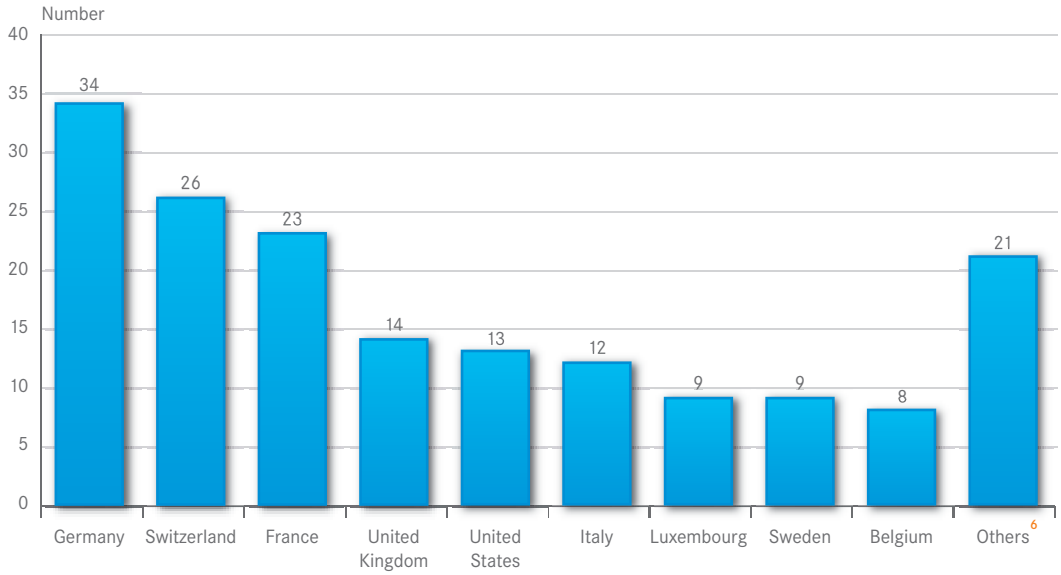
As regards the main activities of AIFMs as defined in Annex I of the AIFM Law, most of the entities authorised as at 31 December 2014 chose to carry out in-house risk management activities. The activities of portfolio management are either partially or entirely delegated to entities of the group or to specialised managers.

Moreover, 13 out of the 169 entities authorised on 31 December 2014 decided to extend their activities to discretionary management under Article 5(4) of the AIFM Law.

2.2.4. Geographical origin of AIFMs

Since 111 out of the 169 authorised AIFMs were already approved as management companies subject to Chapter 15 of the 2010 Law, there is a correlation between the geographical origin of AIFMs and the management companies subject to Chapter 15 of the 2010 Law. Thus, the main countries of origin of AIFMs are Germany, France and Switzerland, but also the United Kingdom.

Geographical origin of AIFMs



2.2.5. EuVECA and EuSEF

One authorisation request for an EuVECA in accordance with Regulation (EU) No 345/2013 of 17 April 2013 on European venture capital funds was submitted to the CSSF as at 31 December 2014. However, no authorisation request for an EUSEF in accordance with Regulation (EU) No 346/2013 of 17 April 2013 on European social entrepreneurship funds was submitted to the CSSF.

2.2.6. Publication of Frequently Asked Questions (FAQ) on AIFMs

Since 18 June 2013, the CSSF publishes FAQs relating to the AIFM Law on its website. These FAQs are updated regularly and are available at www.cssf.lu/en/aifm/.

[6] Andorra (1), Australia (2), Austria (1), Canada (1), Denmark (2), Spain (1), Finland (1), Japan (4), Jersey (2), Liechtenstein (1), Malta (2), Netherlands (1), Qatar (2).

3. DEVELOPMENTS IN THE REGULATORY FRAMEWORK

3.1. Circular CSSF 14/581

Circular CSSF 14/581 of 13 January 2014 concerns the new reporting obligations for AIFMs. The purpose is to clarify the technical details that AIFMs need in order to fulfil their reporting obligations.

The CSSF recalls in this context that the transition period (period of one year after the deadline for transposing the AIFMD) during which an authorisation request as AIFM should be submitted to the CSSF ended on 22 July 2014. As from this date, all the obligations arising from the AIFMD have become fully binding.

Moreover, the CSSF publishes (and updates on a regular basis) forms and FAQs on the regime of the AIFMD on its website in the section "AIFM" (www.cssf.lu/en/supervision/ivm/aifm/).

3.2. Circular CSSF 14/587

Circular CSSF 14/587 of 11 July 2014 aims to clarify the depositary regime laid down in the 2010 Law by defining the new organisational provisions which must be put in place by the depositaries of UCITS established in Luxembourg as well as by UCITS as regards the missions, requirements and rights relating to the function of depositary of UCITS. Chapter E of Circular IML 91/75 will no longer apply to UCITS as from 18 March 2016. When implementing Circular CSSF 14/587, the CSSF shall take into account the transitional provisions which will be applicable under the UCITS V Directive and which will have an impact on some provisions of this circular.

3.3. Circular CSSF 14/588 / Circular BCL 2014/237

Circular CSSF 14/588 of 28 May 2014, published together with the BCL, lays down the collection of statistics from monetary and non-monetary investment funds in order to align them with the regulations and guidelines of the ECB.

3.4. Circular CSSF 14/591

Circular CSSF 14/591 of 22 July 2014 lays down and clarifies the administrative practices relating to investor protection in case of a material change to an open-ended UCI.

3.5. Circular CSSF 14/592

The purpose of Circular CSSF 14/592 of 30 September 2014 is to implement into the Luxembourg regulation applicable to UCITS subject to Part I of the 2010 Law, the amended version of the "Guidelines for competent authorities and UCITS management companies - Guidelines on ETFs and other UCITS issues" (ref.: ESMA/2014/937EN) published by ESMA on 1 August 2014. These guidelines are attached to the circular.

3.6. Circular CSSF 14/598

Circular CSSF 14/598 of 2 December 2014 aims to implement into the Luxembourg regulation applicable to UCIs subject to the 2010 Law and SIFs subject to the law of 13 February 2007, the amendments introduced by the ESMA opinion of 22 August 2014 (ref.: ESMA/2014/1103) on the "CESR Guidelines on a common definition of European money market funds" (ref.: CESR/10-049).

4. PRUDENTIAL SUPERVISORY PRACTICE

4.1. Prudential supervision

4.1.1. Objectives and instruments of supervision of UCIs

The CSSF's permanent supervision aims to ensure that UCIs subject to its supervision observe all legal, regulatory and contractual provisions relating to the organisation and operation of UCIs, as well as to the distribution, investment or sale of their securities. The aim of this supervision is to ensure adequate investor protection as well as stability and security in the sector. This supervision is based, among others, on:

- the examination of the periodic financial information which UCIs must submit to the CSSF;
- the analysis of the information collected by the CSSF with respect to specific reporting (e.g. leveraged UCITS, money market UCIs) and ad hoc reporting;
- the analysis of annual reports which UCIs must publish for their investors;
- the analysis of the long form reports of UCIs[7] and management letters of UCIs issued by the *réviseur d'entreprises* (statutory auditor) and which must be immediately transmitted to the CSSF;
- the analysis of the statements made in accordance with the circular on the protection of investors in case of an NAV (net asset value) calculation error and correction of the consequences resulting from non-compliance with the investment rules applicable to UCIs;
- the on-site inspections carried out by CSSF agents.

4.1.2. Objectives and instruments of supervision of management companies subject to Chapter 15 and Chapter 16 of the 2010 Law and AIFMs subject to the AIFM Law

The CSSF ensures that these companies comply with all the legal and regulatory provisions which concern their organisation and functioning. This permanent supervision is based in particular on:

- the verification of compliance with the conditions for obtaining and maintaining authorisation;
- the examination of the annual financial reports which must be submitted to the CSSF;
- the analysis of the reports drawn up by the internal audit during the past year;
- the analysis of the information on the state of the Compliance function and on the main observations made in this context;
- the analysis of the risk management procedures;
- the on-site inspections carried out by CSSF agents.

4.2. Review of financial information for the CSSF and the STATEC

In accordance with Circulars IML 97/136, CSSF 07/310, CSSF 08/348 and CSSF 08/376 and pursuant to Article 147 of the 2010 Law, Article 58 of the SIF Law and Article 32 of the SICAR Law, the central administrations of Luxembourg UCIs must transmit financial information to the CSSF by electronic means, on a monthly (tables O1.1.), half-yearly (tables K3.1) and a yearly (tables O4.1. and O4.2.) basis.

The deadline to transmit the monthly financial information is 10 days following the reference date, which is in principle the last day of each month. The deadline for communicating the half-yearly financial information is 45 days after the reference date. As regards yearly financial information, the reference date is the closing date of the financial year. The deadline for transmitting the information is four months for UCITS governed by Part I of the 2010 Law and six months for UCIs governed by Part II of the 2010 Law and SIFs.

[7] In accordance with Circular CSSF 02/81, the long form reports of UCIs relate only to UCITS and UCIs subject to Part II of the 2010 Law.

As far as monthly and half-yearly financial information is concerned, the CSSF considers that UCIs must, on the one hand, strictly observe the defined deadline for transmission to the CSSF and, on the other hand, pay due attention when preparing the above-mentioned table so as to ensure that the format and content are correct.

The CSSF carries out quality and coherence controls of the data received and takes, where necessary, sanction measures in case the reporting entities do not comply with their obligations. In this context, the CSSF reminds that it published "FAQ concerning O1.1. Reporting" in order to clarify some recurring questions in relation to table O1.1..

4.3. Specific supervision carried out in 2014 based on annual and half-yearly reports, management letters and long form reports in accordance with Circular CSSF 02/81

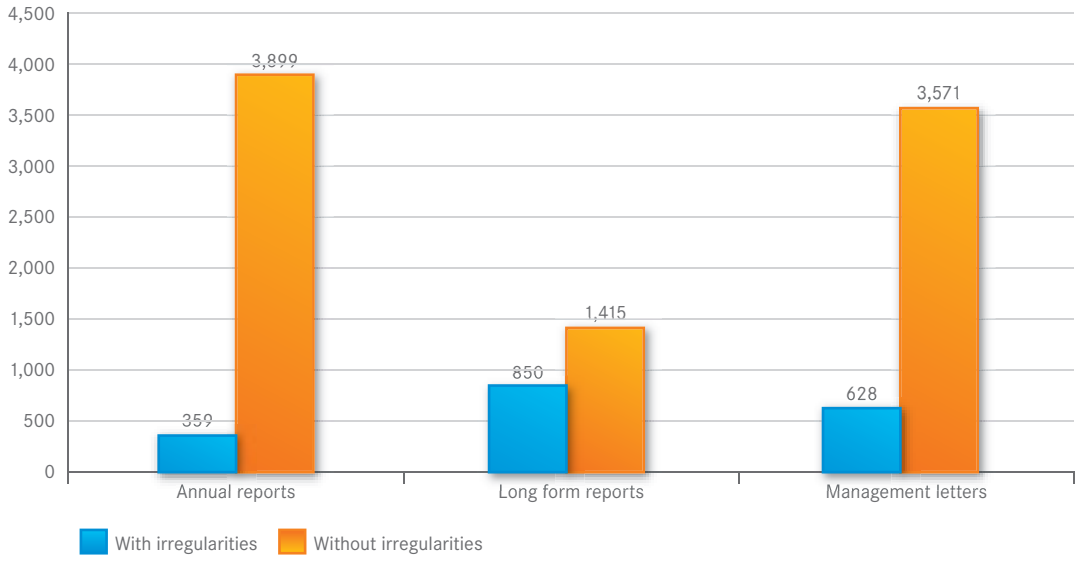
4.3.1. Results of the specific supervision

In the framework of the review of the annual and half-yearly reports, management letters and long form reports[8], the CSSF had to take decisions, in the form of injunctions, formal requests and recommendations to the attention of directors of some UCIs. These decisions aimed to remedy organisational deficiencies noted by the *réviseur d'entreprises agréé* (approved statutory auditor) in the reports or management letters.

In 2014, the CSSF sent 197 letters to require changes in order to remedy the deficiencies identified during the review of the documents in question.

The following table highlights the number of annual reports, the number of long form reports and the number of management letters in which one or several deficiencies were noted by the *réviseur d'entreprises agréé* and which were subject to a review by the CSSF. It should be noted that the reports and management letters received in 2014 mainly concerned the year 2013.

Annual reports, long form reports and management letters received in 2014



In 2014, the proportion of the annual reports in which the *réviseur d'entreprises agréé* issued an opinion presenting a paragraph with observations, a qualification of the annual accounts or did not issue an opinion, represents 9% of all the annual reports received.

The proportion of long form reports in which the *réviseur d'entreprises agréé* observed a deficiency or a point to improve was 60% of all the reports received.

[8] While the annual and half-yearly reports and management letters concern UCI(TS), SIFs and SICARs, the long form reports only concern UCIs subject to the 2010 Law, i.e. UCITS Part I and UCIs Part II.

18% of the management letters received included a comment of the *réviseur d'entreprises agréé*, a large proportion of which was related to simplified procedures under Circular CSSF 02/77 on the protection of investors in case of NAV calculation error and correction of the consequences resulting from non-compliance with the investment rules applicable to UCIs.

As far as the data of the table below is concerned, it should be pointed out that each intervention in the form of a letter may cover several recommendations or formal requests.

Breakdown of interventions according to themes

Theme	Relative share
Circular CSSF 02/77	27.2%
Fight against money laundering and terrorist financing	17.8%
Valuation	11.2%
Fees and commissions	9.1%
Legal	8.3%
Reconciliation	7.0%
Prospectus	4.1%
Transmitted information (LFR/ML)	3.3%
Investments	2.5%
Late trading/Market timing	2.1%
Conflicts of interest	1.7%
Annual reports	1.7%
Portfolio turnover	1.7%
Risk management	1.2%
Accounting	1.2%
Total	**100.0%**

The shortcomings identified as regards the fight against money laundering and terrorist financing concerned in particular the application of CSSF Regulation N° 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing. In this context, the *réviseur d'entreprises* notably observed a certain number of cases where the directors of an investment company or management company failed to define internal procedures and to formally set up mechanisms to identify and assess the risks relating to money laundering and terrorist financing to which the UCI is exposed, as required by Article 4 of the aforementioned regulation.

4.3.2. Recurring or specific issues

• Fees and commissions

The CSSF identified several cases where errors in the calculation of fees and costs to be borne by the UCI led to payments which were higher than the percentages or amounts authorised by the prospectus of the UCI.

In this context, the CSSF recalls that the tolerance thresholds provided for by Circular CSSF 02/77 cannot be invoked to refuse the UCI the reimbursement of overcharged amounts. Indeed, since it is a mismanagement, the CSSF considers that when a service provider received an amount that is too high in comparison to the amount to which it is entitled in accordance with the prospectus of the UCI, the surplus levied on the assets of the fund must be reimbursed to the UCI in all cases and irrespective of whether or not the overpayment is material compared to the threshold applicable within the meaning of Circular CSSF 02/77. The recalculation of the NAV is, however, necessary only in situations where the reimbursed amount exceeds the materiality threshold applicable in accordance with Circular CSSF 02/77.

Similarly to the above, the CSSF considers that the UCI must also be compensated when it did not benefit, within the context of a subscription or redemption transaction, from the amount or factor which should have been applied in accordance with the sales prospectus to cover the fees linked to the investment or disinvestment (dilution levy, swing factor). The same applies within the context of investment or disinvestment operations in underlying or related UCIs where the UCI experienced duplication of certain fees while the sales prospectus specifically excludes such duplication.

Moreover, it is specified that in the reverse case where the UCI did not pay enough fees to a service provider, the managers of the UCI must make arrangements with the provider concerned, without deducting retroactively the amounts from the assets of the UCI.

• Counterparty risk provided for by Article 43 of the 2010 Law

Article 43(1) of the 2010 Law provides, inter alia, that a UCITS cannot invest more than 20% of its assets in deposits placed with the same entity.

The CSSF specifies that exceeding this limit following a disinvestment resulting in a cash inflow shall be deemed an active breach within the meaning of Circular CSSF 02/77. Indeed, the cash inflow expected from a disinvestment is predictable and must thus be taken into account when deciding to disinvest.

4.3.3. Half-yearly and annual reports - details on the legal requirements

Within the context of the first annual and half-yearly report (i.e. relating to the first business year) to be issued by newly created UCIs, the CSSF noted, in several cases, that the period covered by this first report started only with the first NAV calculation.

Insofar as the reports in question must deal with all the activities carried out by the UCI during its first financial year, the CSSF considers that the starting date for the first reports must correspond, in the case of a UCI incorporated in the form of a commercial company, to the date of its incorporation before a notary. Similarly, in case of a UCI incorporated in the form of an FCP (common fund), the starting date shall be that of the entry into force of the management regulation.

4.4. Circular CSSF 02/77 on the protection of investors in case of NAV calculation error and correction of the impacts of non-compliance with investment rules

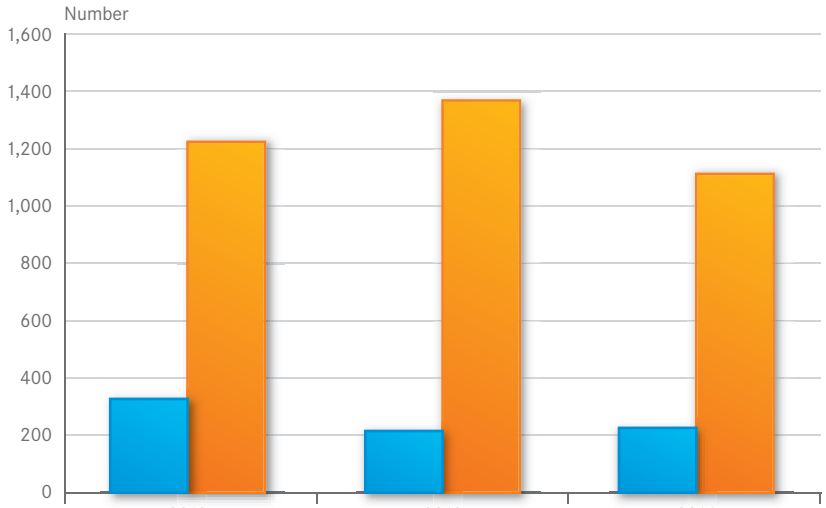
4.4.1. Declarations made in 2014 on the basis of Circular CSSF 02/77

In 2014, the CSSF received 1,338 declarations on the basis of Circular CSSF 02/77[9], against 1,583 declarations in 2013, representing a decrease of 15.5%.

Among these declarations, 226 cases (215 in 2013) concerned NAV calculation errors and 1,112 cases (1,368 in 2013) concerned non-compliance with investment rules.

[9] Even if Circular CSSF 02/77 does not automatically apply to SIFs, the CSSF, however, considers that SIFs may either opt for the application of Circular CSSF 02/77 or set other internal rules that must remain within reasonable limits with respect to the SIF's investment policy. In this context, the CSSF considers that SIFs that did not set other internal rules must apply Circular CSSF 02/77 by default. Consequently, this circular concerns UCITS, UCIs subject to Part II of the 2010 Law and SIFs.

Evolution of the number of NAV calculation errors and instances of non-compliance with investment rules reported to the CSSF over the last three years



	2012	2013	2014
NAV calculation errors	327	215	226
Non-compliance with investment rules	1,224	1,368	1,112

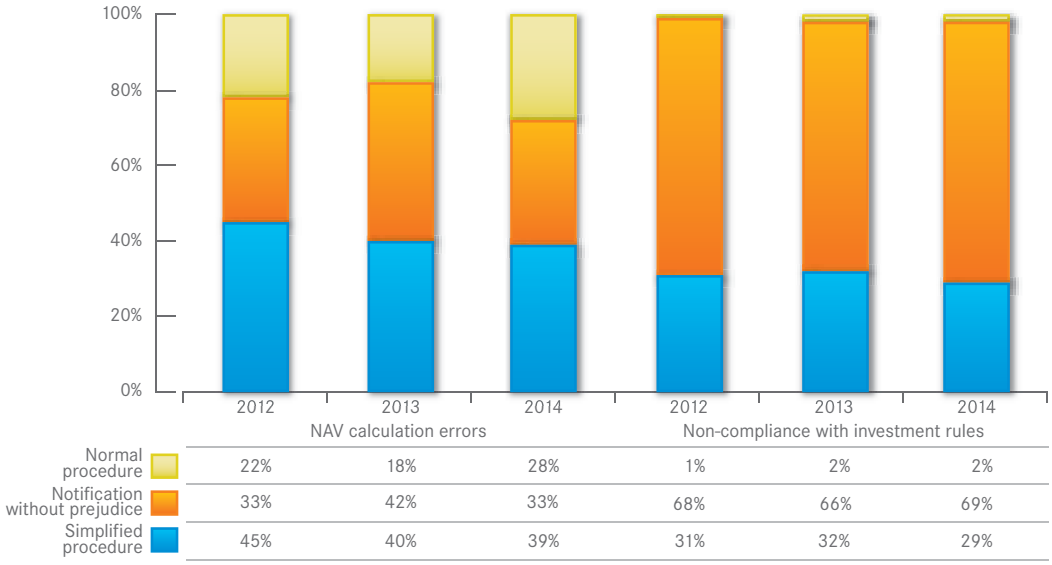
In 2014, the number of instances of non-compliance with investment rules decreased (-18.7%) compared to the previous year. The NAV calculation errors, in contrast with the trend identified over the last years, increased (+5.1%) as compared to 2013. This rise is in part due to the growth of the number of notifications received within the framework of NAV calculation errors for SIFs.

As regards more particularly the declarations of NAV calculation errors received in 2014, 14 cases among the declarations for which the normal procedure is applicable could not be closed on 31 December 2014. This is because the CSSF is still awaiting either further information or confirmations from the *réviseur d'entreprises*, as provided for in Circular CSSF 02/77.

In 2014, 162 cases out of 226 NAV calculation errors (176 cases out of 215 cases in 2013) applied the simplified procedure, insofar as the compensation amounts did not exceed EUR 25,000 and the amounts to be reimbursed to an investor did not exceed EUR 2,500. Out of the 1,112 instances of non-compliance with investment rules, the simplified procedure was also applied in 1,090 cases. In 763 of the instances of non-compliance with investment rules (69%), no prejudice was caused.

The following graph plots the development, over the last three years, of the respective parts of the cases of simplified procedure (i.e. where the amounts of compensation were not higher than EUR 25,000 and the amounts to be reimbursed to an investor were not higher than EUR 2,500), cases of standard procedure (i.e. where the above-mentioned amounts were exceeded) and instances of non-compliance with investment rules and NAV calculation errors which were settled without negative impact for investors and UCIs.

Simplified procedure



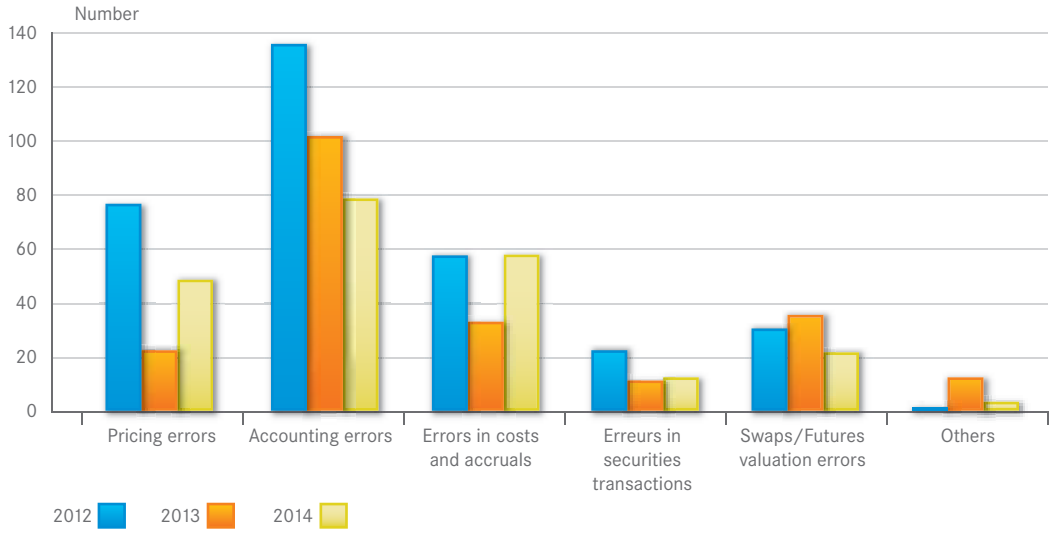
	NAV calculation errors			Non-compliance with investment rules		
	2012	2013	2014	2012	2013	2014
Normal procedure	22%	18%	28%	1%	2%	2%
Notification without prejudice	33%	42%	33%	68%	66%	69%
Simplified procedure	45%	40%	39%	31%	32%	29%

The origin of NAV calculation errors can be divided into five categories: pricing errors, accounting errors, errors in the calculation of costs and accruals, errors in the valuation of swaps or futures and other errors.

In 2014, NAV calculation errors were mainly due to accounting errors (35%), errors in costs and accruals (26%) and errors in the valuation of securities (22%).

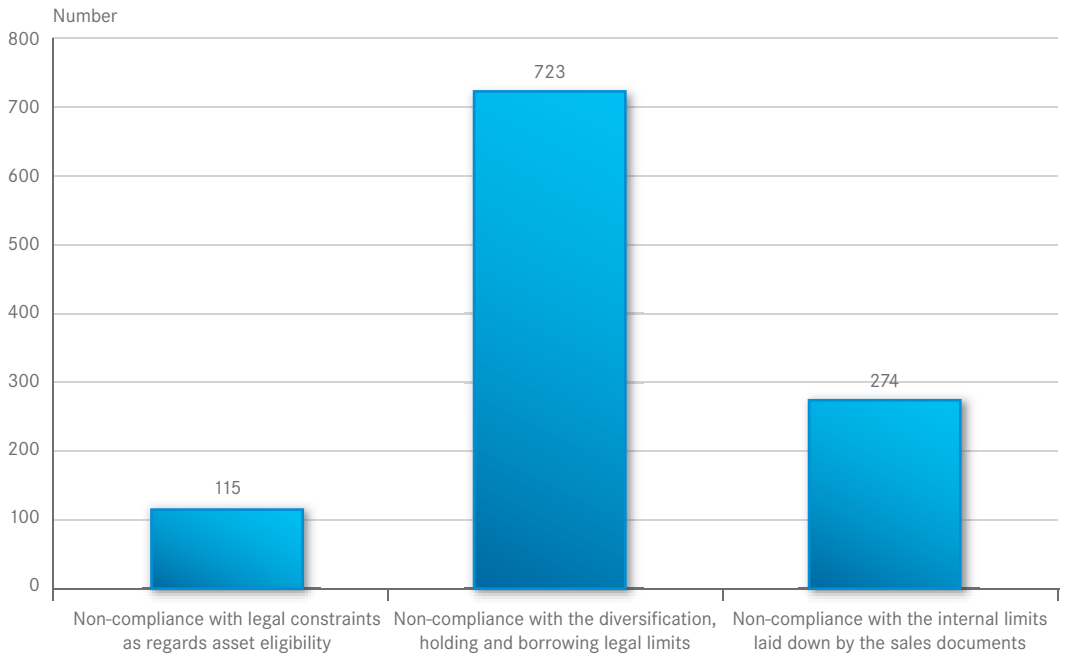
The following table shows the development of the causes of NAV calculation errors recorded since 2012. Even if the accounting errors have been decreasing in the last several years, they remain the main cause of NAV calculation errors. It should be noted that errors in the valuation of securities and errors in costs and accruals strongly increased compared to last year.

Evolution of the origin of NAV calculation errors over the last three years



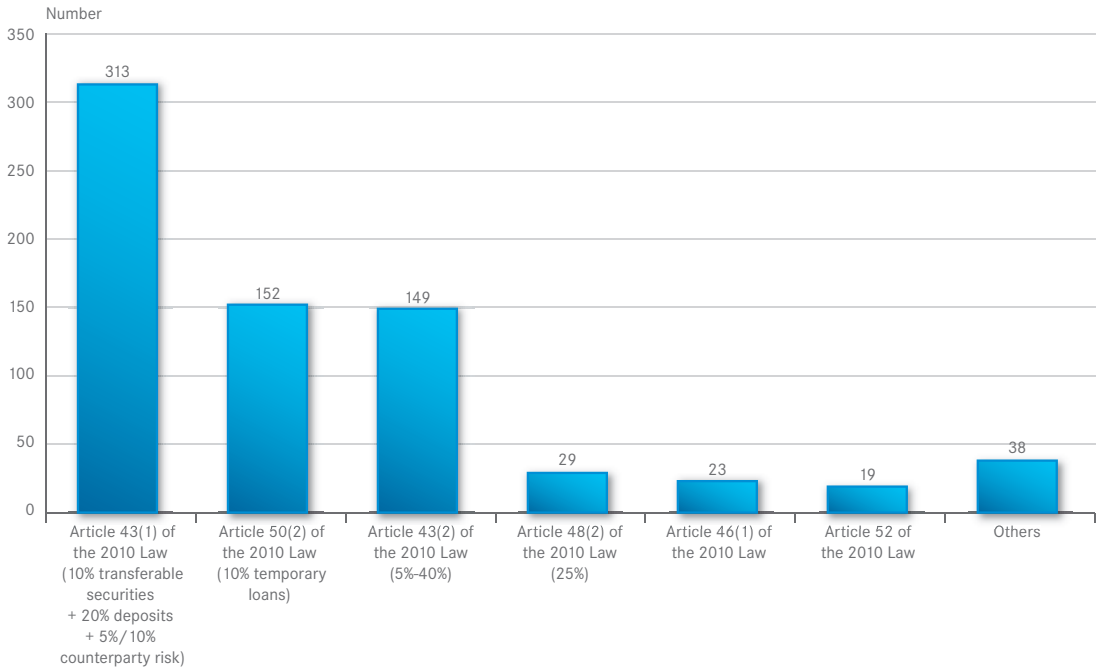
The following graph shows the origin of the instances of non-compliance with investment rules which were identified in 2014. These instances of non-compliance are mainly due to non-compliance with the legal limits provided for in the 2010 Law and with the internal limits provided for in the prospectus.

Origin of non-compliance with investment rules in 2014



The following graph shows the distribution of the instances of non-compliance with the legal limits. Thus, a large portion comes from non-compliance with Article 43(1) of the 2010 Law and in particular the 20% limit in deposits, followed by the instances of non-compliance with Article 50(2) limiting temporary loans to 10% of the NAV, and Article 43(2) establishing the rule of 5%-40% of the NAV with the same issuers.

Breakdown of the instances of non-compliance with the legal limits of diversification, holding and borrowing



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

The table below sets out the detailed compensation amounts notified in 2013 and 2014[10].

(in EUR)	Investors		UCI/Sub-fund	
	2013	2014	2013	2014
Total amount of compensation following NAV calculation errors	1,662,958.78	6,342,112.04	2,702,763.08	2,829,374.41
Total amount of compensation following non-compliance with investment rules[11]	4,081.88	127,405.32	1,743,320.53	2,096,052.93

As regards the NAV calculation errors, the compensation amounts paid to investors in the context of the declarations made in 2014 increased significantly compared to 2013. This increase is mainly due to three UCIs which were strongly affected by a NAV calculation error requiring significant compensation.

As regards the instances of non-compliance with investment rules, the amounts of compensation paid to investors within the context of the declarations made in 2014 slightly increased as compared to the declarations made in 2013.

Even if the number of instances of non-compliance with investment rules decreased in 2014, compensation paid to the UCI increased because of, on the one hand, the decrease of 16% of the instances of non-compliance which did not cause any prejudice and, on the other hand, an increase of 18% of the standard procedures applied to instances of non-compliance with investment rules.

4.5. Meetings

In 2014, 312 meetings were held between representatives of the CSSF and UCI intermediaries. These meetings concerned the presentation of new projects by initiators of UCIs, restructurings of UCIs and the application of the laws and regulations pertaining to UCIs.

4.6. Requirements as regards transparency in UCITS prospectuses

In the approval process of new UCITS or new compartments of UCITS, the CSSF attaches particular importance to the transparency of the investment and underlying risk policy at the level of the prospectus. This attention is based, in particular, on the requirements of Articles 47 and 151 of the 2010 Law. The CSSF has already specified its expectations in its 2012 Annual report within the framework of highly leveraged UCITS.

The CSSF recalls that in order to grant authorisation, it requires that the information on investment strategies, on investment decision-making processes (including, in particular, aspects on selection, allocation, weighting, diversification and possible risk budget), on the use of derivative financial instruments and on the risk profile of UCITS must be sufficiently granular. Indeed, in accordance with the principle of transparency, the investor must be able to anticipate and to understand, based on the prospectus, the profile of the positions which will be taken by the manager, their purpose and the risks which arise therefrom. This requirement is enhanced for UCITS, which present sophisticated strategies, make greater use of derivative financial instruments or invest in complex products.

In this context, it is not incumbent upon the CSSF to detail its requirements for each product or each investment strategy, but the UCITS is in charge of ensuring compliance with the requirements of the law as regards transparency by taking into account the importance the CSSF places on this topic.

[10] It should be stressed that the data as at 31 December 2014 are not complete as the final compensation amounts had not been finalised for a certain number of files.

[11] The amount of compensation paid to investors which results from instances of non-compliance with investment rules, corresponds to the instances of non-compliance whose regularisation led to an NAV calculation error above the applicable materiality threshold.

During 2014, the CSSF noticed that the draft prospectus accompanying authorisation requests are still regularly unsatisfactory in terms of details and transparency quality for certain more complex strategies. These deficiencies lead to additional specific reviews which may extend the processing phase.

4.7. Requirements as regards backtesting of the VAR models of UCITS

4.7.1. Context

In accordance with CSSF Regulation N° 10-04 and Circular CSSF 11/512, management companies subject to Chapter 15 of the 2010 Law (hereinafter the "management company") and investment companies which did not designate a management company within the meaning of Article 27 of this law (hereinafter the "SIAG") must carry out, where appropriate, backtesting periodically in order to assess the validity of the provisions as regards risk measures which include forecasts and estimations on models.

In this context, and in accordance with the guidelines of ESMA entitled "CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS" (ref.: CESR/10-788, hereinafter the "Guidelines"), the permanent risk management function of management companies and SIAGs which manage UCITS whose global exposure within the meaning of Article 42(3) of the 2010 Law is calculated according to the Value-at-Risk method (VaR) must carry out documented ongoing validation work of the VaR model (including, but not limited to backtesting, as specified in boxes 18 and 22 of the Guidelines) in order to ensure the precision and accuracy of its calibration.

4.7.2. Review of backtesting programmes by the CSSF

Within its supervision, the CSSF reviewed the backtesting programmes of various players based on their risk management processes (required by Circular CSSF 11/512) and ad hoc reports. In this context, it identified the following shortcomings:

- VAR backtesting with inappropriate time horizon: the backtesting programme must relate, in accordance with box 18 of the Guidelines, to the one-day horizon VaR without any other consideration such as, for example, the NAV calculation frequency.
- Incomplete analyses of overshootings: in case of excessive overshootings (as defined in box 18 of the Guidelines), an analysis must be carried out to identify both the precise causes of the overshootings taken separately, but including also an overall assessment that allows for an explanation as to why the model did not correctly predict the loss and to conclude as to the reliability of the VaR model in order to make, where appropriate, the necessary corrections in accordance with point 5 of box 18 of the Guidelines.
- Incomplete risk management procedures: the risk management procedures must comply with all the points defined in Section 2.4. of the annexe ("Risk management procedure to be transmitted to the CSSF") of Circular CSSF 11/512, i.e. describing the functioning of the backtesting programme, proving compliance with box 18 of the Guidelines and specifying the policy in case of excessive overshootings. Moreover, Section 1.7. of the aforementioned annexe specifies that a copy of the regular reports on risk management must be attached to the risk management procedure.

The CSSF also highlights that the backtesting programme requirements described in box 18 of the Guidelines constitute, in accordance with point 4 of box 22 of the Guidelines, a minimum framework, which must be supplemented by other validation techniques. In this respect, the CSSF thinks, for example, of additional analyses on the number of overshootings observed over several confidence intervals, the overshooting concentration or their amplitude or the abnormally low number of overshootings.

4.8. Ad hoc surveys

During 2014, the CSSF conducted various ad hoc surveys within the context of the macro-prudential supervision of UCIs.

In January 2014, the CSSF requested a sample composed of UCITS subject to Part I of the 2010 Law, UCIs subject to Part II of the 2010 Law and the most important SIFs in terms of net assets, to fill in a questionnaire to collect information on the (gross and net) assets under management, the types of investors, the distribution countries, the exposures linked to (reverse) repos and securities lending/borrowing transactions and borrowings.

This survey revealed, in particular, that for an analysed sample, the use of (reverse) repos and securities lending/borrowing transactions were very limited in 2013 both as regards the number of UCIs/SIFs using these transactions and as regards the exposure of the net assets.

In September 2014, the CSSF requested self-managed investment companies governed by Luxembourg law, Luxembourg management companies subject to Chapter 15 of the 2010 Law, Luxembourg AIFMs authorised in accordance with Chapter 2 of the AIFM Law as well as Luxembourg alternative investment funds managed by non-European AIFMs to fill in a questionnaire on the European regulation on OTC derivatives, central counterparties and trade repositories (EMIR). This questionnaire aimed to assess the implementation of the obligations introduced by EMIR and the problems experienced by these UCIs and managers of UCIs. The answers to the questionnaire are currently being analysed.

4.9. Regulated markets

The CSSF ruled on the acceptability of certain markets for UCITS investments.

Thus, the "China Interbank Bond Market" (CIBM) may be considered as a regulated market operating regularly, recognised and open to the public within the meaning of Article 41(1)(c) of the 2010 Law.

The CSSF noted that UCITS whose manager is authorised as Renminbi Qualified Foreign Institutional Investor (RQFII) may, in principle, invest up to 100% of their net assets on the CIBM.

However, UCITS whose manager is authorised as Qualified Foreign Institutional Investor (QFII) may, in principle, only invest up to 35% of their net assets on the CIBM due to the lock-up period for the repatriation of funds likely to limit the overall liquidity of the UCITS portfolio and thus challenge its capacity to deal with the redemption requests from investors.

Moreover, as regards the steering programme "Shanghai Hong Kong Stock Connect" (SHSC) implemented on 17 November 2014, the CSSF considers that the SHSC may be considered as a regulated market operating regularly, recognised and open to the public within the meaning of Article 41(1)(c) of the 2010 Law.

However, UCITS whose investment policy consists in investing all or part of their assets in financial instruments listed or traded on the CIBM or the SHSC must comply with the following conditions:

- the sales prospectus of the UCITS shall make clear that the UCITS invests in financial instruments listed or traded in these markets;
- the sales prospectus of the UCITS must include an appropriate description of the risks linked to investments in financial instruments listed or traded in these markets, allowing the investor to get a proper view of the UCITS' risk profile;
- the risk management policy (and thus the risk management process to be communicated to the CSSF) must adequately cover the risks linked to the investment in financial instruments listed or traded in these markets;
- the liquidity of the financial instruments listed or traded in these markets must not compromise the overall liquidity of the UCITS portfolio in order to be able to deal with redemption requests;
- the investment manager must provide evidence of specific experience in the management of financial instruments listed or traded in these markets.

Moreover, UCITS wishing to invest their assets in instruments traded on the SHSC must ensure that:

- the accounts opened by the depositary bank with the sub-custodian in Hong Kong are segregated at the level of the compartment of the UCITS or in an omnibus account for all UCITS customers of the depositary bank with this sub-custodian;

- the transaction settlement model must be the Delivery versus Payment model in order to limit the counterparty risk.

It is worth recalling that the qualification of a given market as regulated market within the meaning of Article 41(1)(c) of the 2010 Law is the responsibility of the UCITS.

4.10. Eligibility of SIFs under Article 41(1)(e) of the law of 17 December 2010

The CSSF was called upon to rule on the eligibility of SIFs as "other UCIs" within the meaning of Article 41(1)(e) of the 2010 Law. This question was raised following the new requirements imposed by the AIFM Law as a certain number of SIFs qualify as alternative investment funds.

The CSSF considers that SIFs do not qualify as "other UCIs" within the meaning of Article 41(1)(e) of the 2010 Law.

5. IT SUPPORT FOR THE SUPERVISION OF UCIS

The mission of the department "Coordination of the UCI departments' specific IT tools" (UCI IS department) is to develop and maintain specific applications developed for the UCI departments. In this context, the UCI IS department works closely together with the agents of the UCI departments as well as with the support, maintenance and development divisions of the department "Information systems and supervision of support PFS" (SYS department) of the CSSF.

The applications managed by the UCI IS department provide various features in order to facilitate and to accelerate the processing of instruction files and authorisation requests, as well as to support the CSSF agents in the supervision of UCIs. Reminder applications enable, for example, agents to follow up on compliance with reporting obligations and to send reminders in case of non-receipt of regulatory reports. Other applications allow for the establishment of various statistics, for issuing certificates, for exploiting data collected via forms or for following up on the liquidation of supervised entities.

In addition to the development of new applications and the daily maintenance of existing applications, the agents of the UCI IS department ensure the continuous development of the applications by taking into account the needs of the users, identifying improvements based on experience as well as developments in the regulatory framework of the UCI department.

The UCI IS department is composed of agents who have experience in the UCI area and/or IT technical skills. This synergy of skills fosters the understanding of the needs of the UCI departments and the design of specialised applications. Projects within the UCI IS department are managed by combining standard methods and agile methodologies. A functional and software architecture pre-analysis is made in a similar manner to standard project management methods. After having established the framework to limit risks, the subsequent stages of the project take place according to an agile methodology which enables easier interaction between contracting and project management. The main advantage of this methodology consists in being able to follow the progress of the projects in a concrete manner so that the users can quickly approve the solution in order that it can be adjusted.

The UCI IS department carries out its mission of modernising the existing applications by targeting them towards new technologies in order to automate and facilitate the steps to be taken by the intermediaries of the UCI industry. Within this context, it co-operates with the SYS department, with the transmission channels and with the different players involved in new technologies of the financial centre.

Agents hired in 2014 and 2015: Departments "Prudential supervision and risk management", "International, regulation and enforcement", "Authorisation and supervision of UCI management companies", "Authorisation and supervision of AIFMs, AIFs, SIFs, SICARs and securitisation undertakings" and "Authorisation and supervision of UCITS and pension funds"

Left to right: Jérémy DULAUROY, Léa FERRY, Valentine BAUVEZ, Patrick NIERADKA, Tom OFFERMANN, Laura GEHLKOPF, Danièle CHRISTOPHORY, Emilie PUCAR, Michèle WEICKER, Fabio DE TOMMASI

Absent : Georg KIEFER, Günther MATTHYS, Thibaut VENTER

CHAPTER VIII

SUPERVISION OF SECURITISATION UNDERTAKINGS

SUPERVISION OF SECURITISATION UNDERTAKINGS

During 2014, the CSSF received four applications for registration on the official list of authorised securitisation undertakings subject to the law of 22 March 2004 on securitisation.

One securitisation undertaking was granted authorisation by the CSSF in 2014, namely the following multiple-compartment securitisation undertaking:

- Purple Protected Asset S.A..

As at 31 December 2014, 32 securitisation undertakings were registered on the official list of authorised securitisation undertakings, against 31 entities at the end of 2013. The balance sheet total of authorised securitisation undertakings exceeded EUR 23.8 billion at the end of 2014, i.e. an increase of EUR 4.2 billion against 2013.

The submitted application files reveal that securitisation transactions mainly consist in repackaging transactions in the form of structured products issues linked to various financial assets, notably equity indices, baskets of shares or units of UCIs, as well as in securitisation of debt, loans and other comparable assets. Repackaging transactions are mainly synthetic securitisation transactions in respect of the risk transfer technique.

In general, the securities issued by securitisation undertakings are bonds and subject to foreign law. In the vast majority of cases, the articles of incorporation nevertheless reserve the right for the securitisation undertaking to execute securitisations by issuing shares. Some securitisation undertakings also have the possibility to issue warrants. As at 31 December 2014, 10 of the 32 authorised securitisation undertakings issued securities admitted to trading on a regulated market.

To date, no application file for a securitisation fund has been submitted to the CSSF. Neither has the CSSF received application files for a fiduciary-representative under Luxembourg law, even though the law of 22 March 2004 on securitisation has established a specific legal framework for these independent professionals in charge of representing investors' interests.

The CSSF expects securitisation activities to continue their slow but ongoing pace in 2015.

• New facts following the decision to refuse to register ARM Asset Backed Securities S.A. on the official list

On 29 August 2011, the CSSF decided to refuse the registration of the securitisation undertaking ARM Asset Backed Securities S.A. (ARM) on the official list of authorised securitisation undertakings. On 29 November 2011, ARM lodged a *recours administratif* (petition) with the *Tribunal Administratif* (Administrative Court) against the CSSF's decision. On 6 December 2012, the *Tribunal Administratif* declared the petition lodged by ARM with the *Tribunal Administratif* of first instance to be unfounded and that the expenses of this judgment were to be borne by ARM. On 16 January 2013, ARM lodged an appeal with the *Cour Administrative* (Court of Appeal) against the judgment of the *Tribunal Administratif*.

On 21 August 2013, the *Cour Administrative* confirmed the first instance judgment of the *Tribunal Administratif*, so that the CSSF's decision to refuse a license on 29 August 2011 became final. On 4 September 2013, the CSSF filed an application with the Public Prosecutor to request the *Tribunal d'Arrondissement de Luxembourg* (Luxembourg District Court) sitting in commercial matters to order the dissolution and liquidation of ARM. On 4 October 2013, ARM filed an application with the High Court of Justice of England and Wales to appoint Messrs. Mark Shaw and Malcolm Cohen from BDO LLP as joint provisional liquidators. The judgment appointing them as joint provisional liquidators was rendered on 9 October 2013. On 26 June 2014, the *Tribunal d'Arrondissement de Luxembourg* sitting in commercial matters decided to suspend the liquidation proceedings until after the completion of the winding-up operations ordered by the High Court of Justice on 9 October 2013.

On 29 November 2011, ARM also lodged an appeal with the *Cour d'Appel* (Court of Appeal) sitting in commercial matters against the judgement of the *Tribunal d'Arrondissement* of 10 November 2011, which confirmed that the protective measures set out in Article 28 of the law of 22 March 2004 on securitisation are applicable

to the *société anonyme* ARM and which accepted the request of the CSSF to be replaced as *commissaire de surveillance* (supervisory commissioner). By an order dated 18 November 2014, ARM purely and simply withdrew its appeal filed on 29 November 2011. By way of conclusions notified on 24 November 2014, the CSSF accepted the withdrawal of the appeal. Consequently, the *Cour d'Appel* terminated the appeal filed on 29 November 2011 as a result of the withdrawal and ordered ARM to pay the costs of the proceedings.

Please refer to the CSSF's website, section "Documentation/FAQ", sub-section "Publications", heading "Press releases" for any news relating to ARM.

CHAPTER IX

SUPERVISION OF PENSION FUNDS

1. DEVELOPMENTS OF PENSION FUNDS IN 2014

1.1. Major events and trends observed in 2014

In 2014, the CSSF authorised one pension fund subject to the law of 13 July 2005 on institutions for occupational retirement provision in the form of pension savings companies with variable capital (sepcav) and pension savings associations (assep), namely the multiple-compartment pension savings association Amundi Pension Fund.

As at 31 December 2014, a total of 15 pension funds were subject to the law of 13 July 2005, among which 12 asseps and three sepcavs.

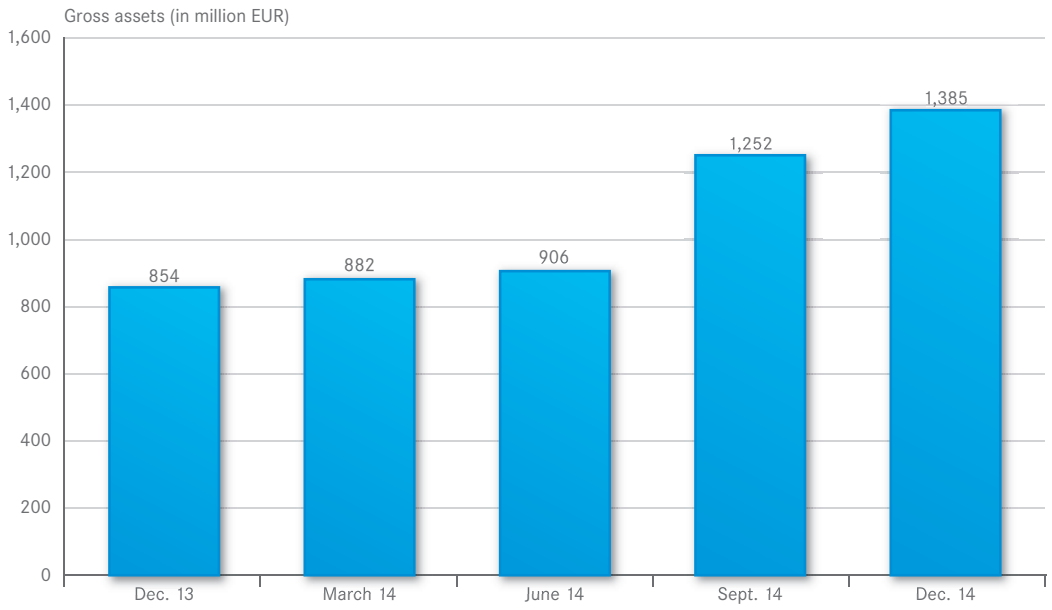
As at 31 December 2014, two pension funds are managing cross-border pension schemes. These pension funds provide their services to sponsoring undertakings established in Ireland, the Netherlands and Greece, as well as to undertakings of non-EU Member States.

The year 2014 was marked by the creation of a new pension fund and of several new pension schemes within existing pension funds. The CSSF expects a slow but stable growth of the pension fund sector in 2015, in particular through the continuing development of the existing pension funds' cross-border activities.

1.2. Developments of pension fund assets

At the end of 2014, gross assets of pension funds totalled EUR 1,385 million against EUR 854 million as at the end of 2013, representing a 62% growth. The main reason for this progress is the creation of two new pension schemes within two existing pension funds.

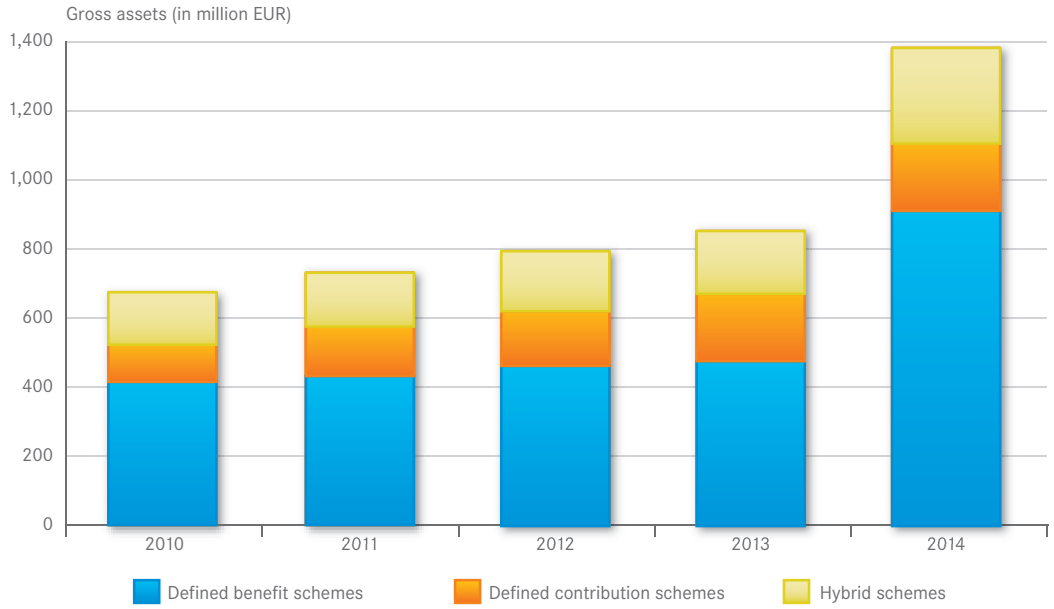
Developments of pension fund assets



1.3. Developments of assets according to the type of pension scheme

The following table highlights that the gross assets of defined benefit schemes amounted to EUR 913 million at the end of 2014 and represented 66% of overall gross assets of pension funds. The assets of defined contribution schemes amounted to EUR 195 million as at 31 December 2014.

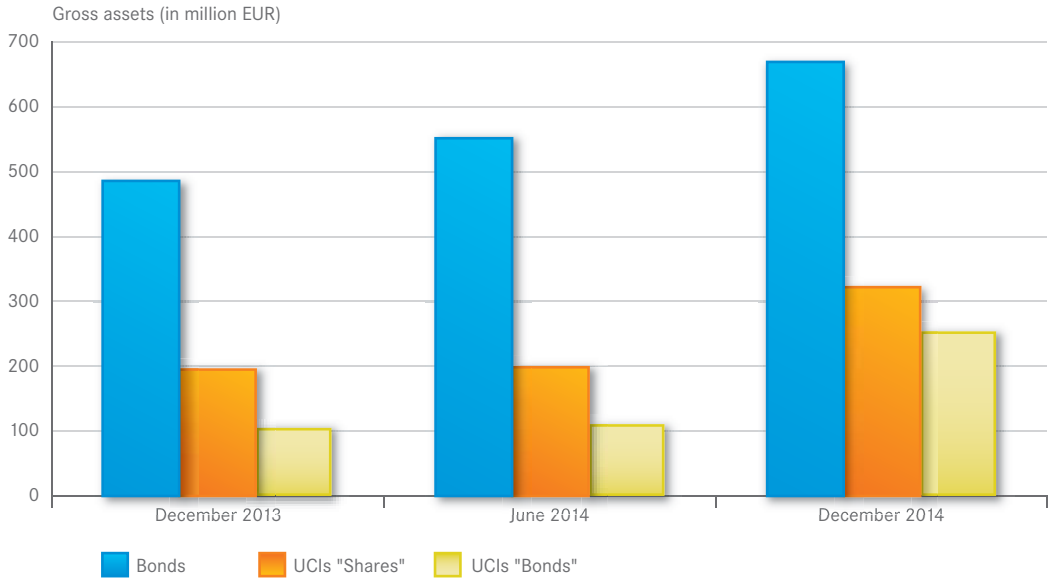
Developments of assets according to the type of pension scheme



1.4. Allocation of pension fund assets

In 2014, pension funds invested primarily in bonds, representing a total of EUR 670 million, i.e. 48% of total gross assets of pension funds. The total amount of investments of pension funds in investment funds amounted to EUR 616 million as at 31 December 2014, of which EUR 322 million in share funds and EUR 254 million in bond funds.

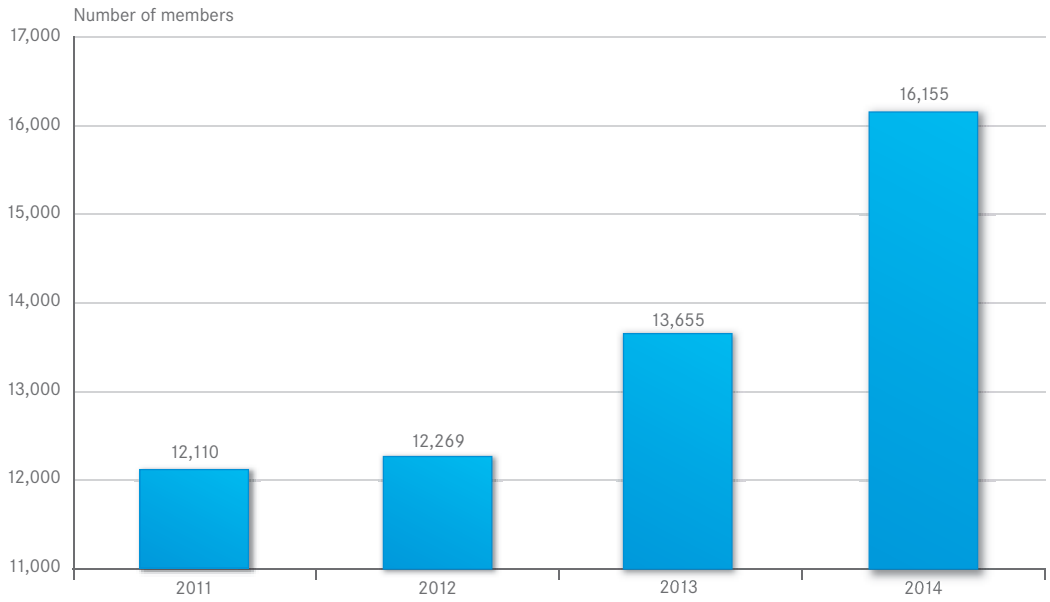
Allocation of pension fund assets



1.5. Developments in the number of pension fund members

At the end of 2014, pension funds had 16,155 members against 13,718 members as at 31 December 2013, which is a 17.5% growth over a year. The main reason for this growth is the creation of two new pension schemes within two existing pension funds.

Developments in the number of pension fund members



2. DEVELOPMENTS OF LIABILITY MANAGERS IN 2014

Following the registration of Mercer (Ireland) Limited on the official list of professionals authorised to act as liability managers for pension funds subject to the law of 13 July 2005, the number of liability managers of pension funds approved by the CSSF amounted to 16 as at 31 December 2014.

CHAPTER X

SUPERVISION OF SECURITIES MARKETS

1. Approval of prospectuses for securities relating to offers to the public or admissions to trading on a regulated market
2. Takeover bids
3. Mandatory squeeze-out and sell-out of securities
4. Supervision of issuers of securities of which the CSSF is the competent authority
5. Enforcement of financial information
6. Supervision of markets and market operators
7. Investigations and co-operation

1. APPROVAL OF PROSPECTUSES FOR SECURITIES RELATING TO OFFERS TO THE PUBLIC OR ADMISSIONS TO TRADING ON A REGULATED MARKET

1.1. Application of the Prospectus Law

The regulation applicable to prospectuses for securities changed only once in 2014. Indeed, Delegated Regulation (EU) No 382/2014 of 7 March 2014 supplementing Directive 2003/71/EC with regard to regulatory technical standards for publication of supplements to the prospectus was published. It establishes regulatory technical standards specifying situations in which the publication of a supplement to the prospectus is mandatory. This regulatory development which introduces some legal security in this area could be one of the reasons for the significant increase of over 13% of supplement approvals in 2014.

In order to optimize the flow of information and reduce the reaction deadlines as much as possible in the process of handling prospectus approvals, the department "Supervision of securities markets" insists on promoting and developing direct contact between the agents in charge of the review of prospectuses at the CSSF and the applicants. To this end, the agents processing files at the CSSF ensure that they are available either during the file handling process or up-front, during the preparation of the file by the persons responsible for drawing it up. The CSSF reiterates that the email address prospectus.help@cssf.lu is used for the collection of requests in relation to the regulation on prospectuses and allows the CSSF to guide the requester to the person in charge of handling these requests.

It should be pointed out that the CSSF dealt with less requests for an opinion in 2014 than in 2013 (122 in 2014 against 253 in 2013, i.e. a decrease of 51.78%). In this context, it should, however, be pointed out that many regulatory changes occurred in the previous years and the applicants contacted the CSSF many times regarding these changes. In 2013, many requests concerned the requirements to publish supplements, a topic which was subject to the regulatory change described in the first paragraph above. This change solved doubtlessly a certain number of issues. Moreover, the direct contact by phone enabled to deal with the frequently asked questions. Although the requests for an opinion concerned various matters, several of them were particularly recurrent like the financial statements to be provided by issuers or guarantors in view of the approval of their prospectuses, the requests relating to the drawing-up of a supplement according to Article 13 of the law of 10 July 2005 on prospectuses for securities (Prospectus Law) or the information to be provided for the description of the underlying assets during a securitisation transaction.

In 2014, the CSSF received six requests for the omission of information pursuant to Article 10 of the Prospectus Law. After analysing the justifications to these requests, the CSSF granted five of them.

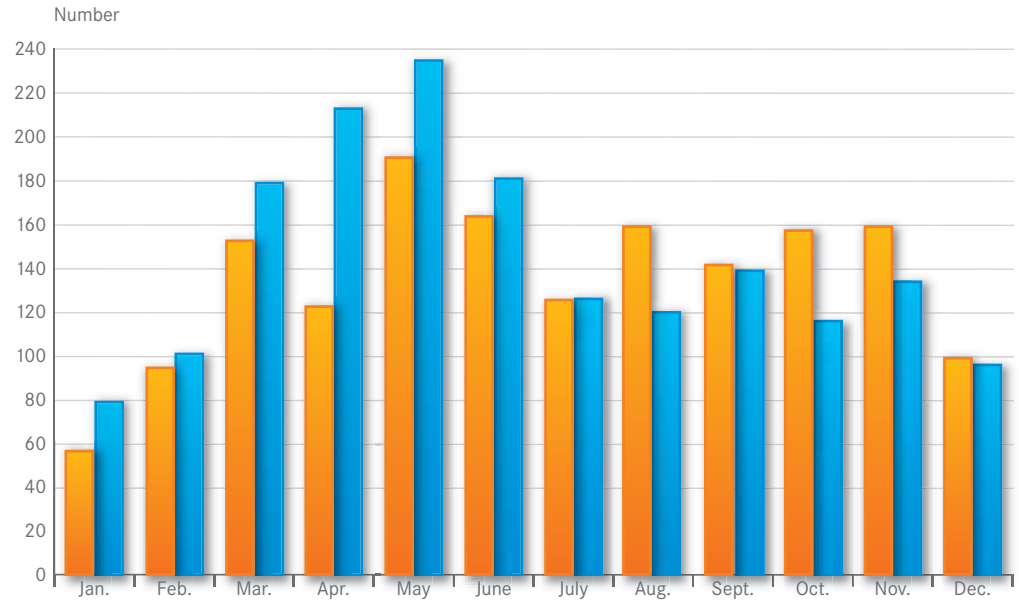
Moreover, in accordance with Article 23(4) of the Prospectus Regulation, the CSSF approved three prospectuses, each including an omission of information due to non-pertinence.

1.2. Approvals and notifications in 2014

1.2.1. Documents approved by the CSSF in 2014

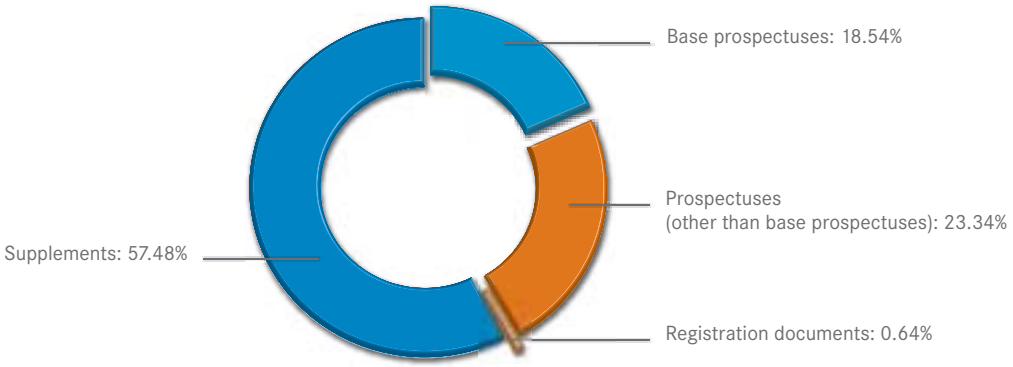
The number of documents approved by the CSSF slightly increased compared to 2013, amounting to a total of 1,731 approved documents in 2014 (of which 404 prospectuses, 321 base prospectuses, 11 registration documents and 995 supplements), against 1,630 the previous year (+6.20%). Since the number of approved prospectuses in 2014 remained stable compared to the preceding year, this progress mainly results from the increase in the number of approved supplements (+13.33%).

Development in the number of documents approved by the CSSF



	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2013	57	95	153	123	191	165	126	160	142	158	160	100
2014	80	102	180	214	236	182	127	121	140	117	135	97
Variation	40.35%	7.37%	17.65%	73.98%	23.56%	10.30%	0.79%	-24.38%	-1.41%	-25.95%	-15.63%	-3.00%

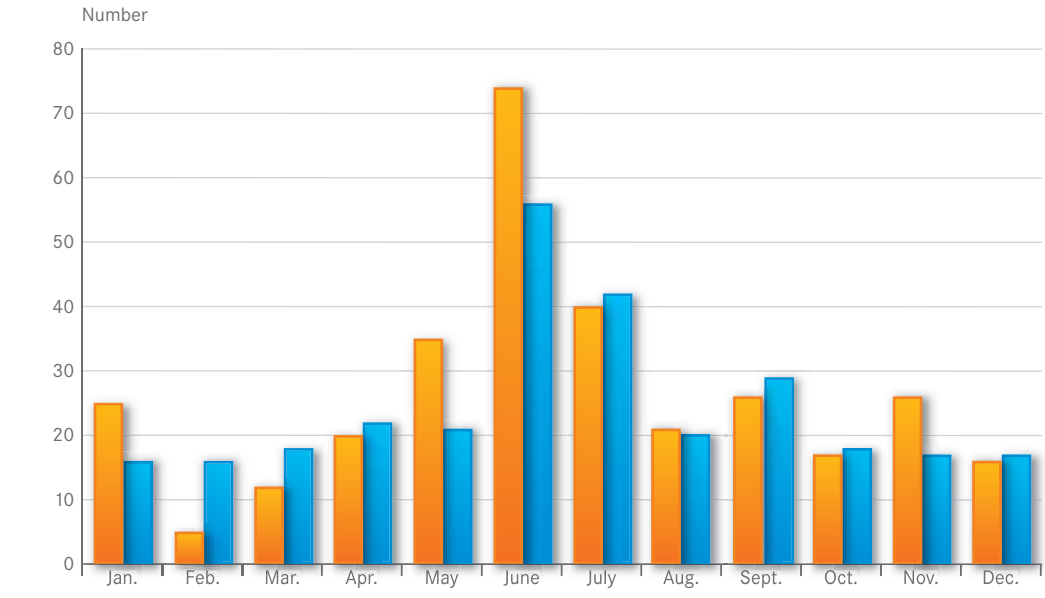
Distribution of documents approved in 2014



1.2.2. Documents drawn up under the European passport regime in 2014

In 2014, the CSSF received 1,260 notifications (relating to 292 prospectuses and base prospectuses and to 968 supplements) from the competent authorities of several EEA Member States, against 1,914 notifications (relating to 317 prospectuses and base prospectuses and to 1,597 supplements) in 2013 (-34.17%). This decrease is caused by the significant drop in the number of passported supplements (-39.39%).

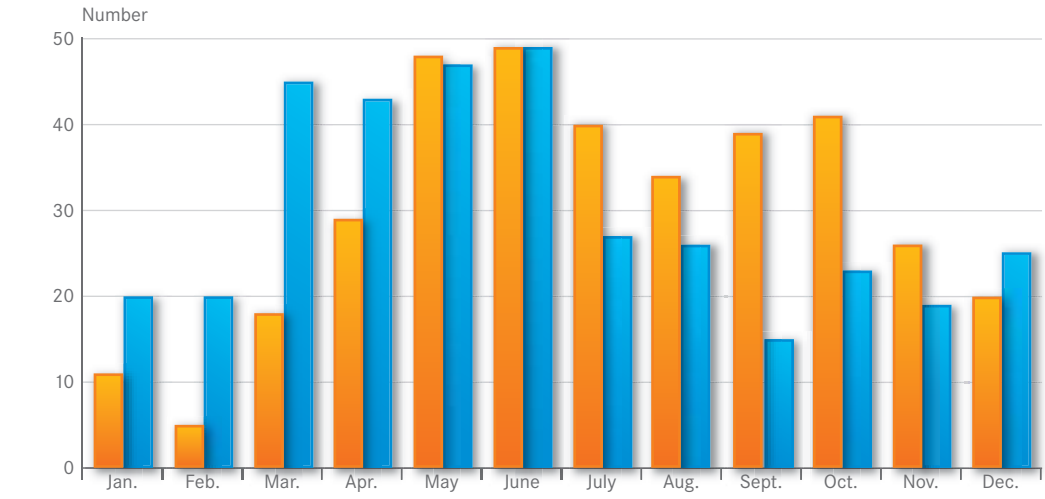
Development in the number of notifications (prospectuses and base prospectuses) received by the CSSF



	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2013	25	5	12	20	35	74	40	21	26	17	26	16
2014	16	16	18	22	21	56	42	20	29	18	17	17
Variation	-36.00%	220.00%	50.00%	10.00%	-40.00%	-24.32%	5.00%	-4.76%	11.54%	5.88%	-34.62%	6.25%

In 2014, the CSSF sent notifications for 1,036 CSSF-approved documents (360 prospectuses and base prospectuses and 676 supplements) to the competent authorities of the EEA Member States, against 883 documents (360 prospectuses and base prospectuses and 523 supplements) in 2013, representing a 17.33% increase. Since the number of notifications of prospectuses and base prospectuses remained stable, this progress is due to the increase in the number of notifications of supplements (+29.25%).

Development in the number of notifications (prospectuses and base prospectuses) sent by the CSSF



	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2013	11	5	18	29	48	49	40	34	39	41	26	20
2014	20	20	45	43	47	49	27	26	15	23	19	26
Variation	81.82%	300.00%	150.00%	48.28%	-2.08%	0.00%	-32.50%	-23.53%	-61.54%	-43.90%	-26.92%	30.00%

1.2.3. Approvals

The detailed analysis of the number of approved documents broadly presented under point 1.2.1. above shows two stages in 2014. Indeed, during the first semester of 2014, there is a rather sustained increase of the activity with an overall growth of 26.79%, whereas the second semester ended with a drop of 12.88%. The result over the whole year shows an increase of 6.20%.

The development during the two semesters of 2014 is mostly disparate for prospectuses and standardised prospectuses, even though the global number of approved documents in 2014 in this area remained stable. Thus, the two semesters of 2014 are considerably different as regards approvals with a sharp increase of 45.68% during the first six months followed by a drop of 30% during the last six months of the year. This difference mainly comes from a decrease of almost 40% of the number of approved files of German issuers during the second half of 2014 and the number of approvals relating to an issuer which requested the approval of 53 files at the beginning of the year against 16 files only in the second half of the year.

With respect to base prospectuses, no significant difference in trends was noted over the two semesters of 2014. As far as supplements are concerned, the second quarter of 2014 was particularly busy (358 approved supplements, against 203 in the second quarter of 2013).

As regards the approval of documents relating to issues of asset-backed securities, 2014 recorded a drop in the number of approvals of prospectuses (-41%) as well as of base prospectuses (-45%).

In particular, the CSSF approved 247 files relating to Luxembourg issuers, among which 83 prospectuses, 53 base prospectuses, two registration documents and 109 supplements. It should be noted that 10 of these files were submitted for a public offer or admission to trading of shares.

Among the files which were the most reported in the media, the CSSF approved, in April 2014, the prospectus relating to the admission on the Spanish regulated markets of Madrid, Barcelona, Bilbao and Valencia of shares of eDreams Odigeo, parent company of a group of online travel agencies present in 42 countries and, in July 2014, the prospectus for the admission on the regulated market Euronext Amsterdam of new shares of the cable operator Altice S.A. issued in the context of the increase of its holding in Numéricable.

1.3. Questions raised in 2014

1.3.1. How is the 7% threshold for the calculation of the length of the summary calculated?

In accordance with Article 1(10) of Delegated Regulation (EU) No 486/2012 of 30 March 2012 amending Article 24 of Regulation (EU) No 809/2004 of 29 April 2004, the length of the summary in a prospectus, a base prospectus or in the Final Terms cannot exceed 15 pages or 7%, whichever is the longest, of the length of the relevant document. In this context, some issuers wanted to know which documents to be taken into account for the calculation of this threshold in case documents are incorporated by reference. The CSSF considers that only the information directly included in the prospectus and the information incorporated by reference according to the cross-reference list must be taken into account for the calculation of the total length of the prospectus. Indeed, the information incorporated by reference for information purposes only should not be taken into account for the calculation of the 7% threshold.

1.3.2. Can one single supplement be drawn up for several documents?

With the growing demand of some issuers to draw up one single supplement modifying several documents at the same time, the CSSF decided to accept the request provided that:

- the supplement refers to one single type of document (only prospectuses or only base prospectuses);
- the supplement mentions on the first page all the documents to which it refers; and
- the modifications are essentially identical for each modified document.

The last point must be assessed by the CSSF on a case-by-case basis.

1.4. A posteriori control of the Final Terms

In accordance with the provisions of the Prospectus Law, in case Luxembourg is the home Member State, the Final Terms must be filed with the CSSF, but they are not subject to an approval by the CSSF.

As regards the detailed information to be included in the Final Terms, the CSSF refers to the applicable laws and regulations which are more restrictive since the entry into force of Delegated Regulation (EU) No 486/2012 of 30 March 2012.

In this context, the CSSF deemed it useful to perform controls on some samples from the filed Final Terms. They revealed many irregularities such as incomplete Final Terms or Final Terms which contain mistakes or contradictions compared to the models included in the relevant base prospectuses. In accordance with the competences and powers to intervene conferred by the Prospectus Law, the CSSF interceded with the issuers concerned.

The CSSF reiterates the importance to publish documents which comply with the laws and regulations in relation to prospectuses and which are complete, understandable and consistent, notwithstanding the fact that there is an approval requirement or not attached to it. The CSSF intends to continue its controls of the Final Terms in 2015.

2. TAKEOVER BIDS

2.1. Offer documents approved by the CSSF

In 2014, the CSSF did not have to approve or recognise any offer document in relation to takeover bids under the law of 19 May 2006 implementing Directive 2004/25/EC of 21 April 2004 on takeover bids (Law on Takeover Bids).

2.2. Files for which the CSSF was competent as authority of the Member State in which the target company has its registered office

In 2014, the CSSF was competent as authority of the Member State in which the target company has its registered office in the context of four takeover bids, namely:

- the voluntary takeover bid by Merck 15. Allgemeine Beteiligungs-GmbH on the shares of the Luxembourg company AZ Electronic Materials S.A. admitted to trading on the London Stock Exchange;
- the mandatory takeover bid by Materali, a.s. on the shares of the Luxembourg company CPI Property Group (formerly known as GSG Group and before that as Orco Germany S.A.) admitted to trading on the Frankfurt Stock Exchange for which the offer document was published on 24 July 2014;
- the mandatory takeover bid by Paragon Offshore plc on the shares of the Luxembourg company Prospector Offshore Drilling S.A. admitted to trading on the Oslo Stock Exchange for which the offer document was published on 12 December 2014; and
- the voluntary takeover bid by Deutsche Annington Immobilien SE on the shares of the Luxembourg company Gagfah S.A. admitted to trading on the Frankfurt Stock Exchange for which the offer document was published on 19 December 2014.

The CSSF co-operated in these four files with the foreign authorities competent for the control of the different takeover bids concerned.

• Merck 15. Allgemeine Beteiligungs-GmbH - AZ Electronic Materials S.A.

In the framework of this takeover bid, the CSSF co-operated with the UK Takeover Panel. Following the publication of the offer document on 20 December 2013 and the final closing of the acceptance period of the voluntary takeover bid on 23 May 2014 at the end of which the offeror gathered an acceptance percentage for

the offer of over 95% of the share capital and voting rights of AZ Electronic Materials S.A., the CSSF supervised the mandatory squeeze-out procedure started on 27 June 2014 by Merck 15. Allgemeine Beteiligungs-GmbH. This mandatory squeeze-out procedure ended, on 2 July 2014, with the acquisition of the remaining shares of AZ Electronic Materials S.A.. By virtue of the powers conferred on it under the Law on Takeover Bids, the CSSF ensured, in accordance with the provisions of Article 15 of that law, that a fair price was guaranteed in consideration of the mandatory squeeze-out exercised on the remaining shares of AZ Electronic Materials S.A..

• Materali, a.s. - CPI Property Group

In the framework of the mandatory takeover bid by Materiali, a.s. on the shares of CPI Property Group, the CSSF co-operated with the Bundesanstalt für Finanzdienstleistungsaufsicht for the approval by the latter of the offer document relating to this operation. This co-operation turned out to be necessary in view of the takeover bid aspects relating to Luxembourg law and the competence of the CSSF within the meaning of Article 4(2)(e) of the Law on Takeover Bids. The CSSF notably intervened in the framework of the determination of the persons subject to the obligation to launch the mandatory takeover bid within the meaning of Article 5(1) of the Law on Takeover Bids. Following the end of the acceptance period for the takeover bid on expiry of which Materiali, a.s. held directly, indirectly and together with the persons acting in concert with it about 95.24% of the share capital and voting rights of CPI Property Group, the CSSF also intervened in the supervision of the mandatory sell-out procedure concerning the shares of CPI Property Group by Materiali, a.s. in the context of the mandatory sell-out requested by some remaining minority shareholders of CPI Property Group in accordance with the provisions of Article 16 of the Law on Takeover Bids.

• Paragon Offshore plc - Prospector Offshore Drilling S.A.

In the framework of the mandatory takeover bid by Paragon Offshore plc on the shares of Prospector Offshore Drilling S.A., the CSSF co-operated with the Oslo Stock Exchange for the approval by the latter of the offer document relating to this operation. This co-operation turned out to be necessary in view of the takeover bid aspects relating to Luxembourg law and the competence of the CSSF within the meaning of Article 4(2)(e) of the Law on Takeover Bids. In this context, the CSSF had, in particular, to review, in co-operation with the Oslo Stock Exchange, the time arrangements of the takeover bid and mandatory squeeze-out procedure on the shares of Prospector Offshore Drilling S.A. in view of the specific situation of the offeror when the offer document was published (on that date, the offeror already held over 95% of the share capital and voting rights of Prospector Offshore Drilling S.A.). Following the end of the acceptance period of the takeover bid, Paragon Offshore plc disclosed on 17 February 2015 the exercise of its right of mandatory squeeze-out on the shares of Prospector Offshore Drilling S.A. that the offeror did not yet hold. This mandatory squeeze-out procedure ended on 27 February 2015 with the acquisition of the remaining shares of Prospector Offshore Drilling S.A.. By virtue of the powers conferred on it under the Law on Takeover Bids, the CSSF ensured, in accordance with the provisions of Article 15 of the Law on Takeover Bids, that a fair price was guaranteed in consideration of the mandatory squeeze-out exercised on the remaining shares of Prospector Offshore Drilling S.A..

• Deutsche Annington Immobilien SE - Gagfah S.A.

In the framework of the voluntary takeover bid by Deutsche Annington Immobilien SE on the shares of Gagfah S.A., the CSSF co-operated with the Bundesanstalt für Finanzdienstleistungsaufsicht for the approval by the latter of the offer document relating to this operation. The CSSF intervened, in particular, as the competent authority in a certain number of aspects covered by Article 4(2)(e) of the Takeover Bid and had also to examine the conditions in which a possible offer to the public of the shares of the offeror may be carried out in Luxembourg due to the mixed nature of the consideration offered for the takeover bid and in view of the applicable provisions of the Law on Takeover Bids and the Prospectus Law. At the final closing of the acceptance period of the takeover bid, Deutsche Annington Immobilien SE gathered an acceptance percentage of the takeover bid of over 90% of the share capital and voting rights of Gagfah S.A..

2.3. Issues regarding the Law on Takeover Bids raised in 2014

The CSSF dealt with several requests for derogation based on Article 4(5) of the Law on Takeover Bids concerning the obligation to launch a mandatory takeover bid within the meaning of Article 5(1) of the Law on Takeover Bids.

Thus, the CSSF decided to grant a temporary derogation from the obligation to launch a mandatory takeover bid on the shares of 3W Power S.A. to the German bank Close Brothers Seydler Bank AG intervening in the restructuring of the share capital and bond debt of 3W Power S.A. as provider of certain underwriting (firm commitment) and order execution and settlement services. The CSSF has acceded to this request for a derogation mainly on the ground that it appears from the firm commitment and order execution and settlement services rendered by Close Brothers Seydler Bank AG that, during the short period of time during which this bank held the shares of 3W Power S.A. and exceeded the control threshold of Article 5(3) of the Law on Takeover Bids, the Bank did not intend to exercise the voting rights attached to the shares of 3W Power S.A., but only to provide the aforementioned services. The aforementioned derogation was granted for a limited period of time and subject to the express condition that Close Brothers Seydler Bank AG undertakes towards the CSSF not to exercise the voting rights attached to the shares held by it throughout the validity period of the derogation. The decision of the CSSF was published in a press release (No 14/50).

Moreover, in the context of the voluntary takeover bid of Deutsche Annington Immobilien SE on the shares of Gagfah S.A. referred to under point 2.2. above, the CSSF decided to grant two temporary derogations from the obligation to launch a mandatory takeover bid on the shares of Gagfah S.A. based on Article 4(5) of the Law on Takeover Bids. These derogations were granted to Commerzbank Aktiengesellschaft and DZ BANK AG Deutsche Zentral-Genossenschaftsbank in view of their role as providers of certain settlement services of the exchange offer in the framework of the aforementioned takeover bid. The two derogations were granted for a limited period and on condition that the two banks concerned commit not to exercise the voting rights attached to the shares held by them under or in relation to the contract signed with the offeror. The decision of the CSSF relating to these two derogations was published in a press release (No 15/10).

In order to apply consistently and durably the provisions of the Law on Takeover Bids, the CSSF also dealt with an issue relating to the possibility to launch a takeover bid concurrently with a mandatory squeeze-out procedure. Thus, the CSSF indicated that, notwithstanding the acquisition by a person, who was not until then shareholder, of a holding exceeding 95% of the share capital and voting rights of a company falling within the scope of the Law on Takeover Bids before even the effective launch of the mandatory takeover bid on the company concerned and the publication of the related document, the provisions of Article 15 of the Law on Takeover Bids do not allow this person to substitute the mandatory takeover bid procedure by that of the mandatory squeeze-out or to launch a mandatory squeeze-out procedure concurrently with the mandatory takeover bid that this same person must make. The CSSF based its opinion, among others, on the following considerations:

- the mandatory squeeze-out procedure of Article 15 of the Law on Takeover Bids cannot be considered as a procedure that is completely independent from the global progress of a takeover bid and the holders of securities must have the necessary time to take freely their own decision on the manner to exit their investment;
- Article 15(1) of the Law on Takeover Bids which provides that “following a bid made to all the holders of the offeree company’s securities for all their securities, paragraphs (2) to (5) shall apply” cannot be read in isolation, but only together with the other provisions referred therein, namely paragraphs (2) to (5) of the same article; and
- Article 15(4) of the Law on Takeover Bids does not only provide for a deadline after which the offeror cannot exercise his/her right of mandatory squeeze-out, but also a deadline as from which this right can be exercised, namely after the end of the acceptance period of the takeover bid.

2.4. Offer file not falling under the scope of the Law on Takeover Bids

On 11 April 2014, the company Foyer S.A. announced its intention (i) to make a conditional buyback offer which was opened in Luxembourg and Belgium and which concerned all the shares of its float, such as traded on the regulated markets of Bourse de Luxembourg (Luxembourg Stock Exchange) and Euronext Brussels (hereinafter the "buyback offer"), and (ii) to launch a procedure for the withdrawal of all its shares from trading on the aforementioned regulated markets. The buyback offer started on 20 June 2014 and terminated on 18 July 2014 following a reopening period. The last trading day of the shares of Foyer S.A. on the regulated markets of Bourse de Luxembourg and Euronext Brussels was on 31 October 2014.

The buyback offer was carried out outside the scope of the Law on Takeover Bids. Nevertheless, in its capacity as competent authority in Luxembourg law, in particular, pursuant to the law of 23 December 1998 establishing a financial sector supervisory commission (Commission de surveillance du secteur financier), the law of 13 July 2007 on markets in financial instruments, the law of 11 January 2008 on transparency requirements for issuers of securities and the law of 9 May 2006 on market abuse, the CSSF reviewed the information document formalizing the buyback offer and monitored the buyback offer process and the ensuing withdrawal of the shares of Foyer S.A. from trading. The CSSF coordinated its intervention with the Belgian competent authority, the FSMA.

2.5. Disclosure of information relating to the Law on Takeover Bids

The Law on Takeover Bids, Circular CSSF 06/258 as well as other information in relation to the takeover bid regulation are available on the CSSF website under "Supervision", section "Takeover bids". Similarly to the practices set up in other areas, any person concerned by takeover bid files may send advice requests related to the Law on Takeover Bids to the CSSF via email at: takeover@cssf.lu.

3. MANDATORY SQUEEZE-OUT AND SELL-OUT OF SECURITIES

3.1. Results related to the application of the law of 21 July 2012 on mandatory squeeze-out and sell-out of securities of companies currently admitted or previously admitted to trading on a regulated market or having been offered to the public (Squeeze-Out/Sell-Out Law)

Pursuant to Article 6 of the Squeeze-Out/Sell-Out Law, the CSSF is the competent authority to ensure that the provisions of this law are applied. Among the competences entrusted to the CSSF under this legislation is the reception of notifications to be made by any majority shareholder in accordance with the provisions of Article 3(1), completed by Article 10(1) as regards the transitional regime of the Squeeze-Out/Sell-Out Law. These notifications are part of the pre-requisites of information which must be complied with prior to any exercise of the mandatory squeeze-out right or sell-out right of securities and aim to ensure the possibility for the different parties concerned by this legislation to exercise their respective rights. As at 1 March 2015, the CSSF received 29 notifications from nine different majority shareholders made pursuant to Articles 3(1) and 10(1) of the Squeeze-Out/Sell-Out Law.

The CSSF must also be informed of the exercise of any mandatory squeeze-out right or sell-out right pursuant to the provisions of Article 4(3) of the Squeeze-Out/Sell-Out Law as regards any exercise of the mandatory squeeze-out right by a majority shareholder and Article 5(2) as regards the exercise of the mandatory sell-out right by a holder of securities. During 2014, one procedure of mandatory sell-out and two procedures of mandatory squeeze-out were started and/or finalised in relation to the companies Utopia S.A. (hereinafter "Utopia") and ArcelorMittal Luxembourg (hereinafter "AM Luxembourg"). These procedures are briefly described below.

• **Utopia**

The procedure of mandatory squeeze-out concerning the shares of Utopia was started by Utopia Management, CLdN Fin S.A. and CLdN Finance S.A. acting in concert (hereinafter the "Majority Shareholder") at the end of 2013, but the procedure was closed definitively at the beginning of 2015, notably due to an opposition of one minority shareholder of Utopia to the project of mandatory squeeze-out of the Majority Shareholder and the necessity to designate a second expert in charge of drawing up a second valuation report on the securities of Utopia, so that the CSSF can determine the fair price of these securities.

As a reminder, after announcing the exercise of its right of mandatory squeeze-out concerning the shares of Utopia on 10 December 2013, the Majority Shareholder then published a proposed price of EUR 44.73 per share of Utopia as well as a first valuation report drawn up by the independent expert Duff & Phelps on 18 December 2013. Following an opposition to the squeeze-out project by a minority shareholder of Utopia and upon the CSSF's request, a second valuation report dated 8 October 2014 was prepared by Ricol Lasteyrie Corporate Finance acting as second independent expert appointed by the CSSF.

In the light of the information available to the CSSF in the framework of the procedure of mandatory squeeze-out and, in particular, the valuation reports of the aforementioned experts, the CSSF decided, in accordance with the provisions of Article 4(7) of the Squeeze-Out/Sell-Out Law, that the fair price to be paid by the Majority Shareholder in the framework of the procedure of mandatory squeeze-out concerning the shares of Utopia was EUR 46.3 per share. Following the publication of the decision of the CSSF via a press release on 22 December 2014, the Majority Shareholder informed the shareholders of Utopia of the date and arrangements for the final payment of the price of the Utopia shares subject to mandatory squeeze-out.

• **AM Luxembourg**

The company AM Luxembourg was subject to a procedure of mandatory sell-out which was then substituted by a procedure of mandatory squeeze-out on its shares in the framework of the application of the provisions provided under the transitional regime laid down in the Squeeze-Out/Sell-Out Law. The shares concerned by these procedures were admitted to trading on several regulated markets until the end of 2002.

At first, ArcelorMittal, in its capacity as majority shareholder of AM Luxembourg, made public the existence of a procedure of mandatory sell-out concerning the shares of AM Luxembourg started upon request of a minority shareholder of AM Luxembourg demanding a mandatory sell-out of all his/her shares in this company in accordance with Article 10(5) of the Squeeze-Out/Sell-Out Law.

Second, ArcelorMittal published in a press release dated 25 August 2014 its decision to exercise its right of mandatory squeeze-out on all the shares of AM Luxembourg still held by minority shareholders pursuant to Articles 4, 5(8) and 10(4) of the Squeeze-Out/Sell-Out Law. This procedure of mandatory squeeze-out rendered the ongoing procedure of mandatory sell-out on these shares irrelevant. ArcelorMittal then made public the proposed price of EUR 776.13 per share of the company AM Luxembourg in the framework of this procedure of mandatory squeeze-out as well as a valuation report relating to these securities drawn up by KPMG Luxembourg S.à r.l. acting as independent expert pursuant to the provisions of Article 4(5) of the Squeeze-Out/Sell-Out Law.

In the absence of opposition to the project of mandatory squeeze-out, the CSSF accepted and published, on 15 October 2014, the price of EUR 776.13 per share of AM Luxembourg as fair price in accordance with the provisions of Article 4(6) of the Squeeze-Out/Sell-Out Law. ArcelorMittal then informed the shareholders of AM Luxembourg of the date and arrangements for the final payment of the price of the shares subject to the mandatory squeeze-out.

3.2. Issues regarding the Squeeze-Out/Sell-Out Law raised in 2014

In the framework of the mandatory squeeze-out procedures and notifications of the majority shareholders or in case of information requests regarding the application of the Squeeze-Out/Sell-Out Law, the CSSF had to consider the application of a certain number of provisions of the Squeeze-Out/Sell-Out Law.

In particular, as regards the publication obligations of the majority shareholder as provided for in paragraphs (3), (5), (6) and (7) of Article 4 and paragraphs (4), (5) and (6) of Article 5 of the Squeeze-Out/Sell-Out Law, the

CSSF reiterated that the storage of a press release by a majority shareholder under the section OAM of the website of Société de la Bourse de Luxembourg S.A. could not be considered as a publication within the meaning of the aforementioned provisions. In fact, the OAM as defined in the law of 11 January 2008 on transparency requirements for issuers of securities is a mechanism to store and make available information, as opposed to a means of publication within the meaning of the Squeeze-Out/Sell-Out Law. In general, the CSSF reiterated that the simple publication on a website or availability at an OAM is not considered as a form of dissemination of information as required by the Squeeze-Out/Sell-Out Law. Such a dissemination must consist of an active transmission of information to the different media.

Moreover, in order to ensure compliance with Article 4(1) of the Squeeze-Out/Sell-Out Law which provides that a majority shareholder that decides to exercise his/her mandatory squeeze-out right must ensure that s/he can fulfil in full any cash consideration, the CSSF usually asks the majority shareholder to provide it in writing with the details of the measures taken in this respect, so that the CSSF can ensure that the majority shareholder may indeed fulfil in full any cash consideration. In this context and without prejudice to the alternative measures which could be, where appropriate, proposed by the majority shareholder, the administrative practice of the CSSF consists in asking the majority shareholder to provide a certificate of escrow or a bank guarantee issued by a credit institution certifying that the sum necessary for the settlement of a mandatory squeeze-out is and will remain available throughout the mandatory squeeze-out procedure.

In the framework of each procedure of mandatory squeeze-out which has taken place since the entry into force of the Squeeze-Out/Sell-Out Law, the CSSF asked systematically the management or executive bodies of the companies subject to these procedures to take position in a detailed and clear manner on the price proposed by the majority shareholder. In that respect, the CSSF had the opportunity to specify that "taking position" within the meaning of Article 4(5) of the Squeeze-Out/Sell-Out Law, means a position which can be brief but which must directly decide on the fair (or unfair) and just (or unjust) nature of the price proposed by the majority shareholder. In accordance with the provisions of the aforementioned article, the CSSF asked each of the companies concerned to publish these positions.

When dealing with the different issues, the CSSF took into account the nature and the specific structure of each transaction as well as the situation of the parties concerned.

3.3. Disclosure of information relating to the Squeeze-Out/Sell-Out Law

The Squeeze-Out/Sell-Out Law, Circular CSSF 12/545 as well as other information in relation to this regulation are available on the CSSF website under "Supervision", section "Squeeze-out/Sell-out". The list of companies for which the information was validly notified to the CSSF pursuant to Articles 3(1) and 10(1) of the Squeeze-Out/Sell-Out Law is also available under this section. Similarly to the practices set up in other areas, any person concerned by squeeze-out/sell-out files may send requests and questions related to this law to the CSSF via email at: retrait.rachat@cssf.lu.

4. SUPERVISION OF ISSUERS OF SECURITIES OF WHICH THE CSSF IS THE COMPETENT AUTHORITY

4.1. Issuers subject to supervision

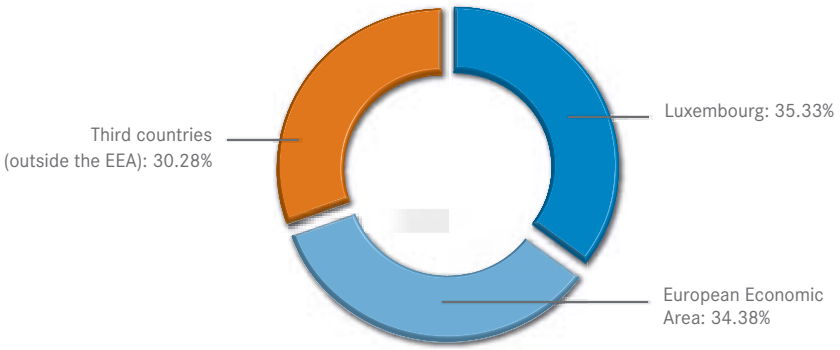
Pursuant to the law of 11 January 2008 on transparency requirements for issuers of securities (Transparency Law), the CSSF is in charge of the supervision of issuers falling under the scope of this law. As at 3 March 2015, 634 issuers were subject to the supervision of the CSSF as Luxembourg was their home Member State within the meaning of this law. In 2014, Luxembourg was confirmed as the home Member State for 74 issuers, whereas 65 issuers no longer fell within the scope of the Transparency Law, mainly because the securities issued by these entities matured or were redeemed early. The list of issuers supervised by the CSSF is published on the CSSF's website (section "Supervised Entities").

Out of the 634 issuers supervised by the CSSF, 224 are Luxembourg issuers, of which 50 issuers of shares and six issuers whose shares are represented by depositary receipts in respect of shares admitted to trading

on a regulated market. Among these Luxembourg issuers, 13 are banks, 11 are securitisation undertakings authorised pursuant to Article 19 of the law of 22 March 2004 on securitisation, 42 are unauthorised securitisation undertakings and six are UCIs.

218 issuers have their registered office in another EEA Member State and 192 issuers are established in a third country (outside the EEA).

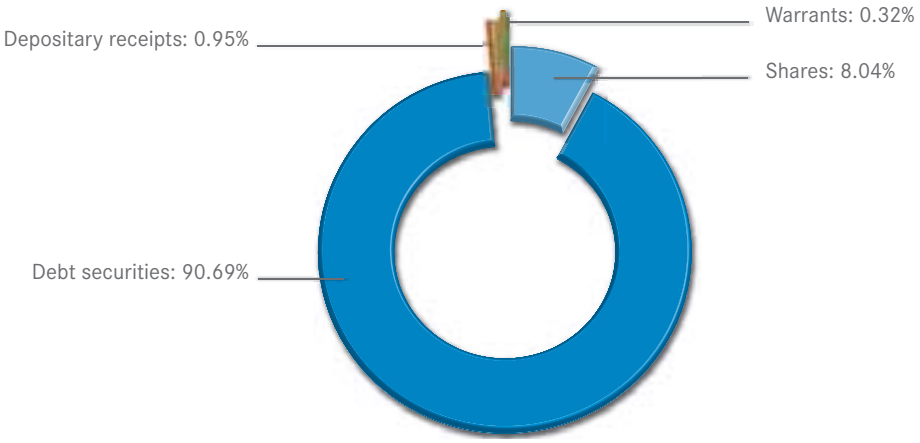
Breakdown of issuers according to country



In 2014, seven issuers of shares were added to the list of issuers subject to the supervision of the CSSF.

During the same period, four Luxembourg issuers of shares were excluded from the scope of the Transparency Law, either because the issuer decided to delist or because the issuing company transferred its registered office to another EEA Member State or following a merger of an issuer with another company.

Breakdown of issuers according to type of securities admitted to trading



4.2. Reviews in relation to the Transparency Legislation

4.2.1. Periodic information

The review of the periodic information to be drawn up by issuers of securities of which Luxembourg is the home Member State pursuant to the Transparency Law continued during the 2014 review campaign. The CSSF sent 38 reminders, issued 23 injunctions and imposed 10 administrative fines pursuant to Article 25 of the Transparency Law related to annual and half-yearly financial reports. The work carried out shows that, overall, the issuers were aware of their obligations in relation to the transparency regulation and maintained their level of compliance in this regard.

The CSSF published the names of the Luxembourg issuers subject to the Transparency Law which failed to publish their annual and half-yearly financial reports as required by Article 3 and 4 of the Transparency Law. It also requested the suspension from trading on the regulated market of securities issued by an issuer for failing to act in response to orders and to comply with the information requests of the CSSF in relation to the publication of its 2013 annual report. The suspension of the securities issued by this issuer was lifted on 24 December 2014.

As from 2015, it will no longer be possible for issuers concerned to benefit from the exemption provided for in Article 30(6) of the Transparency Law. Indeed, according to this article, the issuers concerned were exempted from the obligation to publish half-yearly financial reports pursuant to Article 4 of the Transparency Law for 10 years as from 1 January 2005.

Finally, the CSSF reiterates that the filing with the OAM and the dissemination of regulated information are two distinct obligations of the Transparency Law. They must be carried out simultaneously and at the same time as the filing of regulated information with the CSSF.

The OAM is a mechanism which allows for the storage of regulated information so that it remains available to the public for several years after its dissemination. The issuers must pay particular attention to a correct indexation of the documents that they file with the OAM.

Dissemination involves the active distribution of regulated information with a view to reaching the widest possible public and ensuring fast access to such information on a non-discriminatory basis. The issuers must ensure that they comply with the criteria mentioned in the FAQ No 10 regarding transparency and fulfil the requirements of Article 13(2) of Grand-ducal Regulation of 11 January 2008 on transparency requirements for issuers of securities.

4.2.2. Ongoing information

As announced in the Annual Report 2013, the notifications relating to the acquisition or disposal of major holdings were subject to more thorough reviews in 2014. In total, the CSSF received about 300 notifications relating to major holdings. Their review led the CSSF to issue 10 warnings and two administrative fines.

The main infringements noted during the reviews consist of late notifications and complete notification omissions. The warnings, issued notably due to late notifications, involve that the holder or issuer will be reviewed with particular attention in relation to its notifications of major holdings during 18 months.

The CSSF considers that there are still too many infringements in this area and consequently, it will continue to carry out intensified reviews in 2015.

Finally, the provisions of the Transparency Law in relation to information on major holdings will be amended with the transposition of Directive 2013/50/EU which amends the Transparency Directive (2004/109/EC).

4.3. Review of the Transparency Directive

The work of the CSSF and the ad hoc legal interpretation group of the Transparency legislation regarding the changes of the provisions of the Transparency Law, following Directive 2013/50/EU amending the Transparency Directive (2004/109/EC), is finished. For further details on the main amendments introduced by Directive 2013/50/EU, please refer to point 4.3. of Chapter X “Supervision of securities markets” of the CSSF’s Annual Report 2013.

4.4. International dimension

The European and international dimension represented an important part of the work of the CSSF agents in charge of the supervision of issuers. Thus, the CSSF actively participated in different working groups within the Corporate Reporting Standing Committee (CRSC) and the Corporate Finance Standing Committee (CFSC). For further details on this subject, please refer to points 2.1.3. and 2.1.4. of Chapter II “European dimension of the supervision of the financial sector”.

5. ENFORCEMENT OF FINANCIAL INFORMATION

5.1. Consistent enforcement of accounting standards

5.1.1. General framework

• Legal and regulatory framework and pursued objectives

Within the context of its mission of supervising securities markets, the CSSF is in charge of examining the financial information published by issuers of securities. Through this activity, generally known as "enforcement", the CSSF ensures that the financial information complies with the relevant reporting framework, i.e. the applicable accounting standards.

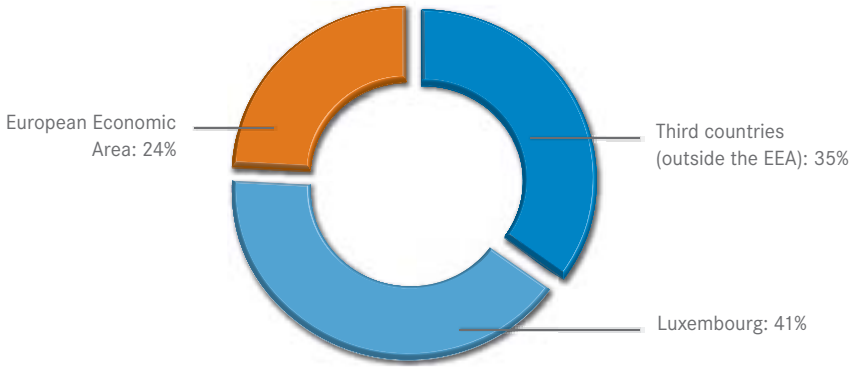
The CSSF accomplishes its enforcement mission pursuant to the Transparency Law which empowers it to examine the financial information published by issuers of securities falling within the scope of application of that law. Enforcement then constitutes an ex post examination of the financial information published by the issuers.

The approach selected by the CSSF is part of the more general European co-operation framework implemented by ESMA. In that respect, on 28 October 2014, the European authority published new guidelines on that subject which entered into force on 29 December 2014 and to which all national authorities competent in enforcement must comply.

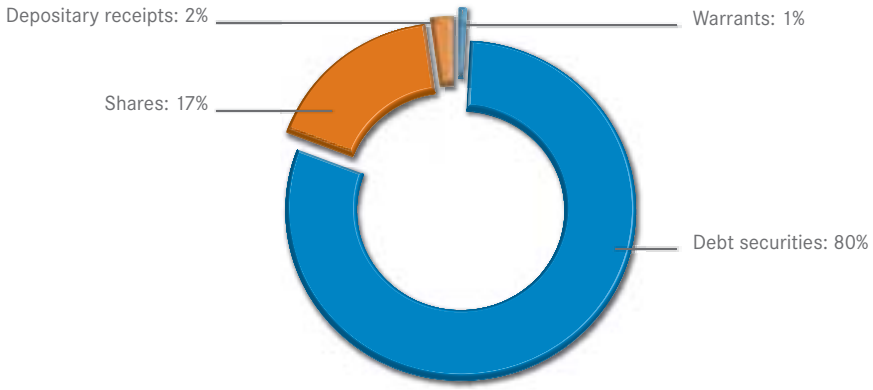
• Population subject to enforcement

Under the Transparency Law, and by taking into account the exemptions provided for in Article 7 of this law, the population of issuers falling within the scope of enforcement as at 1 January 2014 amounted to 289 entities (2013: 304) with the following characteristics.

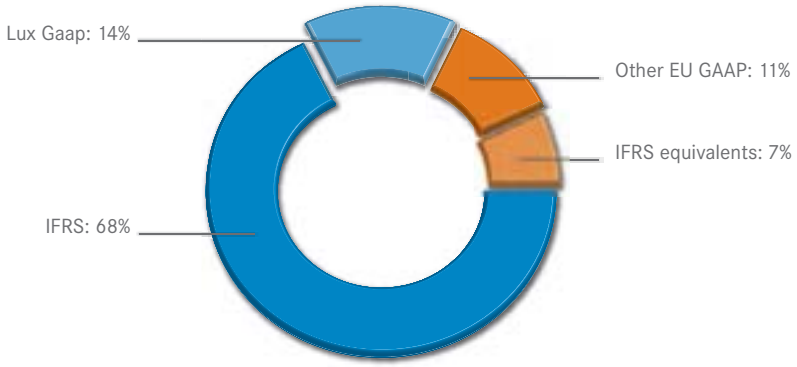
Breakdown of the 289 issuers according to country of registered office



Breakdown of the 289 issuers according to the type of securities admitted to trading



Breakdown of the 289 issuers according to the accounting framework used for the preparation of the main financial reporting (i.e. consolidated accounts or individual accounts, in the absence of consolidated accounts)



5.1.2. Remit of the CSSF and appropriate measures

• Powers and penalties

The powers and penalties available to the CSSF as regards enforcement are set out in Articles 22, 25 and 26 of the Transparency Law.

• Types of reviews

For the selected issuers within the context of the Transparency Law, the actual reviews follow a risk-oriented approach as the degree of intensity of the controls carried out is correlated with the acknowledged risky and sensitive nature of the issuer.

The review programme, defined every year for the selected issuers, includes:

- global reviews of the proper application of the accounting standards, where all the aspects of the issuer's financial statements can be examined (hereinafter the "general reviews");
- reviews of one or several specific aspects of the issuer's financial information predefined according to their importance, their potential impact, etc. (hereinafter the "specific reviews");
- thematic reviews during which the CSSF reviews the practices followed by a sample of issuers concerning specific items (hereinafter the "thematic reviews"); and
- follow-up reviews during which the CSSF ensures that the issues identified during the previous reviews were appropriately dealt with and taken into account by the issuers concerned.

Depending on the intensity of the work carried out or the importance of the cases analysed, these reviews will include many direct and repeated contacts (meetings, exchange of mails, conference calls) with representatives of the issuer and/or its external auditor in order to analyse the most sensitive problems and issues and obtain information, documents and other objective evidence required to perform the control. Some reviews may also lead to on-site inspections at the issuers concerned.

5.1.3. Enforcement process

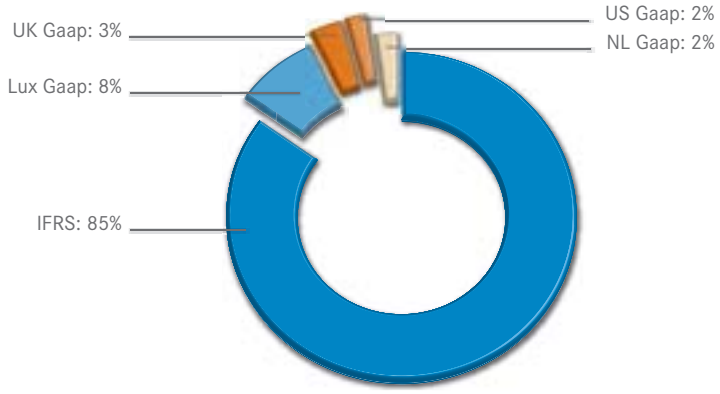
• Selection mode

The selection mode for issuers subject to enforcement within the context of the Transparency Law follows a risk-oriented approach, completed by a rotation and a random sampling method.

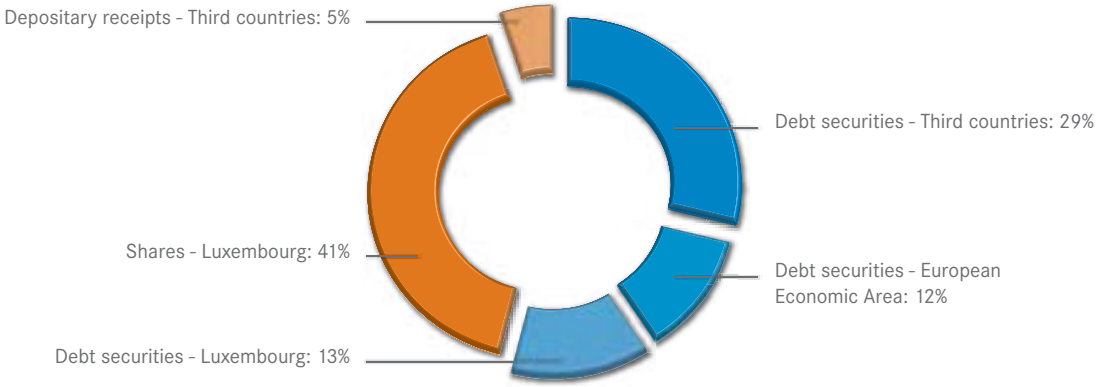
• Reviews performed in 2014

In 2014, the general reviews performed covered almost 45% of the issuers which the CSSF considers, on the basis of its developed approach, as the riskiest. These general reviews were supplemented by specific reviews covering other issuers. For the issuers concerned, the reviews carried out in 2014 covered the 2013 annual financial statements as well as the half-yearly financial statements for the financial years 2013 and 2014, if these were available when the reviews were performed. Thus, over 15% of the issuers falling within the scope of enforcement were subject to a general or specific review in 2014. As the tables below show, the general and specific reviews concerned different categories of issuers and accounting standards used, covering a representative sample of the population of issuers supervised by the CSSF.

Breakdown of general and specific reviews according to the accounting standards used by the issuers



Breakdown of general and specific reviews by issuer type (according to the type of securities admitted to trading and the registered office)



A thematic review of the half-yearly financial statements under IFRS for a large sample of issuers was also carried out in 2014 in line with the preceding financial years. Thus, the CSSF has assessed the compliance of the half-yearly financial statements of some 60 issuers with the main disclosure requirements of IFRS, among which IAS 34 "Interim Financial Reporting", focussing particularly on the impact of the standards and amendments to existing standards which have recently entered into force.

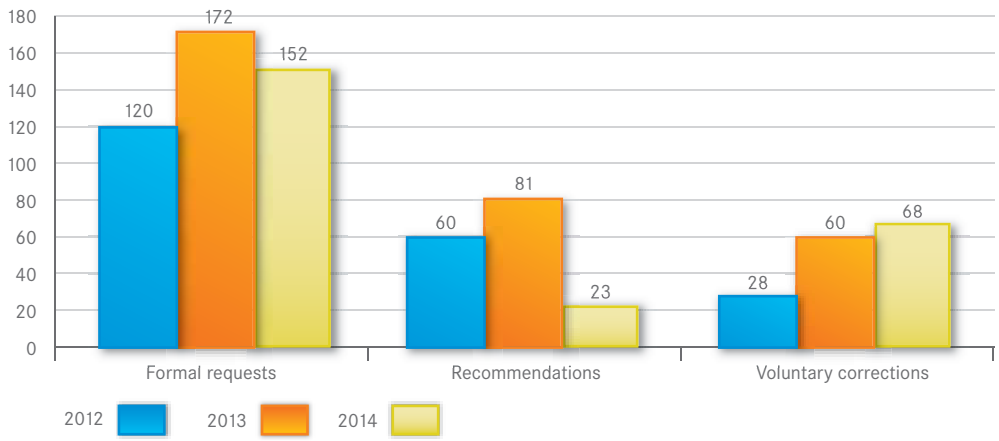
5.2. Results of the work carried out in 2014

5.2.1. General and specific reviews

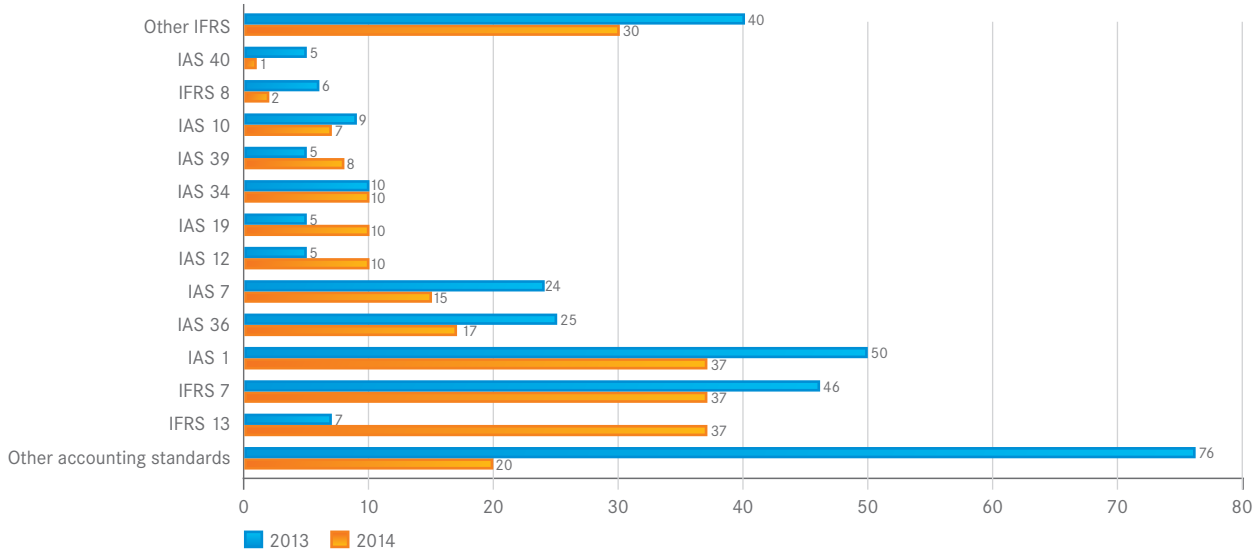
Within the context of these reviews, the CSSF had to take decisions vis-à-vis certain issuers, aiming to either correct the identified errors or amend and improve the subsequent published financial statements. These decisions took the form of formal requests, recommendations and follow-ups of corrections or improvements proposed by the issuer itself.

It should be noted that each issuer having been reviewed may have received several formal requests or recommendations or may have undertaken to amend or correct by itself several identified infringements.

Breakdown of decisions taken by the CSSF after the general and specific reviews carried out in 2012, 2013 and 2014



Breakdown of decisions taken in 2013 and 2014 according to the relevant accounting standards



5.2.2. Thematic reviews

The results of the thematic review of the half-yearly financial statements prepared according to the IFRS led the CSSF to require that three issuers correct their half-yearly financial statements as at 30 June 2014 by taking into account the requirements of IAS 34.

In this context, five administrative fines were imposed on issuers that did not comply with certain formal requests of the CSSF as regards the improvement of the financial information in their 2014 half-yearly financial statements.

5.2.3. Follow-up review

Issuers that were subject to a review during the 2013 campaign, and whom the CSSF requested to change or improve the 2013 financial statements concerned, were subject to a follow-up review in order to ensure compliance with the decisions taken by the CSSF.

In this context, four administrative fines were imposed on issuers that did not comply with certain formal requests of the CSSF as regards the improvement of the financial information in their 2013 financial statements.

5.2.4. Reviews within the context of the issue of prospectuses

As in the previous years, in 2014, enforcement examinations were carried out within the context of the prospectus approval process, and in particular in the event of an application for the admission to trading on a regulated market. Besides the aspects directly related to accounting standards, the topics covered concerned the preparation of half-yearly data or the possible consideration of events taking place after the financial year end.

5.3. Main findings and recommendations in relation to the application of IFRS standards

The decisions taken following the work carried out in 2014, such as described above, covered, among others, the areas set by the CSSF as enforcement priorities for its 2014 enforcement campaign and referred to in Press release 14/02. Thus, almost 70% of the decisions taken concerned directly these issues.

The findings and recommendations described below provide an indication of the main observations made by the CSSF and must be taken into account by the issuers which publish their financial information according to the IFRS. These being, however, specific questions, they will not necessarily apply to all issuers and they must be considered in view of their relevance and materiality. These recommendations must not be considered as interpretations or definitions of the international accounting standards for which only the IASB and its interpretation committee IFRS IC are competent.

5.3.1. General recommendations

The recurring issue of the volume and complexity of the information included in the financial statements under IFRS continues to be subject to many discussions and analyses by the IASB, the European authorities or by some issuers.

In this context, the CSSF reiterated several times that, considering the requirements of IFRS, the materiality and specificities of the information provided in the financial statements should be taken into account in order to favour the relevance of the information disclosed against an essentially exhaustive approach aiming at including all the requirements and descriptions presented in the standards. Indeed, this approach does not, or only marginally, allow the identification of material issues and topics which are specific to the issuer.

Thus, the CSSF recommends issuers to ensure that the information presented in their financial statements is relevant, adapted to their market and activities and that it allows the users to understand the financial situation, the performance and the significant issues of the entity.

5.3.2. Specific recommendations following enforcement reviews

• Valuation at fair value and presentation of the related information

Among the priorities set for the 2014 enforcement campaign, the CSSF paid particular attention to the issues related to the valuation at fair value and to the related qualitative and quantitative disclosure by the issuers.

As in 2013, the CSSF noted that the disclosure relating to fair values of financial assets and liabilities in the financial statements were sometimes too general, little specific or even insufficient, in particular, regarding fair values classified at level 2 and 3 of the hierarchy defined in IFRS 13 “Fair Value Measurement” and which is based more on judgments and assumptions.

The CSSF reminds that, since 1 January 2013, the disclosure in the notes to the financial statements must comply with the requirements and objectives of IFRS 13, namely understanding the valuation techniques and the entry data used to measure the fair values, as well as, for the recurring measurements made based on the significant unobservable data, the impact of these valuations on the comprehensive income or other elements of the overall comprehensive income of the period. It should also be noted that IFRS 13 is particularly strict as regards disclosure required for assets and liabilities measured at fair value and classified at level 3. Thus, paragraph (93) requires quantitative disclosure of the main unobservable parameters used as well as qualitative disclosure of the sensitivity of the fair value to variations of the main unobservable parameters in case of potentially significant impacts.

The CSSF requests, thus, that the issuers particularly focus on disclosure related to the valuation at fair value of their financial assets and financial liabilities.

• Impairment of non-financial assets

In 2014, the CSSF continued to pay particular attention to the issue of impairment of intangible assets, goodwill and other intangible assets with indefinite life. Moreover, this issue was also prioritized by ESMA for enforcement reviews at European level.

In case the goodwill or the intangible assets with indefinite life represent a significant part of the balance sheet of the issuer, the estimates and assumptions which underlie the calculation of the value in use are of particular importance. The CSSF would like to reiterate that its observations in this respect, formulated in the preceding publications, remain valid.

As in 2013, the CSSF analysed in the framework of its 2014 reviews the manner in which the impairment tests are carried out and the recoverable amounts determined. As regards the different assumptions selected, the CSSF was interested in taking into account the past experience, their consistency with external sources of information as well as their reliability when they cover a long period. Particular attention was also paid to information provided by issuers in this area, notably in relation to significant key assumptions and sensitivity of these assumptions to expected changes.

Thus, the CSSF noted that improvements must still be made for the disclosure of the following information:

- key assumptions for the estimation of recoverable amounts

  The CSSF reminds that paragraph (134) of IAS 36 "Impairment of Assets" requires, in particular, to present for each cash generating unit containing goodwill or intangible asset with indefinite useful life:

  (i) the key assumption on which the entity based its calculation of the recoverable amount; and

  (ii) the approach used to determine these key assumptions, by mentioning, for each assumption, if the affected value reflects past experience or is consistent with external sources of information.

  The CSSF would also like to point out that in cases where the chosen key assumptions significantly differ from past performances, paragraphs (134)(d)(ii) and (e)(ii) require to explain these differences. Moreover, it is important that these key assumptions are given for each significant cash generating unit and not in an aggregated form which could conceal significant differences between these units.

- the sensitivity analyses of recoverable values to possible assumption changes

  For some reviewed issuers, the CSSF noted that the disclosures on the sensitivity of the impairment test results to key assumption variations and on the existing headrooms did not completely comply with all the requirements of the relevant paragraphs of IAS 36. The CSSF asks the issuers to ensure that they provide the information necessary for the appropriate understanding of the challenges of the issuers concerned.

• Statement of cash flows

The statement of cash flows table is a tool which is particularly useful for the analysis of the performance of an entity, notably during difficult financial periods. It facilitates the understanding of the causes of cash variation over a given period. This information allows notably the users of the financial statements to determine how much the entity generated cash and informs of the use of the available cash.

Following the specific reviews carried out in 2013 and the observations made, the CSSF continued to pay particular attention to the manner in which the statement of cash flows was prepared by the reviewed issuers. In addition, some recommendations made in the 2013 Annual Report remain relevant.

IAS 7 "Statement of Cash Flows" defines the cash flows for operating activities by default, since only the cash flows from the investing and financing activities are defined in this standard. Thus, it is particularly important that the issuers pay particular attention to the information presented as operating cash flows and ensure that the latter do not fulfil the conditions to represent investing or financing cash flows.

Moreover, most of the issuers use the indirect method to report the operating cash flows. However, the adjustments of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows that the use of this method implies are still presented incorrectly or lack in relevance. The CSSF recommends that the issuers concerned present these adjustments in a clear and adequate manner, in line with the requirements of paragraph (20) of IAS 7 in order to provide information which is relevant for the understanding of these cash flows for operating activities. The CSSF reminds also the issuers that the use of the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, is encouraged by paragraph (19) of IAS 7.

Finally, if IAS 7 allows several possibilities for the presentation of cash flows from interest and dividends, either as operating cash flows or as financing or investing cash flows, as the case may be, the CSSF recommends that the issuers specify their choice in their financial statements. Moreover, the CSSF would like to reiterate that these flows must be presented separately and in a consistent manner from period to period in the operating, investing or financing activities of the statement of cash flows.

• Half-yearly financial statements according to IAS 34 "Interim Financial Reporting"

During the thematic review of the half-yearly financial statements drawn up according to IAS 34, the CSSF paid particular attention, as in the past, to the taking into account of the requirements of the recently implemented standards, particularly IFRS 13, in the half-yearly financial statements of 2014. Thus, the CSSF noted that some infringements were directly related to these standards.

The CSSF reminds that in case of changes in the accounting or calculation methods adopted in the interim financial statements, IAS 34 requires a description of these changes and their effects, in particular when these impacts are significant for the issuer in the half-yearly financial statements.

Furthermore, the information on fair value of financial instruments was still often incomplete or even absent for a great number of reviewed half-yearly financial statements. Yet, paragraph (16A)(j) of IAS 34 requires the disclosure in interim financial statements of specific information in relation to the fair value of financial instruments as provided for by IFRS 7 "Financial Instruments: Disclosures" and IFRS 13.

The CSSF also noted that the requirement of paragraph (82A) of IAS 1 "Presentation of Financial Statements" requiring separate disclosure of the items that compose the "other comprehensive income" and that will be reclassified subsequently to profit or loss and those which cannot be reclassified to profit or loss were not always applied by the issuers.

• Particular case of issuers of debt instruments

Some issuers subject to the supervision of the CSSF carry out mainly financing activities through the issue of debt instruments on the regulated financial markets. The review of the financial statements of these entities resulted in the CSSF noting that often the quality of the information provided is not at the expected standard.

The main infringements are:

- the information is often insufficiently updated even if changes or significant elements appeared (movements in the fair value, important transactions and changes in the market conditions are not described appropriately, etc.);
- the information provided on valuation techniques of financial instruments concerned is insufficient or too little. The CSSF also refers to the requirements of IFRS 13 detailed above; and
- the information on risks often lacks in relevance or is even too generic to allow the users to precisely assess the nature and extent of the risks arising from financial instruments to which these issuers are exposed, as required by paragraph (31) of IFRS 7. For each type of risk (credit risk, liquidity risk, market risk, concentration risk, etc.), the CSSF expects the issuers to provide sufficient qualitative and quantitative information which is adapted to the specificities of their financial instruments and of the sector of activity in which these issuers operate. This problem is particularly important in case where the redemption value in relation to the issued debt instruments is conditional on the value of the financial instruments held.

5.4. Prospects for the 2015 campaign

The enforcement campaign for the financial year 2015 will follow an approach similar to the one of the preceding financial years. The selected issuers will be subject to general reviews and more targeted specific reviews. In addition, within the context of the 2014 closing of accounts, the CSSF, through press release 15/01 published on 8 January 2015, decided to draw the attention of issuers, preparing their financial statements in accordance with IFRS, to a certain number of topics and issues which will be specifically monitored during its 2015 enforcement review campaign.

Moreover, some priority issues were identified by ESMA for the assessments carried out by the national competent authorities and were described in detail in the ESMA's press release of 28 October 2014.

Finally, in the context of the thematic reviews, the CSSF has decided to examine again the compliance with the requirements of IAS 34 for the drawing-up of published interim financial statements and to also pay attention to the application or non-application by the issuers concerned of the exemption from consolidation applicable to investment entities laid down in IFRS 10 "Consolidated Financial Statements" and to the issue of deferred tax assets.

5.5. European co-operation: work of the Corporate Reporting Standing Committee (CRSC) on the financial and accounting information

ESMA's work in the field of accounting, auditing, periodic information and storage of the regulated information is led by the CRSC (cf. point 2.1.3. of Chapter II "European dimension of the supervision of the financial sector"). Enforcement-specific topics are mainly discussed within the EECS forum (European Enforcers Coordination Sessions).

The EECS forum is composed of representatives of 41 authorities from EEA Member States, including the CSSF, competent in enforcement. The purpose of the forum is to ensure, through a convergent approach of the supervision implemented by the national competent authorities, the consistent enforcement of the IFRS by the companies listed on a European regulated market.

Even if the group does not take decisions directly, the EECS forum allows the national competent authorities to discuss and share their experiences and knowledge relating to the application and enforcement of IFRS before or after the decision is taken in their respective jurisdictions. Thus, in 2014, 115 practical cases, dealt with by the competent authorities, were discussed during nine meetings of the EECS forum. 40% of these cases were discussed prior to the decision-making by the authority concerned.

In 2014, the main activities of the EECS forum covered the following topics:

- discussion of decisions taken and specific issues encountered by the national competent authorities during their enforcement reviews;
- meetings with the representatives of the IFRS Interpretation Committee to discuss complex practical cases identified by the members of the forum during their work; and
- publication of reports and studies on specific issues such as the review of the implementation of IFRS 3 in business combinations in Europe.

The decisions presented and discussed during the EECS forum meetings are entered into a dedicated database which already comprises 786 decisions taken by the national competent authorities. Since 2007, the EECS forum has been publishing extracts of its database on a regular basis. Thus, 21 decisions were published in 2014, bringing the number of decisions published to 180.

Finally, it should be pointed out that the CSSF participated in the working group dedicated to the creation of specific guidelines on enforcement. This working group reviewed the existing standards in order to enhance the common review methodology and their practical application so as to reinforce convergence of the enforcement of the financial information in Europe. As previously mentioned, these new guidelines entered into force on 29 December 2014. The CSSF confirmed ESMA that it complies with the guidelines, which, through a common approach and the enhancement of the coordination between the European entities, constitute a new stage in the convergence of the enforcement practices in Europe. They define their objectives and characteristics and lay down the principles to be applied during the whole process, such as the selection methods, the examination procedures and the execution measures. Moreover, they define European priorities relating to enforcement and introduce requirements in relation to prior coordination by the national competent authorities on accounting issues, before taking a decision on a national level.

6. SUPERVISION OF MARKETS AND MARKET OPERATORS

6.1. Reporting of transactions in financial instruments

6.1.1. Obligation to report transactions in financial instruments

The reporting regime in respect of transactions in financial instruments is mainly set down in Article 28 of the law of 13 July 2007 on markets in financial instruments (MiFID Law) which transposes Article 25 of Directive 2004/39/EC of 21 April 2004 on markets in financial instruments (MiFID). This article lays down the obligation for credit institutions and investment firms to report to the CSSF the transactions in financial instruments admitted to trading on a regulated market. The details set out in Article 28 were completed by the implementing measures of Regulation (EC) No 1287/2006 of 10 August 2006 implementing MiFID and clarified by the instructions set out in Circular CSSF 07/302.

Regulation (EU) No 600/2014 of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 introduces new requirements in relation to reporting of transactions in financial instruments to competent authorities. These obligations, which were discussed in detail in the CSSF's Annual Report 2011, are applicable as from 3 January 2017.

6.1.2. Credit institutions and investment firms concerned by the obligation to report transactions in financial instruments

As at 31 December 2014, 245 entities (credit institutions and investment firms incorporated under Luxembourg law and Luxembourg branches of credit institutions and investment firms incorporated under foreign law) fell within the scope of Article 28 of the MiFID Law and were potentially concerned by the transaction reporting regime (242 entities in 2013), including 144 credit institutions (147 in 2013) and 101 investment firms (95 in 2013). It should be noted that among the investment firms, only those authorised to carry out transactions in financial instruments, i.e. commission agents, private portfolio managers, professionals acting for their own account, market makers, underwriters of financial instruments and distributors of units/shares of UCIs, are subject to the reporting obligation.

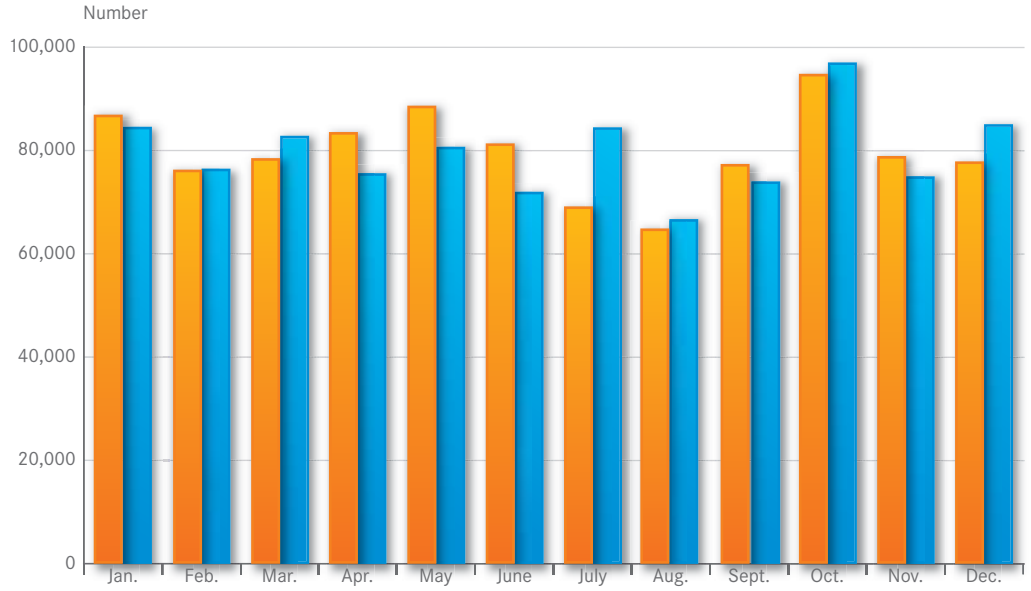
As at 31 December 2014, 93 entities (99 in 2013), of which 82 credit institutions (87 in 2013) and 11 investment firms (12 in 2013), were required to send their transaction reports to the CSSF as their interventions are to be considered as "executions of transactions" within the meaning of the MiFID Law, as specified by Circular CSSF 07/302. The difference compared to the number of entities that are potentially concerned by the reporting regime results from the fact that, in practice, a certain number of entities, mainly investment firms, are not subject to the obligation to report transactions in financial instruments because they do not conclude immediate market facing transactions and do not execute transactions on own account.

In 2014, the CSSF carried out two consistency tests campaigns aiming to check and improve the quality of the data on transactions in financial instruments. The CSSF also carried out one-off controls mainly aiming to identify the following shortcomings: irregular dispatch of transaction report files and missing reports on transactions executed by a member of the market Bourse de Luxembourg. In the framework of the controls carried out in relation to MiFID reporting in 2014, the CSSF intervened at 17 entities for which shortcomings were detected. In this context, deficiency letters and/or information requests were sent to 13 entities.

6.1.3. Development in the number of transaction reports in financial instruments

In 2014, the number of transaction reports sent by the entities and accepted by the CSSF reached 957,371 (-0.32% compared to 2013).

Monthly volume of MiFID reports accepted in 2013 and in 2014



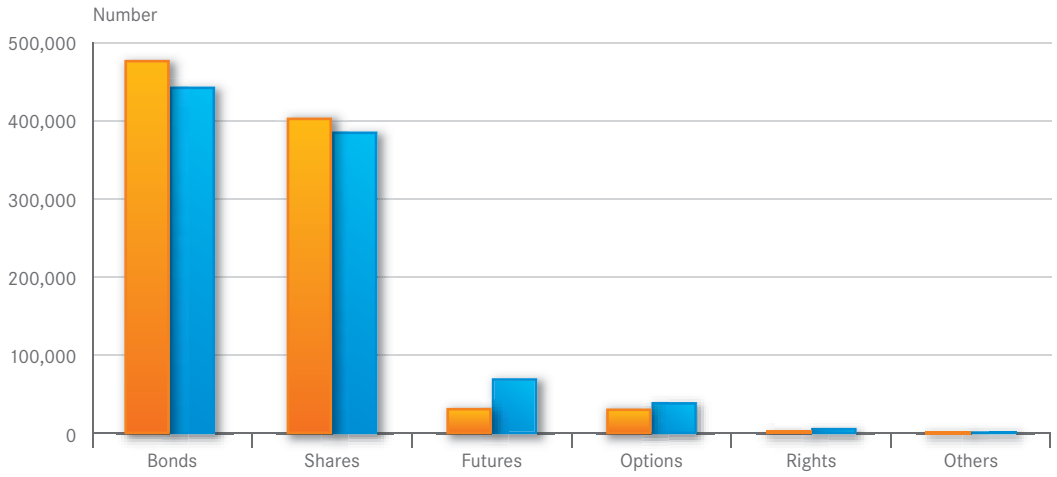
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2013	87,141	76,479	78,713	83,778	88,899	81,130	69,342	65,064	77,577	95,080	79,119	78,078
2014	84,830	76,703	83,087	75,817	80,961	72,223	84,726	66,916	74,237	97,328	75,217	85,326

Breakdown of transactions by month and by type of instrument in 2014

	Bonds	Shares	Futures	Options	Rights	Others	Monthly total
CFI Code	**(Dxxxxx)**	**(Exxxxx)**	**(Fxxxxx)**	**(Oxxxxx)**	**(Rxxxxx)**	**(Mxxxxx)**	
January	39,419	38,952	3,433	2,269	406	351	84,830
February	36,886	33,495	3,619	2,041	353	309	76,703
March	38,986	33,910	6,117	3,361	460	253	83,087
April	39,559	26,479	5,555	3,186	577	461	75,817
May	39,051	31,873	5,568	3,685	444	340	80,961
June	34,459	29,448	3,967	3,246	923	180	72,223
July	39,275	34,617	5,716	3,927	682	509	84,726
August	29,615	26,489	6,616	3,363	581	252	66,916
September	36,788	26,116	6,590	3,733	847	163	74,237
October	40,320	41,507	9,371	4,879	985	266	97,328
November	36,897	26,322	6,798	4,061	949	190	75,217
December	34,091	38,628	8,065	3,421	931	190	85,326
Annual total	**445,346**	**387,836**	**71,415**	**41,172**	**8,138**	**3,464**	**957,371**

In relative terms, the majority of the 2014 reports concerned transactions in bonds (46.52%), followed by transactions in shares (40.51%). Transactions in other types of instruments represented only a small part (futures: 7.46%; options: 4.30%; rights: 0.85%; others: 0.36%).

Annual comparison of transactions by type of instruments



	Bonds	Shares	Futures	Options	Rights	Others
2013	479,624	405,634	33,822	32,774	4,531	4,015
2014	445,346	387,836	71,415	41,172	8,138	3,464

This data as well as the evaluation of the information received via TREM (Transaction Reporting Exchange Mechanism), set up between competent authorities for their respective supervisory missions, reveal the trends on European markets and, particularly, on the Luxembourg market. The main purpose of the supervision of the markets is to prevent and detect infringements of financial and stock market laws and regulations. In this context, monthly internal reports as well as specific internal reports are drawn up on the basis of the received reports. These ex post analyses of transactions in financial instruments can be used as a starting point for the CSSF's inquiries.

6.2. Supervision of stock exchanges

The establishment of a regulated market in Luxembourg is subject to a written authorisation of the Minister responsible for the CSSF. Chapter 1 of Title 1 of the MiFID Law sets out the authorisation conditions and requirements applicable to regulated markets. Where the operator of such a regulated market is established in Luxembourg, it must also obtain an authorisation as specialised PFS in accordance with the law of 5 April 1993 on the financial sector. The actions relating to the organisation and operation of the regulated market are supervised by the CSSF.

Pursuant to the provisions of the MiFID Law, the operation of a multilateral trading facility (MTF) is part of the investment services and activities defined in that law. MTFs may be operated either by a market operator, or by a credit institution or investment firm.

There are currently two markets operated in Luxembourg by the same operator, namely Société de la Bourse de Luxembourg S.A. (the SBL): a first market named Bourse de Luxembourg (Luxembourg Stock Exchange) which is a regulated market within the meaning of the European directives and a second market called Euro-MTF, the operating rules of which are defined in the Rules and Regulations of the SBL.

The SBL is also the only company holding an authorisation as operator of a regulated market authorised in Luxembourg as defined in Article 27 of the law of 5 April 1993 on the financial sector. In this capacity, it is registered on the official list of specialised PFS.

The assessment of the financial situation of the SBL is performed via the monthly reporting sent by the SBL, similarly to the procedure implemented for specialised PFS. The CSSF also monitors the market activities and the problems encountered in relation to these activities on the basis of the analytical reports transmitted by the SBL and the electronic access to the information on market transactions.

As at 31 December 2014, both markets operated by the SBL totalled 39,438 listings, against 40,312 in 2013, divided into 26,251 bonds, 6,310 warrants and others, 6,613 UCIs and 264 shares and certificates. In 2014, 8,654 new issues were admitted to official listing, against 8,317 in 2013. Instruments admitted in 2014 can be broken down as follows: 6,281 bonds, 1,598 warrants and others, 764 UCIs and 11 shares and certificates.

As at 31 December 2014, the SBL had 59 members (among which nine market makers) authorised to trade on the SBL's markets.

The LuxX index closed the financial year 2014 with 1,520.37 points, i.e. a 4.93% increase over a year.

In accordance with the management rules of the LuxX index, the SBL revised the LuxX index on 24 February 2014, 29 September 2014, 3 November 2014 and 2 January 2015.

6.3. Short selling

The short selling regime covering also certain aspects of credit default swaps is mainly defined in Regulation (EU) No 236/2012 of 14 March 2012 on short selling and certain aspects of credit default swaps. In accordance with the law of 12 July 2013 on short selling of financial instruments, implementing Regulation (EU) No 236/2012, the CSSF is the competent authority in Luxembourg for the application of this regulation. The aforementioned law also provides for a regime of sanctions and administrative measures applicable in case of non-compliance with the provisions of Regulation (EU) No 236/2012 or measures taken pursuant to the latter.

The CSSF publishes on its website under "Supervision", section "Securities markets", sub-section "Short selling", the relevant documentation and information relating to short selling and certain aspects of credit default swaps in Luxembourg. Under this section, the CSSF also publishes decisions to impose or renew measures that it may take pursuant to the provisions of Regulation (EU) No 236/2012, a list of issuers of shares or issuers of sovereign debt for which the CSSF is the relevant competent authority in accordance with that regulation and a link to the CSSF Short Selling Platform for the notifications of net short positions or uncovered positions or the disclosure of net short positions in accordance with the aforementioned regulation.

As at 31 December 2014, 92 position holders were validly registered on the CSSF Short Selling Platform to notify or disclose net short positions or uncovered positions. In 2014, the CSSF received 20 notifications of net short positions in accordance with Articles 5 to 9 of Regulation (EU) No 236/2012. Six disclosures of net short positions in accordance with Article 6 of Regulation (EU) No 236/2012 were made on the CSSF Short Selling Platform.

As at 1 July 2014, pursuant to Articles 23(1) and 26(4) of Regulation (EU) No 236/2012 and following a decision taken by the Portuguese competent authority, the CSSF temporarily prohibited short selling of the shares of the company Espirito Santo Financial Group, S.A.. In 2014, the CSSF did not adopt any other notification, disclosure or restriction measures laid down in the provisions of Regulation (EU) No 236/2012 in exceptional circumstances.

As at 31 December 2014, 10 authorised primary dealers which validly notified the CSSF that they intend to use the exemption under Article 17(3) of Regulation (EU) No 236/2012 in relation to the issued sovereign debt of the European Financial Stability Facility and/or of the European Stability Mechanism fulfilled the conditions for this exemption.

7. INVESTIGATIONS AND CO-OPERATION

The mission of the CSSF is to combat insider dealing and market manipulation in order to ensure the integrity of financial markets, to enhance investor confidence in those markets and thereby to ensure a level playing field for all market participants.

In the context of its supervision of securities markets, the CSSF either initiates inquiries itself or conducts them following a request for assistance from a foreign administrative authority within the framework of international co-operation.

Based on Article 23(2) of the Code of Criminal Procedure, some facts which may constitute a breach of the Luxembourg criminal provisions and which were noted during the aforementioned investigations are also brought to the attention of the State Prosecutor.

7.1. Investigations initiated by the CSSF

In 2014, the CSSF opened two investigations into insider dealing and/or market manipulation. These investigations are still in progress, as are the three investigations in relation to insider dealing and/or market manipulation which were opened in 2013. Moreover, verifications in relation to an investigation initiated in 2010 will continue.

7.2. Investigations conducted by the CSSF upon request of a foreign authority

In 2014, the CSSF received the following requests: 43 requests regarding insider dealing (37 in 2013), 12 requests regarding market manipulation (13 in 2013), three requests regarding financial fraud (two in 2013), two requests regarding breaches of the notification requirements of persons discharging managerial responsibilities within an issuer, one request regarding breaches of the requirements to report major holdings (three in 2013), one request regarding business conduct rules under MiFID, one request regarding short selling (two in 2013), one request regarding takeover bids (idem in 2013) and one request regarding the dissemination of financial information (two in 2013). Six of these requests came from administrative authorities of non-EEA States.

The CSSF processed all the requests with the necessary diligence befitting co-operation between authorities.

7.3. Suspicious transaction notifications

Based on Article 12 of the law on market abuse, the CSSF received 18 suspicious transaction reports in 2014 (14 in 2013). For underlying financial instruments admitted to trading on one or several foreign markets, i.e. a regulated market within the meaning of MiFID or another foreign market for which the provisions and prohibitions related to market abuse are similar to the requirements set out in the law on market abuse, the CSSF transmitted the notified information to the competent authorities of the market(s) concerned, thereby observing the co-operation obligation referred to in the law on market abuse and the relevant multilateral co-operation agreements. This information can lead these authorities to open investigations.

In 2014, the CSSF also received eight notifications of suspicious transactions transmitted by foreign authorities (nine in 2013) and analysed them with the necessary diligence.

CHAPTER XI

SUPERVISION OF INFORMATION SYSTEMS

1. ACTIVITIES IN 2014

This chapter deals with the supervision of information systems of financial professionals, including mainly credit institutions, investment firms, specialised PFS, payment institutions and electronic money institutions. With regard to the specific supervision of support PFS, please refer to point 3. of Chapter V "Supervision of PFS".

1.1. Processing of requests for advice or authorisation

In 2014, the division "Supervision of information systems" processed 168 requests, namely:

- 56 applications for authorisation (IT part) for different types of entities (credit institutions, electronic money institutions, payment institutions, PFS);
- 112 requests for advice concerning IT projects submitted by supervised entities (IT outsourcing, websites, major system changes, etc.) and requests to support other CSSF's supervisory departments regarding specific IT issues (such as critical items of a management letter of a *réviseur d'entreprises agréé* (approved statutory auditor)).

The division also participated in 129 meetings (37 concerning application or business qualification files, 91 concerning specific projects presented to the CSSF and one courtesy visit).

Due to an increasing number of files with growing complexity and the emergence of new technologies, the division continued to enhance its technical expertise on the conventional aspects of IT security and on the solutions for tools to access IT resources (mainly related to compliance with Circular CSSF 13/554).

In particular, the division studied the technologies and risks related to virtual currencies (e.g. Bitcoin and Ripple). This covered, amongst others, the functioning method of the block chain and hot and cold wallet/storage solutions.

Finally, the division attended nine conferences on various topics in addition to the participation in the national and international groups mentioned below.

1.2. Participation in national groups

In 2014, the department "Information systems and supervision of support PFS" represented the CSSF within the following committees, commissions, associations or working groups.

- ABBL - Payment Commission. The work of this commission, in which the CSSF participates as an observer, focusses on payment means (traditional and emerging) and related services (such as e-invoicing or e-commerce) and on the related legal and regulatory framework. In 2014, the Payment Commission was mainly interested in the follow-up of the SEPA migration (Single European Payment Area) in Luxembourg which entered into force on 1 February 2014. Other topics discussed on a regular basis included the security of online financial services as well as the proposals for new European directives on payment services (PSD2), on payment accounts (Payment Account Directive - PAD) and on interchange fees.
- Operational Crisis Prevention Group for the financial sector (OCPG) under the aegis of the BCL. The mission of the OCPG consists in identifying the risks borne by the financial sector in relation to critical infrastructures, in order to suggest measures to prevent a possible operational crisis which would disrupt the functioning of the financial professionals and jeopardise the proper settlement of monetary operations. Following the definition of the communication procedures among the members in the event of a crisis and the search for a tool allowing the automation of these communication procedures, the OCPG continued the discussions with the provider of the identified tool in order to obtain and test the required functional adaptations.
- ALMUS (Association Luxembourgeoise des Membres et Utilisateurs SWIFT), which is the national association representing the interests of Luxembourg SWIFT users. The CSSF participates as an observer in the Board of Directors of ALMUS.

1.3. International co-operation

1.3.1. Coordination of pan-European information exchange projects

The information exchange between the national authorities and the European supervisory authorities calls for the implementation of an IT system. This system must comply with the European legal requirements while meeting IT security requirements. Expert groups set up within the European supervisory authorities, namely the IT Management and Governance Group (ITMG) within ESMA and the IT Sounding Board (ITSB) within the EBA coordinate and ensure the correct implementation of these systems.

- **ESMA - IT Management and Governance Group (ITMG)**

The ITMG is the ESMA governance body in charge of information system technology. It ensures, as its main task, the coordination and follow-up of pan-European projects including, in particular, the exchange of transaction reports on financial assets, the collection of statistics on the volume of short selling and the notification of suspension or deregistration of financial instruments from trading.

In 2014, the ITMG followed up on the implementation of the second phase of the "Register" project in accordance with the requirements of Directive 2010/78/EU. This project aims to collect the reference data of investment firms, management companies and alternative investment fund managers from each national supervisory authority. This information is subsequently published on ESMA's website.

The ITMG also monitored the implementation of an information exchange system allowing the collection of AIFM reporting as from the second half-year of 2015.

- **EBA - IT Sounding Board (ITSB)**

The ITSB is in charge of coordinating the EBA's pan-European projects that require the development of homogeneous IT solutions for regulators. The CSSF contributed to the update of the Financial Reporting (FINREP) and Common Reporting (COREP) taxonomy through its participation in the XBRL sub-working group of the ITSB.

1.3.2. International co-operation relating to the supervision of the supervised entities' IT systems

The fast and continuous evolution of technologies brings about new forms of financial services (mobile contactless payments) or more complex operational models (mutualisation of equipment), which are exposed to new threats (e.g. cyberattacks). It is therefore in the interest of any supervisory authority to take part in working groups allowing it to discuss with its peers and benefit from each other's experience. In view of the above, the CSSF takes part in the groups presented below.

- **IT Supervisors Group (ITSG)**

The CSSF has been a member of the international working group ITSG for many years where it regularly discusses with its peers on supervisory methods and current technological challenges.

- **EBA - Seminar on Good Practices in IT Supervision on Financial Institutions**

In 2014, the CSSF participated in a seminar organised by the EBA on good practices in IT supervision on financial institutions within the EU. This seminar provided also an opportunity to exchange on the following topics: outsourcing, security of mobile banking applications, experiences of some national authorities with regard to cloud computing and future EBA regulations.

- **ECB and EBA - European Forum on the Security of Retail Payments (Forum SecuRe Pay)**

Set up in 2011 on the initiative of the Payment and Settlement Systems Committee (PSSC) of the ECB, the Forum SecuRe Pay focusses its work on the security of electronic payment instruments, services and schemes

available within the EU/EEA Member States or provided by service providers located in an EU/EEA Member State. The work includes the whole processing chain of retail electronic payment services, excluding cheques and cash, irrespective of the payment channel used. The Forum aims to facilitate common knowledge and understanding between authorities of the challenges in this area, to enhance their co-operation and to assist in the drawing-up of common regulations and policies on these topics.

The proposed review of the Payment Services Directive (PSD2) made great progress in 2014 and confers the power to prepare guidelines and technical standards on retail payment security to the EBA in close co-operation with the ECB. In the light of these future developments, the Forum SecuRe Pay had its mandate changed in October 2014 to become a common platform of the ECB and the EBA, co-chaired by both institutions. Luxembourg remains represented by the CSSF and the BCL as active members. The Forum will submit its analyses and recommendations to the ECB via the PSSC and to the EBA via its Task Force on Payment Services (TFPS). The ECB and EBA will adopt them, where appropriate, in the form of oversight frameworks, guidelines or technical standards.

In 2014, the Forum continued to discuss the latest legislative developments related to its mandate, namely the proposed directives on Payment Services (PSD2) and on Network and Information Security (NIS Directive).

The Forum continued its work on the following topics:

- Security of Internet payment services

  In January 2013, the Forum published "Recommendations for the security of Internet Payments" on the website of the ECB. In order to facilitate and harmonise the assessment of the level of compliance of payment service providers (PSPs) by the EU authorities concerned, the Forum published, in February 2014, a guide further detailing each recommendation. This "Assessment guide for the security of Internet payments" may assist PSPs in self-assessing their compliance as well as any other interested parties (such as the external auditors of these entities).

  In December 2014, the EBA published "Final guidelines on the security of internet payments" (ref.: EBA/GL/2014/12) based on the recommendations of the Forum on this topic (cf. also point 1.4. below).

- Security of Payment Account Access Services by persons (service providers) other than the account holders in the context of services offered by these service providers

  These services consist of (i) providing a consolidated view of all the assets held by a person owning several accounts with several institutions (account information services), and/or (ii) initiating a payment transaction via the Internet on behalf of the account holder (payment initiation services). The Forum finalised its report which presents a set of recommendations to improve the security of these services within the EU.

  Initially, this final report was meant to be transmitted to the EBA only, and not to be published. The reasons for the decision not to publish the report were (i) the lack of supervisory jurisdiction over these service providers under the current European Payment Services Directive (PSD) and (ii) the proposal to review this directive (PSD2). The PSD2 provides for these services to be considered as payment services and their providers to be regulated. It further confers the power to prepare guidelines and technical standards on payment security, covering, amongst others, these Payment Account Access services, to the EBA in close co-operation with the ECB.

  Following market request to access this final report, the ECB published it on its website in May 2014. However, the report is exclusively addressed to the EBA as a contribution of the Forum in the context of the guidelines and technical standards that the EBA must prepare. In the meantime, the implementation of the recommendations included in this report is not required. The requirements in relation to the security of Payment Account Access services will again be discussed in 2015 in the context of the PSD2.

- Security of mobile payments

In November 2013, the Forum published a draft report "Recommendations for the security of Mobile Payments" for consultation. The Forum intended to finalise this report in 2014 after taking into account the comments received. Due to the proposed review of the European Payment Services Directive (PSD2) and the mandates conferred to the EBA in this context, the Forum suspended its work on this matter in 2014. The requirements related to Mobile Payment security will again be discussed during 2015 in the context of the PSD2.

1.4. Developments in the regulatory framework

In 2014, the regulatory framework applicable for the supervision of information systems evolved as follows.

• Amendment of Circular CSSF 12/552: notification in case of outsourcing to a support PFS

Circular CSSF 14/597 of 24 November 2014 amended Circular CSSF 12/552 on the central administration, internal governance and risk management, particularly with regard to the general requirements in relation to outsourcing. Previously, the circular indicated that "the institution which intends to outsource a material activity shall obtain prior authorisation from the CSSF". Now, the circular specifies that: "A notification to the CSSF stating that the conditions laid down in this circular are complied with is sufficient where the institution resorts to a Luxembourg credit institution or a support PFS in accordance with Article 29-1, 29-2, 29-3 and 29-4 of the law of 5 April 1993 on the financial sector".

• Security of Internet payments: publication of the EBA guidelines and Circular CSSF 15/603

Concerned by the increase in frauds related to Internet payments, the EBA decided that the implementation of a more secure framework for Internet payments across the EU is needed. Consequently, the EBA published its "Final guidelines on the security of Internet payments" (ref.: EBA/GL/2014/12) on 19 December 2014. These guidelines are based on the recommendations developed and published in January 2013 by the European Forum on the Security of Retail Payments (SecuRe Pay). They establish minimum requirements for security that EU payment service providers (PSP) must comply with and provide a solid legal basis for the consistent implementation of requirements by EU Member States.

On 9 February 2015, the CSSF published Circular CSSF 15/603 on security of Internet payments which implements the EBA guidelines into Luxembourg law. The payment service providers as defined in Article 1(37) of the law of 10 November 2009 on payment services are required to apply the EBA guidelines as from the date of application mentioned in the guidelines, i.e. 1 August 2015.

2. SUPERVISION OF INFORMATION SYSTEMS IN PRACTICE

Supervision includes verifying that supervised entities comply with the legal and regulatory framework, with the direct or indirect purpose to maintain or improve the professionalism of their activities. It focusses, in particular, on the technologies implemented for the information systems and takes into account the specific nature of the outsourcing of these services to support PFS or third parties, outside or within the group.

2.1. Information required in application files for authorisation

As part of its application for authorisation, the entity must fill in a form which is available on the CSSF's website. This form includes a section on the IT environment.

Some entities are surprised by the level of detail requested in the functional and technical descriptions. The documents provided are often incomplete or imprecise and do not always follow the structure of the standard form. Consequently, the processing time for files increases.

The same observation was also made regarding the files submitted in which the entity intends to outsource its IT to a support PFS. The CSSF does not expect a description of the general organisation or infrastructure of the support PFS, as these facts are already known as the support PFS is supervised by the CSSF. Similarly, a file simply presenting the catalogue of standard offers of the support PFS, without the possibility to understand the options chosen by the applicant entity, is unsatisfactory. The application file has to present the organisation, infrastructure and security measures specific to the entity applying for authorisation, not the standard offer of the support PFS.

As a basic principle, the CSSF reiterates that the submitted application file must be of a good quality in order to ensure an efficient processing. The CSSF will soon publish on its website an updated form with more details on the information and documents required in the IT section to provide further guidance to applicant entities.

2.2. Use of external messaging for the transmission of orders to execute financial transactions

The CSSF reiterates its advice, previously stated in Chapter XI, point 2.3. of the 2013 Annual Report, to remain vigilant with regard to the use of electronic communication via the Internet in order to transmit orders to execute transactions. The financial professional cannot guarantee the legitimacy of the message received. In 2014, fraud cases were reported in this context.

The CSSF considers that a financial professional should not propose this type of communication to its clients for the transmission of sensitive orders and, in particular, orders to execute financial transactions. Where clients request this service, the financial professional may agree to provide it after the client signs a specific agreement informing him/her of the risks related to this type of communication and the entity implements controls to verify the accuracy and origin of such communication (e.g. the account manager contacts his/her client on the phone to confirm the order).

2.3. VoIP systems: confidentiality and outsourcing

In 2014, the CSSF was called upon several times to comment on the outsourcing of private or on-demand VoIP systems in the framework of services offered jointly by Luxembourg telecommunication operators and support PFS to financial institutions. In this context, the CSSF reiterates that the rules previously stated in Chapter XI, point 2.3. of the 2013 Annual Report regarding the obligation to guarantee the confidentiality of client data remain applicable.

The secrecy obligations which apply to telecommunication operators are different from the professional secrecy as defined in Article 41 of the law of 5 April 1993 on the financial sector. In accordance with the regulation in force regarding IT outsourcing, if a telecommunication operator hosts a VoIP system in its cloud, only a support PFS may be in charge of the management of this system.

2.4. Systems that allow the compilation, distribution and consultation of documents of the board of directors

In 2014, the CSSF was called upon several times to comment if service providers, which provide systems that allow the compilation, distribution and consultation of documents drawn up by or submitted to the board of directors of an entity, are authorised to provide such services to entities subject to the supervision of the CSSF (hereinafter the “entities”). It is important to point out that the service providers are not always located in Luxembourg and, therefore, may not have an authorisation as support PFS.

Two service proposals have to be considered:

- the service provider ensures the hosting and operation of the infrastructure which includes the data of the entity (off-site solution); or
- the service provider solely ensures the installation and maintenance of the system whereas the hosting and operation of the system are not conferred to it.

The CSSF considers that the nature of the activity for which the system is used, which is in this case the compilation, distribution and consultation of the documents of the board of directors, is the main activity of corporate domiciliation agents (Article 28-9 of the law of 5 April 1993 on the financial sector). Consequently, regarding this type of PFS, the service provider must comply with the requirements of Circular CSSF 05/178 on the outsourcing of IT services.

Regarding the nature of the data stored in the system, the CSSF notes that, in principle, the data is not confidential information of clients of entities in the sense of Article 41 of the law of 5 April 1993 on the financial sector. However, the CSSF draws the attention of entities to the fact that this data may be considered sensitive; some of it may be strategic and not destined for the public.

The CSSF considers that it is the choice of the entity, after performing its own due diligence, to decide on whether or not to store its data off-site, as specified above. The due diligence should include a detailed evaluation of the security aspects of the service provider. These service providers might be a strategic target for hackers and fraudsters as they potentially store information of great value due to their nature (sensitive data) or their volume (concentration of data on one system).

In addition, the CSSF would like to remind the entities that it is their responsibility not to disclose any information that is considered confidential pursuant to Article 41 of the law of 5 April 1993 on the financial sector (i.e. the names of clients or investors specifically mentioned in the board documents or meeting minutes) to a third party such as a service provider, unless the latter falls within the scope of Article 41(5) of the law of 5 April 1993. This requirement may be supported by specific clauses in the contract between the service provider and the entities.

2.5. Vulnerability scanning services in the IT infrastructures

In 2014, the CSSF was called upon to comment on whether a company providing scanning services of IT infrastructures of financial institutions in order to identify and report possible vulnerabilities is required to have an authorisation as support PFS.

The CSSF reiterates that such a service is not considered as operating or management of IT systems and networks, if the service provider has no means of intervention on the supervised equipment. Consequently, in this case, no authorisation as support PFS is required. Thus, a financial institution may use a service provider with or without authorisation as support PFS to provide this service without having to ask the CSSF for authorisation.

However, since the data collected during the execution of this service is sensitive, the use of a service provider which is a support PFS ensures that the latter is subject to Article 41 of the law of 5 April 1993 on the financial sector relating to professional secrecy. Indeed, Section 1.2. of Circular CSSF 06/240 specifies that “where the financial professional opts for a support PFS, all services are provided within the legal and regulatory framework applicable to the financial sector”, i.e. including the services not covered by the authorisation, provided that the services offered are subject to a service contract.

In case the support PFS uses itself tools and/or services of a specialised third-party provider (sub-outsourcing), the contract between the support PFS and the financial institution must indicate that the support PFS is responsible vis-à-vis the financial institution for ensuring compliance with the above-mentioned Article 41, including the compliance by a third party. Thus, the support PFS must commit through a contract that the data collected by the scanners of the third-party provider and sent to this third-party provider (which can be more than the support PFS later retrieves and analyses) do not include data related to the business or clients of financial institutions: e-mails, traffic between servers of the institution, IP addresses of clients using an e-banking website, etc..

Finally, and irrespective of the issue of professional secrecy, the CSSF would like to reiterate that the financial institution must decide whether or not to entrust the sensitive information on its IT infrastructure to a third party based on its own risk analysis.

2.6. Internet threats: evolution of attack and defence profiles of IT systems

Internet threats follow the development of the Internet. They became pervasive, permanent and reach any connected player without distinction. The threats discover and use the vulnerabilities of new systems or services appearing on the market, or run more and more sophisticated, automated attack scenarios.

This general threat is referred to as cybercrime. The reports on cybercrime show a constant increase in the number of attacks and their ingenuity. Among these attacks, there are two trends which are significant and continuous.

- The first trend shows that the financial sector is the prime target. The governmental organisation CIRCL[1] (Computer Incident Response Center Luxembourg) is a systematic response team to IT security threats and incidents. This organisation conducted over 3,000 technical investigations related to cybersecurity following incidents in 2014. Half of these incidents were related to financial crime (fraudulent transfers, identity or account theft, etc.) and the other half was related to search for information (industrial espionage, destabilisation, political cause, technical challenge, etc.). The financial sector is thus affected in its entirety and must mobilise itself.
- The second trend concerns the inappropriateness of the common security systems with regard to the new types of Internet attacks. For example, all antiviruses detect only 60% of virus attacks in the first week. Therefore, 40% of viruses are likely to reach their target. In addition, entities only discover after on average 200 days that they have been victims of a successful attack. This shows that the necessary analyses to detect attacks are currently not carried out on time or not carried out at all.

These trends show, in particular regarding the financial sector, that the security measures and behaviours need to evolve in order to adapt to the developments of the threats and incidents for which the current security measures and compliance processes are insufficient. The entities need to anticipatively equip themselves in order to be able to detect that they were a victim of an attack, since when and how long they have been a victim of this attack. This new type of detection involves the pragmatic review and analysis of irregular technical behaviours generated by a compromised system, where the infecting agent is “silent”, i.e. hidden because it is out of reach of the conventional security measures. These active reviews need to be carried out by qualified personnel which are adequately trained in the use of the technology.

Moreover, the entity needs to collect, during the attacks, the indicators of compromise and draw up a report on the exact state of its security situation, its integrity and the impact of the incident so as to deal with the detected problem correctly. Only then can the return to a normal situation take place calmly.

Finally, information exchange is a key factor. Like cybercrime which is organised to exchange information on how to exploit vulnerabilities, entities have an obvious interest in the systematic sharing of information on identified attacks and indicators of compromise. To this end, they can connect to a neutral and dedicated information sharing platform, such as the MISP[2] (Malware Information Sharing Platform) of the CIRCL. This platform is linked to an information exchange network (national CERT, banking CERT, etc.). The network allows drawing up quickly attack profiles and informing in return the connected entities, thus organising a defence system largely exceeding the possibilities of a single entity.

IT attacks and incidents should not be perceived by the entities as problems that are unavoidable and strictly internal, but as a component of the normal functioning of a connected and linked entity (MISP, CERT, SMILE[3]). Where the processing of the incident is provided and prepared. The entity is then able to detect and process the attacks and incidents correctly and reverts to a favourable and adapted level of defence for the Internet. This represents a cultural evolution.

In addition to conventional security measures, the competence, agility and communication skills of the personnel in charge of IT security are key criteria in order to deal with the current development of Internet threats.

[1] CIRCL is the national CERT/CSIRT (Computer Emergency Response Team/Computer Security Incident Response Team) for Luxembourg; cf. https://www.circl.lu/mission/.

[2] CIRCL operates several MISP instances (for different types of constituents) in order to improve automated detection and responsiveness to targeted and cybersecurity attacks in Luxembourg and outside. MISP acts as a platform for sharing threat indicators within private and public sectors; cf. http://www.circl.lu/services/misp-malware-information-sharing-platform/.

[3] Security Made In Lëtzebuerg (SMILE g.i.e.) is a *groupement d'intérêt économique* (economic interest group) consisting of government IT security agencies, among which the CIRCL; cf. http://www.securitymadein.lu/.

Agents hired in 2014 and 2015: Departments "Supervision of specialised PFS", "Supervision of investment firms" and "Information systems and supervision of support PFS"

Left to right: Christophe CORDIER, Pierre DESTRÉE, Stéphanie SIMON, João BARREIRA, Eric CASTELLI, Mélanie CHEVALIER, Stéphane METZGER, Elisa ALBRECHT, Stéphane BLACHE, Jean-Luc SCHARLÉ, David FISCHER

Absent: Domenico CANTATORE

CHAPTER XII

PUBLIC OVERSIGHT OF THE AUDIT PROFESSION

1. Audit reform
2. European co-operation within the European Audit Inspection Group (EAIG)
3. Quality assurance review
4. Overview of the population of *réviseurs d'entreprises* (statutory auditors) in Luxembourg

1. AUDIT REFORM

On 16 April 2014, the European Parliament adopted Directive 2014/56/EU amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities. The Member States have time until 17 June 2016 to transpose this directive and to decide on the options offered by the European regulation.

In this respect, the CSSF had the opportunity to gather opinions of the audit profession, the Institut Luxembourgeois des Administrateurs (ILA) and the Association of the Luxembourg Fund Industry (ALFI). A draft law has already been prepared in consultation with the Ministry of Finance. It is subject to open debate within an ad hoc committee consisting of members of the Ministry of Finance, the Ministry of Justice, the audit profession and the CSSF.

The positions concerning the main provisions of the directive and of the regulation seem to converge with the expectations of the audit profession. Thus, there is a shift towards:

- a compulsory external rotation of the audit firms for the audits of public-interest entities after a maximum period of 10 years renewable once and lasting as much, subject to compliance with the procedure for tenders;
- the possibility to provide non-audit services to public-interest entities as laid down in Article 5(3) of the European regulation and in compliance with the related requirements;
- the capping of these non-audit services to 70% of the fees paid by these entities for the statutory audit of their financial statements after a period of three years.

It should be pointed out that the public-interest entities which entrusted their audit mandate to the same *cabinet de révision agréé* (approved audit firm) since a period going from 16 June 2003 to 17 June 2006 must either change their *cabinet de révision agréé* as at 16 June 2016 or tender in order to keep, if possible, the same *cabinet de révision agréé* for 10 years at the most.

2. EUROPEAN CO-OPERATION WITHIN THE EUROPEAN AUDIT INSPECTION GROUP (EAIG)

2.1. Common inspection methodology at European level

The purpose of the EAIG is to promote and facilitate co-operation amongst the European regulators. To this end, a common inspection methodology, the “Common Audit Inspection Methodology” (CAIM), is currently being developed within the EAIG in order to ensure consistency between the different Member States as regards inspections.

A first module relating to the review of the internal quality assurance system of audit firms has already been completed and will be applied as from 2015. It was developed based on the Audit Directive (2006/43/EC) and on the International Standard on Quality Control (ISQC 1) on quality control for firms. Further details can be found in the terms of reference and the work programmes published on the website of the EAIG (www.eaigweb.org).

2.2. European Database on Audit Inspection Findings

The database of the EAIG has been operational since 2014. It collects at European level the significant findings from quality assurance reviews in relation to public-interest entities of the 10 largest European networks, namely PwC, KPMG, Deloitte, EY, BDO, GT, Nexia, Baker Tilly, Mazars and Moore Stephens.

This non-public database allows the EAIG to analyse the results of quality assurance reviews per network or per topic, to facilitate the identification of common issues encountered by the networks when applying international standards on auditing as well as to search for the reasons of the deficiencies.

2.3. Exchange with the audit networks and international standard setters

The EAIG's database encourages exchanges between the EAIG, the audit networks, the audit profession in the broad sense and the international bodies such as the IAASB (International Audit and Assurance Standards Board), the IESBA (International Ethics Standards Board for Accountants) as well as the PIOB (Public Interest Oversight Board).

To date, the data collected via the database are exchanged with the four largest European audit networks through sub-working groups with the aim to spread this modus operandi to the other networks included in the database.

Thus, the findings from the assurance quality reviews of the networks EY, then KPMG, were presented by the EAIG to the regional representatives of these networks during meetings which were held in Copenhagen in June 2014 and in Madrid in November 2014 and in which the CSSF participated. The EAIG will meet the European representatives of PwC in Budapest in March 2015 and those of Deloitte in June 2015 in order to discuss the same topics.

Similarly, in a plenary meeting in 2014, the regulators, members of the EAIG, met the members of the board of the IAASB, the IESBA and the PIOB.

In 2014, the EAIG also set up a sub-group of experts for the inspections of banks and other financial institution audits. This sub-group consists of regulators that deal with GSIB (Global Systemically Important Banks) and GSII (Global Systemically Important Insurers) with the aim to facilitate the exchange of practices and findings amongst European audit regulators in relation to the audits of financial institutions. The EAIG will act also as a platform that exchanges with the EBA (European Banking Authority), EIOPA (European Insurance and Occupational Pensions Authority) and ESMA (European Securities and Markets Authority).

2.4. Common positions of the European regulators on international standards on auditing and ethics

In continuation of the activities of 2013, the CSSF co-signed several joint letters with its counterparts, members of the EAIG, in 2014. These comment letters were drawn up in order to respond to the consultations organised by the IAASB and the IESBA on the planned amendments to the international standards on auditing (ISA) and to the international code of ethics, as well as on the future strategies and work programmes of these two bodies.

- **Strategy and work plan of the IESBA, 2014-2018 (comment letter of 28 February 2014)**

In December 2013, the IESBA published a proposed strategy and work plan for the next years, in relation to the setting of international ethics standards for professional accountants. The regulators pointed out the main impacts of the future reform of the audit profession in Europe as regards ethics and independence and emphasised the necessity to take into account these amendments in the framework of the planned amendments of the international code of ethics.

- **Proposed changes to certain provisions of the code addressing non-assurance services for audit clients (comment letter of 1 October 2014)**

Following the public consultation of the IESBA in May 2014, the European regulators declared their support to the recast of certain provisions of the code of ethics in relation to the provisions of non-assurance services to audit clients and to the proposed repeal of the provisions authorising the provision of non-assurance services to public-interest entities in emergency situations. Moreover, the European regulators recalled the main amendments introduced by Directive 2014/56/EU and Regulation (EU) No 537/2014 in relation to ethics, notably in the areas for which this regulation became stricter than the international code of ethics.

- **Strategy and work programme of the IAASB for 2015-2019 (comment letter of 4 April 2014)**

The CSSF co-signed a comment letter on the proposed strategy and work programme of the IAASB for the next years. The regulators welcomed the intention of the board of the IAASB to enhance its collaboration with other

parties in order to address public interest issues affecting its work and requested to give priority to certain topics which are subject to recurrent findings from the inspections carried out in Europe. These topics include, among others, the audit of letterbox companies, the definition of the materiality threshold in the framework of group audits and the performance of surveys in audit, particularly in the framework of environments using big-data. Finally, the regulators expressed their interest for the deployment of the project for the revision of the ISAs in the context of audits of banks and insurance companies. The purpose of this project is to ensure that the standard framework is sufficiently robust to address the particular risks caused by the audit of such entities.

- **The auditors' responsibilities relating to other information presented in the documents which include the audited financial statements (ISA 720) (comment letter of 18 July 2014)**

In April 2014, the IAASB published an exposure draft on the amendments to ISA 720. The comment letter puts into perspective the proposed amendments to the standard and the auditors' obligations introduced by Directive 2014/56/EU, showing certain areas in which the directive is stricter than the new proposed standard. The regulators also are of the opinion that the auditor's objectives as well as the elements to be communicated in the audit report in relation to the work carried out on other information could be explained in this new standard.

- **Addressing disclosures in the audit of financial statements - proposed changes to the international standards on auditing (comment letter of 1 October 2014)**

Following the exposure draft published in May 2014 which proposes changes to the ISAs in relation to the audit of financial information, the regulators expressed their support to the holistic approach chosen by the IAASB consisting of including this topic in several standards[1] instead of a single one as initially contemplated. The comment letter proposes, however, to clarify the definition of the materiality threshold for the audit of financial information and the information to be provided and the due care exercised by the auditor for information relating to going concern.

3. QUALITY ASSURANCE REVIEW

3.1. Scope

3.1.1. General framework

By virtue of the law of 18 December 2009 concerning the audit profession (Audit Law), *réviseurs d'entreprises agréés* (approved statutory auditors) and *cabinets de révision agréés* (approved audit firms) are subject to a quality assurance review, organised according to the terms laid down by the CSSF in its capacity as supervisory authority of the audit profession, for assignments concerning statutory audits as well as for any other assignments which are entrusted exclusively to them by the law.

The quality assurance review takes place at least every six years. This cycle of review has been brought down to three years for *réviseurs d'entreprises agréés* and *cabinets de révision agréés* that audit public-interest entities (PIEs).

- **Population of *cabinets de révision agréés* and *réviseurs d'entreprises agréés* concerned by the quality assurance review**

The population of *cabinets de révision agréés* and *réviseurs d'entreprises agréés* that carry out statutory audits and other assignments entrusted exclusively to them by the law is as follows (as at 31 December 2014):

- Number of approved audit firms: 64, including 15 that audit PIEs;
- Number of approved independent *réviseurs* (auditors): two, none of which audits PIEs.

[1] Standards ISA 200, ISA 210, ISA 240, ISA 260, ISA 300, ISA 315, ISA 320, ISA 330, ISA 450 and ISA 700.

Based on the data collected through the "Annual Annexes" for the year 2014, the statutory audit assignments break down as follows between *cabinets de révision agréés* and independent *réviseurs d'entreprises agréés*:

- 80% of the assignments are carried out by the "Big 4"[2];
- 11% of the assignments are carried out by middle-sized audit firms[3], and
- 9% of the assignments are carried out by the other audit firms and independent *réviseurs*.

3.1.2. Scope of the quality assurance review

The CSSF follows a global approach of control in which the audit firm is the entry point for the periodical quality assurance review.

The purposes of the controls carried out by the CSSF are, among others, to:

- assess the existence and efficiency of the design and functioning within the firm, of an organisation, policies and procedures aimed to ensure the quality of the statutory audit engagements and the independence of the *réviseur d'entreprises agréé / cabinet de révision agréé*;
- verify, based on a selection of control files, the correct execution of these engagements in accordance with the legal and regulatory framework in force in Luxembourg;
- verify the content and publication of the transparency report for *cabinets de révision* (audit firms) that are required to draw up such a report.
- assess, where applicable, the actions implemented by the *réviseur d'entreprises agréé / cabinet de révision agréé* in order to address shortcomings noted during the previous reviews.

3.1.3. Organisation of the quality assurance review

Quality assurance reviews include several stages:

- collection of preliminary information;
- elaboration of a control plan;
- on-site inspections;
- presentation of the observations made;
- analysis of the responses to the observations made, and
- writing and issuing of a report.

3.1.4. Conclusion of the quality assurance review

After the quality assurance review, the CSSF issues:

- measures against *réviseurs d'entreprises agréés* acting as signatory partners for the audit files which present significant shortcomings in relation to the legal and regulatory framework in force in Luxembourg; without being exhaustive, these measures may be training plans, internal reviews of the files by another partner before issuing the opinion, a double signature of audit reports which may be complemented, where applicable, by a specific follow-up in accordance with the provisions of Article 60 of the Audit Law.
- a summary for the firm which includes the main deficiencies relating to the internal organisation for which the CSSF requires that corrective measures be taken.

[2] Deloitte, Ernst & Young, KPMG and PwC.

[3] Firms that carry out more than 100 engagements reserved by the law to *réviseurs d'entreprises agréés* and *cabinets de révision agréés*. As at 31 December 2014, four firms were concerned.

3.1.5. Follow-up on the conclusions of the quality assurance reviews of the previous financial years

A follow-up is set up to verify that the firms and/or *réviseurs* concerned have taken appropriate corrective measures to address the shortcomings previously noted.

Where the weaknesses are not considered as being material, the corrective measures taken by the audit firms will be followed up during the next periodic quality assurance review scheduled within the legal deadlines. In case of material weaknesses, a specific follow-up will be programmed within 12 months from the date of issue of the report.

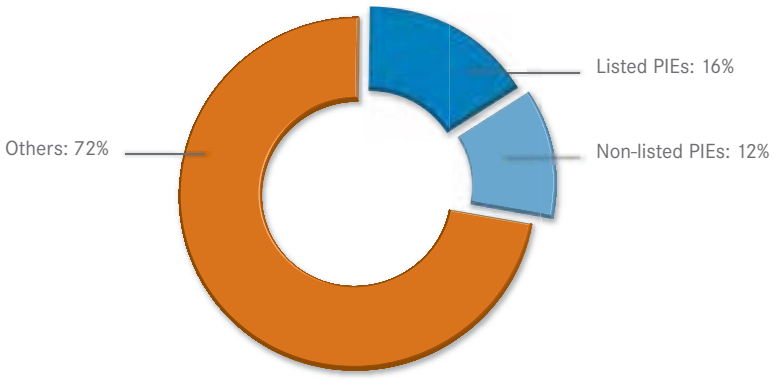
A specific follow-up may be programmed for the *cabinet de révision agréé* and/or for a *réviseur d'entreprises agréé* of the *cabinet de révision agréé*.

3.2. Activity programme for 2014

The CSSF set down a multiannual programme for the control of *cabinets de révision agréés/réviseurs d'entreprises agréés* which aims at observing the legal quality assurance review cycle, this cycle being three years for firms that audit PIEs and six years for the other ones. This programme was based on the information transmitted by audit firms and *réviseurs* through the "Annual Annexes" relating to their activity.

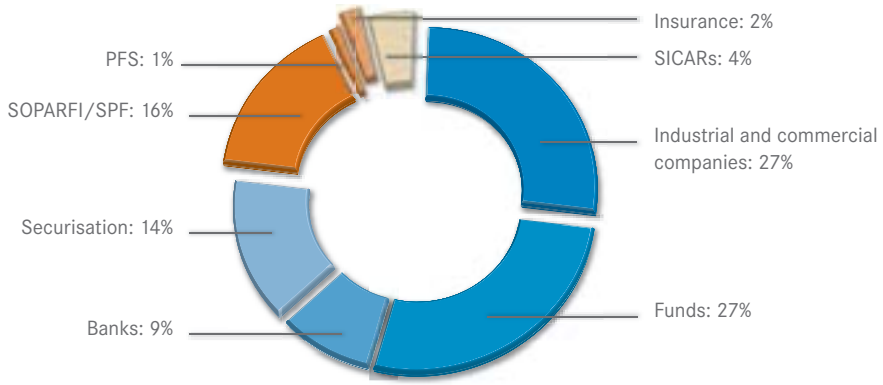
Activity programme for 2014	Key data
The quality assurance reviews according to the 2014 programme covered: - the understanding and documentation of the organisation, policies and procedures established by the reviewed firms in order to assess compliance with the International Standard on Quality Control (ISQC 1); - the review of a sample of audit files relating to statutory audit assignments of the financial year 2013 (or 2012, where applicable); - the review of a sample of audit files carried out in the framework of the assignments reserved by the Audit Law to the *réviseurs d'entreprises agréés* and *cabinets de révision agréés*; and - the setting-up of a specific follow-up for professionals for which material weaknesses were noted in the previous financial years.	18 reviewed firms, seven of which audit PIEs and 10 are members of an international network
The 18 reviewed audit firms reported[4] a total of 9,149 mandates falling within the scope of public oversight of the CSSF, including 452 in relation to PIEs. These mandates include 7,621 statutory audits, of which 421 concern PIEs.	139 controlled mandates, including 39 PIEs
The quality assurance reviews started in March 2014 and were carried out by seven CSSF inspectors with professional audit experience and expert knowledge in the business areas of the financial centre.	5,799 hours

Breakdown of audit files reviewed by the CSSF in 2014 per entity type



[4] Based on the statements of *cabinets de révision agréés* as at 31 December 2013.

Breakdown of audit files reviewed by the CSSF in 2014 per sector



3.3. Conclusions of the 2014 campaign of quality assurance reviews

Among the 18 firms reviewed in 2014, five were subject to a specific follow-up due to conclusions from preceding campaigns. In one of these firms, the specific follow-up was upheld for a *réviseur d'entreprises agréé* who is now subject to the double signature measure. Another audit firm gave up its approval following the quality assurance review.

Three *réviseurs d'entreprises agréés* were subject to a specific follow-up in 2014. Following the observations made, the specific follow-up was upheld for one of the three *révsieurs d'entreprises agréés* concerned.

For the 2014 campaign, the following specific conclusions were transmitted to the *réviseurs d'entreprises agréés*:

- a training plan was given to five *réviseurs d'entreprises agréés*;
- five *réviseurs d'entreprises agréés* were subject to a specific follow-up;
- four *réviseurs d'entreprises agréés* were subject to an internal quality review of their files before the issue of the opinion together with a specific follow-up;
- two *réviseurs d'entreprises agréés* were subject to a call to order;
- two *réviseurs d'entreprises agréés* were subject to the double signature measure together with a specific follow-up.

3.4. Major issues identified during the quality assurance reviews of 2014

3.4.1. International Standard on Quality Control (ISQC 1)

Based on the work carried out in 2014, the CSSF did not note significant shortcomings concerning the quality assurance systems of the *cabinets de révision agréés*.

The CSSF draws the attention of the *cabinets de révision agréés* and *réviseurs d'entreprises agréés* to the conditions relating to the retention of audit documents by a third party (including the audit client himself). The Luxembourg supplement to the ISQC 1 as adopted by CSSF Regulation N° 13-01 specifies notably that, in this case, the CSSF must be notified and a service contract governing the retention of these files must be drawn up.

3.4.2. Audit files

The findings of the 2014 assurance quality reviews are largely similar to the observations made during the preceding quality assurance campaigns and there is no new significant problem in relation to the quality of audits to be pointed out.

The main recurring observations in 2014 concern:

- professional scepticism;
- audit of accounting estimates;
- understanding and evaluation of the operating effectiveness of the internal controls;
- evaluation of the appropriateness of the presentation and information provided in the financial statements.

The CSSF notes that similar shortcomings were also identified by the supervisory authorities of the audit profession from other European or international countries and that the points listed below were observed in big as well as in small audit firms.

• Professional scepticism

The lack of professional scepticism often represents one of the main reasons for the shortcomings noted by the CSSF during quality assurance reviews. Having a high level of professional scepticism and keeping that level throughout the assignment is fundamental for a quality audit.

Professional scepticism is necessary to assess objectively the quality of the evidence gathered during the audit. This implies:

- bringing into question the reliability of documents and responses to inquiries to be used as audit evidence;
- considering the sufficiency and appropriateness of audit evidence obtained in the light of circumstances, for example, in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.

Among the findings noted in this area are: (i) the use of the information coming from the entity as audit evidence, without testing its reliability before, (ii) the failure to modify the work programme and failure to execute additional audit procedures despite the inconsistencies noted between the evidence from the different sources, (iii) the exercise of the professional judgment not supported by facts and circumstances of the assignment or by sufficient and appropriate evidence, or (iv) the failure to assess the relevance of the information used as evidence, as for example, verifying the value of the investment funds based on unaudited investor statements while the audited annual accounts are also available during the closing of accounts.

• Audit of accounting estimates

The audit of accounting estimates continues to represent an important part of the observations. The CSSF encourages the firms to pursue their efforts in order to help their teams implement sufficient audit procedures to assess the correct valuation of the accounting estimates, and notably the fair value estimates.

Among the most noted shortcomings, the following are included: (i) an insufficient understanding of the manner in which the management made the estimates; (ii) the absence of retrospective review of the estimates in order to assess the capacity of the management to make reliable estimates; (iii) a direct acceptance, without calling into question, of assumptions and underlying data on which the management based its estimates, or (iv) the failure to evaluate any significant differences between the auditor's and management's point estimates.

As regards accounting estimates which give rise to significant risks, if the auditor deems that the management did not adequately address the effects of estimation uncertainty on the accounting estimates, the auditor must, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate.

Having noted several shortcomings concerning the audit of accounting estimates at fair value in relation to investments held by securitisation vehicles, the CSSF would like to point out that the same quality requirements apply for these entities in relation to the audit of accounting estimates, irrespective of the fact that the risks related to the investments are borne by the bondholders or noteholders. As regards these entities, a good understanding of the company and its environment plays an important role in order to (i) identify and assess appropriately the risks of material misstatements, particularly when the promoter or originator of the structure is also in charge of calculating the fair values of the financial instruments, and (ii) define an audit strategy which is responsive to the assessed risks of material misstatements.

• Understanding and evaluation of the operating effectiveness of the internal controls

Shortcomings continued to be noted during the 2014 quality reviews in the identification of relevant controls for the audit and the related tests of procedures. The shortcomings noted in this area include:

- an insufficient understanding of the procedures through which transactions are initiated, registered, executed, corrected if necessary, reported in the ledger and presented in the financial statements;
- an insufficient understanding of the relevant controls in order to assess (i) the risks of significant misstatements at the assertions level and (ii) the design of control activities which address these risks;
- the inappropriate design of the tests which do not enable to obtain audit evidence about the operating effectiveness of the controls, including (i) how the controls were applied at relevant times during the period under audit, (ii) the consistency with which they were applied or (iii) by whom or what means they were applied. On this issue, the CSSF insists that the absence of exception through other substantive audit procedures does not provide evidence as regards the operating effectiveness of the controls;
- the inappropriate reduction of the extent of substantive tests based on the assumption that the internal controls are operational, although their operational effectiveness was not appropriately tested;
- the non-performance of tests of controls for certain risks for which substantive procedures alone do not provide sufficient appropriate audit evidence, e.g. significant transaction flows which include important volumes of transactions initiated and executed electronically in an integrated system.

• Evaluation of the appropriateness of the presentation and information provided in the financial statements

In the light of the number of observations made in relation to incomplete and inadequate disclosure and information provided in certain annual accounts, the CSSF requests that the firms put an emphasis on the procedures performed to evaluate whether the overall presentation of the financial statements, including the information provided in the notes to the accounts, is in accordance with the applicable financial reporting framework.

To conclude this section and in order to promote the performance of high quality audits, the CSSF recommends that the firms encourage (i) their audit teams to carry out appropriate consultations on difficult or controversial technical questions, and (ii) their most experienced professionals to apply due care for the review of the field audit work at appropriate times throughout the assignment.

3.4.3. Theme of the 2014 campaign

In the framework of its activity programme, the CSSF performed two thematic inspections on:

- procedures performed to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, and
- procedures performed in connection with general IT controls.

• Journal entries testing

This thematic inspection which was carried on a sample of 44 audit files focussed on the following areas of attention:

- procedures performed by the auditor to understand the information system including the related business processes surrounding financial reporting process as well as controls surrounding journal entries;
- evaluation as to whether the auditor made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- evaluation of the rationale for the selection of journal entries and other adjustments made at the end of the reporting period;
- evaluation of the actual testing performed;
- evaluation as to whether the auditor considered the need to test journal entries and other adjustments throughout the period; and
- evaluation of the documentation of work performed and the results.

The following findings resulted from this thematic review:

- as regards nine files, the auditor did not obtain an understanding of the information system and the related operational processes that is sufficient to provide a basis for the identification and the assessment of the risks of material misstatements linked to journal entries;
- in 41% of the cases and despite the requirements of the international standard on auditing ISA 240 “The auditor’s responsibilities relating to fraud in an audit of financial statements”, the auditor did not test any journal entry or other adjustment recorded at the end of the period;
- in 13 files, the analyses carried out by specialists in computer-assisted audit techniques were deemed too basic and/or did not sufficiently consider the findings resulting from the risk assessment procedures or other audit procedures;
- as regards 14 files, the use made by the auditors of the analyses carried out by specialists in computer-assisted audit techniques was largely perfectible;
- as regards seven control files, the auditor did not carry out enough investigations to validate the appropriateness of the selected accounting entries.

• General IT controls

The thematic inspection was based on a sample of 37 files and focussed on the following areas of attention:

- procedures performed by the auditor to understand the IT environment and the complexity of the IT systems relevant to the audit;
- procedures performed by the auditor to identify and assess the design and implementation of general IT system controls which are relevant to the audit and which concern:
  - (i) the physical and logical security of the information;
  - (ii) the management of changes;
  - (iii) the storage and recovery of data; or
  - (iv) the subcontracting and outsourcing;
- evaluation of the work carried out to support the operating effectiveness of the general IT controls identified above and, particularly, (i) the adequacy and appropriateness of the procedures performed in relation to the management of logical access, and (ii) the annual verification of general IT controls which contribute to the reliability of the accounting systems for entities operating in a highly computerized environment;
- the assessment of the impact of possible weaknesses identified by the auditor and its experts in IT systems regarding the general IT controls.

The results of this thematic review are overall satisfactory and the CSSF noted that, in most cases, IT specialists intervened to carry out this work. Despite this overall positive result, the following shortcomings were observed:

- as regards two files, the general controls on the IT system were not tested although the audited entities operated in a highly computerized environment;
- in one case, the general IT controls were not tested for a software which has a key role in the generation of the revenues of the entity;
- despite the importance of the deficiencies identified in the general IT controls by its specialists in three control files, the auditor or its experts did neither identify mitigating controls nor design additional audit procedures to address the deficiencies observed; in two cases, the CSSF also noted that the main deficiencies identified were not communicated to the management and those charged with governance.

4. OVERVIEW OF THE POPULATION OF *RÉVISEURS D'ENTREPRISES* (STATUTORY AUDITORS) IN LUXEMBOURG

Within the scope of its public oversight of the audit profession, the CSSF assumes the following responsibilities:

- access to the profession and organisation of the examination of professional competence;
- granting of the professional title of *réviseur d'entreprises* and *cabinet de revision* (audit firm);
- granting of the approval and registration of *réviseurs d'entreprises agréés* and *cabinets de révision agréés*;
- registration of third-country auditors and third-country audit entities; and
- keeping of the public register.

In this regard, the following statistics have been extracted for the year 2014.

4.1. Access to the profession

4.1.1. Activities of the Consultative Commission for the access to the audit profession

The Consultative Commission's task is, among others, to verify the theoretical and professional qualification of the candidates for the access to the audit profession in Luxembourg, as well as that of the service providers from other Member States wishing to exercise by way of free provision of services.

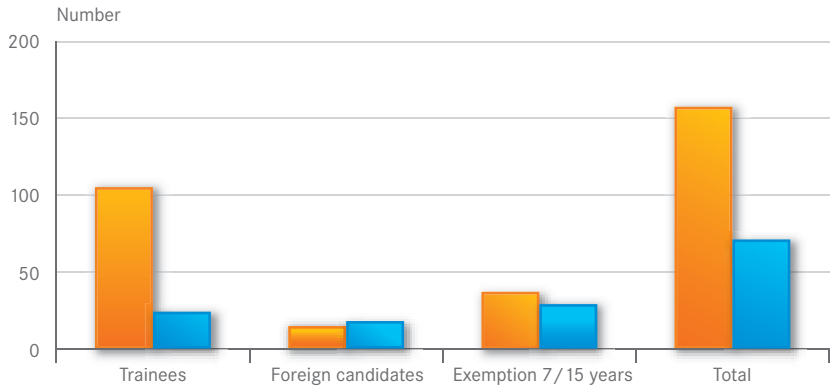
The commission met six times in 2014 and analysed the files of 71 candidates, against 157 in 2013, representing a drop of 55%. This significant drop follows the entry into force of the Grand-ducal Regulation of 9 July 2013 determining the requirements for the professional qualification of *réviseurs d'entreprises* (statutory auditors) which introduced stricter measures for the admission to professional training.

Consequently, the access to training was refused to 14 candidates (20%) in 2014 because the number of subjects to be completed based on their administrative certificate was greater than five.

There are four categories of candidates:

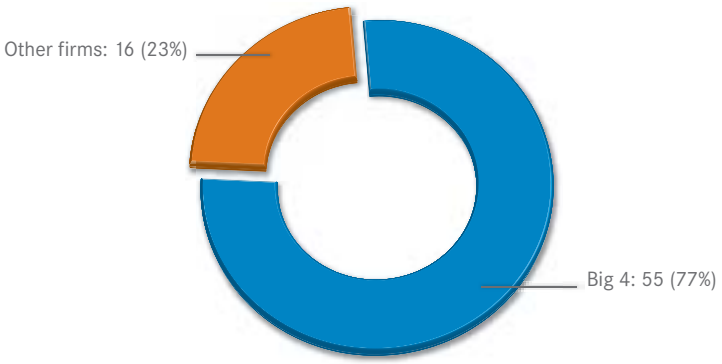
- trainee *réviseurs d'entreprises*;
- foreign candidates;
- candidates applying for exemptions based on their professional experience of either seven or 15 years; and
- candidates requesting to exercise assignments reserved by the law to *réviseurs d'entreprises agréés* and *cabinets de révision agréés*, by way of the free provision of services (no such file was analysed in 2014).

Development in the number of application files submitted to the Consultative Commission

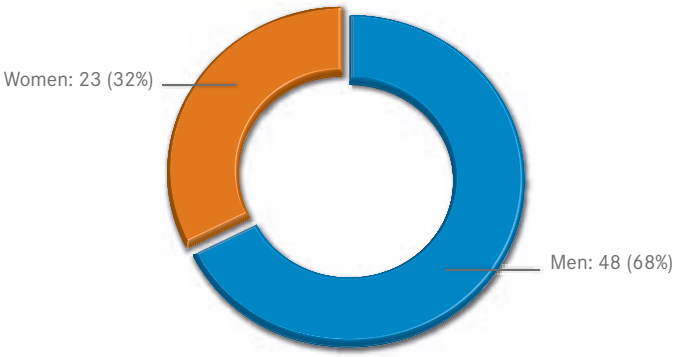


	Trainees	Foreign candidates	Exemption 7/15 years	Total
2013	105	15	37	157
2014	24	18	29	71

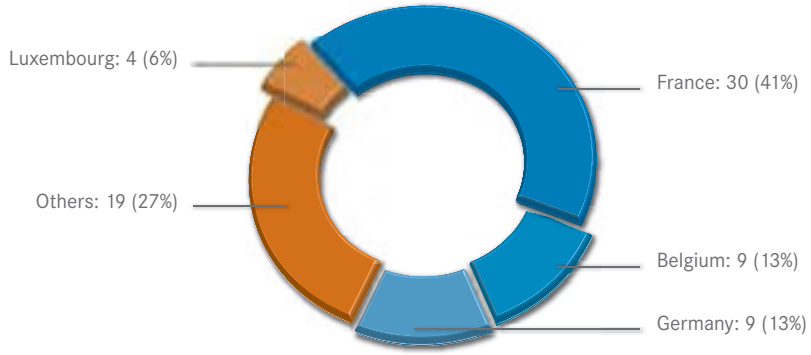
Breakdown of candidates per firm



Breakdown of candidates per gender



Breakdown of candidates per nationality



4.1.2. Examination of professional competence 2014

The CSSF administrates the examination of professional competence in accordance with Articles 5 and 6 of the Grand-ducal Regulation of 9 July 2013 determining the requirements for the professional qualification of *réviseurs d'entreprises*.

In this context, the examination jury communicated the following results with respect to 62 candidates registered for the 2014 examination of professional competence to the CSSF:

- Ordinary session: 62 candidates took the written exam, 21 of whom have been admitted to the oral exam. In total, 14 candidates passed the exam, seven failed partially (possibility to take the extraordinary session).
- Extraordinary session: seven candidates took the written exam, four of whom were admitted to the oral exam. In total, two passed the exam and two failed completely.

Thus, all sessions included, 16 candidates passed the examination of professional competence in 2014 successfully.

Having passed this examination, candidates may request the CSSF to be granted the title of *réviseur d'entreprises*.

The graduation ceremony was held on 12 March 2015 in the presence of the Minister of Finance Mr Pierre Gramegna.

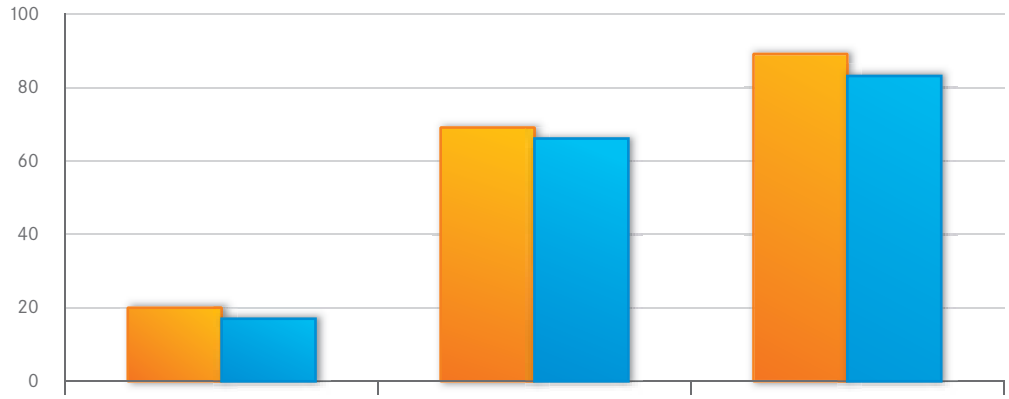
4.2. Public register

The public register of *réviseurs d'entreprises agréés*, *cabinets de révision agréés* and third-country auditors and audit entities is available on the CSSF's website in the section "Public oversight of the audit profession", sub-section "Public register".

4.2.1. National population as at 31 December 2014

- **Development in the number of *cabinets de révision* and *cabinets de révision agréés***

The total number of *cabinets de révision* and *cabinets de révision agréés* amounted to 83 as at 31 December 2014, against 89 as at 31 December 2013, which is a 6.74% decrease.



	Non approved firms	Approved firms	Total
2013	20	69	89
2014	17	66	83

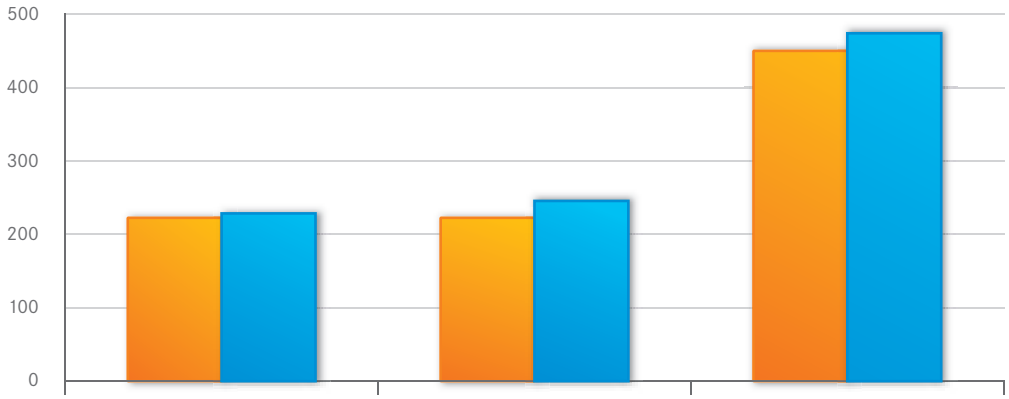
The following firms were approved in 2014:

- AUDIT CONNECTED S.à r.l.
- GRANT THORNTON AUDIT
- OSIRIS ENTERPRISE, O2E, PUBLIC ACCOUNTANTS
- DEVAUX AUDIT & TAX S.à r.l.
- EXPERIAL SARL, Succursale de Luxembourg

In 2014, eight firms gave up their approval, six of which have also abandoned the title of *cabinet de révision*.

• Development in the number of *réviseurs d'entreprises* and *réviseurs d'entreprises agréés*

The total number of *réviseurs d'entreprises* and *réviseurs d'entreprises agréés* amounted to 473 as at 31 December 2014, against 449 as at 31 December 2013, which is a 5.35% increase.

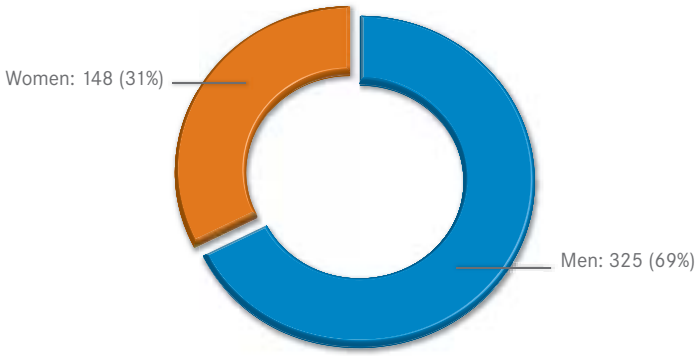


	Non approved *réviseurs*	Approved *réviseurs*	Total
2013	222	227	449
2014	228	245	473

In 2014, the CSSF granted the title of *réviseur d'entreprises* to 19 persons and approved 32 *réviseurs d'entreprises*.

During the year under review, 14 *réviseurs d'entreprises agréés* gave up their approval, including six that also abandoned their title. Moreover, seven *réviseurs d'entreprises* abandoned their title.

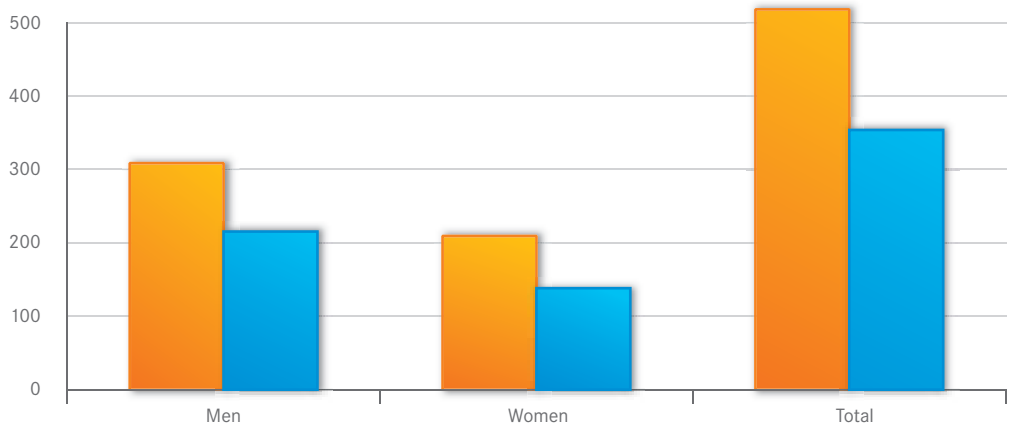
Breakdown of *réviseurs* according to gender



The average age of *réviseurs* is 39.4 years for women and 44.8 years for men.

• Development in the number of trainee *réviseurs d'entreprises*

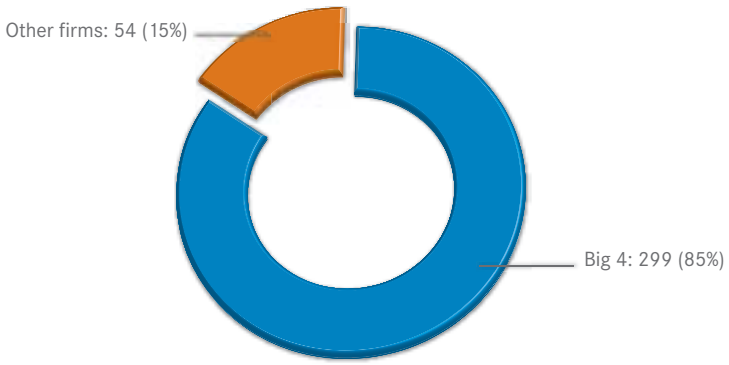
The total number of trainee *réviseurs d'entreprises* amounted to 353 as at 31 December 2014, against 517 as at 31 December 2013, which is a 31.72% decrease.



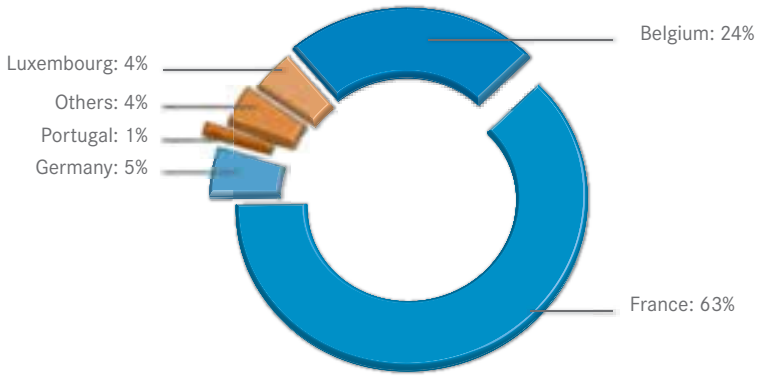
	Men	Women	Total
2013	308	209	517
2014	215	138	353

The average age of trainees is 30.1 years for women and 30.2 years for men.

Breakdown of trainees per firm



Breakdown of trainees per nationality

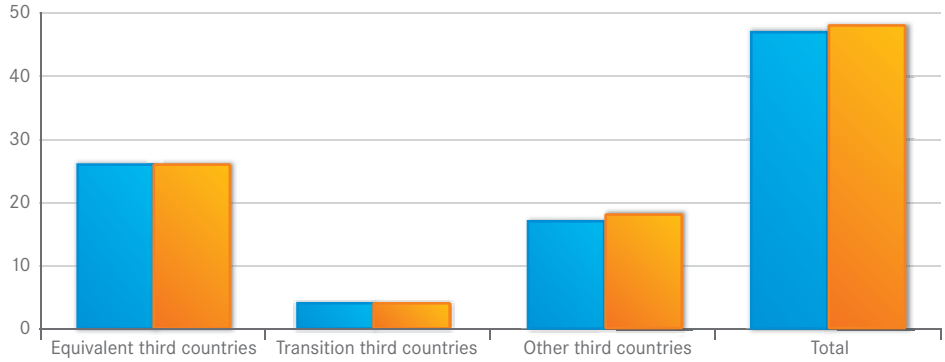


4.2.2. Third-country auditors and audit firms

The registration procedure for third-country auditors and audit firms that provide an auditor's report on the annual or consolidated accounts of a company incorporated outside EU Member States, whose securities are admitted to trading on the regulated market of the Luxembourg Stock Exchange ("third-country auditors") continued in 2014.

Thus, the CSSF accepted an application for registration from an audit firm located in a third country, whose systems for public oversight, quality assurance, investigation and penalty are not considered as equivalent to the systems in place in the EU and which, in addition, does not benefit from a transitional regime granted by the European Commission in its Decision 2013/288/EU ("other third countries").

Breakdown of registered third-country auditors



	Equivalent third countries	Transition third countries	Other third countries	Total
2013	26	4	17	47
2014	26	4	18	48

The public register listing all registered third-country auditors is available on the CSSF's website.

Agents hired in 2014 and 2015: Departments "Public oversight of the audit profession", "Supervision of securities markets", "Innovation, payments, market infrastructures and governance", "Resolution" and "Personnel, administration and finance"

Left to right: Chi Ki LIU, Stephanie GAMBUTO, Nathalie SCHONS, Marie-Kathrin LÖWE, Jeff GELHAUSEN, Laure WINLING, Thibaut BRUNNER, Françoise SCHROEDER, Johan BAKEROOT, François BASSO

Absent: Andrea GENTILINI, Rossana POLLIO

CHAPTER XIII

INSTRUMENTS OF SUPERVISION

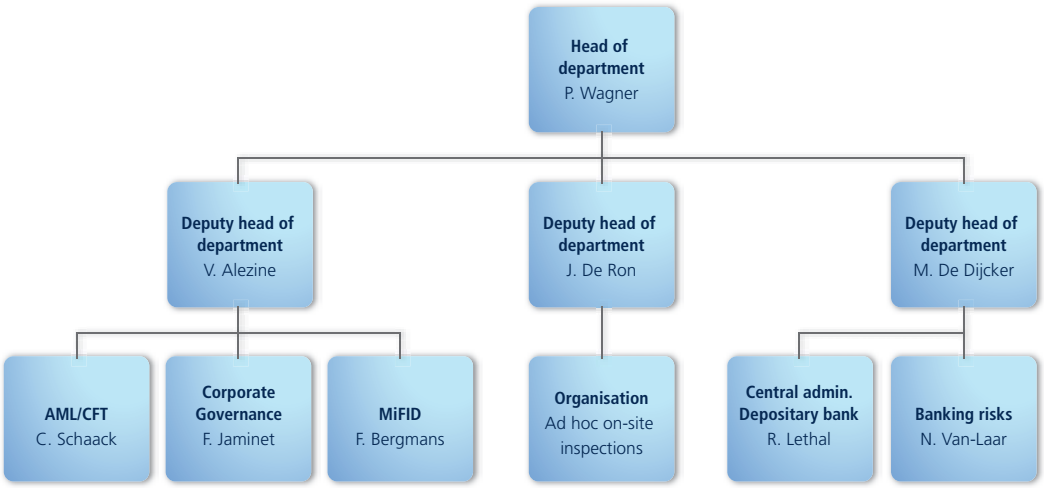
1. ON-SITE INSPECTIONS

The department "On-site Inspection" created in 2014 is in charge of coordinating all on-site inspections carried out by the CSSF in banks[1], UCIs and SICARs as well as their management companies, investment firms, specialised PFS, support PFS, pension funds, securitisation undertakings and financial market participants. The department's staff amounts to 29.25 full-time equivalents on 31 March 2015.

Beyond the on-site inspections in the areas of "Anti-money laundering and counter-terrorist financing", "Corporate Governance", "Depositary bank function", "Credit risk" and "MiFID", the responsibilities of the department "On-site inspection" were extended during the year. Thus, new competences relating to the "Central administration function" in the investment fund industry as well as to the "Operational risk", the "Interest rate risk" and the "Market risk" were assigned to it. Consequently, the "Asset Quality Review" team, which was very much involved in 2014 in the Quality Assurance exercise as part of the Comprehensive Assessment carried out by the European Central Bank (ECB) before the entry into force of the Single Supervisory Mechanism, was renamed into "Banking risks" team.

Since the end of November 2014, the department "On-site Inspection" has also been coordinating together with the department "Centralised On-site Inspection" of the ECB the on-site inspections with significant Luxembourg banks and makes its agents available to perform on-site inspections at these banks in a European context.

Organisation chart of the department "On-site Inspection"



The teams in charge of the on-site inspections[2] are formed based upon the nature, scale and scope of the missions and imply the participation of agents from the supervisory departments as well as from the department "On-site Inspection".

After each on-site inspection, the team in charge of the mission draws up an internal report indicating any flaws and weaknesses identified during the mission. Generally, all on-site inspections are followed by observation letters[3] sent to the controlled professional. In the event of more serious flaws and weaknesses, the CSSF analyses whether there is a need for initiating an injunction procedure or a non-litigious administrative procedure in order to impose an administrative sanction in particular pursuant to Article 63 of the law of 5 April 1993 on the financial sector.

In 2014, the CSSF carried out a total of 138 on-site visits and inspections that concerned, in particular, the topics set out below.

[1] Are concerned the less significant banks which are not subject to the Single Supervisory Mechanism (SSM) and AML/CFT, MiFID and Depositary Bank on-site inspections with significant and less significant banks as these topics are not directly covered by the SSM.

[2] With the exception of the missions performed with significant banks which are organised according to the methodology of the ECB.

[3] There are some rare cases of non-observation letters.

1.1. Introductory visits

Introductory visits are aimed at new players of the financial centre that received their authorisation recently. Usually carried out within the first six months following the professional's authorisation, the purpose of these missions is to follow the newly set up professional in the start-up phase of its activities.

During the year under review, the CSSF undertook 26 introductory visits of new players of the financial centre.

Breakdown of the introductory visits by type of entity

Type of entity controlled	Introductory visits
Banks	3
Electronic money institutions	4
Payment institutions	1
Investment firms	6
Specialised PFS	8
Support PFS	4
Total	**26**

The introductory visits revealed, in some cases, weaknesses relating to the organisation of the day-to-day management, relating to the consistency of the entities' activities with the scope of authorisation or relating to their procedures.

1.2. Ad hoc control missions

Ad hoc control missions are on-site inspections intended to investigate a specific or even worrying situation or specific problem related to the professional itself. The particular situation has, in principle, already been observed during the off-site prudential supervision. Such missions may either be planned in advance or occur unexpectedly. The nature and scale of ad hoc missions may vary significantly and determine subsequently the composition of the on-site teams.

In 2014, the CSSF carried out 27 ad hoc missions. Some of these missions were very large in scope and required the use of significant human resources. The missions were performed by the department "On-site Inspection" but also by the supervisory departments. Certain missions were performed following a whistleblowing procedure.

Breakdown of the ad hoc control missions by type of entity

Type of entity controlled	Ad hoc on-site inspections
Banks	10
UCIs	5
Investment firms	3
Specialised PFS	2
Support PFS	2
Securitisation undertakings	4
Pension funds	1
Total	**27**

The ad hoc missions performed with banks concerned different topics such as, for example, the activities of a branch, the market activity, the credit activity, the analysis of the discretionary management services and more specifically the excessive concentration of group products in customer portfolios or specific aspects of anti-money laundering and counter-terrorist financing. Three missions were performed under the lead of a foreign supervisory authority.

The ad hoc missions performed within the UCI framework concerned general aspects of organisation and governance as well as the central administration activity. These controls were performed with management companies, specialised PFS or banks.

The three ad hoc missions performed with investment firms concerned various topics. Thus, one mission was aimed to assess the financial situation of the company, the organisation of its activity of private portfolio management and compliance with the MiFID provisions. Another mission concerned the activity of the company with regard to a determined group of customers. The third mission concerned compliance with certain MiFID provisions. Whereas one of the supervised undertakings was meanwhile put into liquidation, another one went into voluntary liquidation.

The aim of one of the two missions performed with specialised PFS was to clarify the organisation and the status of the entity. The other on-site inspection was performed to assess the activities of the company for a determined group of customers.

The ad hoc missions with support PFS aimed at verifying compliance with regard to the authorisation file and at clarifying the situation of a company, respectively.

As regards the authorised securitisation undertakings, the controls were intended to assess the administrative and accounting organisation.

With regard to pension funds, the CSSF carried out an on-site inspection with a service provider in order to assess the administrative and accounting organisation of the pension fund.

1.3. “Liquidity” control missions

The “Liquidity” controls are performed under the responsibility of the department “Supervision of banks” together with the Banque centrale du Luxembourg. They aim at assessing the situation and management of the liquidity risk of credit institutions.

In 2014, three missions were performed on liquidity risk. One of these missions was under the lead of the Banque centrale du Luxembourg.

1.4. “Interest rate risk” control missions

“Interest rate risk” or “Interest rate risk in the banking book (IRRBB)” controls aim to assess the interest rate risk arising from non-trading activities and the results of stress tests.

In 2014, the CSSF carried out one “Interest rate risk” on-site inspection.

1.5. “Validation of credit risk management and operational risk management models” on-site inspections

The “Validation of credit risk management” on-site inspections were carried out in order to verify the models relating to internal ratings-based systems, including in particular the internal ratings-based approach (IRB approach). In 2014, the CSSF performed two controls of this type on IRB models.

The CSSF also performs on-site inspections regarding operational risk covering specific aspects of the risk management of credit institutions that apply the advanced measurement approach (AMA) or the standardised approach (TSA). In 2014, the CSSF performed three on-site inspections of this kind concerning the advanced approach.

1.6. “Credits” on-site inspections

The purpose of the “Credits” on-site inspections is to verify the sound and prudent credit management within banks of the financial centre. The processes relating to the granting and monitoring of credits and the acceptance and monitoring of guarantees are analysed on the basis of samples. The different internal reports relating to these processes are also reviewed during those missions.

Following the entry into force of Regulation (EU) No 575/2013 on the prudential requirements applicable to

credit institutions, the CSSF ensures that the principles relating to credits are met. The CSSF also stresses the principles relating to the credit risk set out in Part III of Chapter 3 of Circular CSSF 12/552 and verifies their compliance in practice.

In 2014, the CSSF carried out "Credits" missions in eight banks of the financial centre. These missions, that concerned diverse subjects such as real estate development, mortgage loans, lombard loans and corporate banking loans, led to a better view of the credit risk incurred by these professionals.

A certain number of weaknesses were highlighted during these on-site inspections and concerned, among others:

- poor quality of the information available in the internal systems;
- non-comprehensive grouping of connected clients;
- poor quality of accepted guarantees;
- absence of periodical review of real estate guarantees;
- lack of recovery process;
- absence of definition for forborne credits and credits in default;
- limited documentation of credit files;
- lack of formalisation of the monitoring of credit risk;
- insufficient supervision of the delegated tasks;
- incomplete content of the established internal reports;
- non-regular update of the procedures manual.

The number of "Credits" on-site inspections performed in 2014 was affected by the involvement of the team in the Asset Quality Review (AQR) of the Comprehensive Assessment carried out by the ECB within the framework of the Single Supervisory Mechanism. The tasks realised during the various steps of the AQR included in particular:

- implementation of plausibility checks on documents to be delivered to the ECB;
- assurance of homogeneous and consistent completion of the AQR within the various banks concerned;
- collaboration with the Quality Assurance unit of the ECB and sharing of national concerns;
- verification of compliance with the guidelines issued by the ECB.

1.7. "Corporate governance" on-site inspections

The "Corporate governance" on-site inspections aim to analyse the quality of the governance arrangements set up by the professionals pursuant to the regulatory requirements. An on-site inspection may target the governance of a Luxembourg entity, the group head function exercised by a Luxembourg entity, the organisation and effectiveness of the internal control functions of an entity as well as the implementation of a new governance model as a result of the reorganisation of a banking group.

In 2014, the CSSF carried out 11 "Corporate Governance" on-site inspections[4] in banks and management companies authorised according to Chapter 15 of the law of 17 December 2010.

Breakdown of the "Corporate Governance" control missions by type of entity

Type of entity controlled	"Corporate Governance" on-site inspections
Banks	9
Management companies	2
Total	**11**

[4] Including one follow-up mission.

In 2015, greater emphasis will be given to the on-site inspections on governance with investment firms and other professionals of the financial sector.

The most significant flaws that were identified during the internal governance on-site missions in 2014, be it as a result of their frequency or their seriousness, were the following:

- the pluri-annual internal audit plans did not always cover all activities and areas within a reasonable timeframe;
- as regards entities with a group head function, the transmission of the shortcomings identified throughout the group to the authorised management and the board of directors was not properly performed by the internal control functions;
- the authorised management does not always implement promptly and efficiently the corrective measures proposed by the internal control functions to remedy the weaknesses identified by the latter. Moreover, the possible significant delays in the implementation of these corrective measures are not systematically notified by the authorised management to the board of directors which shall authorise extensions of deadlines for implementing corrective measures;
- the composition of specialised committees does not always comply with the provisions of Circular CSSF 12/552 as amended by Circulars CSSF 13/563 and 14/597 on central administration, internal governance and risk management;
- the principle of segregation of duties, in particular between the members of the authorised management in order to avoid any possible conflict of interests, was not always complied with;
- the absence of a thorough analysis aiming at verifying that the other mandates held by the directors do not cause any conflict of interest issues or a lack of availability of the directors was identified in certain cases;
- in one case, the lack of resources allocated to the internal audit function has seriously challenged the exercise of this function.

Moreover, in general, it was found that most of the controlled entities still face formalisation problems, whether in relation to the discussions and decisions taken by the management and control bodies or in relation to the implementation of the guiding principles and strategies or the policies and procedures required by the applicable circulars.

In 2014, the CSSF decided, following two on-site inspections[5], to initiate an injunction procedure pursuant to Article 59 of the law of 5 April 1993 on the financial sector or a non-litigious administrative procedure in order to impose an administrative sanction pursuant to Article 63 of the aforementioned law. In one case, this procedure led the CSSF to impose an administrative fine.

1.8. “MiFID” on-site inspections

The “MiFID” on-site inspections are carried out in order to assess the quality of the MiFID framework implemented with respect to the legal and regulatory requirements. In 2014, the on-site inspections concerned the services provision and the exercise of investment activities by credit institutions and investment firms. In 2015, the “MiFID” on-site inspections will also relate to management companies authorised according to Chapter 15 of the law of 17 December 2010.

In 2014, the CSSF carried out five “MiFID” on-site missions, which broke down by type of entity as set out below. The “MiFID” team also carried out two ad hoc missions dealing largely with MiFID issues. These missions are included in the ad hoc missions listed in point 1.2. above.

[5] Dating from 2013.

Breakdown of the "MiFID" control missions by type of entity

Type of entity controlled	"MiFID" on-site inspections
Banks	4
Investment firms	1
Ad hoc	2
Total	**7**

The most significant flaws that were identified during the "MiFID" on-site missions in 2014, be it as a result of their frequency or their seriousness, were the following:

- lack of documentation and/or difficulties in obtaining MiFID information relating to customers;
- insufficient information provided to customers on the proposed investment strategies;
- inadequate investment strategies with MiFID information relating to customers;
- non-compliance with the investment strategies agreed with customers;
- non-registration of the result of the appropriateness or suitability assessment of the proposed products or services;
- absence of conflict of interest policy and incomplete identification of possible conflicts of interests (in particular in relation to the significant concentration of financial instruments of the entity and its connected entities in the customer portfolios and commissions received in consideration thereof by the entity);
- lack of information provided to customers as regards commissions or non-monetary benefits paid or received by the entities;
- shortcomings in the execution and selection policies of the entities in charge of the execution.

1.9. "Depositary bank" on-site inspections

During 2014, the CSSF carried out 14 on-site inspections regarding the "Depositary bank" function.

Ten missions were aimed at assessing the general organisation of the activities exercised by the relevant depositary banks. During these inspections, the CSSF reviewed, in particular, the depositary bank's process of acceptance of new assignments, the procedures in place to guarantee the custody of the different types of assets as well as the specific supervisory and monitoring duties.

Four missions exclusively concerned the safekeeping function. During these inspections, the CSSF analysed more specifically the selection and supervision process of the sub-custodians/third-party custodians involved in the custody of the different types of assets and reviewed a sample of files in this regard. It also carried out tests in order to verify that depositary banks are, at any time, aware of how assets of UCIs are invested and where and how these assets are available.

The CSSF carried out an introductory visit with a specialised PFS authorised as professional depositary of assets other than financial instruments.

During these controls, the CSSF has already taken into consideration the new requirements for depositary banks resulting from the AIFMD and from the new Circular CSSF 14/587 on UCITS depositaries.

In 2014, the CSSF also finalised several controls started in 2013 resulting in the sending of deficiency letters and the initiation, in one case, of the injunction procedure within the meaning of Article 59 of the law of 5 April 1993 on the financial sector.

The main weaknesses highlighted during the aforementioned controls are the following:

- absence of clear separation between the depositary functions and the other functions;
- insufficient supervision of the delegated activities;
- shortcomings in the selection and follow-up of the network of sub-custodians/third-party custodians;

- inadequate organisational arrangements for the assets which are not under custody, in particular for private equity and real estate investments;
- lack of specific internal control processes.

It should also be noted that, in February 2014, the CSSF submitted a questionnaire on the activities of depositary bank of UCIs to 62 depositary banks. The purpose of this questionnaire was to enable the CSSF to list the various operational models in place on the Luxembourg market and to understand the potential risks.

1.10. "Anti-money laundering and counter-terrorist financing" (AML/CFT) on-site inspections

The "AML/CFT" on-site inspections are carried out within all players of the financial centre in order to assess the quality of the AML/CFT framework with respect to the legal and regulatory requirements. The controls cover both private banking (portfolio management, domiciliation, etc.) and registrar agent activities.

In 2014, the CSSF carried out 38 "AML/CFT" on-site missions[6] broken down by type of controlled entity as set out below.

The "AML/CFT" team also carried out two ad hoc missions dealing largely with AML/CFT issues. These missions are included in the ad hoc missions listed in point 1.2. above.

Breakdown of the "AML/CFT" control missions by type of entity

Type of entity controlled	"AML/CFT" on-site inspections
Banks	15
Investment firms	11
Specialised PFS	12
Ad hoc	2
Total	**40**

In 2014, a significant number of on-site inspections was performed in banks. In 2015, particular emphasis will be placed on on-site inspections in management companies in so far as these are a key element in the investment fund industry.

The most significant flaws that were identified during the "AML/CFT" on-site missions in 2014, be it as a result of their frequency or their seriousness, were the following:

- lack of documentation and/or difficulties in obtaining information relating to the origin of funds, insufficient documentation in relation to the verification of the identity of the legal persons and beneficial owners, absence of an explicit declaration of customers to act for own account or, where appropriate, for the account of third parties;
- absence of review that a customer, beneficial owner or representative, becomes a politically exposed person during the business relationship;
- absence of drafting of risk analyses on their AML/CFT activities by the professionals;
- absence of implementation of enhanced due diligence measures to customers who have their place of residence in a country which does not apply or insufficiently applies AML/CFT measures or to intermediaries subscribing for units or shares of UCIs or SICARs on behalf of their customers;
- absence of verification that the conditions for applying simplified customer due diligence measures are always complied with during the business relationship;
- shortcomings in the name matching checks as regards the official lists (non-exhaustiveness of the controlled lists, absence of controls when official lists are published, lack of formalisation);
- insufficient involvement of the compliance officer in the monitoring of transactions.

[6] Including eight follow-up missions following previous AML/CFT missions.

In 2014, the CSSF decided, following nine on-site inspections[7], to initiate an injunction procedure pursuant to Article 59 of the law of 5 April 1993 on the financial sector and Article 38(1) of the law of 10 November 2009 on payment services, respectively, or a non-litigious administrative procedure in order to impose an administrative sanction pursuant to Article 63 of the aforementioned law of 5 April 1993. In one case, this procedure led the CSSF to impose an administrative fine.

For five files being processed, the above-mentioned procedure is still likely to be initiated.

In 12 cases, the CSSF transmitted a suspicious transaction report pursuant to Articles 23(2) and/or 23(3) of the Code of Criminal Procedure or a notification to the Financial Intelligence Unit pursuant to Article 9-1 of the law of 12 November 2004 on the fight against money laundering and terrorist financing regarding the co-operation between competent authorities.

1.11. "Support PFS" on-site inspections

The "Support PFS" on-site inspections are directly performed by the agents in charge of the supervision of support PFS due to the specific aspects of these types of PFS. These controls are, in particular, performed following the identification of significant shortcomings with respect to the regulatory requirements and for which no appropriate answer was provided despite repeated requests. They may also result from a denunciation from a third party which was brought to the attention of the CSSF (whistleblowing).

In 2014, the CSSF performed three missions of this type for two entities authorised as support PFS.

2. SANCTIONS AND MEANS OF ADMINISTRATIVE POLICE

2.1. Legal framework

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

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

In addition, the CSSF has the right to:

- impose administrative fines on legal or natural persons subject to the CSSF supervision and on persons in charge of the administration or management of the undertakings concerned;
- under certain conditions, apply to the *Tribunal d'Arrondissement* (District Court) sitting in commercial matters for suspension of payments of an undertaking;
- ask the Minister of Finance to refuse registration on or to withdraw registration from the official list of credit institutions or other professionals of the financial sector, if an undertaking does not fulfil or no longer fulfils the conditions for being or continuing to be registered on the official list in question;
- to refuse registration on or to withdraw registration from the official lists of entities subject to the supervision of the CSSF, if the conditions for being or continuing to be registered on the official list in question are not or no longer fulfilled;
- under precise conditions laid down by law, request the *Tribunal d'Arrondissement* sitting in commercial matters to order the dissolution and the winding-up of an undertaking.

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

- persons performing an activity of the financial sector without holding the required authorisation;

[7] Among which six on-site inspections dating from 2013.

- persons operating in the field of domiciliation of companies without belonging to any of the professions entitled to carry out this activity pursuant to the law of 31 May 1999 governing the domiciliation of companies;
- persons other than those registered on the official lists of the CSSF, who use a title or name, thereby breaching Article 52(2) of the law of 5 April 1993 on the financial sector, purporting that they are authorised to perform any of the activities reserved to persons registered on such a list;
- attempted fraud.

2.2. Decisions taken in 2014

In 2014, the CSSF took the following decisions with respect to sanctions and administrative police. It should be noted that the total amount of administrative fines imposed in 2014 reached EUR 722,250 against EUR 667,650 in 2013.

2.2.1. Credit institutions

In accordance with Article 63 of the law of 5 April 1993 on the financial sector, the CSSF imposed one administrative fine in 2014 amounting to EUR 75,000 on a credit institution due to shortcomings with regard to organisational requirements relating to internal control mechanisms.

2.2.2. Investment firms

In 2014, the CSSF imposed seven administrative fines pursuant to Article 63 of the law of 5 April 1993 on the financial sector. Three fines were imposed on an investment firm for non-compliance with a certain number of points of the AML/CFT regulation (EUR 25,000), for non-filing, within the deadlines set, of the documents requested by the CSSF within the framework of its statutory supervisory mission (EUR 5,000) and for failure to provide, within the deadlines set, the closing documents relating to 2013 (EUR 15,000). A fine of EUR 7,500 was imposed on an investment firm for non-compliance with certain professional obligations as regards AML/CFT. Moreover, the CSSF imposed an administrative fine of EUR 15,000 on an investment firm which failed to meet its legal obligations as regards the capital ratio on a repetitive basis. In another case, the CSSF imposed a fine of EUR 5,000 on an investment firm for non-filing of certain documents relating to the closing of the financial year 2013.

All these fines were imposed on investment firms as legal persons.

Moreover, the CSSF imposed a fine of EUR 10,000 on a former head of an investment firm for violation of the legal and regulatory requirements. In this context, in accordance with Article 19 of the law of 5 April 1993 on the financial sector, the CSSF has withdrawn the professional repute of the person concerned for a period of 60 months. This sanction was the subject of a nominative publication by the CSSF pursuant to Article 63(2) of the aforementioned law.

The CSSF used its right of injunction, in accordance with Article 59 of the above-mentioned law, on five occasions. Two injunctions concerned the non-compliance with the applicable AML/CFT laws and regulations. Two other injunctions imposed by the CSSF on an investment firm concerned the extended insufficiency of capital bases and the non-compliance with the provisions of Article 19(3) of the law of 5 April 1993 on the financial sector. Moreover, the CSSF imposed an injunction on an investment firm due to significant and repeated shortcomings identified by the internal auditor and the external auditor.

The CSSF used its right of suspension under Article 59 of the law of 5 April 1993 on the financial sector on one occasion. Thus, it imposed, in accordance with the powers conferred upon it within the framework of its supervisory mission and to avoid imminent and serious dangers for future investors, a limited suspension of the activity of the investment firm. This suspension was followed by the order of suspension of payments of the investment firm. The *Tribunal d'Arrondissement de et à Luxembourg* (Luxembourg District Court) ordered later the dissolution and judicial liquidation of the investment firm in question.

With respect to investment firms, the CSSF filed seven reports with the State Prosecutor, in 2014, pursuant to Articles 23(2) and/or 23(3) of the Code of Criminal Procedure.

In 2014, the CSSF filed six complaints with the State Prosecutor regarding entities which provided investment services without authorisation.

2.2.3. Specialised PFS

Pursuant to Article 63 of the law of 5 April 1993 on the financial sector, the CSSF imposed six administrative fines on six specialised PFS in 2014. Five of these fines amounting to EUR 3,000 each were imposed for failure to provide, within the deadlines set, the closing documents relating to the financial year 2013. The other fine amounting to EUR 40,000 was imposed due to non-compliance with the professional obligations regarding AML/CFT. All these fines were imposed on the entities as legal persons.

In 2014, the CSSF temporarily withdrew the professional repute of possible shareholders and an authorised manager. The persons concerned provided, within the context of an authorisation request, an incomplete or even inaccurate declaration of honour.

Moreover, the CSSF used its right of injunction in accordance with Article 59 of the law of 5 April 1993 on the financial sector on six occasions. Two injunctions concerned the regularisation of points which do not comply with the AML/CFT. The other injunctions concerned the regularisation of existing delays in approval, deposit and publication of annual accounts of domiciled companies, the non-compliance with legal provisions applicable to changes in the day-to-day management and the board of directors, the absence of a domiciliation agreement and the regularisation of insufficient own funds.

In 2014, the CSSF filed four complaints with the State Prosecutor in accordance with Articles 23(2) and 23(3) of the Code of Criminal Procedure and there was an exchange of information between the competent authorities pursuant to Article 9-1 of the law of 12 November 2004 on AML/CFT.

2.2.4. Support PFS

Pursuant to Article 63 of the law of 5 April 1993 on the financial sector, the CSSF imposed in 2014 daily fines on a support PFS for failure to provide the CSSF with all the requested closing documents. The total amount of these fines reached the maximum amount of EUR 25,000 provided by law for daily fines.

The CSSF also imposed two administrative fines in accordance with the aforementioned Article 63. These fines amounting to EUR 5,000 each were imposed on two support PFS for non-filing of the descriptive reports and/or closing documents.

2.2.5. Undertakings for collective investment

In accordance with Article 148(1) of the law of 17 December 2010 relating to undertakings for collective investment, the CSSF imposed administrative fines of EUR 2,000 each on the managers of a UCI for non-filing of the annual financial report and on the managers of a UCI for non-filing of the information requested by the CSSF.

In accordance with Article 51(1) of the law of 13 February 2007 relating to specialised investment funds (SIF), the CSSF imposed administrative fines amounting to EUR 2,000 or EUR 4,000, as the case may be, on the managers of 24 SIFs for non-filing of the management letter as well as on the managers of 26 SIFs for non-filing of the annual financial report.

Based on the aforementioned Article 51(1), the CSSF also imposed administrative fines amounting to EUR 2,000 each on managers of a SIF for non-filing of the information requested by the CSSF.

During 2014, the CSSF decided to withdraw eight SIFs from the official list for non-compliance with the legal provisions governing SIFs.

2.2.6. Management companies

In accordance with Article 148(1) of the law of 17 December 2010 relating to undertakings for collective investment, the CSSF imposed administrative fines amounting to EUR 2,000 each on the managers of three management companies for non-filing of the annual financial report.

During 2014, the CSSF decided to withdraw from the official list two management companies subject to Chapter 16 of the law of 17 December 2010 relating to undertakings for collective investment for non-compliance with the legal provisions governing management companies.

2.2.7. Investment companies in risk capital (SICARs)

In accordance with the provisions of Article 17(1) of the law of 5 June 2004 relating to the investment company in risk capital (SICAR), the CSSF imposed administrative fines amounting to EUR 500 each on the managers of three SICARs for non-filing of the annual financial report.

Moreover, during 2014, the CSSF decided to withdraw one SICAR from the official list for non-compliance with the legal provisions governing SICARs.

2.2.8. Securities markets

The review of financial reports under the Transparency Law led the CSSF to issue 10 administrative fines, mainly due to delays in the disclosure and filing of annual and half-yearly financial reports. The total amount of these administrative fines imposed in accordance with Article 25 of the Transparency Law was EUR 71,750. Within the framework of controls with respect to major holdings under the Transparency Law, the CSSF imposed two administrative fines, for exceeding the legal period, on an issuer and a shareholder. The total amount of these two administrative fines was EUR 5,000. For further information, please refer to point 4. of Chapter X “Supervision of securities markets”.

Issuers that were subject to an enforcement review (control of the consistent enforcement of accounting standards) during the 2013 campaign, and whom the CSSF requested to change or improve the 2013 financial statements, were subject to a follow-up review in order to ensure compliance with the decisions taken by the CSSF. In this context, administrative fines totalling EUR 34,000 were imposed on eight issuers that did not comply with certain formal requests of the CSSF as regards the improvement of the financial information in their 2013 financial statements or in their 2014 half-yearly financial statements. As regards the other specific enforcement measures, reference should be made to point 5. of Chapter X “Supervision of securities markets”.

As regards market abuse, the CSSF imposed, in 2014, an injunction on a person who did not comply with the provisions on transaction reports of the persons discharging managerial responsibilities within an issuer provided for in Article 17(1) of the law on market abuse.

Agents hired in 2014 and 2015: Internal audit and Department "On-site inspection"

Left to right: Stéphane DEFOURNY, Wenda JACAMON, Sébastien CARA, Sylvie JEANBLANC, Olivia MOURTON, Marianne DIAGNE, Marie GOURC, Giulio BRENNA

Absent: Raphaël CASTEL, Karin ENGELHARDT, Arnaud PICARD, Christian STRASSENBURG

CHAPTER XIV

FINANCIAL CRIME

1. Amendments to the regulatory framework regarding the fight against money laundering and terrorist financing and regarding international financial sanctions
2. Participation of the CSSF in meetings regarding the fight against money laundering and terrorist financing
3. Information for professionals subject to the supervision of the CSSF regarding the fight against money laundering and terrorist financing

Preventing the use of the financial sector for criminal purposes, notably money laundering and terrorist financing, is one of the specific missions assigned to the CSSF by Article 2 of the law of 23 December 1998 establishing the CSSF. The CSSF pursues this objective by implementing a risk-based supervisory approach in this respect.

The fight against financial crime is thus an integral part of the daily supervision of the financial sector professionals subject to the law of 12 November 2004 on the fight against money laundering and terrorist financing (hereafter AML/CFT Law).

In this context, it should be noted that the introduction of the Single Supervisory Mechanism of the European Central Bank, applicable since 4 November 2014 to all the banks in the euro area, has no impact on the CSSF's competences relating to AML/CFT, which remain unchanged. The CSSF remains thus competent for the AML/CFT supervision and responsibilities for all Luxembourg banks.

1. AMENDMENTS TO THE REGULATORY FRAMEWORK REGARDING THE FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING AND REGARDING INTERNATIONAL FINANCIAL SANCTIONS

Since early 2014, the international political situation was marked by the events in Ukraine and the international sanctions taken in relation thereto. In view of the gravity of the situation, the Council of the European Union enacted a series of restrictive measures against Russia and the persons responsible for human rights violations in Ukraine. As regards the effects of such measures on the financial sector, it should be specified that they go beyond the usual financial restrictions, i.e. the freeze of assets or economic resources and the financial non-assistance to certain persons, and include the prohibition to access capital markets and the refinancing of certain Russian entities through these capital markets. In this context, the CSSF reminded the supervised professionals in its press release of 28 February 2014 of the obligation to pay particular attention to any activity which they regard as likely to be related to money laundering or terrorist financing and to continuously apply enhanced due diligence measures to politically exposed persons (PEPs), as defined by the AML/CFT Law. The CSSF underlined in its press releases of 28 February and 28 March 2014 that the professionals are required to report suspicious transactions to the Financial Intelligence Unit (FIU) of the State Prosecutor's office of the *Tribunal d'Arrondissement de Luxembourg* (Luxembourg District Court) in case of suspicious withdrawals or transfers of funds.

On 12 June 2014, the EU issued FAQs relating to the measures taken in the context of the situation in Ukraine. The FAQs are available under http://www.eeas.europa.eu/statements/docs/2014/140612_01_en.pdf.

Moreover, the European regulatory framework has been completed by restrictive measures applicable to both the economic and financial relations with certain countries and certain persons or entities of these same countries, including in particular Belarus, Iraq, Iran, Liberia, Libya or Syria. New restrictions linked to the situation in Yemen also have to be mentioned in this context. The complete list of these regulations is available on the CSSF website under the heading "Financial crime", which gathers the relevant texts on AML/CFT and on international financial sanctions.

1.1. Criminal Code

On the subject of cybercrime, the law of 18 July 2014 approving the Convention on Cybercrime of the Council of Europe opened for signature in Budapest on 23 November 2001 and the Additional Protocol to this Convention concerning the criminalisation of acts of a racist and xenophobic nature committed through computer systems, done in Strasbourg on 28 January 2003, substantially modified the Luxembourg Criminal Code.

It should thus be noted that the IT criminal offences under Articles 509-1 to 509-7 of the Criminal Code have been included in the primary offences list of the money laundering offence provided for in Article 506-1 of the Criminal Code. One of the major interests of the ratification of the Budapest Convention by Luxembourg

is that, additionally to the fact that this legislation allows sanctioning the new forms of online crimes, the Convention covers a broad territorial spectrum as it has also been ratified by non-Member States of the Council of Europe. Among those non-Member States are the United States, Australia, Japan or Panama, for which the Convention already entered into force.

Moreover, in the thriving context of virtual currencies on which the CSSF made an official statement in its press release dated 14 February 2014, the law of 18 July 2014 also completed the primary money laundering offences provided for in Article 506-1 of the Criminal Code, among which theft (Article 461 of the Criminal Code), extortion (Article 470 of the Criminal Code) and breach of trust (Article 491 of the Criminal Code), by inserting the electronic key in the list of goods that may be subject to fraudulent misappropriation.

1.2. Law of 28 July 2014 regarding immobilisation of bearer shares and units and the keeping of the register of registered shares and the register of bearer shares

The law of 28 July 2014, the adoption of which was driven by, in particular, the criticism expressed by the FATF in its mutual evaluation report of Luxembourg dated 19 February 2010, aims at introducing major transparency in the shareholder structure of commercial companies which issued bearer shares. The law is further detailed under point 3.1. of Chapter XVI "Banking and financial laws and regulations". Reference should also be made to the press release 14/68 published by the CSSF on 30 December 2014 and relating to the said law.

1.3. Ministerial regulations

In 2014, the Minister of Finance issued nine ministerial regulations implementing UN Resolutions 1267 (1999) and 1989 (2011) (Al-Qaida) and 1988 (2011) and 2082 (2012) (Taliban).

1.4. CSSF Circulars and other published information

Circular CSSF 14/595 of 30 October 2014 follows up on Circulars CSSF 14/590 of 1 July 2014 and CSSF 14/584 of 17 February 2014 on the FATF statements concerning:

- jurisdictions whose AML/CFT regime has substantial and strategic deficiencies;
- jurisdictions not making sufficient progress;
- jurisdictions whose AML/CFT regime is not satisfactory.

In addition to the press releases indicated under points 1. and 1.2. above, the CSSF drew the attention of the supervised professionals to the press release dated 20 January 2014 (14/05) on the new recommendations on the sound management of risks related to money laundering and financing of terrorism by the Basel Committee in its 2013 Annual Report.

1.5. Proposal for a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (fourth Directive) and proposal for a regulation on information accompanying transfers of funds

On 12 January 2015, the European Parliament and the Council of the European Union reached a final compromise text for the fourth Directive and the EU Regulation on information accompanying transfers of funds. Once the ordinary EU legislative procedure completed, the texts will be considered to be definitively approved. The fourth Directive is expected to enter into force by the end of the first half of 2015. From that date on, the EU Member States will have a maximum period of two years to transpose the directive into national law and regulation. The EU Regulation will be directly applicable as from its entry into force, i.e. on the 20th day following that of its publication in the Official Journal of the EU.

The objective of the fourth Directive and the EU Regulation will be to strengthen the current legal framework in order to prevent the use of the financial system for the purpose of money laundering and terrorist

financing, mainly with the aim to adapt the European framework to the new Financial Action Task Force's recommendations which were adopted in February 2012.

In this view, the fourth Directive will insist, inter alia, on the exact identification of the beneficial owner and on the regular update of the beneficial owner's information. To ensure transparency and in order to fight against the use of corporate vehicles for illicit purposes, the fourth Directive will require from the Member States to make sure that the information on the beneficial owners is kept in a central register, outside the premises of the institution, accessible in any case to the competent authorities and the FIU, as well as to the supervised entities in relation to their Know-Your-Customer obligations.

The fourth Directive will also include tax crime on both direct and indirect taxation under the definition of criminal activities. It will further provide for a money laundering and terrorist financing risk assessment to be carried out at the level of each Member State as well as at EU level.

In addition, the fourth Directive will emphasize the fact that the fight against money laundering and terrorist financing must be performed by fully respecting the EU legal framework, in particular as regards the European legislation on data protection and the preservation of fundamental rights stated in the Charter of Fundamental Rights of the EU.

The EU Regulation on information accompanying transfers of funds will notably include information on the payee for transfers of funds, extend the scope of the regulation, in particular as regards fund transfers outside the EU of less than EUR 1,000, by providing for the communication of non-verified information on the payer and the payee, and extend the measures to be implemented by the Payment Service Provider (PSP) of the payee by imposing a requirement to verify the information of the beneficiary (where not previously identified) for payments originating outside the EU and where the amount is more than EUR 1,000. PSPs shall also establish risk-based procedures determining when to execute, reject or suspend a transfer of funds which lacks the required information and providing for appropriate follow-up action.

2. PARTICIPATION OF THE CSSF IN MEETINGS REGARDING THE FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

2.1. International AML/CFT meetings

2.1.1. Financial Action Task Force (FATF) and its working groups

The FATF, an international organisation whose purpose is to set AML/CFT standards and policies, initiated its fourth round of AML/CFT mutual evaluations in 2014.

In its 2013 Annual Report, the CSSF already informed that, in relation to the evaluation of Luxembourg, the FATF came to the conclusion, in February 2014, that Luxembourg had made significant progress regarding AML/CFT, so that its compliance level with the main FATF recommendations is now equivalent to, at least, a "Largely Compliant" rating.

As far as progress of other countries is concerned, reference should be made to the FATF statements on high-risk and non-cooperative jurisdictions. These statements are updated at the end of each of the FATF plenary meetings which are held three times a year (cf. point 1.4. above).

The FATF meeting of 25 and 26 March 2014 with representatives of the private sector and whose purpose was to discuss the updates to the guidance for applying the risk-based approach to their relevant sector is also worth mentioning.

As regards the documents which have been adopted definitively by the FATF in 2014, the CSSF draws the attention of banks mainly to the "Risk-Based Approach Guidance for the Banking Sector" dated October 2014. In addition to general explanations on the risk-based approach and a section intended for banking supervisors, the guidance includes specific recommendations for banks under Section III. The guidance also provides practical examples of factors to take into consideration, of risks identified in relation to certain activities and of risk mitigation measures to implement at the level of Know-Your-Customer, ongoing monitoring and internal control.

Being also of a direct interest for the financial sector, the purpose of the "Guidance on Transparency and Beneficial Ownership" dated October 2014, is to prevent the misuse of corporate vehicles for money laundering or terrorist financing or other crimes, such as corruption. Indeed, transparency is an important issue for the FATF, which met for a new discussion on this issue with the G20 in October 2014.

Among all documents finalised between March 2014 and February 2015, the following are also worth mentioning:

- the report on key definitions and potential AML/CFT risks of virtual currencies;
- the typologies report on the risk of terrorist abuse in non-profit organisations; and
- the report on the financial flows linked to the production and trafficking of Afghan opiates and, consequently, on the interrelationship between drug trafficking and terrorist financing.

2.1.2. Joint Committee's Sub-Committee on Anti-Money Laundering (AMLC)

The AMLC, dedicated to the fight against money laundering and terrorist financing, is a sub-committee of the Joint Committee of the three European Supervisory Authorities (EBA, ESMA and EIOPA). During the three meetings organised in 2014, the supervisory authorities exchanged information and got acquainted with the ongoing work of other AML competent bodies. Bearing in mind the deadlines set out in the fourth AML/CFT Directive for the implementation of certain texts and aware of the major role it has been granted to draw up the relevant texts, the AMLC already progressed in its work on the following documents:

- guidelines on the application of the risk-based approach by the AML/CFT supervisory authorities;
- regulatory technical standards on the criteria defining the implementation of a central contact point for payment institutions;
- guidelines on the study of AML/CFT risk factors in the European financial sector.

These three documents will be subject to a major public consultation in 2015, allowing the private sector representatives to express their opinion and share their expertise.

2.1.3. Expert Group on Money Laundering and Terrorist Financing (EGMLTF)

The EGMLTF is a working group whose purpose is to assist the European Commission in the preparation and implementation of its policies. It serves as a platform for coordination and exchange of views between the European Commission and Member States and provides expertise to the Commission when preparing implementing measures.

The EGMLTF met once in 2014. The items on the agenda included the follow-up of the negotiations relating to the proposal for the fourth AML/CFT Directive, the AML/CFT risk assessment, virtual currencies as well as the preparation of the FATF plenary meetings.

2.1.4. Anti-Money Laundering Expert Group (AMLEG)

For this AML/CFT expert group of the Basel Committee on banking supervision, 2014 has been a very busy year. Indeed, the AMLEG decided to be more present within the FATF - in its capacity as an observer member – and thus contributed on several occasions to the following issues dealt with by the FATF:

- risk-based approach for the banking sector (publication of guidance); and
- efficiency of the supervision and enforcement (draft guidance).

In June 2014, a meeting was held in order to update the AMLEG document which will serve as guidance for the needs of client identification and verification of a client's identity when opening a bank account.

2.1.5. The Wolfsberg Group

In June 2014, the members of the Wolfsberg Group (made up of 11 significant banks in terms of size and global activities) had again invited the CSSF to their plenary meeting. Risk management, mostly relating to legal and reputational risk in case of money laundering and terrorist financing or violation of financial sanctions, has been one of the key subjects which has been dealt with from different angles in dedicated workshops. The discussions mainly focussed on an improvement of the processes and assessment systems, notably IT-related, and on issues concerning the protection of private data, in particular concerning the information-sharing situation at group level.

2.2. National AML/CFT meetings

2.2.1. Co-operation with competent AML/CFT judicial authorities

In 2014, the FIU and the CSSF representatives met for one formal meeting, in addition to other ad hoc contacts which concerned specific cases.

Other meetings were held with the judicial police or the State Prosecutor's office of the *Tribunal d'Arrondissement de Luxembourg* (Luxembourg District Court).

The exchange of information is used in the context of the AML/CFT risk-based supervision by the CSSF. Moreover, and in compliance with the requirements provided for in Article 2(4) of the law of 23 December 1998 establishing the CSSF, these interactions aim at ensuring that "natural or legal persons, which are known to maintain, directly or indirectly, relations other than strictly professional relations with the organised crime, do not take control, directly or indirectly, of persons subject to its supervision, be it as beneficial owners, by acquiring significant interest or controlling interest, holding a management position or otherwise".

2.2.2. National coordination meetings on AML/CFT

Several coordination and consultation meetings between all the national AML/CFT competent authorities were held in 2014, chaired by the Ministry of Justice. Discussions concerned notably the national AML/CFT risk assessment and the different FATF works and reports.

2.2.3. Committee on the prevention of corruption (Copreco)

Copreco has been established by the law of 1 August 2007 approving the United Nations Convention against Corruption. It is a consultative and co-ordinating body whose mission is to assist the government in combating corruption. The Grand-ducal Regulation of 15 February 2008 lays down its composition and functioning.

Copreco met once in 2014. The agenda included, notably, the adoption of a national action plan against corruption, which is also related to the different assessments of Luxembourg on combating corruption.

2.2.4. Committee for the follow-up of financial sanctions

This committee, set up pursuant to the Grand-ducal Regulation of 29 October 2010 implementing the law of 27 October 2010, met two times in 2014. It dealt with different theoretical and practical questions that arise mainly in relation to counter financing of terrorism, but also in relation to the implementation of certain international financial sanctions regimes, in particular related to the situation in Ukraine. Moreover, the committee continued its discussions on the implementation of certain FATF requirements into national law.

3. INFORMATION FOR PROFESSIONALS SUBJECT TO THE SUPERVISION OF THE CSSF REGARDING THE FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

3.1. Financial sanctions and competent authorities

Pursuant to Article 33 of CSSF Regulation N° 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing, the financial sector professionals supervised by the CSSF are reminded that controls such as "name matching", i.e. controls on the client database performed in relation to:

- acts directly applicable in Luxembourg, as adopted by the EU (in particular, EU regulations) and including prohibitions and restrictive financial measures against certain persons, entities or groups respectively (i) in the context of the fight against terrorist financing or (ii) in the context of other financial embargoes; and
- national regulatory texts concerning financial sanctions relating to the fight against terrorist financing based on the law of 27 October 2010 implementing the United Nations Security Council resolutions and Grand-ducal Regulation of 29 October 2010 enforcing the aforementioned law;

must be performed without delay after the publication of each new amendment. Such controls are independent from any other frequency of controls, of whatever type (for example, in relation to the detection of PEPs), which may have been put in place by the professional.

"Without delay" means, in the context of the implementation of the financial sanctions, including the freeze of assets or other economic resources or other restrictive measures taken in application of the above-mentioned texts, a delay of, ideally, a few hours following the publication of the measures by the CSSF and/or the Ministry of Finance. In any case, it should be interpreted in relation to the need to prevent the outflow or the dispersion of funds or other goods linked to the designated persons, entities and groups.

The control must include clients, representatives and beneficial owners. It must be formalised and carried out pursuant to the four eyes principle.

In case of alerts, and pursuant to the texts mentioned above, the CSSF would like to draw the attention of the financial sector professionals particularly on the fact that they must, in first place and without delay, inform the Ministry of Finance, and send a copy of this communication to the Ministry of Foreign Affairs and the CSSF, which are the competent authorities referred to in Article 33(2) of CSSF Regulation N° 12-02. If the alert also includes a suspicion of terrorist financing or of another primary money laundering offence, and only then, the FIU shall be informed at the same time, pursuant to Article 5(1)(a) of the AML/CFT Law.

The complete documentation relating to the international financial sanctions is available on the CSSF website under the heading "Financial crime". As regards the financial sanctions issues which are directly linked to the fight against terrorist financing, reference should be made to the heading "International financial sanctions - Prohibitions and restrictive measures with respect to the fight against terrorist financing". Concerning the other financial embargoes, the heading "International financial sanctions - Other prohibitions and restrictive financial measures" includes all information needed, broken down by country. Moreover, the sections "Useful links" under the aforementioned headings provide the links to the consolidated lists (consolidated EU lists of all the persons, groups and entities subject to different financial sanctions and lists of the UN Security Council concerning individuals, groups, undertakings and other entities associated with Al-Qaida and individuals, entities, groups, undertakings associated with the Taliban).

The link to the website of the Ministry of Finance provides access to further useful information on the application of international financial sanctions.

As already mentioned in Circular CSSF 10/495, the financial sector professionals wishing to be kept informed about, e.g., financial sanctions, may subscribe to an e-mail information service on the CSSF website by using the "Subscription" option and selecting the topic "Laws and regulations".

3.2. Suspicious transaction reports and competent authorities

The CSSF reminds that the FIU has "a national and exclusive competence in relation to the fight against money laundering and terrorist financing" (law of 7 March 1980 on the organisation of the judicial system). As a consequence, the FIU must be informed first when the person in charge of AML/CFT with the financial sector professional transmits a suspicious transaction report (STR).

The CSSF is simultaneously informed of the STRs transmitted to the FIU only if the information contained therein concerns a suspect who is a professional subject to the CSSF's supervision or a member of the personnel or of the internal bodies of such professional or where this information is likely to have a more material impact on the financial sector, in accordance with the terms of Circular CSSF 11/528.

This situation must be distinguished from the one described in point 3.1. above, which lays down the exclusive competence of the Ministry of Finance for the implementation of the international financial sanctions in the context of the fight against terrorist financing, whereas the CSSF is in charge of supervising the application of the financial sanctions by the professionals subject to its supervision.

CHAPTER XV

FINANCIAL CONSUMER PROTECTION

1. FINANCIAL CONSUMER PROTECTION

Financial consumer protection remains a priority for regulation, both nationally and internationally. In 2014, several European directives were adopted which are gradually shaping up a European financial consumer protection law. Henceforth, the European financial consumer can count on enhanced protection, whether in respect of mortgage or comparability of payment account fees, change of payment account and access to payment accounts with basic features.

At national level, 2014 was marked by the entry into force of CSSF Regulation N° 13-02 relating to the out-of-court resolution of complaints which provides for both a codified complaint handling process applicable to the CSSF and provisions governing complaint handling within the entities supervised by the CSSF.

If CSSF Regulation N° 13-02 shall not be considered as transposing Directive 2013/11/EU of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC, it has, however, already anchored the spirit of Directive 2013/11/EU in positive law applicable to the professionals of the financial centre. Moreover, CSSF Regulation N° 13-02 has already anticipated the implementation of the "Guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors", so that the CSSF can be considered as following the guidelines in question.

Financial consumer protection was subject to a lot of work in 2014, at international, European and national level. Chapter II "European dimension of the supervision of the financial sector" covers the work at European level in this regard. The topic of financial education, consistent with financial consumer protection, is also increasingly discussed in international fora.

1.1. Financial consumer protection and financial education at international level

In addition to its involvement at European level in respect of financial consumer protection, the CSSF contributes to the work of several international groups the purposes of which are financial consumer protection and the spread of financial education.

1.1.1. Task Force on financial consumer protection of the OECD Committee on Financial Markets

The Task Force met in plenary sessions in February, April, June and October 2014 at the OECD headquarters in Paris.

As agreed in the Action Plan drawn up and endorsed by the G20 in 2012, the Task Force developed, in 2013, a first set of effective approaches dealing with three of the ten G20 High-Level Principles, namely "Disclosure and Transparency" (Principle 4), "Responsible Business Conduct of Financial Services Providers and Authorised Agents" (Principle 6) and "Complaints Handling and Redress" (Principle 9). A progress report was presented at the meeting of the G20 Ministers of Finance in Moscow in July 2013 before being transmitted to the Heads of State at the G20 Summit in Saint Petersburg in September 2013.

In 2014, the Task Force developed a first set of effective approaches on the following six High-Level Principles: "Legal, Regulatory and Supervisory Framework" (Principle 1), "Role of Oversight Bodies" (Principle 2), "Equitable and Fair Treatment of Consumers" (Principle 3), "Protection of Consumer Assets against Fraud and Misuse" (Principle 7), "Protection of Consumer Data and Privacy" (Principle 8) and "Competition" (Principle 10).

The Principle "Financial Education and Awareness" (Principle 5) was set out in a separate addendum.

The report on the six High-Level Principles and the addendum concerning the fifth High-Level Principle were presented at the meeting of the G20 Ministers of Finance and Central Banks in Cairns in September 2014 before being transmitted to the Heads of State during the G20 Summit in Brisbane in November 2014.

1.1.2. International Network on Financial Education of the OECD (INFE)

The INFE, which was created in 2008, is an international network which serves as a platform to collect data on financial literacy and to develop analytical and comparative reports, research, as well as policy instruments. The INFE also seeks to promote and facilitate the international co-operation between the different participants (politicians, regulators, associations, etc.) concerned by the financial education issue at global level. More than 230 public institutions from over 100 countries joined the INFE.

In order to take account of its continued development, both at the level of its members and of its work and activities, the INFE adopted a new structure. The INFE Technical Committee was thus created on 1 January 2014 and meets twice a year.

The CSSF is a full member of the INFE and the ABBL was accepted as affiliate member at the first meeting of the INFE Technical Committee which was held in Istanbul on 21 May 2014.

One of the key topics of the INFE is the national strategy in financial education that each Member State is invited to put in place. Some States have already introduced or are about to introduce such a strategy whereas others work on its development. The INFE devotes significant efforts to help Member States to develop a national strategy and works in this respect on the "Policy Handbook on the Implementation of National Strategies for Financial Education". The progress of the work in this area was presented at the G20 meeting on 15 and 16 November 2014.

Moreover, the INFE is very concerned about financial literacy of young people and published a document entitled "Preliminary Draft Core Competencies on Financial Literacy for Youth". The INFE also supports the "OECD PISA financial literacy assessment of students" whose first evaluation results were presented to the OECD in Paris on 9 July 2014.

1.1.3. Committee 8 on Retail Investors of IOSCO

The primary mandate of Committee 8 is to conduct the IOSCO's policy work as regards financial education. Its secondary mandate is to advise the IOSCO Board on the issues relating to investor protection and to conduct the IOSCO's policy work on investor protection.

Two working groups were put in place in 2014. The first working group is tasked with analysing the anti-fraud messages used in the different jurisdictions whereas the second working group deals with risk education for investors.

1.1.4. Child and Youth Finance International (CYFI)

The CSSF supports the non-profit association Child and Youth Finance International (CYFI) based in the Netherlands which operates as a global network. The objective pursued is twofold: CYFI seeks, on the one hand, to ensure access of young people to appropriate products and services (financial inclusion) and, on the other hand, to promote their financial education.

1.2. Financial consumer protection at national level

1.2.1. Financial Consumer Protection Committee (CPCF)

The CPCF, which has been in place since 2012, is composed of the representatives of the following authorities, institutions and associations:

- The Luxembourg Bankers' Association;
- Association des Compagnies d'Assurances;
- Association Luxembourgeoise des Compliance Officers du Secteur Financier;

- Association of the Luxembourg Fund Industry;
- Banque centrale du Luxembourg;
- European Consumer Centre;
- Commissariat aux Assurances;
- Commission de Surveillance du Secteur Financier;
- Conférence Nationale des Professeurs de Sciences Économiques et Sociales;
- Ligue Médico-Sociale;
- Ministry of Economy;
- Ministry of National Education, Childhood and Youth;
- Ministry of Family, Integration and Greater Region;
- Ministry of Finance;
- Union Luxembourgeoise des Consommateurs;
- University of Luxembourg.

It is not the CPCF's goal to interfere with the work of the various stakeholders but to exchange information, identify areas for improvement, coordinate certain initiatives or even carry out joint projects. The aim is to set up a dialogue which could, ultimately, lead to achieve concrete results (adaptation of regulatory texts, improvement of the published information and achievement of joint projects in the field of financial education).

In 2014, a meeting was held at the Ministry of National Education, Childhood and Youth to follow up the project which consists in including a financial education course in the secondary education. This project was initiated under the preceding government by the Minister of National Education and, upon her request, the CPCF submitted a document including different modules allowing great flexibility in the development of a financial education course. In anticipation of a response, the CPCF maintains the view that it is important that each student, who goes through the Luxembourg education, participates in one course enabling him/her to have practical knowledge in finance and to understand the core elements of economic life. Thus, a student should learn, inter alia, to manage his/her income and expenses, to establish a household budget and to take the right decisions on his/her financial liabilities. S/he should also become familiar with the means of payment and have notions about financial instruments.

Moreover, following the recurring requests at European and international levels on the strategy of Luxembourg as regards financial education, the CPCF decided to create an ad hoc working group whose mission is to develop such a strategy. The final objective is that Luxembourg has its own set of measures to develop financial education among its population.

Moreover, the CPCF discussed the following points:

- the PISA test to assess the financial knowledge and skills and the non-participation of Luxembourg despite its important international financial centre;
- the developments at the level of national, European and international regulatory authorities relating to financial consumer protection;
- Circular CSSF 14/589 which provides clarification on CSSF Regulation N° 13-02 of 15 October 2013 relating to the out-of-court resolution of complaints;
- financial innovation, in particular crowdfunding, P2P lending, payment services and virtual currencies;
- over-indebtedness in Luxembourg and the issue of cross-border credits.

1.2.2. Direct intervention of the CSSF as regards financial consumer protection in relation to the Ministry of Economy

The CSSF has, several times, exchanged views with representatives of the Ministry of Economy, in particular as regards the activity of credit providers established abroad but having an activity in Luxembourg. The CSSF has also exchanged views with the Ministry of Economy on the status of credit intermediaries in Luxembourg.

2. OUT-OF-COURT DISPUTE SETTLEMENT

Since its creation, the CSSF has assumed a role of intermediary in the out-of-court dispute settlement aiming at professionals subject to its supervision.

As from 2014, the CSSF has been handling complaints which are submitted to it by following the procedure provided for in the first section of CSSF Regulation N° 13-02 relating to the out-of-court resolution of complaints which entered into force on 1 January 2014. The second section of CSSF Regulation N° 13-02 which entered into force on 1 July 2014 aims to specify certain obligations incumbent upon professionals in relation to the internal handling of complaints or in their relationship with the CSSF.

2.1. Circular CSSF 14/589 providing details concerning CSSF Regulation N° 13-02 of 15 October 2013 relating to the out-of-court resolution of complaints

Circular CSSF 14/589 of 27 June 2014 specifies certain points in relation to the implementation of CSSF Regulation N° 13-02.

As regards Articles 15 and 16 of CSSF Regulation N° 13-02, the three following subjects are more specifically dealt with:

- the procedure for complaint handling at professionals;
- the manager in charge of the complaints;
- the communication of information to the CSSF in relation to the complaint handling by the professional.

In order to enable professionals to meet the requirement to communicate a table of complaints as provided for in Article 16(3) of CSSF Regulation N° 13-02, the CSSF made available a table template. If, however, the categories of complaints referred to therein do not correspond to the activities of the professional or the domains of activities in which the complaints are submitted to the professional, the latter shall add the corresponding categories of activities.

The new requirements on communication of information relating to complaints to the CSSF within the meaning of the aforementioned Article 16(3) were established in order to comply with the “Guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors” published on 25 August 2014. Thus, for example, Guideline No 4 entitled “Reporting” which provides that the competent authorities should ensure that the undertakings communicate information relating to complaints and complaint handling to national authorities was duly taken into account in the second section of CSSF Regulation N° 13-02.

Finally, Circular CSSF 14/589 repealed Circular IML 95/118 concerning customer complaint handling.

2.2. Statistics regarding CSSF complaint handling in 2014

In 2014, the CSSF received 637 files from customers of the Luxembourg financial centre concerning entities under its supervision. It closed 702 files over the course of the year. It should be noted that the number of files closed increased by 25% as compared to the previous year which is due to an increase of the department staff in charge of the handling of complaints within the CSSF. This increase has become necessary following the entry into force of CSSF Regulation N° 13-02.

Outcome of the CSSF's intervention/reasons for closing the files

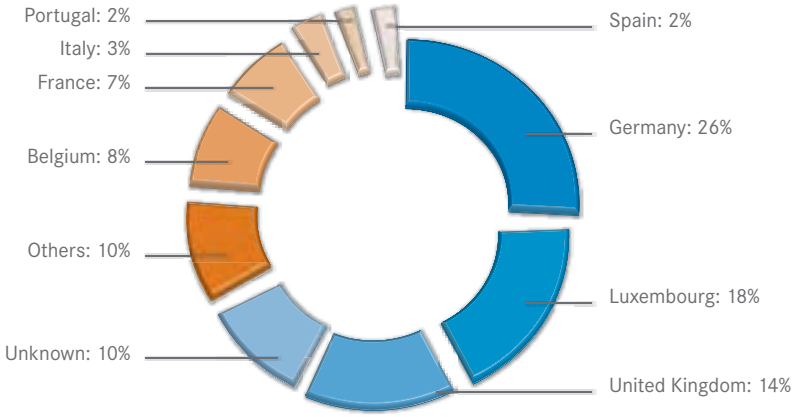
Results	Number
Acknowledgement of receipt without further response from the client	400
Conclusion of the CSSF in favour of the professional	105
Outside the scope of the CSSF's powers	83
Amicable settlement	69
Withdrawal by complainants	29
Referral to the Court	10
Contradictory positions of the parties	6

When the CSSF receives a complaint from a consumer, its first approach consists in encouraging the parties to reach a bilateral agreement. This approach was not amended with the entry into force of CSSF Regulation N° 13-02 which, moreover, enshrined this approach in the two first paragraphs of Article 5.

Thus, the fact that a high number of acknowledgements of receipt sent by the CSSF resulted in closing the files without any further action is partly due to the fact that the complainant often obtained satisfaction from the professional after having contacted the manager in charge of dealing with complaints as indicated by the CSSF in the acknowledgement of receipt. This approach thus enables to solve many problems between customers and professionals of the financial sector.

It should be noted that in 2014, the CSSF did not experience a case where an opinion that it issued against a professional of the financial sector has not been acted upon. This proves that even if they do not, in principle, legally bind the parties, the CSSF's opinions have, nevertheless, authority in the Luxembourg financial sector.

Breakdown of the complaints according to the complainant's country of residence



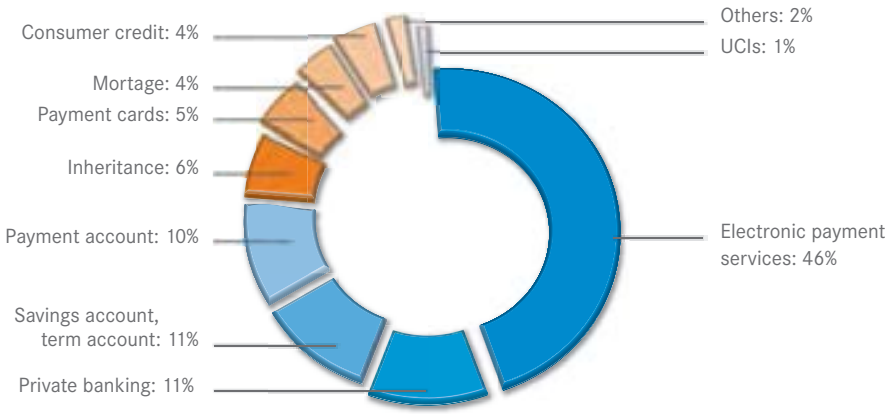
In 2014, the number of complaints from German residents decreased by 34% as compared to 2013.

The share of complaints from the United Kingdom decreased as compared to 2013, but their percentage remains, nevertheless, high in relation to the complaints from Luxembourg or neighbouring countries, which is notably due to the significant number of disputes linked to payment services by electronic means which are particularly used in the United Kingdom.

The downward trend of the number of complainants who have their residence in the United Kingdom can be explained by the fact that the CSSF intervenes henceforth with providers of electronic payment services on a more sustained basis so that they are more responsive to their customers. In order to reduce the number of complaints in the area of electronic payment services, the CSSF also ensured to disclose more information on its website concerning the recurring problems related to the use of electronic payment services.

The country of residence of the complainants is not identified in 10% of the cases, which is, in general, due to the fact that these complainants contacted the CSSF by way of e-mails without indicating their country of residence. Finally, the category "Others" covers 32 different countries.

Breakdown of complaints according to their object



The major share of complaints dealt with in 2014 concerned problems linked to the use of electronic payment services. The share of complaints related to private banking has remained stable over the last years.

The share of complaints in connection with UCIs remains very low as compared to the importance of the investment fund sector in Luxembourg.

2.3. Analysis of the complaints dealt with in 2014

Since the entry into force of CSSF Regulation N° 13-02, the CSSF shall deliver, in the complaints submitted to it, a reasoned conclusion within a period of 90 days (which can be extended in case of complex files). This obligation led the CSSF to be more demanding vis-à-vis the entities subject to its supervision. Henceforth, the CSSF requires that the entities strive for maximum co-operation in the context of complaint handling in accordance with Article 16(2) of the aforementioned regulation.

This duty of increased co-operation should trigger the prompt provision by the professional of all the documents that the CSSF may need to duly examine a complaint file within the period provided for in CSSF Regulation N° 13-02.

The analysis of the complaints dealt with in 2014 focusses on the following points:

- tracing assets after death;
- indemnity clauses in the event of early repayment of mortgages;
- shared responsibilities between the professional and the customer as regards investment advice,
- information on the application of new pricing conditions;
- right to a basic payment account.

2.3.1. Tracing assets after death

The CSSF is regularly contacted by persons who are mostly heirs or alleged heirs searching for assets without being able to specify which professional of the financial sector holds these assets.

In general, the CSSF is neither competent nor equipped to carry out such researches and informs the requesting persons mainly by referring them to its website www.cssf.lu and providing the contact details of the professionals they can contact. The CSSF also mentions in its reply the documents to be joined to such a request aimed at professionals, i.e. a copy of the ID card, a copy of the death certificate and a document providing proof of the rights to inheritance of the requesting person.

In a case dealt with in 2014, the person, who was searching for assets, wrote to about ten banks of the financial centre to know if they held an account in the name of the deceased. Certain banks replied in the negative, other banks did not reply at all. The CSSF contacted the banks which did not reply to ask for the reasons for their silence. The banks explained that they considered that they were not required to respond to the request because they did not hold an account belonging to the person referred to in the request for searching assets.

The CSSF closed the file after having explained to the complainant that the banks are not, in principle, required to respond to a request for searching assets if they do not hold the assets of the person who was targeted in the request.

2.3.2. Indemnity clause in the event of early repayment of mortgages

The CSSF regularly deals with complaints concerning the application of an early repayment indemnity or penalty to borrowers having repaid a mortgage credit earlier or planning to repay a mortgage credit earlier.

In general, this penalty was accepted by the parties at the conclusion of the credit agreement and it is difficult for the CSSF to intervene in such disputes, failing jurisdiction to oblige the credit institution to reduce the amount of the requested compensation.

The CSSF noticed often that many borrowers do not realise, when signing the credit agreement, that the clause of early repayment may, where appropriate, represent a heavy financial burden.

Over the last year, the CSSF received several complaints which all aimed to challenge the amount retained by the bank as compensation for early repayment as this amount was deemed excessive by the complainants.

The following case, where a bank set the penalty for early repayment at an amount which represented a little bit more than 20% of the loan, particularly drew the CSSF's attention.

Thus, a couple who subscribed, at their bank, for a fixed-rate mortgage for the purchase of a property, decided to repay the outstanding capital in order to benefit from more interesting interest rates at another credit institution of the financial centre.

The bank informed them of the amount of compensation for early repayment they would be requested in this event. The complainants expressed their disagreement about the amount required by the bank. As the couple did not receive any satisfactory reaction from the bank, they contacted the CSSF in order to intervene with the bank in question. The bank, which was requested to express its position, answered that the amount of the compensation for early repayment was, in particular, due to the fact that the bank could not invest the amounts repaid earlier in the market at an as interesting rate as that agreed upon with the parties at the conclusion of the credit agreement. The amount of the indemnity, which was supposed to compensate this loss, was high because the rates decreased significantly in the interbank market.

Concerned about carrying out an in-depth analysis of the bank's position, the CSSF asked details about the calculation method used by the bank to determine the amount of compensation for early repayment. After having analysed the calculation method in question and the other elements of the file, the CSSF concluded that the compensation claimed was legally justified.

In another case, the parties accepted an early repayment clause according to which they were owing an early repayment compensation of 4% on the capital subject to repayment. The complainants subsequently considered that this compensation was excessive. However, the CSSF was of the opinion that the complainants were duly

informed of the compensation at the conclusion of the mortgage credit agreement and that, consequently, they were not entitled to challenge the retained rate of 4%.

In this context and to be complete, it should be noted that Directive 2014/17/EU of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 provides for certain provisions on the compensation of the lender for early repayment of credit. This directive must be transposed in the legislations of the different EU Member States before 21 March 2016.

2.3.3. Shared responsibilities between the professional and the customer as regards investment advice

Two significant disputes were reported to the CSSF in 2014 where it was called upon to assess to what extent the customer could be considered as responsible for all or part of the damage which he attributed to the professional. In the two cases, the complainant sought advice from a professional.

In the first case, the complainant, who concluded an assisted management agreement with a private portfolio manager, blamed the latter for having undertaken, without his knowledge, speculative investments which did not correspond to his profile of prudent investor. The CSSF examined the documents provided by the parties to the dispute in order to properly determine each party's share of liability, where appropriate.

The CSSF, in particular, noted that the clauses of the assisted management agreement were equivocal and inconsistent. This specificity of the contract could not have escaped the attention of both the complainant and the professional. Thus, a clause of the agreement provides that, in any event, the proxyholder undertook not to place any payment order and to make no investment without requesting and obtaining the prior approval of the principal, while another clause of the contract provided that the complainant gave proxy to the professional to execute, on his own initiative, certain operations mentioned in a long list.

It also appeared from the analysis of the documents provided by the parties that the complainant could not be objectively considered as literate in finance as the professional, so that the question arose for the CSSF to know whether this disparity had not been used by the professional to the detriment of the customer.

The CSSF has particularly focussed on the fact that in the assisted management agreement, the complainant wished a prudent management of his assets, thereby allowing only a low exposition to fluctuations in the markets. The CSSF should, therefore, verify that the will expressed in clear terms in the contract was respected by the professional.

The CSSF was, thus, called upon to examine the characteristics of the products which were presented in the complaint as not corresponding to the complainant's profile. The CSSF's attention was, in particular, focussed on a product which was advised to the complainant by the professional while the description of the product clearly indicated that it was a complex structured financial instrument presenting a high risk. The description also specified that the product was reserved to well-informed investors able to understand and assume all the risks arising therefrom.

The CSSF concluded that the professional did not take, within the framework of the assisted management, every care that the complainant was entitled to expect from a professional of the financial sector.

In the second case dealt with by the CSSF, the complainant blamed the bank for having advised him to acquire units in an investment fund which did not correspond to his profile of prudent investor and asked to be reimbursed for the losses incurred. Thus, the advisor at the bank recommended the complainant to invest his assets in an investment fund which was presented as an investment with lower risk. This presentation was belied by the facts. Indeed, the fund in question experienced significant problems and was finally put into liquidation.

The bank proposed to compensate the complainant to the extent of the damage he suffered during the period when it could have been legitimately assumed that the customer invested in the fund in question based on the advice of his advisor. However, the bank was not willing to compensate the complainant for the period where the complainant decided, on his own initiative, to keep his investment in the fund. Indeed, it was established that the complainant expressed his firm intention to keep his investment in the fund after his advisor had recommended him to request the redemption of the units of the fund.

Finally, the CSSF was of the opinion that the responsibility of the bank should not extend beyond the date set by the advisor to request the redemption of the units.

2.3.4. Information on the application of new pricing conditions

During 2014, a certain number of disputes were reported to the CSSF where the question arose whether the customer had, indeed, accepted the new pricing conditions of the professional.

The CSSF handled one complaint where the customer received account statements which showed withdrawals of increased account fees. The customer challenged this increase by affirming that he had not been informed beforehand by the bank of the application of new pricing conditions. The bank responded to the customer that he had accepted these fees because he had been informed beforehand in a letter sent several months before to his address. The complainant contacted the CSSF to intervene with the bank.

The bank explained the CSSF that the complainant had been informed beforehand by letter from the bank of the application of new fees to his account. The bank pointed out that the complainant let the period provided for in the terms and conditions to oppose a change of fees expire. For the bank, it was therefore established that the complainant accepted the new fees. The CSSF asked the bank to provide it with a copy of the letter sent to the complainant to inform him of the new pricing. Yet, the document which the bank presented to the CSSF as a copy of the letter did not include a precise mailing address and the date which was supposed to be that of the drafting or sending of the letter, did only mention the month of dispatch.

Under these conditions, the CSSF concluded that the bank has not been able either to prove nor to make it likely that this information letter on the new pricing was sent in due time to the complainant. Consequently, the CSSF noted that the new fees were not applicable to the complainant and that he was entitled to be reimbursed for the damage invoked.

In another case, a bank had to convince the CSSF that it had informed the customer in due time of the new pricing conditions. The bank argued that the customer had accepted the new fees because he did not challenge their application within the period provided for in the terms and conditions. However, the bank finally recognised that it had informed its customer of the new fees by way of account statements sent a few months following the application of the new pricing. Contrary to what it had claimed up to then, it had thus not duly informed its customer of the new pricing conditions in time.

2.3.5. Right to a basic payment account

The CSSF often receives complaints from persons who experience difficulties opening an account with a credit institution. The decision to accept or refuse a customer depends, in principle, on the bank's commercial policy in which the CSSF does not usually intervene.

It should, however, be noted that the European Commission issued, on 18 July 2011, a recommendation on access to a basic payment account for the persons concerned. In addition, Directive 2014/92/EU of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features enhanced the right to access a payment account.

The social purpose pursued by the aforementioned directive is particularly noticeable in the second paragraph of Article 16 which provides for a right to access a payment account with basic features in these terms: "Member States shall ensure that consumers legally resident in the Union, including consumers with no fixed address and asylum seekers, and consumers who are not granted a residence permit but whose expulsion is impossible for legal or factual reasons, have the right to open and use a payment account with basic features with credit institutions located in their territory. Such a right shall apply irrespective of the consumer's place of residence.".

Where the CSSF receives a complaint from a person who complaints that s/he cannot open an account with a Luxembourg bank, the CSSF invites this person to contact the Entreprise des Postes et Télécommunications which, pursuant to Article 3 of the law of 15 December 2000 on postal financial services, is, in principle, required to open a current account to any person fulfilling the legal conditions.

Article 3 of the law of 15 December 2000 on postal financial services entitled “Universal service and right of access to a bank account” reads as follows: “Without prejudice to the application of the laws and regulations on professional obligations, prudential rules and rules of conduct in the financial sector, in particular to combat money laundering, any natural or legal persons, regardless of their nationality, have the right to open a current account with the Entreprise des Postes et Télécommunications. This right shall not extend either to the possibility to have a debit balance on the current account or to the provision of cheques or other means of payment likely to create a debit balance. The maintenance of this right is subject to compliance with the conditions imposed, in a non-discriminatory manner, by the undertaking on all current account holders; in particular, the undertaking is entitled to refuse to open an account for any person who, on more than one occasion, misused an account with the undertaking.”.

If a person does not manage to open a current account with the Entreprise des Postes et Télécommunications, s/he can contact the CSSF whose prudential supervision covers all the postal financial services carried out by the Entreprise des Postes et Télécommunications in accordance with Article 2 of the law of 23 December 1998 establishing a financial sector supervisory commission.

2.4. FIN-NET

FIN-NET which was launched by the European Commission in 2001 focusses on the out-of-court financial dispute resolution. It is composed of bodies established in EEA countries which aim to resolve out-of-court disputes arising between consumers and financial services providers.

Within FIN-NET, these bodies co-operate to provide consumers with easy access to out-of-court complaint handling procedures in cross-border cases. If a consumer residing in a Member State has a dispute with a financial services provider from another Member State, FIN-NET members will put the consumer in touch with the relevant out-of-court complaint settlement body and provide any necessary information in this context.

In its capacity as FIN-NET member, the CSSF took part in the biannual meetings of the network, one in Athens in June 2014 and the other one in Brussels in December 2014.

The agenda of these meetings includes, in particular, the recent legislative developments and an exchange of information on the progress of the transposition of Directive 2013/11/EU of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC.

The implementation of Regulation (EU) No 524/2013 of 21 May 2013 on online dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC (Regulation on consumer ODR) as well as the setting-up of the ODR (Online Dispute Resolution) platform were also discussed.

The co-operation between the FIN-NET members and the EBA and ESMA, which started in 2013, gave rise to discussions on the “Guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors” published by the EBA and ESMA in May 2014.

The FIN-NET members had also the opportunity to share their experiences in the field of out-of-court resolution of cross-border complaints.

CHAPTER XVI

BANKING AND FINANCIAL LAWS AND REGULATIONS

1. Directives and regulations under discussion at EU level
2. Directives to be transposed under national law
3. Laws and regulations adopted in 2014

1. DIRECTIVES AND REGULATIONS UNDER DISCUSSION AT EU LEVEL

The CSSF participates in the groups examining the following proposals for directives or regulations.

1.1. Proposal for a directive on payment services in the internal market amending Directives 2002/65/EC, 2013/36/EU and 2009/110/EC and repealing Directive 2007/64/EC (PSD2)

PSD2 which was submitted to the Council of the EU aims at developing the European internal market of electronic payments in a technologically-neutral way and at adapting the existing legal framework to innovative payment services, including in particular Internet payments and mobile payments.

PSD2 facilitates and renders more secure the use of Internet payment services by including within its scope the new category of payment initiation services and account information services.

Finally, PSD2 introduces a new balance as compared to the current situation between the home Member State and the host Member State for the cross-border supervision within the context of the European passport, i.e. the right of establishment and the freedom to provide services.

1.2. Proposal for a regulation on structural measures improving the resilience of EU credit institutions (BSR)

The proposal for a regulation, which was adopted by the European Commission on 29 January 2014, provides for European rules to stop the most significant and complex credit institutions from proprietary trading. Thus, it will enable supervisory authorities to require those credit institutions to separate their deposit-taking business from certain potentially risky trading activities if the pursuit of such activities compromises financial stability. These measures complement the overarching reforms already undertaken in the EU to strengthen the financial sector. So far, no political agreement on the proposal for a regulation has been reached at the Council and the European Parliament.

1.3. Proposal for a regulation on interchange fees for card-based payment transactions

The aim of this proposal for a regulation is to develop the internal market in payments, to reduce the market fragmentation and to level the playing field in the area of payments by card.

1.4. Proposal for a directive amending Directive 97/9/EC on investor-compensation schemes

The discussions which had been put on hold in 2012 have not restarted since 2013. The proposal for a directive was discussed in detail in the CSSF's Annual Report 2010.

1.5. Proposal for a regulation on the European Long-Term Investment Funds (ELTIFs)

The proposal for a regulation, which was published on 26 July 2013, was discussed in detail in the CSSF's Annual Report 2013.

On 26 November 2014, the Council, the European Parliament and the European Commission reached a trialogue agreement (compromise) on the final text of the regulation which will be adopted after its translation in the different European languages.

As a reminder, only EU alternative investment funds which are managed by AIFMs authorised in accordance with Directive 2011/61/EU may be marketed as ELTIFs. ELTIFs will be subject to additional rules requiring

them, inter alia, to invest at least 70% of their capital in clearly-defined categories of eligible assets. ELTIFs generally do not offer redemption rights before their end of life but an early exit will be at the discretion of the manager. Moreover, these funds will be part of the eligible assets of UCITS. The managers of these funds available to any type of investors shall comply with all the requirements imposed by the AIFMD.

1.6. Proposal for a regulation on indices used as benchmarks in financial instruments and financial contracts

Following the detection of manipulations of some benchmarks, the European Commission presented on 18 September 2013 a proposal for a regulation aiming to improve the functioning and governance of the benchmarks which are produced and used in the EU. On 13 February 2015, the Council of the EU agreed to support the new provisions of the proposal and requested the Latvian Chair to initiate negotiations with the European Parliament in order to reach a final agreement on the text by summer 2015.

In this context, it should be noted that the provisions of the regulation aim to ensure the accuracy and integrity of the benchmarks used in financial instruments and financial contracts or to assess the performance of investment funds. They aim, in particular, to:

- supervise the administrators' activities (entities which provide benchmarks) by subjecting them to the prior authorisation/registration requirement and to an ongoing supervision by the competent authority of the country in which they are located;
- control contribution of input data for benchmarks; and
- regulate the use of benchmarks by the supervised EU entities.

The regulation will cover a wide range of benchmarks and its provisions will be applicable to the contribution to benchmarks and their provision according to their type and their vulnerability to manipulation. Indeed, certain rules will not be applicable to the administrator or contributor if the benchmark is based on regulated data and particular rules will be applicable if the benchmark is based on interest rates or commodities. Moreover, critical benchmarks will be subject to stricter rules like the mandatory contribution of input data or the supervision by colleges composed of representatives of national competent authorities and ESMA which will take key decisions on the benchmark in question.

Moreover, the regulation will establish rules applicable to administrators from third countries which produce benchmarks used within the EU.

1.7. Proposal for a regulation on the framework for money market funds

The proposal for a regulation published on 4 September 2013 aims to provide a framework for money market funds (MMFs). These new provisions would supplement the existing provisions in the UCITS and AIFM directives and would apply to money market funds domiciled or marketed in Europe. They aim at establishing standards which allow increasing the liquidity of the funds and strengthening their structure.

1.8. Proposal for a regulation on reporting and transparency of securities financing transactions

This proposal for a regulation, published on 29 January 2014, aims at greater transparency of lending or borrowing of securities and commodities, repurchase transactions and buy-sell back or sell-buy back transactions (for example reporting transactions to trade repositories, transparency of funds vis-à-vis investors and transparency on rehypothecation), in line with certain recommendations of the Financial Stability Board. If this proposal is adopted, it will impose reporting of securities financing transactions on UCITS and AIFs.

1.9. Proposal for a directive on the long-term shareholder engagement and as regards certain elements of the corporate governance statement

The main purpose of this proposal for a directive, published on 9 April 2014, is to amend Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies (directive transposed in Luxembourg by the law of 24 May 2011 on the exercise of certain rights of shareholders in general meetings of listed companies). The new requirements on shareholder engagement and governance under this draft directive could have an impact on alternative investment fund managers authorised under the law of 12 July 2013 on alternative investment fund managers as well as on management companies authorised under Chapter 15 of the law of 17 December 2010 relating to undertakings for collective investment.

1.10. Proposal for a directive on the activities and supervision of institutions for occupational retirement provision

On 27 March 2014, the European Commission adopted a proposal for a directive establishing new rules on institutions for occupational retirement provision (IORPs). This proposal aims, in particular, to:

- improve the governance of IORPs by introducing, among others, new requirements as regards risk management processes, organisation of key functions and use by IORPs of a depositary;
- improve the transparency of IORPs, in particular through the provision to members and beneficiaries of simple, clear and standardised information on their pension rights;
- promote cross-border activities and long-term investment of IORPs; in this context, the proposal, for instance, provides for the introduction of a new pension scheme transfer procedure between Member States.

1.11. Proposal for a directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (fourth directive)

The proposal for a directive is explained in greater detail in point 1.5. of Chapter XIV “Financial Crime”.

1.12. Proposal for a regulation on information accompanying transfers of funds

The proposal for a regulation is explained in greater detail in point 1.5. of Chapter XIV “Financial Crime”.

2. DIRECTIVES TO BE TRANSPOSED UNDER NATIONAL LAW

2.1. Directive 2011/89/EU of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate (FICOD 1)

Directive 2011/89/UE was discussed in detail in the CSSF’s Annual Report 2010. It is being transposed by draft law No 6456 on the insurance sector (which transposes into Luxembourg law Directive 2009/138/EC, also referred to as “Solvency II Directive” amended by Directive 2011/89/EU, the draft law taking into account the amendments brought about by the latter) as well as by draft law No 6660 mainly aiming to transpose into Luxembourg law the provisions of CRD IV.

2.2. Directive 2013/11/EU of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC

The directive was discussed in detail in point 2.3. of Chapter XV “Financial consumer protection” of the CSSF’s Annual Report 2012. On 16 January 2015, the CSSF submitted a preliminary draft transposition law to the Minister of Finance.

2.3. Directive 2013/14/EU of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on alternative investment funds managers in respect of over-reliance on credit ratings

The directive was discussed in detail in the CSSF's Annual Report 2011.

2.4. Directive 2013/34/EU of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC and repealing Directives 78/660/EEC and 83/349/EEC

Draft law No 6718[1] on the report on payments made to governments and amending various provisions relating to the accounting and annual accounts of undertakings as well as to the consolidated accounts of certain types of companies, whose purpose is to transpose Directive 2013/34/EU (hereinafter the new accounting directive) was submitted to the *Chambre des Députés* (Luxembourg Chamber of Deputies) on 15 September 2014.

The new accounting directive shall be transposed into national law no later than 20 July 2015 and shall be applicable to financial years starting as from 1 January 2016. Draft law No 6718 includes two parts:

- a first part relating to the new provisions introduced by Chapter 10 of the new accounting directive on the transparency of the payments made by undertakings to governments: Country by country reporting whose purpose is the fight against corruption in resource-rich third countries (minerals, oil, natural gas or primary forests);
- a second part transposing certain mandatory provisions of the accounting part (*a minima*) of the new accounting directive and thus amending the Luxembourg accounting common law.

As regards the first part, this European initiative reflects the will to improve transparency while avoiding imposing an excessive administrative burden on undertakings. Indeed, the new obligation only applies to significant companies as well as public-interest entities operating in the extraction of oil, natural gas and minerals or in the logging of primary forests and which must thus provide (within a separate annual report drawn up under the responsibility of the management or administrative body) details on their payments to the governments on a project-to-project basis for each lease or licence obtained to access the resources. The objective of this measure is to promote the responsibility of the governments and the good governance of the undertakings managing these natural resources.

The second part of draft law No 6718 transposes the mandatory provisions of the accounting part of the new accounting directive. Indeed, in view of the strict transposition deadlines imposed by the new accounting directive, it was decided to proceed in two stages. The first stage consists of an amendment of the Luxembourg accounting common law taking into consideration only the mandatory provisions of the new accounting directive. During the second stage, the Luxembourg accounting law will be recast more generally in order to include, in particular, the new bottom-up structure provided by the new accounting directive as well as the modernised terminology more in line with the current international accounting practice. This recasting will be subject to a separate draft law and should be ongoing throughout 2015. This decision to proceed in two stages should allow undertaking a dispassionate global review of the national accounting law, by moving away from the strict transposition deadlines imposed by the new accounting directive while consulting a large number of interested parties.

[1] This draft law amends:

- Title II of the amended law of 19 December 2002 concerning the trade and companies register as well as the accounting and annual accounts of companies;
- the amended law of 10 August 1915 on commercial companies; and
- Title II of Book I of the Commercial Code.

2.5. Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV)

Draft law No 6660 submitted to the *Chambre des Députés* (Luxembourg Chamber of Deputies) on 28 February 2014 primarily aims to transpose into Luxembourg law the provisions of CRD IV. Moreover, it repeals the legal provisions which have been superseded by the entry into force (and the direct applicability in national law) of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR).

Since 1 January 2014, CRD IV and the CRR form the European legal framework for the authorisation and the prudential supervision of credit institutions and investment firms (without prejudice to the applicable provisions of MiFID) in compliance with the Basel III Accord. Moreover, CRD IV and the CRR serve as a basis for the single rulebook on prudential supervision of these institutions, which is the cornerstone of the Banking Union.

The key elements of draft law No 6660 include among others:

- the introduction of capital buffer requirements (in addition to the minimum ratios imposed by the CRR) providing an additional protection to the institutions, thereby contributing to the maintenance of the high level of own funds that characterises Luxembourg institutions, or even to the financial stability of the financial sector as a whole;
- enhanced internal governance requirements in order to prevent the impact poorly designed corporate governance systems may have on sound risk management at the level of the institutions concerned;
- the introduction of provisions relating to the remuneration policies of certain categories of staff, including in particular a maximum ratio of 100%, or 200% in exceptional cases, which limits the variable component (boni, stock options, etc.) of the remuneration compared to the non-variable component of the remuneration;
- the adaptation of the administrative monetary penalty regime to the minimum harmonisation requirements included in CRD IV;
- targeted amendments to the authorisation conditions for credit institutions and, in particular, the requirement that the capital base of credit institutions must henceforth be constituted of a fully paid up share capital of EUR 8.7 million.

The transposition of CRD IV will be supplemented by CSSF regulations covering more technical aspects of the directive.

2.6. Directive 2013/50/EU of 22 October 2013 amending Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC

The directive was discussed in detail in point 4.3. of Chapter X “Supervision of securities markets” of the CSSF’s Annual Report 2013. It must be transposed into national law by 27 November 2015.

The CSSF submitted on 5 January 2015 a preliminary draft law and a draft transposition Grand-ducal regulation to the Minister of Finance.

2.7. Directive 2014/17/EU of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010

This directive must be transposed into national law by 21 March 2016.

The CSSF submitted on 4 March 2015 a preliminary draft law and a draft transposition Grand-ducal regulation to the Minister of Finance.

2.8. Directive 2014/49/EU of 16 April 2014 on deposit guarantee schemes (recast; DGS directive)

The directive was discussed in detail in the CSSF's Annual Report 2010. As regards the financing of the deposit guarantee schemes, it should be noted that the target level of the *ex ante*-financed funds was adapted downwards compared to the original proposal of the European Commission and is now set at 0.8% of the guaranteed deposits. The directive is being transposed at national level.

2.9. Directive 2014/51/EU of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority)

This directive must be transposed into national law by 31 March 2015. Insofar as it falls within the CSSF's remit, the transposition will take place by way of the drafts mentioned in point 2.6. above.

2.10. Directive 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

The directive is detailed under point 1. of Chapter XII "Public oversight of the audit profession".

2.11. Directive 2014/57/EU of 16 April 2014 on criminal sanctions for market abuse (market abuse directive)

The directive includes minimum criminal sanctions for insider dealing and market manipulation committed intentionally, as well as for inciting, aiding and abetting, and attempting to commit market abuse. The provisions of the directive also aim at intentional benchmark manipulation. The criminal sanctions must be effective, proportionate and dissuasive.

2.12. Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Directive 82/891/EEC as well as Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU and Regulations (EU) No 1093/2010 and (EU) No 648/2012 (BRRD)

The directive was discussed in detail in the CSSF's Annual Report 2012. The directive is being transposed at national level.

2.13. Directive 2014/65/EU of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II)

The directive was discussed in detail in the CSSF's Annual Report 2011. The directive shall be transposed into national law by 3 July 2016 and shall be applicable as from 3 July 2017.

2.14. Directive 2014/91/EU of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions (Directive UCITS V)

Directive UCITS V which entered into force on 17 September 2014, amends Directive UCITS IV by laying down specific provisions relating to (i) depositaries (for example definition of the conditions under which safekeeping duties may be delegated to a sub-custodian, responsibility in case of loss of a financial instrument), (ii) sanctions (definition of administrative sanctions and measures that can be applied by the authorities) and (iii) remuneration (obligations incumbent upon investment undertakings and management companies acting on behalf of the UCITS they manage, to implement a policy that is consistent with sound risk management).

On 28 November 2014, ESMA published its technical advice intended to provide guidance to the European Commission in the development of certain (level 2) implementing measures relating to the requirements linked to the depositary function within the framework of Directive UCITS V. The technical advice proposes a series of measures to be taken by the depositary to ensure that, in case of insolvency of the sub-custodian, the assets of the UCITS are unavailable to the creditors of this sub-custodian and also specifies the conditions enabling the depositary to act independently vis-à-vis the management company and in the sole interest of the bearer. It is expected that the European Commission adopts and publishes the delegated acts (based on ESMA's technical advice) by mid-March 2015.

The Member States shall transpose Directive UCITS V into their national law within 18 months, i.e. until 18 March 2016. The CSSF prepared a preliminary draft transposition law for the Minister of Finance.

2.15. Directive 2014/92/EU of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

This directive aims to establish rules as regards the comparability and transparency of the fees to be borne by consumers with regard to their payment accounts held in the EU. Moreover, it provides for rules simplifying customer mobility within a Member State. Finally, it tends to lay down rules guaranteeing access to payment accounts with basic features in the EU.

The directive must be transposed into national law by 18 September 2016.

2.16. Directive 2014/95/EU of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

The directive was discussed in detail in the CSSF's Annual Report 2013.

3. LAWS AND REGULATIONS ADOPTED IN 2014

3.1. Law of 28 July 2014 regarding immobilisation of bearer shares and units and the keeping of the register of registered shares and the register of bearer shares and amending 1) the law of 10 August 1915 on commercial companies, as amended, and 2) the law of 5 August 2005 on financial collateral arrangements, as amended

The law, which entered into force on 18 August 2014, aims to adapt the Luxembourg legislation to the requirements of the Financial Action Task Force and the Global Forum on Transparency and Exchange of Information for tax purposes as regards the identification of holders of shares and bearer units. Bearer shares will now be immobilised with a professional depositary which will be subject to the obligations applicable in relation to the anti-money laundering and counter-terrorist financing. This professional will be designated

by the management body of the company. The depositary must keep a register including all the necessary information for the identification of the bearer shareholders. Ownership of the bearer share will no longer be established through the mere holding of the security, but through registration in the register kept by the depositary. The registration will include the name of each shareholder, the number of shares held by each shareholder, the date of deposit and the date of any transfer or conversion of the bearer shares into registered securities. Each bearer shareholder shall only be entitled to obtain access to the records in the register relevant to him/her/it. In order to ensure an effective immobilisation of the bearer shares and to have an updated and complete register kept by the depositary, specific sanctions are provided for. Moreover, transitional provisions are provided for with a view to registering securities already outstanding: the issuers must appoint a depositary within six months following the entry into force of the law (i.e. until 18 February 2015) and the bearer shares are to be deposited with the depositary within 18 months following the entry into force of the law (i.e. until 18 February 2016).

On 30 December 2014, the CSSF informed by way of a press release that an FAQ for investment vehicles concerning the law of 28 July 2014 regarding immobilisation of bearer shares and units was published on its website. By its press release of 15 January 2015, the CSSF reminded all *sociétés anonymes* (public limited company), *sociétés en commandite par actions* (limited partnership with a share capital) and management companies of UCIs incorporated in the form of an FCP (common fund) which issued bearer shares or units that they must designate a depositary for these securities by 18 February 2015 at the latest.

3.2. Regulation (EU) No 468/2014 of 16 April 2014 establishing the framework for co-operation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation)

The SSM Framework Regulation which entered into force on 15 May 2014 provides the necessary foundation for fulfilling the missions of the Single Supervisory Mechanism (SSM) as banking supervisory authority in the euro area as from November 2014. The SSM Framework Regulation describes the rules and procedures governing the following aspects:

- assessment of a bank's significance to determine whether it falls under the ECB's direct or indirect supervision;
- ECB's oversight of the whole system;
- co-operation between the ECB and the national competent authorities in order to guarantee the proper functioning of the SSM;
- language regime for the various processes within the SSM;
- general principles for the conduct of supervisory procedures by the ECB;
- procedures relating to the SSM's micro-prudential and macro-prudential tasks;
- arrangements for close co-operation with countries whose currency is not the euro;
- administrative penalties for breaches of the relevant law.

3.3. Regulation (EU) No 596/2014 of 16 April 2014 on market abuse and repealing Directive 2003/6/EC and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC

The regulation mainly aims to update and strengthen the existing framework established by the Market Abuse Directive (2003/6/EC) to ensure market integrity and investor protection.

The regulation takes into account new technology and new market reality, notably by extending its scope to financial instruments only traded on new platforms (MTFs and OTFs) and to all OTC derivatives. The regulation clarifies that market abuse occurring across both commodity and related derivative markets is prohibited, and reinforces co-operation between financial and commodity regulators. The regulation also prohibits benchmark manipulation.

Moreover, the regulation reduces the administrative burden on SME issuers. It also reinforces the financial markets regulators' powers in order for them to obtain all information required in the context of market abuse investigations.

ESMA will perform a facilitation and coordination role in relation to co-operation and exchange of information between competent authorities and regulatory authorities of Member States and third countries.

3.4. Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities

The regulation is further detailed under point 1. of Chapter XII "Public oversight of the audit profession".

3.5. Regulation (EU) No 600/2014 of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR)

The regulation was discussed in detail in the CSSF's Annual Report 2011.

3.6. Regulation (EU) No 806/2014 of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (SRM Regulation)

On 10 July 2013, the European Commission presented a proposal for a regulation aiming to establish a single resolution mechanism, with a view to the Banking Union, including a single bank resolution fund. This mechanism will supplement the Single Supervisory Mechanism (SSM) where, since 4 November 2014, the ECB is directly supervising banks in the euro area and in any other Member States which will decide to join the Banking Union at a later stage. If a bank under the SSM faces serious difficulties, the Single Resolution Mechanism (SRM) would allow - notwithstanding stronger supervision - the bank's resolution in an efficient way and with minimal costs for taxpayers and the real economy. The SRM will thus constitute the second pillar of the Banking Union.

The SRM, as proposed by the European Commission, is based on the following principles:

- within the framework of the SRM, the uniform substantive rules laid down by the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) will apply to the participating Member States as well as to the whole internal market;
- a Single Resolution Board will prepare, where appropriate, the resolution of a failing bank and will monitor the execution of the resolution plan by the national resolution authorities. The proposal also provides for detailed rules as regards the composition and the decision-making process of this Board;
- the action of the Single Resolution Board will be underpinned by the principle under which the losses, costs and other charges relating to the use of the resolution tools are to be borne by the shareholders and the creditors of the institution concerned and, as a last resort, by the financial sector, if need be. In order to guarantee short- and medium-term financial assistance or the provision of guarantees to potential acquirers of the institution concerned, a single bank resolution fund will be put in place under the control of the Single Resolution Board. This fund shall not be considered as a rescue fund. It will be financed by contributions from the banking sector and will replace the national resolution funds of the participating Member States. Detailed rules governing the functioning of the single bank resolution fund will be subject to an intergovernmental agreement. The methods for calculating the contributions from banks will be detailed through secondary legislation.

On 18 December 2013, the Member States agreed on a general SRM approach. On 20 March 2014, the European Parliament and the Council reached a political agreement on the SRM Regulation. The SRM should become fully operational and the SRM Regulation be fully applied on 1 January 2016 provided that a sufficient number of Member States has ratified the intergovernmental agreement on the single bank resolution fund at this date.

3.7. Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSDR)

The need to legislate showed especially in relation to cross-border securities transactions which give rise to more settlement and clearing fails while generating higher costs than domestic transactions. Thus, the CSDR provides for an increased settlement discipline by establishing harmonised settlement periods (T+2) and appropriate penalties for failing participants. This culture of harmonised functioning and discipline is a logical part of the strengthening of cohesion pursued by the project of the European System of Central Banks that constitutes Target 2 Securities (T2S). The CSDR complies with the "CPSS/IOSCO Principles for Financial Market Infrastructures" adopted in April 2012 in order to reduce the risks linked to transactions and services proposed by the central securities depositories.

The CSDR establishes the status of "central securities depository" (CSD) and adopts a functional definition. Consequently, a CSD is a legal person which operates a securities settlement system and provides at least one of the two following services:

- initial recording of securities in a book-entry system (notary service),

- providing and maintaining securities accounts at the top tier level (central maintenance service).

The CSDR also provides for a strengthening of the governing, functioning and risk management rules of each central depository, and especially of international central depositories also providing banking services and allows harmonised access to the market via a European passport. Both the authorisation process and ongoing supervision take place through enhanced co-operation of the involved authorities. Moreover, the issuers will benefit from an unfettered access to the (national or foreign) depository of their choice and only the legal barriers linked to the specificities of the nationality of the securities are likely to pose a problem pending the adoption of a European law on securities.

3.8. Regulation (EU) No 1286/2014 of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)

The PRIIPs regulation was published in the EU Official Journal on 9 December 2014 and shall be applied by the Member States before 31 December 2016.

The regulation establishes uniform rules as regards the format and the content of the key information document. This document shall enable retail investors to understand and compare the main characteristics of the packaged retail and insurance-based investment product as well as the related risks.

3.9. CSSF Regulation N° 14-01 on the implementation of certain discretions of Regulation (EU) No 575/2013

CSSF Regulation N° 14-01 which is in force since 24 February 2014 was discussed in detail in the CSSF's Annual Report 2013.

3.10. CSSF Regulation N° 14-02 relating to the determination of distributable results and reserves of credit institutions applying the fair value measurement for the statutory accounts

CSSF Regulation N° 14-02 of 19 December 2014 applies the provisions of the new Article 72b/64h of the law of 19 December 2002 concerning the trade and companies register as well as the accounting and annual accounts of companies. This new article concerns the determination of distributable reserves in case the institutions use the fair value method for the statutory accounts prepared according to Lux GAAP - mixed regime or for the statutory accounts drawn up according to IFRS.

ANNEX

LIST OF ABBREVIATIONS

LIST OF ABBREVIATIONS

AGDL	Association pour la garantie des dépôts, Luxembourg - Deposit Guarantee Association Luxembourg
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AML/CFT	Anti-Money Laundering and Counter-Terrorist Financing
AQR	Asset Quality Review
ASSEP	Pension savings association
BCL	Banque centrale du Luxembourg - Luxembourg Central Bank
BTS	Binding Technical Standards
COREP	Common Reporting
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation (575/2013)
CSSF	Commission de Surveillance du Secteur Financier - Financial sector supervisory commission
EAIG	European Audit Inspection Group
EBA	European Banking Authority
EC	European Community
ECB	European Central Bank
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EMI	Electronic Money Institution
EMIR	European Market Infrastructure Regulation
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange Traded Fund
EU	European Union
EUR	Euro
FATF	Financial Action Task Force
FCP	Fonds commun de placement - Common fund
FINREP	Financial Reporting
FIU	Financial Intelligence Unit
FSB	Financial Stability Board
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IML	Institut Monétaire Luxembourgeois - Luxembourg Monetary Institute (1983-1998)
IOSCO	International Organization of Securities Commissions

ISA	International Standards on Audit
ISQC	International Standard on Quality Control
JST	Joint Supervisory Team
LCR	Liquidity Coverage Requirement
LEI	Legal Entity Identifier
LPS	Law of 10 November 2009 on payment services
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MTF	Multilateral Trading Facility
NAV	Net Asset Value
NCA	National Competent Authority
NSFR	Net Stable Funding Requirement
OAM	Officially Appointed Mechanism
OECD	Organisation for Economic Co-operation and Development
OTC	Over-The-Counter
PFS	Professional of the Financial Sector
PIE	Public Interest Entity
RTS	Regulatory Technical Standards
SBL	Société de la Bourse de Luxembourg
SEPA	Single European Payments Area
SEPCAV	Pension savings company with variable capital
SIAG	Investment company which has not designated a management company within the meaning of Article 27 of the law of 17 December 2010
SICAF	Investment company with fixed capital
SICAR	Investment company in risk capital
SICAV	Investment company with variable capital
SIF	Specialised Investment Fund
SME	Small and Medium-sized Enterprises
SREP	SSM Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SRP	Supervisory Review Process
SSM	Single Supervisory Mechanism
TREM	Transaction Reporting Exchange Mechanism
UCI	Undertaking for Collective Investment
UCITS	Undertaking for Collective Investment in Transferable Securities
VaR	Value-at-Risk
XBRL	eXtensible Business Reporting Language

COMMISSION DE SURVEILLANCE
DU SECTEUR FINANCIER

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