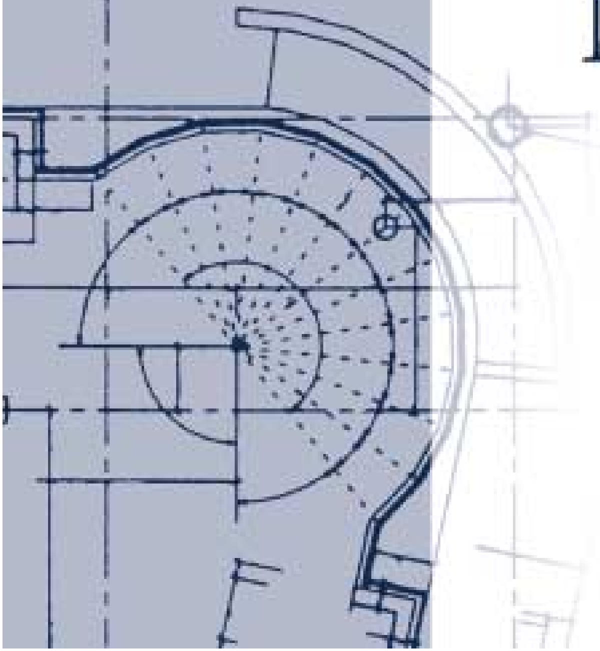
N°10

November 2001

CSSF NEWSLETTER



COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

Statistics

Banks

Profit and loss accounts for the third quarter 2001
The banking sector resists well to the slackness at the stock exchange

Figures in million EUR	*30.09.00*	*30.09.01*	*Variation in %*
Interest margin	2 752	3 196	+ 16.13 %
Commissions earned	2 373	2 089	- 11.97 %
Other net income	787	753	- 4.32 %
Banking product	5 913	6 039	+ 2.13 %
Staff costs	1 201	1 313	+ 9.33 %
Other operating expenses	1 308	1 420	+ 8.56 %
Profit before provisions	**3 404**	**3 305**	**- 2.91 %**

Despite the weakness of the stock exchange markets, the profit before corrections in value and taxes only decreases by **2.91%**. The explanation for this slight fallback, while we could have expected a more significant decrease, lies in the combination of two phenomena, which compensate for each other.

On the one hand, commissions earned have dropped by **11.97%** because of a fall in the volume of transactions initiated by customers due to an unfavourable stock market climate.

On the other hand, the interest margin has increased by **16.13%** and has therefore more than compensated for the reduction in commissions earned. This increase in the interest margin is due to the following reasons:

- The increase in the volume of activities arises from a 9% increase in the average balance sheet total for the year 2001 compared to the same period in the year 2000. In this context it should be stressed that the credit activity remains sustained.
- The successive reductions in nominal interest rates have generated an increase in the banks' interest margin. The latter have taken advantage of the situation to proceed, within the framework of a determined policy, with a change in the maturity dates by refinancing in the short term the assets with a more long-term maturity date.
- Finally, it should be noted that certain banks have earned substantial dividends from their foreign subsidiaries so that the international expansion of the Luxembourg banks observed for several years has had a stabilising effect on the 2001 revenues.

In the composition of the banks' global revenue, this situation has also generated a renewed importance for the interest margin compared to commissions.

As the scale of these phenomena is spread in different ways between the banks, we can expect contrasting results for the year 2001 according to the main revenue sources of the different credit institutions.

Similarly as in the year 2000, certain banks have realised substantial profits on the sale of participations, which are included in "other net revenues".

As for operating expenses, it is worth mentioning a slow-down in the increase compared to the previous years, which indicates the banks' intention to maintain a healthy balance between costs and revenues. The ratio between costs and revenues is 45%, which, when compared, is better than the situation for foreign banks.

This tendency is also confirmed by the growth in the number of employees of credit institutions. Indeed, the number of personnel has risen from 22 573 in September 2000 to 23 814 in September 2001, which is an increase of 5.5%. However it must be noted that this increase has been stagnating since March 2001 as employment in the banking sector amounted to 23 538 in March 2001 and that the increase compared at the end of September is only 1.2%.

The inquiries made by the CSSF following the terrorist attacks of 11 September have shown that the banks' exposure to the sectors affected by these events, in particular the aviation sector, is on the whole not excessive and therefore gives no cause for concern. In view of the current situation, the needs for value corrections for the banks concerned can easily be covered by current revenues.

The trend in the solvency ratio for the first six months of the year 2001

The figures presented below are based on the consolidated totals for the banks having to calculate a solvency ratio on a consolidated level, which are 137 establishments at the end of the first six months of 2001.

The aggregate solvency ratio largely exceeds with 12.9% the minimum threshold of 8% prescribed by prudential regulation in force. It progressed by 6.8 % over the first six months of 2001, increasing from 12.0% in December 2000 to 12.9% in June 2001.

The eligible own funds have increased proportionally more than the own funds requirements. The gross own funds before deduction amount to EUR 30.4 billion, an increase of 12.1% over the first quarter 2001. The elements to be deducted have increased more slowly reaching EUR 2.5 billion in June 2001, which is an increase of only 0.7% over the first six months of the year. As a result, the eligible own funds have increased to EUR 28.0 billion, reflecting a rise of 13.7% compared to December 2000. This increase is due to the big rise in « Stille Beteiligungen », an element of own base funds as well as subordinated liabilities of the "upper" and "lower Tier 2" type.

As for the total requirement for own funds, it has increased by 6.4%, with a marked reduction in the own funds requirements due to the exchange risk coverage. It should be noted that the own funds requirements for the exchange risk and negotiation risk coverage remain weak and only represent 0.7% and 1.9% respectively of the global own funds requirement.

Statistics

When considering the own base funds “Tier 1” only, the aggregate solvency ratio of the financial centre has increased from 10.0% to 10.3% over the first six months of the year. The minimum threshold of 8% has been largely respected regarding just the elements own funds of the “Tier 1” type.

Distribution	Number of banks		In % of total
Ratio	**200012**	**200106**	**200106**
<8%	0	0	0.0%
8% - 9%	10	3	2.2%
9% - 10%	9	10	7.3%
10% - 11%	16	12	8.8%
11% - 12%	9	10	7.3%
12% - 13%	10	9	6.6%
13% - 14%	9	8	5.8%
14% - 15%	8	9	6.6%
15% - 20%	22	32	23.4%
>20%	48	44	32.1%
Total	**141**	**137**	**100.0%**

Broken down, the improvement in the financial centre’s solvency ratio is essentially translated into a reduction in the number of banks whose ratio lies within the weak capitalisation bands, i.e. between 8% and 9%, and an increase in the number of banks whose solvency ratio lies between 15% and 20%. Consequently, in June 2001, the percentage of banks for which the solvency ratio does not exceed the threshold of 10% decreased to 9.5%. It amounted to 13.5% at the end of December 2000.

Statistics

Undertakings for collective investment

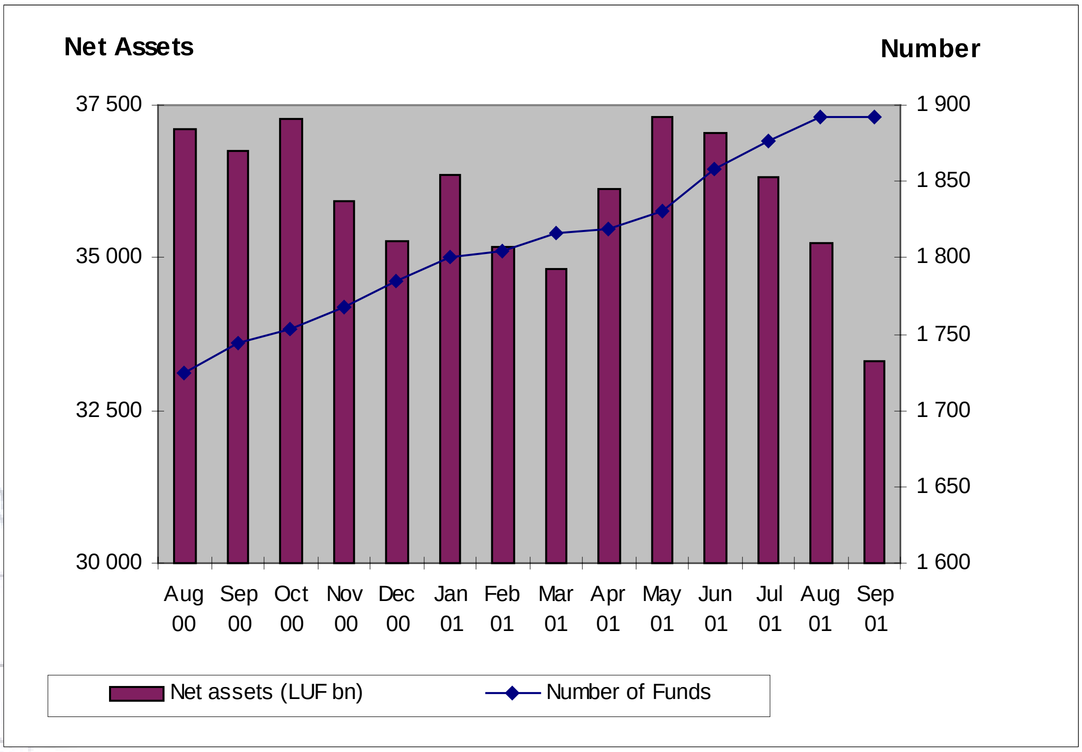
Important decrease of the UCIs' total net assets as at 30 September 2001

The total net assets for undertakings for collective investment amounted to EUR 825.7 billion (LUF 33,309.8 billion) as at 30 September 2001 compared to EUR 873.9 billion (LUF 35,252.7 billion) as at 31 August 2001. As a result the Luxembourg undertakings for collective investment sector has decreased by 5.51% compared to the month of August 2001. This decrease reflects the significant fall in the financial markets during the month of September 2001.

The sector witnessed a decrease of 5.59% compared to 31 December 2000, where the total net assets amounted to EUR 874.6 billion (LUF 35,280.7 billion). Over the period of the last twelve months, the volume of net assets has decreased by 9.38%.

During the month of September the net capital divestment, which is defined as the total of the net issues reduced by the net adjusted repurchases taking into account the UCIs that went into liquidation, amounted to EUR 3.1 billion (LUF 126.4 billion). This divestment is a direct consequence of the events of 11 September 2001 in the United States.

The number of undertakings for collective investment taken into consideration totals 1,892. 1,127 UCIs have adopted the multiple compartment structure, which represents a total of 6,645 compartments. When adding 765 UCIs with a traditional structure to the previous figure, a total of 7,410 compartments are active in the financial centre.



Statistics

Professionals of the financial sector (PFS)

Balance sheet total of EUR 2.076 billion on the increase by 1.57%

According to the data provided as at 30 September 2001, the balance sheet total of all the professionals of the financial sector (142 businesses active) adds up to EUR 2.076 billion compared to EUR 2.044 billion the previous month, which is an increase of 1.57% and, compared to 1.679 billion for the month of September for the previous year, an increase of 23.65%.

The main reason for this rather significant increase of the balance sheet total of the businesses between the months of September 2000 and 2001 lies in the marked increase of the number of professionals in the financial sector established in our financial centre. Over a year, their number has in fact increased from 102 to 142 units, which is an increase of 39.22%. Although the increase in the number of domiciliation agents of companies is due to the implementation of the law of 31 May 1999 governing the domiciliation of companies, the one relating to the distributors of units of investment funds is essentially linked to the increasing development in the UCI sector in Luxembourg.

The personnel employed by the professionals of the financial sector has increased from 3 901 units as at 30 June 2001 to 4 071 units as at 30 September 2001. Over a year the increase accounts for 891 units, which is a growth in employment of 28%.

The net profit for these same businesses amounts to EUR 264 million compared to EUR 252 million for the previous month, which is an increase of 4.76%, and compared to EUR 244 million for the month of September of the previous year, an increase of 8.2%.

Distribution of the professionals of the financial sector according to their status

Comparative evolution based on the months of September 2000 end 2001

Category		Number 30.09.00	Number 30.09.01	Variation
Commission agents	COM	10	14	+ 4
Financial advisors	COF	9	9	/
Brokers	COU	7	6	-1
Professional custodians of securities or other financial instruments	DEP	2	4	+ 2
Distributors of units of investment funds	DIST	32	43	+ 11
Domiciliation agents of companies	DOM	7	29	+ 22
Private portfolio managers	GF	41	53	+ 12
Underwriters	PF	3	4	+1
Professionals acting for their own account	PIPC	17	17	/
Market makers	TM	2	2	/
TOTAL *		**102**	**142**	**+ 40**

* the same establishment can appear in several categories at the same time

Recent regulatory developments

CSSF Circular 01/38
concerning the identification and the declaration of business relationships with terrorist circles

The circular, published on 19 October 2001, draws the attention of the professionals of the financial sector to the direct applicability in Luxembourg of the (EC) regulation no. 1996/2001 of the Commission of 11 October 2001 modifying the (EC) regulation no. 467/2001 of the Council prohibiting the export of certain goods and of certain services to Afghanistan, reinforcing the ban on flights and extending the freezing of funds and other financial resources decided against the Taliban of Afghanistan, and abolishing the (EC) regulation no. 337/2000.

In addition, it reminds the professionals of the financial sector that they must immediately communicate all useful information in relation to the lists of names featuring in the aforementioned community regulations to the Commission de surveillance du sector financier who will pass them on to the Ministère des Affaires étrangères, Direction des Relations économiques internationales.

Adoption by the European Parliament of two common positions in view of the adoption of two directives modifying the UCITS directive

In its session of 23 October 2001, the plenary assembly of the European Parliament adopted in the second reading the two common positions of the Council in view of the adoption of two directives of the European Parliament and the Council modifying the UCITS directive (directive 85/611/EEC of 20 December 1985 regarding the co-ordination of legislative, regulatory and administrative clauses concerning certain undertakings for collective investment in transferable securities).

The first common position extends the investment possibilities of the harmonised UCITS, while the second common position concerns the rules on management companies and the introduction of a simplified prospectus.

In its second reading, the European Parliament has adopted these two common positions without fundamental amendments, while retaining only two amendments of a more technical nature. The amendments retained foresee that three years after the implementation of the directives, the Commission will transmit to the Council and to the European Parliament two reports on various points on the implementation and the application of the directives.

The EU Council will make an announcement on the amendments retained by the European Parliament in the following weeks.

Regulation

Basle Committee : latest developments

On 4 October 2001 the Basle Committee on banking supervision published the document entitled **"Customer due diligence for banks".** The latter has been prepared by the "Working Group on cross-border banking", which gathers members of the Basle Committee and the Offshore group of the banking regulators. Following a public consultation launched in January 2001 on a first version, the final document incorporates a certain number of commentaries received. The "Working Group on cross-border banking" intends to continue its work, which will be based on the implementation of the essential elements in the customer identification requirements. The "Customer due diligence for banks" establishes recommendations in particular on the obligation of diligence of the credit institutions regarding their customers in the form of minimal norms for the elaboration of appropriate practices in this regard.

According to William J. McDonough, President of the Basle Committee, the systematic obligation of diligence regarding their customers constitutes an essential element of the banks' risk management and plays a key role in preserving the confidence and integrity of the banking system. In addition he estimates that the importance of a rigorous approach has been demonstrated by the recent terrorist attacks in the United States.

The controlling authorities in the whole world admit more and more that it is essential, for the banks of their jurisdiction, to have appropriate controls and procedures allowing them to know with whom they are dealing. This is an absolute necessity not only with regard to the fight against money laundering, but also from a prudential perspective, where adequate diligence duty regarding new or existing customers is also essential.

Indeed, if this diligence duty is missing, the banks can end up suffering a substantial prejudice linked to the risk of damaging their reputation, operational risk or concentration risk. To protect themselves, they have to arm themselves with policies and procedures in key areas such as the acceptance of new clients, the identification of these clients as well as the continued supervision of the accounts at high risk in particular and risk management.

The document finally underlines the role of the banking regulators who are responsible for the establishment of a prudential approach in terms of the banks' procedures for recognising the clientele. The principles and recommendations aiming to reinforce the diligence norms in the high-risk areas constitute, for these controlling authorities, references for the elaboration or even the improvement of existing prudential approaches.

The document "Customer due diligence for banks" is available on the BIS website (http://www.bis.org).

Regulation

The Basle Committee on banking supervision has published two working documents with regard to the review of the Basle accord. These two documents develop subjects already outlined in the January consultation documents.

"Working paper on the treatment of asset securitisations"

The objective of this document is to develop proposals for, on the one hand, the treatment of traditional securitisations in the Internal Ratings Based approach, and, on the other hand, the treatment of synthetic securitisations. These proposals are based on other elements of the New Accord and are therefore still likely to evolve. With the publication of this document, the Committee wants to promote dialogue with the industry regarding minimal own funds requirements for securitisation structures.

"Working paper on the internal ratings based approach to specialised lending exposures"

This document aims to define the "Specialised Lending" portfolio by displaying its particular risk characteristics. In the consultation document published in January, this portfolio still was designated "Project Finance" ; it now contains four different sub-portfolios: "Project Finance", "Income-Producing Real Estate", "Object Finance" and "Commodities Finance". The prudentiel treatment proposed is based on an evolutionary approach and accounts for the various levels of sophistication of the credit institutions, as well as for the weak availability of historical data for these exposures.

The two documents can be consulted on the website of the Bank of International Settlements, http://www.bis.org.

International co-operation

The CESR and the European Central Bank allied in the area of clearing and settlement

The Governing Council of the European Central Bank and the Committee of European Securities Regulators (CESR) agreed to conduct joint work on issues of common interest in the area of clearing and settlement. To do this, a working group composed of representatives of the European Central Bank, representatives of the 15 EU national Central Banks and the members of the CESR will start their work in the near future. These tasks should lead to the establishment of standards and recommendations aiming at implementing a common regime for those using clearing and settlement systems. The co-operation at European level in the area of clearing and settlement has been encouraged by the common work done at the "Joint task force" composed of representatives of the "Committee on payment on Settlement Systems" (CPSS) of the G10 Central Banks and representatives of the International Organisation of Securities Commissions (IOSCO).

The CESR launches a public consultation regarding the harmonisation of conduct of business rules in the financial sector

The Committee of European Securities Regulators (CESR) has published two documents for a second round of public consultation regarding the harmonisation of the conduct of business rules in the financial sector (ref. CESR/01-014) and the categorisation of investors in the area of these conduct of business rules (ref. CESR/01-015) respectively.

The contributions provided by the various undertakings following the first consultation have been accounted for during the writing of the aforementioned revised documents.

Consequently, the main changes are the following:

- The categorisation of investors has been amended to include the large companies as well as other institutional investors in the category of professional investors.
- Two different regimes of conduct of business rules apply to the investment firm-client relationship, depending on whether the customer is classed professional or not.
- The "retail" regime now includes the areas of "cold calling", grey markets and investment advice.
- Finally, the CESR proposes to identify a particular regime to apply to counterparty relationships.

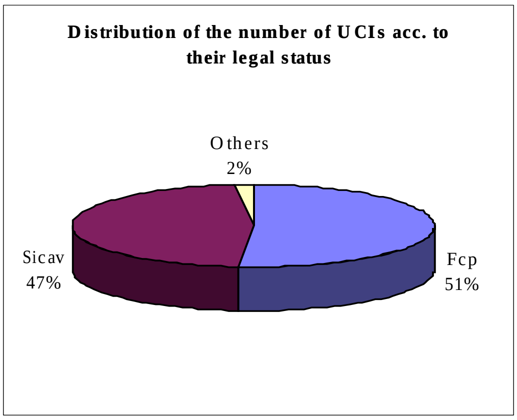
The consultative documents are available on CESR's website (http://www.europefesco.org).

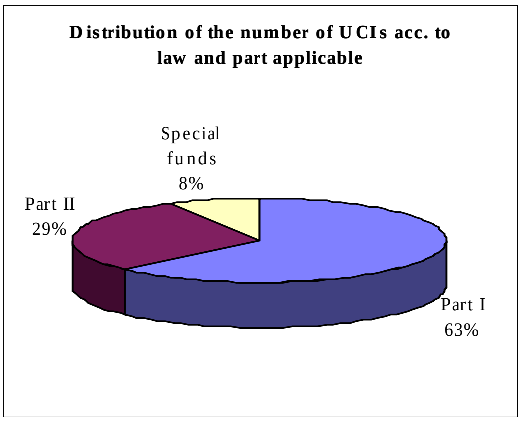
UCI statistics

Quarterly statistics on the undertakings for collective investment industry
(situation as at 30 September 2001)

Every three months, in addition to the monthly statistics, the CSSF newsletter will provide more detailed information on the investment fund sector, in particular regarding the origin of the promoters and the investment policy of the UCIs.

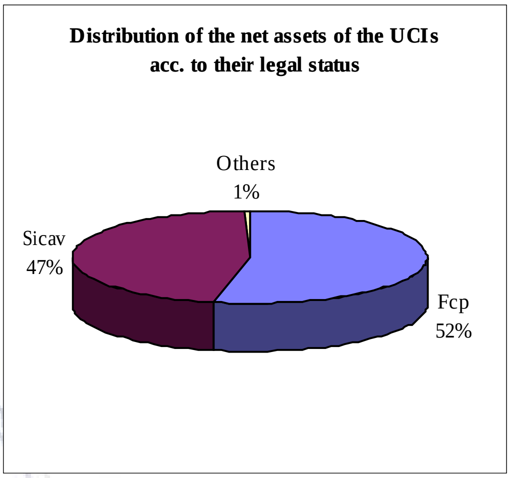
Number of UCIs

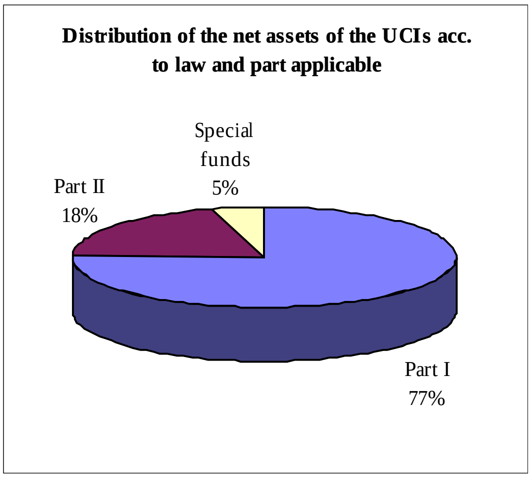




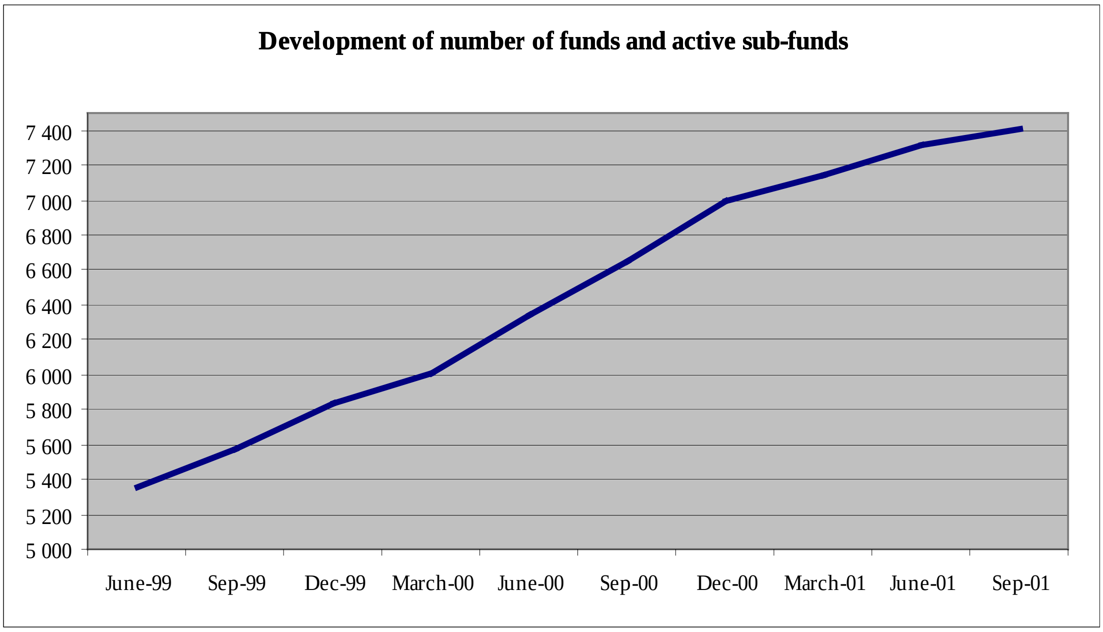
	Fcp	Sicav	Others	Total
Part I	621	558	8	1 187
Part II	259	280	19	558
Special funds	91	53	3	147
Total	**971**	**891**	**30**	**1 892**

Net assets of the UCIs (in bn EUR)





	Fcp	Sicav	Others	Total
Part I	296.652	325.861	1.750	624.263
Part II	117.499	43.545	2.628	163.672
Special funds	25.253	12.218	0.322	37.793
Total	**439.404**	**381.624**	**4.700**	**825.728**



	June-99	Sep-99	Dec-99	March-00	June-00	Sep-00	Dec-00	March-01	June-01	Sep-01
Number of funds and active sub-funds	5 351	5 570	5 836	6 004	6 338	6 654	6 995	7 147	7 312	7 410

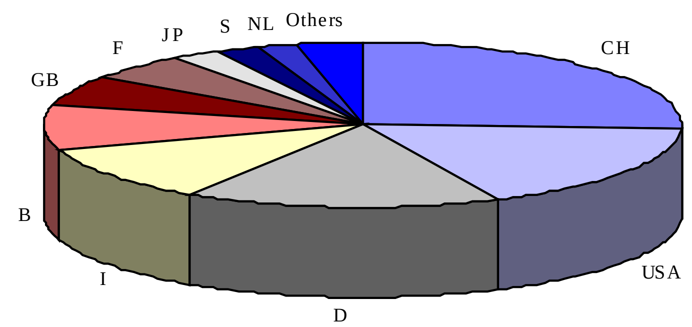
Invest policy of the UCIs (in bn EUR)

	Net assets (in bn EUR)
Fixed-income transferable securities	333.5
Variable yield transferable securities	284.0
Mixed transferable securities	63.0
High risk capital	0.6
Unlisted transferable securities	2.6
Leveraged funds	2.4
Other open-ended UCIs	54.0
Money market instruments and liquid assets	76.1
Cash	7.8
Real estate	0.7
Futures and/or options	1.0
Other securities	0.0
Total	**825.7**

Origin of the promoters of the Luxembourg UCIs

	Nets assets	in %
Switzerland	214.2	26.0%
United States	141.1	17.1%
Germany	134.1	16.2%
Italy	88.3	10.7%
Belgium	74.3	9.0%
United Kingdom	47.9	5.8%
France	44.1	5.3%
Japan	20.9	2.5%
Sweden	17.0	2.1%
Netherlands	16.2	2.0%
Others	27.6	3.3%
Total	**825.7**	**100.0%**

Origin of the promoters of the Luxembourg UCIs



Official lists

LIST OF BANKS

New establishment :

Evli Bank Plc, Helsinki (Finland), Luxembourg branch
60, Grand-Rue, B.P. 674, L-2016 LUXEMBOURG
Authorisation of 11 October 2001

Withdrawal :

Dexia Direct Bank, on 29 October 2001 (merger with Dexia Banque Internationale à Luxembourg S.A.)

Change of name :

GZ-Bank AG, Niederlassung Luxemburg has become
DZ Bank AG, Niederlassung Luxemburg on 1 October 2001

HypoVereinsbank Luxembourg S.A. has become
HVB Banque Luxembourg SA on 1 October 2001

Change of address :

The Bank of New York (Luxembourg) SA
Aerogolf Center, 1A, rue Hoehenhof, B.P. 263, L-2012 LUXEMBOURG

LIST OF THE PROFESSIONALS OF THE FINANCIAL SECTOR (PFS)

New establishment :

LUXIGEC S.A.
8, boulevard Royal, L-2449 Luxembourg
Domiciliation agent of companies
Ministerial authorisation of 15 October 2001

Change of status :

FIRST EUROPEAN TRANSFER AGENT S.A.
Status as distributor of units of investment funds extended to private portfolio manager and distributor of units of investment funds authorised to accept and effect payments.
Ministerial authorisation of 17 October 2001

Change of address :

BRIANFID-LUX S.A
6, boulevard Joseph II
L-1840 Luxembourg

Official lists

LIST OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)

Registrations on and withdrawals from the official list of the Luxembourg undertakings for collective investment which fall under the law of 30 March 1988 and the official list of undertakings for collective investment which fall under the law of 19 July 1991, during the **month of September** 2001:

Registrations

- CB VV EUROPE BASKET, 1a-1b, rue Thomas Edison, L-1445 Luxembourg-Strassen
- DEKA-CORPORATEBOND HIGH YIELD EURO, 6C, route de Trèves, L-2633 Senningerberg
- DEKA-CORPORATEBOND HIGH YIELD USD, 6C, route de Trèves, L-2633 Senningerberg
- DEKA-CORPORATEBOND USD, 6C, route de Trèves, L-2633 Senningerberg
- DWS EURODYNAMIC GARANT, 2, boulevard Konrad Adenauer, L-1115 Luxembourg
- FRESCO, 47, boulevard Royal, L-2449 Luxembourg
- IBCO SICAV, 1A, rue Höhenhof, L-1736 Senningerberg
- LINDE PARTNERS VALUE FUND, 69, route d'Esch, L-1470 Luxembourg
- LOUVRE MULTI SELECT, 5, rue Plaetis, L-2338 Luxembourg
- NBG INTERNATIONAL FUNDS SICAV, 11-13, avenue Emile Reuter, L-2420 Luxembourg
- NBG SYNESIS FUNDS SICAV, 11-13, avenue Emile Reuter, L-2420 Luxembourg
- NIKKO SKILL INVESTMENTS TRUST (LUX), 112, route d'Arlon, L-1150 Luxembourg
- PALMER INVESTMENT FUND, 14, boulevard Royal, L-2449 Luxembourg
- PLEIADE ALTERNATIVE INVESTMENTS, 13, rue Goethe, L-1637 Luxembourg
- SELECTINVEST TURKEY, 4, boulevard Royal, L-2449 Luxembourg
- SELECTOR MANAGEMENT FUND, 14, boulevard Royal, L-2449 Luxembourg
- TRIPLE CROWN, 1B, Parc d'activité Syrdall, L-5365 Munsbach
- UNICO CASHBOX, 308, route d'Esch, L-1471 Luxembourg

Withdrawals

- ADIG EUROPA GARANTIE, 1a-1b, rue Thomas Edison, L-1445 Luxembourg-Strassen
- APO 1ST BOND, 308, route d'Esch, L-1471 Luxembourg
- BREMEN-PORTFOLIO-I 9/2001, 4, rue Jean Monnet, L-2180 Luxembourg-Kirchberg
- CARNEGIE INVESTMENT FUND, SICAV, 5, place de la Gare, L-1616 Luxembourg
- DEVELOPMENT PORTFOLIO FUND, 1A, rue Höhenhof, L-1736 Senningerberg
- DOLLAR KONZEPT 2001, 2, boulevard Konrad Adenauer, L-1115 Luxembourg
- EQUITY LOCK-IN FUND, 291, route d'Arlon, L-1150 Luxembourg
- EUROPORTFOLIO FUND, 1A, rue Höhenhof, L-1736 Senningerberg
- EUROVALOR FUND, 1A, rue Höhenhof, L-1736 Senningerberg
- FONDS INSTITUTIONNEL DE DEVELOPPEMENT, 1A, rue Höhenhof, L-1736 Senningerberg
- M-FUND SICAV, 20, boulevard Emmanuel Servais, L-2535 Luxembourg
- MIRROR FUND, 39, allée Scheffer, L-2520 Luxembourg
- MLB(S) SPECIALTY PORTFOLIOS, 5, rue Plaetis, L-2338 Luxembourg
- NK CHALLENGER II, 112, route d'Arlon, L-1150 Luxembourg
- SCHNIGGE 01 (WACHSTUMSWERTE), 4, rue Jean Monnet, L-2180 Luxembourg-Kirchberg
- SOUTHERN INTERNATIONAL INVESTMENT FUND, 20, boulevard Emmanuel Servais, L-2535 Luxembourg
- TA SYMPHONY FUND, 112, route d'Arlon, L-1150 Luxembourg
- THE NEUTRAL, 291, route d'Arlon, L-1150 Luxembourg

Financial centre

The main up-dated figures regarding the financial centre :

Number of banks : **196** (30 September 2001)

Balance sheet total : **EUR 690.44 billion** (30 September 2001)

Net profit : **EUR 2.338 billion** (30 September 2001)

Employment : **23 814 people** (30 September 2001)

Number of UCIs : **1 892** (30 September 2001)

Total net assets : **EUR 825.7 billion** (30 September 2001)

Number of PFS : **143** (31 October 2001)

Balance sheet total : **EUR 2.076 billion** (30 September 2001)

Net profit : **EUR 264 million** (30 September 2001)

Employment : **4 071 people** (30 September 2001)

Total employment in the supervised establishments : **27 885 people** (30 September 2001)

CSSF Newsletter

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