

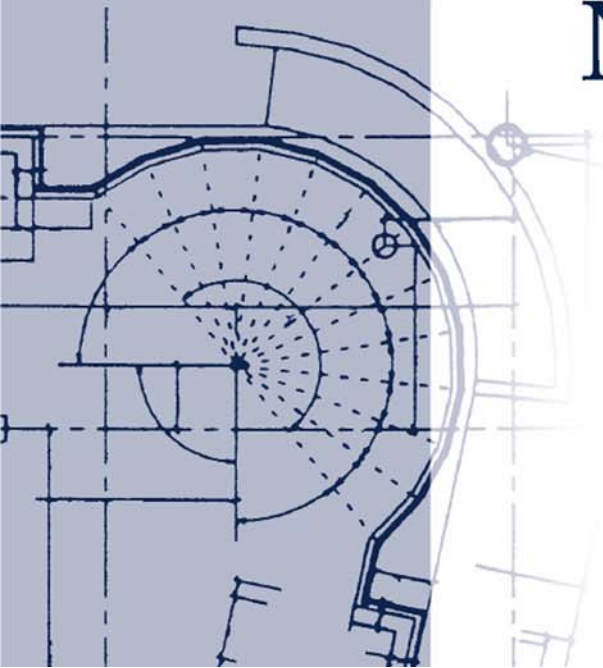
N°31

August 2003



CSSF NEWSLETTER

COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER



The CSSF and CRP-Henri Tudor signed a co-operation agreement

On 30 June 2003, the Commission de Surveillance du Secteur Financier (CSSF) signed a co-operation agreement with the *Centre de Recherche Public Henri Tudor* (CRP-HT). The aim of the agreement is to carry out an applied research project, named “*Gestion des Risques Informatiques dans le Secteur Financier: nouvelles approches méthodologiques*” (project GRIF, IT Risk Management in the Financial Sector: new methodological approaches).

This project, which is co-financed by the CSSF and the CRP-HT, has been set up in the context of the implementation of the “Basel II” approach and more particularly of the supervisory mission the CSSF will have to carry out at the “pillar 2” level, which requires that the supervisory authority reviews and assesses capital adequacy and the internal rating process of credit institutions.

The main objective of the CSSF and the CRP-HT consists in studying new methodological approaches allowing to evaluate, preferably in a quantitative manner, the risks linked to IT. The findings in this highly specific field of research aim to formalise and quantify the consideration of IT risks within the global operational risks of financial institutions. Every six months, the multidisciplinary team set up for this purpose will publish a statement on the progress of research. The knowledge shared is diverse as the project team consists of both CRP-HT researchers and CSSF agents, so as to optimally cover the areas of statistics, mathematics, IT, documentary research, project management, IT systems audit, systems security and finance.

The GRIF project, in its initial stage, will stretch over two years and consists of four parts. The first part aims to create an “IT and finance” sectorial competence unit, directed towards risk management and IT security. The second part effectively concerns the production of a new methodological tool, while the third part will validate the results through consultation of local players. The fourth and last part concerns a study on the perpetuation and valorisation of skills, e.g. by widening the partnership with the financial, institutional and IT sector.



Banks' balance sheet total as at 30 June 2003 almost stable

At 30 June 2003, the balance sheet total of the banks established in Luxembourg reached EUR 653.64 billion as compared to EUR 653.51 billion as at 31 May 2003, which is a slight increase of 0.02 %.

At 30 June 2003, total employment of Luxembourg credit institutions amounted to 22,830 persons, which represents a decrease of 3.5% as compared to 30 June 2002, when the workforce totalled 23,667 persons. As at 31 March 2003, total employment in Luxembourg banks amounted to 23,074 persons.

Following the changes to the official list of banks (registration of Islandsbanki hf and withdrawal of BHW Allgemeine Bausparkasse AG following its merger with BHW Bausparkasse AG), the number of credit institutions registered on the official list amounts to 175 as at 1st August 2003.

Profit and loss accounts of the credit institutions on 30 June 2003

(press release of 18 July 2003)

Based on provisional figures as at 30 June 2003 (representing 92.1% of the profit before provisions of the financial centre), the profit and loss accounts of Luxembourg credit institutions reveal gross profits before provisions of EUR 1.85 billion for the first six months of the year 2003, representing a decrease of 7.4% compared to the first six months of 2002, when the profit before provisions amounted to 2 billion.

The profit and loss accounts as at 30 June 2003 precisely reflect the development of the financial markets during the first half of the year 2003. In a context of low interest rates and volatile yields, financial income records a sharp decline. Interest margin fell by 3.8%, commissions received plummeted by 12.8%. Only the decrease in general costs by 2.6% somewhat limits the fall in operational results.

During the first six months of 2003, Luxembourg credit institutions generated an interest margin of EUR 1.84 billion, decreasing by 3.8% as compared to the same period last year. This decrease results from the combined effect of three factors: the absolute decline in the level of interest rates, following the European Central Bank's lowering of base rates, the flattening of the yield curve, leading to disparate opportunities to profitably manage maturities and, finally, the slight decrease in the balance sheet totals.

Commissions received, for their part, decreased by 12.8% and totalled EUR 1.07 billion. It should be remembered that this item fell by 15.6% during the first quarter of 2003¹. Thus, the revival of stock markets during the second quarter of 2003 enabled credit institutions to cushion the fall in their commissions. This effect is principally due to the appreciation of assets under management, whose valuation is the basis for the calculation of commissions received.

The increase in stock markets during the second quarter also enabled credit institutions to generate fair profits on financial operations. As a consequence, the item "other net income" increased by 12.4% as compared to the same period last year. However, this figure must be appraised in the light of the high realised depreciations recorded by banks during the first six months of 2002.

¹ Press release of 24 April 2003.

In total, banking income totals EUR 3.3 billion, which is a decrease of 5.4% as compared to the first half of 2002.

As far as costs are concerned, banks resolutely pursue their efforts to control costs, as reflects the fall in general expenses of 2.6%. At the end of the first six months of 2003, general expenses reached EUR 1.44 billion. The breakdown shows that efforts were made both for staff costs (-1.9%) and for operating expenses (-3.4%).

Profit and loss account for the first six months of 2003²

| Figures in million EUR | 2002 | 2003 | % |
|-----------------------------------|--------------|--------------|--------------|
| Interest-rate margin ³ | 1,910 | 1,837 | -3.8% |
| Commissions received | 1,227 | 1,070 | -12.8% |
| Other net income | 346 | 389 | 12.4% |
| Banking income | 3,483 | 3,296 | -5.4% |
| Staff costs | 756 | 742 | -1.9% |
| Other operating expenses | 726 | 701 | -3.4% |
| General expenses | 1,482 | 1,443 | -2.6% |
| Profit before provisions | 2,001 | 1,853 | -7.4% |

² Survey effected on a sample representing 92.1% of the profit before provisions of the financial centre.

³Including dividends received from subsidiaries.

Professionals of the financial sector (PFS)

Decrease in the balance sheet total

According to the data provided as at 30 June 2003, the balance sheet total of all the professionals of the financial sector (141 active businesses) amounted to EUR 2.204 billion as against EUR 2.334 billion as at 31 May 2003, which represents a decrease of 5.57%, and against EUR 2.949 billion as at 30 June 2002, which represents a fall of 25.26%.

This rather significant fall in the balance sheet total of PFS between the months of June 2002 and June 2003, which is linked to the slowing down of activities in the financial sector, can be explained more particularly by the negative development in the number of professionals of the financial sector, amounting to 141 entities as at 30 June 2003 against 146 entities as at 30 June 2002. The decline in the balance sheet total between May and June 2003 is notably due to the development of a few large-sized entities.

As regards the breakdown of the balance sheet total between the various categories of PFS at 30 June 2003, the professional custodians of securities take the top position, followed by the distributors of units/shares of investment funds and the private portfolio managers.

Staff employed by the other professionals of the financial sector amounts to 4,243 persons as at 30 June 2003 against 4,379 persons at 31 March 2003. This decline during the second quarter is mainly due to a few entities with a high number of employees, which changed, during the period under review, their legal status to become management companies.

Compared over a period of 12 months, the number of staff of the other professionals of the financial sector fell from 4,339 at 30 June 2002 to 4,243 persons at 30 June 2003, which represents a net decrease of 96 persons or 2.21%.

The net profit for all the professionals of the financial sector amounts to EUR 225.12 million as at 30 June 2003 against EUR 133.02 million as at 31 May 2003 and EUR 98.43 million as at 31 March 2003. This substantial increase of the net profit during the second quarter and more specifically during the month of June 2003 can be explained notably by the increase in profits generated by professional custodians of securities. Private portfolio managers and distributors of units/shares of investment funds, however, record a slight decrease of their profits at 30 June 2003 as compared with the figures of the previous month.

The net profit for all the professionals of the financial sector increased from EUR 222.85 million as at 30 June 2002 (146 active businesses) to EUR 225.12 million as at 30 June 2003 (141 active businesses), which represents a slight increase of 1.01% over a year.

As regards the breakdown of net profits between the various categories of PFS as at 30 June 2003, the professional custodians of securities take the top position, followed by the private portfolio managers and the distributors of units/shares of investment funds

Distribution of the professionals of the financial sector according to their status (as at 31 July 2003)

| Category | | Number |
|---|------|------------|
| Commission agents | COM | 15 |
| Financial advisors | COF | 9 |
| Brokers | COU | 5 |
| Professional custodians of securities or other financial instruments | DEP | 3 |
| Distributors of units of investment funds | DIST | 46 |
| Domiciliation agents of companies | DOM | 35 |
| Private portfolio managers | GF | 50 |
| Underwriters | PF | 3 |
| Professionals acting for their own account | PIPC | 16 |
| Market makers | TM | 2 |
| Entity authorised to exercise all the activities as PFS permitted by article 28 of the law of 15 December 2000 on postal services and financial postal services | EPT | 1 |
| TOTAL * | | 141 |

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

Undertakings for collective investment

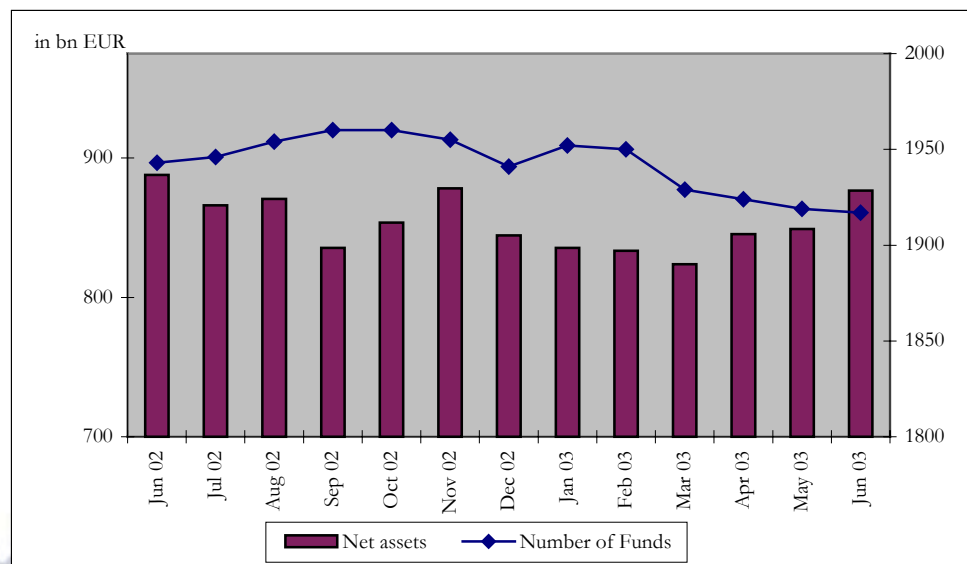
Slight increase in UCI's total net assets at the end of June 2003

(press release of 23 July 2003)

As at 30 June 2003, the total net assets of undertakings for collective investment reached EUR 876.552 billion compared to EUR 849.093 billion as at 31 May 2003. Consequently, the Luxembourg undertakings for collective investment sector increased by 3.23% compared to May 2003. This increase is mainly due to a general recovery of the financial markets and the development of the exchange rate of the US dollar against the euro. The sector increased by 3.79% in June 2003 as compared to 31 December 2002 when the total net assets reached EUR 844.508 billion. Over the last twelve months, the volume of net assets decreased by 1.29%.

During the month of June 2003, the net capital investment amounted to EUR 9.822 billion. Compared to 31 December 2002, the net capital investment amounts to EUR 29.239 billion.

The number of undertakings for collective investment taken into consideration totals 1,917 as against 1,919 the previous month. A total of 1,195 UCIs have adopted the multiple compartment structure, which represents 6,906 compartments. When adding 722 UCIs with a traditional structure to the previous figure, 7,628 compartments are active in the financial centre.

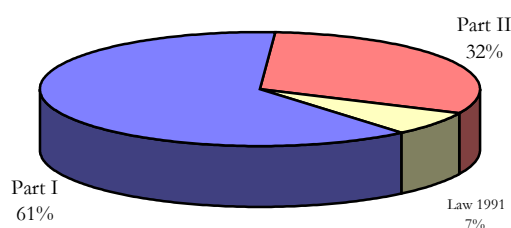


Quarterly statistics on the undertakings for collective investment industry- situation as at 30 June 2003

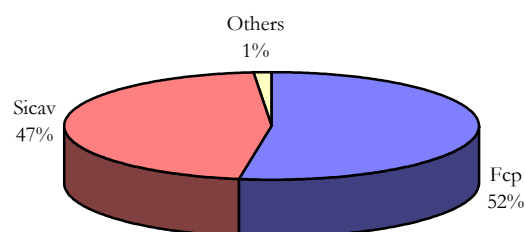
Every three months, in addition to the monthly statistics, the CSSF newsletter provides more detailed information on the investment fund sector, in particular regarding the origin of the promoters and the investment policy of the UCIs.

Number of UCIs

Distribution of the number of UCIs acc. to law and part applicable



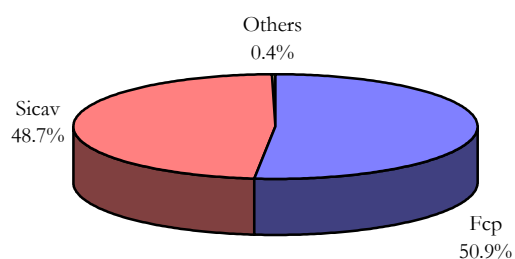
Distribution of the number of UCIs acc. to their legal status



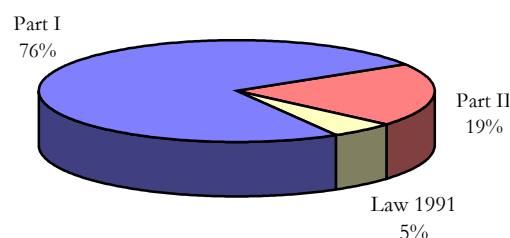
| Law, part \ legal form | | | | |
|------------------------|------------|------------|-----------|--------------|
| | 625 | 538 | 7 | 1,170 |
| Part II | 287 | 309 | 17 | 613 |
| Institutional UCIs | 84 | 48 | 2 | 134 |
| Total | 996 | 895 | 26 | 1,917 |

Net assets of the UCIs

Distribution of the net assets of the UCIs acc. to their legal status



Distribution of the net assets of the UCIs acc. to law and part applicable

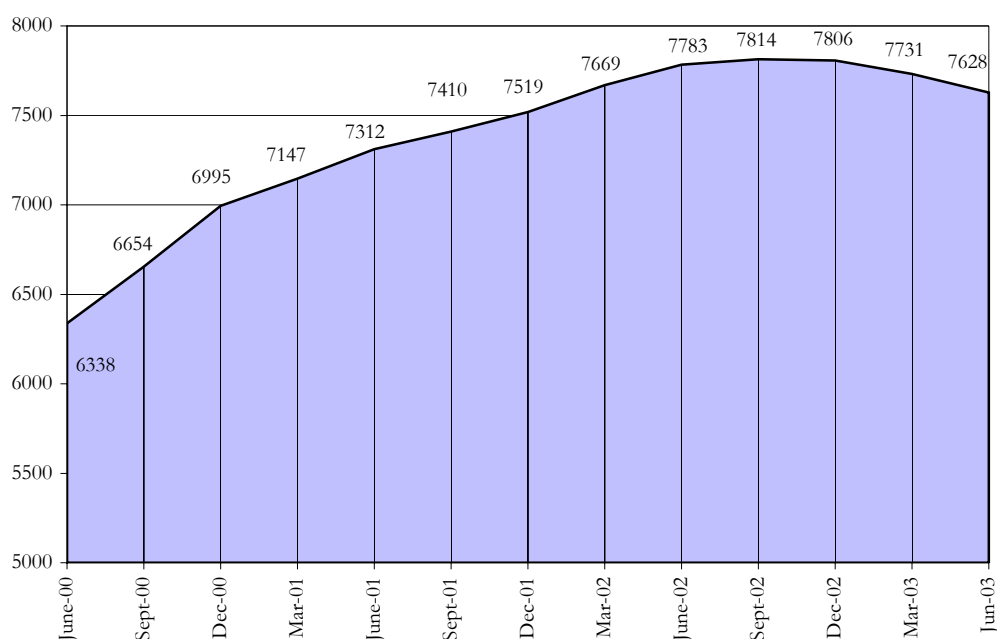


| Law, part \ legal form | Fcp | Sicav | Others | Total |
|------------------------|----------------|----------------|--------------|----------------|
| Part I | 299.137 | 363.972 | 1.274 | 664.383 |
| Part II | 117.158 | 51.602 | 1.713 | 170.473 |
| Institutional UCIs | 30.106 | 11.452 | 0.138 | 41.696 |
| Total | 446.401 | 427.026 | 3.125 | 876.552 |

Origin of the promoters of Luxembourg UCIs

| | Net assets (in bn EUR) | in % |
|----------------|---------------------------|---------------|
| Switzerland | 208.024 | 23.7% |
| United States | 157.468 | 18.0% |
| Germany | 150.180 | 17.1% |
| Italy | 100.785 | 11.5% |
| Belgium | 76.519 | 8.7% |
| United Kingdom | 51.158 | 5.8% |
| France | 43.469 | 5.0% |
| Japan | 22.629 | 2.6% |
| Netherlands | 17.371 | 2.0% |
| Sweden | 15.210 | 1.7% |
| Others | 33.739 | 3.9% |
| Total | 876.552 | 100.0% |

Development in the number of funds and active sub-funds



Investment policy of the Luxembourg UCIs

| | Net assets (in bn EUR) |
|--|---------------------------|
| Fixed income transferable securities | 418.312 |
| Variable yield transferable securities | 240.272 |
| Mixed transferable securities | 62.652 |
| High risk capital | 0.499 |
| Unlisted transferable securities | 2.174 |
| Leveraged funds | 2.264 |
| Other open-ended UCIs | 60.976 |
| Money market instruments and liquid assets | 75.434 |
| Cash | 9.233 |
| Real estate | 2.566 |
| Futures and/or options | 2.170 |
| Other securities | 0.000 |
| Total | 876.552 |

Recent regulatory developments

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

CSSF Circular 03/108 of 30 July 2003, directed at all the undertakings for collective investment (UCIs) and Luxembourg management companies, mainly aims to specify the application modes of certain articles of Chapter 13 of the Law of 20 December 2002 concerning UCIs, which introduces a specific regime applicable to management companies that manage UCITS under the amended Directive 85/611/EEC.

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

The Circular specifies the conditions which must be fulfilled in order to obtain and maintain an authorisation, distinguishing between management companies whose activities are restricted to collective management as provided for by Article 77(2) of the Law of 20 December 2002, and management companies which carry out collective management and management of investment portfolios on a client-by-client basis as provided for by Article 77(3).

In this context, it provides clarifications as regards the programme of activity, central administration and infrastructure, shareholders, professional repute and experience of the directors, own funds and external audits.

The Circular contains rules concerning the prudential supervision of management companies referred to under Chapter 13 of the Law of 20 December 2002 as well as the prudential supervision of investment companies under the amended Directive 85/611/EEC, which have not designated a management company under the terms of this Directive.

The schedules for financial information, which are to be drawn up on a quarterly basis and submitted to the CSSF with regard to this prudential supervision, are appended to the CSSF Circular 03/108.

Assessment of the questionnaire regarding the treatment of operational risk in the context of Basel II

At the beginning of the year, the CSSF sent a circular-letter to all the Luxembourg credit institutions, accompanied by a questionnaire on the main options envisaged by credit institutions within the new regulatory framework concerning capital adequacy ("Basel II").

This questionnaire aimed to:

- Draw closer attention of credit institutions to developments in the New Accord;
- Follow the preparations of credit institutions regarding the implementation of the New Accord;
- Collect supplementary information on operational risk management of the credit institutions.

The statistics of the questionnaire are based on the responses of 112 Luxembourg banks, 104 of which are subsidiaries of banking groups.

The responses received give an indication of the options envisaged and their rationale, but are not to be considered as a firm commitment by the respondent banks. It has to be noted that most banks will follow the approach adopted by their parent company.

The survey revealed that a significant number of Luxembourg banks consider either using, from the outset, the more sophisticated and risk-sensitive approaches, or moving to more advanced approaches at a later stage.

32% of banks (percentage of the number of banks) envisage opting for the advanced approach AMA, 31% for the Standardised Approach (TSA) and 10% for the simplest approach (BIA). In that context, 19% consider first using the TSA and partially using the AMA for certain business lines. The rest of the population remains undecided as regards the approach for the calculation of operational risk. In terms of balance sheet totals, 46% and 28% will opt for AMA and TSA with partial use of AMA respectively.

It has to be noted that the high percentage of banks considering the advanced approach largely exceeds the CSSF's expectations, especially in comparison with the results of the survey conducted in October 2001.

Further to information concerning the envisaged approach, the banks provided information regarding the interest for a mutualisation of operational loss data and the relations of subsidiaries of banking groups with their parent company.

The CSSF is satisfied with the interest shown by a high number of banks concerning the mutualisation of an operational loss database in Luxembourg.

As far as the relations of subsidiaries with their parent companies are concerned, 86% of subsidiaries (percentage of the number of subsidiaries) affirmed that they had regular contact with their parent company concerning treatment of operational risk. In terms of balance sheet totals, 97% clearly show that this subject is one of their main concerns.

CESR sent to the European Commission its first technical advice relating to the prospectus directive and launched a consultation on other technical measures

On 31 July 2003, CESR published its technical advice relating to the prospectus directive (Ref. CESR/03-208 and Annexes, available at www.europefesco.org), accompanied by a feedback statement on the consultation (Ref. CESR/03-209).

The proposed technical measures mainly concern:

- Disclosure obligations: schedules regarding shares, retail and wholesale debt; asset-backed securities; registration document for non-equity securities issued by credit institutions; schedule for depository receipts over shares;
- Incorporation by reference of published information, e.g. audit reports, financial statements and articles of association;
- Publication of the prospectus: availability of the prospectus, content of the notice and publication methods.

The consultation document (Ref. CESR/03-210b) relating to the additional proposed technical measures to implement the prospectus directive concern:

- Minimum disclosure requirements for States and their regional or local authorities;
- Requirements regarding historical financial information. These measures complement the first CESR advice;
- The dissemination of advertisements in relation to an offer of securities to the public or the admission to trading.

Interested parties are invited to address their comments by e-mail to Mr Fabrice DEMARIGNY, Secretary general of CESR at secretariat@europefesco.org by 30 October 2003.

In order to allow interested parties to express their opinion, CESR will hold an open hearing on 9 October 2003 at its premises in Paris.

Consultation on CESR-ESCB Standards for Securities Clearing and Settlement Systems in the European Union

Following their co-operation in the field of securities clearing and settlement systems in the European Union, CESR and the European System of Central Banks (ESCB) just published two documents for public consultation, which are available on the CESR Internet website at www.europefesco.org.

Interested parties are invited to submit their comments via e-mail to the joint CESR and ESCB secretariat at the following addresses: Wim Moeliker (CESR), secretariat@europefesco.org and Elias Kazarian (ECB) at ecb.secretariat@ecb.int before 31 October 2003.

CESR and ESCB will jointly organise an open hearing pertaining to both documents on 2 October 2003 in the CESR office in Paris.

LIST OF BANKS

Withdrawal:

BHW Allgemeine Bausparkasse AG, branch
Merger with BHW Bausparkasse AG, on 1st August 2003

New establishment:

Islandsbanki hf, Luxembourg Branch
B. P. 1647, L-1016 Luxembourg
Started activities on 1st July 2003

Change of name:

Bunadarbanki International S.A. (Luxembourg) « B.I. BANK » has become on 3 July 2003
Landsbanki Luxembourg S.A.

LIST OF PROFESSIONALS OF THE FINANCIAL SECTOR (PFS)

New establishment:

IKB CorporateLab S.A., professional acting for his own account
2, rue Jean Monnet
L-2180 Luxembourg
Ministerial authorisation of 31st July 2003

Withdrawal:

BETA EUROPA MANAGEMENT S.A.
Withdrawal on 1st July 2003

Change of name:

GNI FUND MANAGEMENT LIMITED, London (United Kingdom),
has become
BRIGHT CAPITAL LIMITED, London (United Kingdom), Luxembourg branch
26, boulevard Royal
L-2449 Luxembourg

Change of name and address:

AMS TRUST (LUXEMBOURG) S.A.
has become
S-HR&M FINANCIAL SERVICES (LUXEMBOURG) S.A.
64, rue Principale
L-5367 Schuttrange

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, the law of 20 December 2002 and the law of 19 July 1991, during the **month of June 2003**

Registrations

- AVIVA ALTERNATIVE FUNDS, 34, avenue de la Liberté, L-1930 Luxembourg
- CVT EUROPA ABSOLUTE SELECT, 1a-1b, rue Thomas Edison, L-1445 Luxembourg-Strassen
- DIT-EURO PROTEKT DYNAMIK PLUS, 6A, route de Trèves, L-2633 Senningerberg
- FUCHS INVEST, 14, boulevard Royal, L-2449 Luxembourg
- HERA SICAV, 7, boulevard Joseph II, L-1840 Luxembourg
- LUXTOPIC, 4, rue Thomas Edison, L-1445 Luxembourg-Strassen
- OPAL, 13, rue Goethe, L-1637 Luxembourg
- PIONEER NEW EUROPE FUNDS, 77, bd. Grande-Duchesse Charlotte, L-1331 Luxembourg
- SASFIN INTERNATIONAL FUND, 8-10, rue Mathias Hardt, L-1717 Luxembourg
- SCUDDER ALPHA FUNDS, 49, avenue J-F Kennedy, L-1855 Luxembourg
- SGAM ALTERNATIVE EQUITY STRATEGIES DIVERSIFIED FUND, 11-13, avenue Emile Reuter, L-2420 Luxembourg
- SGAM ALTERNATIVE RELATIVE VALUE STRATEGIES DIVERSIFIED FUND, 11-13, avenue Emile Reuter, L-2420 Luxembourg
- SIFTER FUND, 11, rue Aldringen, L-1118 Luxembourg
- UBS AUSTRALIAN BOND INCOME, 6, avenue Emile Reuter, L-2420 Luxembourg

Withdrawals

- ALTERNATIVE OPEN, 20, boulevard Emmanuel Servais, L-2535 Luxembourg
- AMAS TRADEINVEST FUND, 11, rue Aldringen, L-1118 Luxembourg
- BANTLEON DYNAMIC, 50, avenue J-F Kennedy, L-1855 Luxembourg
- BANTLEON RETURN, 50, avenue J-F Kennedy, L-1855 Luxembourg
- BANTLEON TREND, 50, avenue J-F Kennedy, L-1855 Luxembourg
- EVERGREEN WORLDWIDE FUNDS, 49, avenue J-F Kennedy, L-1855 Luxembourg
- FC BAYERN MÜNCHEN FONDS, 6A, route de Trèves, L-2633 Senningerberg
- IMMOEUROPE, 11, rue Aldringen, L-1118 Luxembourg
- MURRAY UNIVERSAL, 50, avenue J-F Kennedy, L-1855 Luxembourg
- SARADAR FUND, 8, boulevard Royal, L-2449 Luxembourg
- SINOPIA MULTI BOND FUND - SINOPIA M.B.F., 11, rue Aldringen, L-1118 Luxembourg
- SUEZ LUX BONDS, 39, allée Scheffer, L-2520 Luxembourg
- SYNERGEST FUND LUXEMBOURG SICAV, 4, boulevard Royal, L-2449 Luxembourg
- TEMPLETON EMERGING ASIA, 6, avenue Emile Reuter, L-2420 Luxembourg
- UTSUMIYA GLOBAL NATURAL RESOURCES STOCK FUND, 5, rue Plaetis, L-2338 Luxembourg
- ZÜRICH LUXRENT, 2, boulevard Konrad Adenauer, L-1115 Luxembourg

Financial centre

Main updated figures regarding the financial centre:

Number of banks: **175** (1st August 2003)

Balance sheet total: **EUR 653.642 billion** (30 June 2003)

Profit before provisions: **EUR 1.997 billion** (30 June 2003)

Employment: **22,830 people** (30 June 2003)

Number of UCIs: **1,919** (11 August 2003)

Total net assets: **EUR 876.552 billion** (30 June 2003)

Number of pension funds: **8** (31 July 2003)

Number of PFS: **141** (31 July 2003)

Balance sheet total: **EUR 2.204 billion** (30 June 2003)

Net profit: **EUR 225.12 million** (30 June 2003)

Employment: **4,243 people** (30 June 2003)

Total employment in the supervised establishments: **27,699 people** (31 Dec. 2002)

Total employment in the supervised establishments: **27,453 people** (31 March 2003)

Total employment in the supervised establishments: **27,073 people** (30 June 2003)

CSSF Newsletter

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