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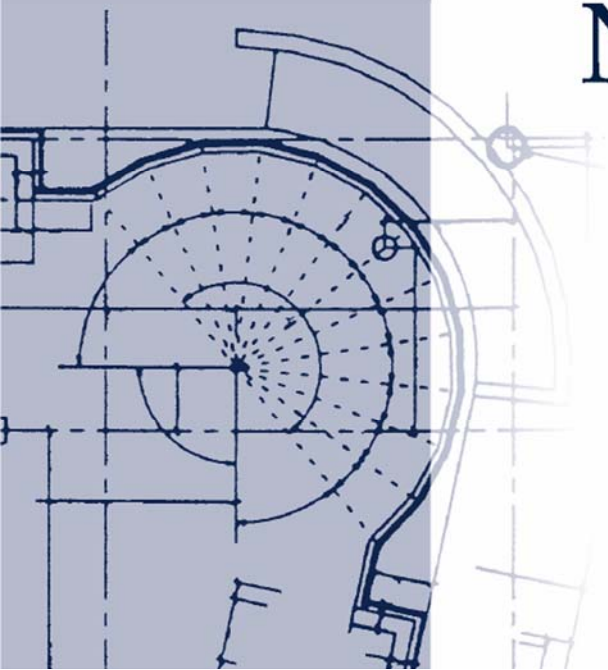
CSSF NEWSLETTER



COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

Securitisation company

Authorisation of the first securitisation vehicle under the law of 22 March 2004 relating to securitisation

The Commission de surveillance du secteur financier notifies that it has granted authorisation to the first securitisation vehicle under chapter 2 of the law of 22 March 2004 relating to securitisation, namely the following securitisation company, which is currently in the process of setting up:

PALLADIUM SECURITIES 1 S.A.

As soon as the company has been set up, it will be registered on the official list of securitisation vehicles referred to under Article 21 of the law of 22 March 2004 relating to securitisation.

Statistics

Banks

Decrease in the banks' balance sheet total as at 31 May 2004

As at 31 May 2004, the balance sheet total of the banks established in Luxembourg reached EUR 682.08 billion as compared to EUR 690.07 billion as at 30 April 2004, which is a decrease of 1.16%.

The number of credit institutions registered on the official list as at 30 June 2004 remained unchanged (167 entities).

Professionals of the financial sector (PFS)

Increase in the balance sheet total

According to the data provided as at 31 May 2004, the balance sheet total of all the PFS (158 active businesses) amounted to EUR 31.889 billion as against EUR 4.771 billion in the previous month.

This substantial increase in the balance sheet total is attributable to the newly approved entities under the status of professional performing credit offering and notably under the status of professional performing securities lending.

The net profit of all the professionals of the financial sector reached EUR 212.79 million as at 31 May 2004.

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

(as at 30 June 2004)

Category		Number
Investment firms		
Commission agents	COM	16
Private portfolio managers	GF	45
Professionals acting for their own account	PIPC	15
Distributors of units of investment funds	DIST	40
Underwriters	PF	3
Professional custodians of securities or other financial instruments	DEP	3
Registrar and transfer agents	ATR	7
PFS other than investment firms		
Financial advisors	COF	10
Brokers	COU	4
Market makers	TM	2
Currency exchange dealer	CHES	1
Debt recovery	RECO	3
Professionals performing credit offering	POP	5
Professionals performing securities lending	PPT	1
Administrators of collective savings funds	AFCE	1
Domiciliation agents of companies	DOM	31
Client communication agents	ACC	4
Administrative agents of the financial sector	AA	4
IT systems and communication networks operator of the financial sector	IT	7
Professionals performing services of setting up and of management of companies	PCG	2
Professionals of the financial sector authorised to exercise any activity referred to in section 1 of chapter 2 of part I of the amended law of 5 April 1993 on the financial sector, with the exception of the categories of PFS also referred to in section 2 of the same chapter	ART. 13	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 *		**159**

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

Statistics

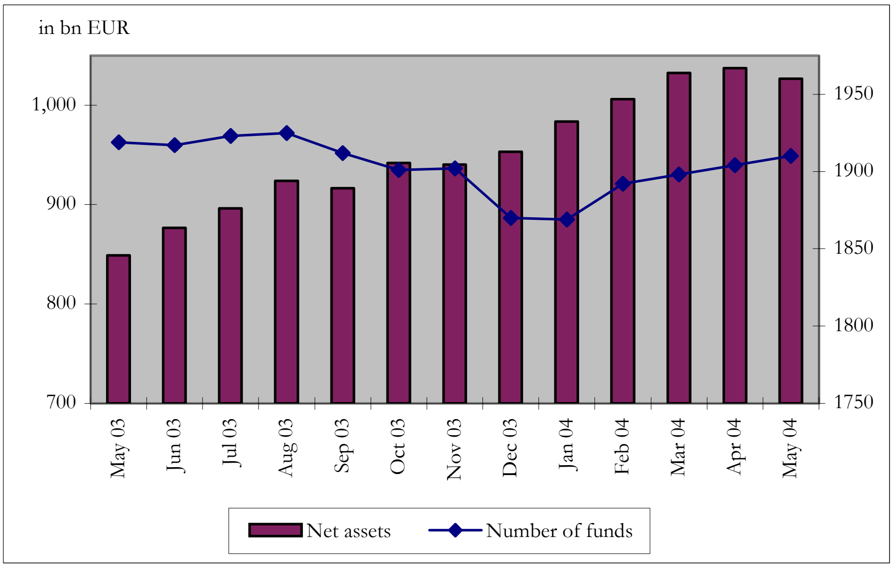
Undertakings for collective investment

Decrease in UCI's total net assets at the end of May 2004

As at 31 May 2004, the total net assets of undertakings for collective investment reached EUR 1,026.667 billion compared to EUR 1,037.306 billion as at 30 April 2004. Consequently, the Luxembourg undertakings for collective investment sector decreased by 1.03% compared to April 2004. In May 2004, the sector increased by 7.70% compared to 31 December 2003 when the total net assets amounted to EUR 953.302 billion. Over the last twelve months, the volume of net assets increased by 21.42%.

During the month of May 2004, the net capital investment amounted to EUR 3.964 billion. Compared to 31 December 2003, the net capital investment amounts to EUR 55.980 billion.

The number of undertakings for collective investment taken into consideration totals 1,910 as against 1,904 the previous month. 1,203 UCIs have adopted the multiple compartment structure, which represents 6,963 compartments. When adding 707 UCIs with a traditional structure, a total of 7,670 compartments are active in the financial centre.



Annual report

The CSSF's Annual Report available in English

The full English version of the CSSF's Annual Report 2003 is available and can be downloaded from the CSSF's website under the section "Publications".

Press release

Publication of the document "International convergence of Capital Measurement and Capital Standards: A Revised Framework" of the Basel Committee

(press release of 28 June 2004)

On 26 June 2004, the Basel Committee published the document "International Convergence of Capital Measurement and Capital Standards: A Revised Framework", which represents the final version for the implementation of the new capital adequacy framework for banks, commonly called "Basel II" or "New Basel Accord".

This document, together with a press release of the Basel Committee, can be consulted on the CSSF website, www.cssf.lu, section "Publications" → "Adéquation des fonds propres".

The new capital adequacy framework is available for implementation in the member jurisdictions of the Basel Committee as of year-end 2006, except for the most advanced approaches (i.e. the Advanced Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk), which should benefit from an additional year of impact analysis and parallel capital calculation according to the Basel Committee; these approaches will be available only as of year-end 2007.

It has to be noted that at European Level, the proposed Directive relating to the new capital adequacy framework will soon be adopted by the European Commission. The new rules as regards capital adequacy will become applicable only once adopted by the European Parliament and Council. They will then be transposed into Luxembourg legislation.

Why is a new capital framework necessary?

The new framework is aimed at setting up more exhaustive and risk-sensitive approaches than those of the 1988 Accord, while maintaining the aggregate level of regulatory capital. Capital requirements more reflective of underlying risks will allow banks to manage their activities more efficiently. The advantages of more risk-sensitive capital framework are largely exceeding their costs, as they should allow to strengthen the safety, soundness and efficiency of the banking system. One of the fundamental objectives of the Basel Committee is to maintain the aggregate level of regulatory capital, without increasing nor decreasing it.

The 1988 Accord specified mainly only one capital adequacy measurement technique. However, the best means to measure, manage and limit risks varies from institution to institution. The new framework thus offers a set of options ranging from simple to sophisticated measurement systems for credit and operational risk, in order to define the levels of capital. It provides for a structure in which banks, within the scope of the supervisory review process, will adopt the best suited option to their management capacities and risk profile. It also expressly introduces incentives to further more stringent and accurate risk measurements.

The three "Basel II" pillars

The new framework rests on three pillars that reinforce each other; these three elements together represent a coherent framework that should contribute to the safety and stability of the financial system.

The first pillar introduces minimum capital requirements. The new framework maintains the definition of own funds and the minimum requirement of 8% for the ratio of capital to the assets weighted according to risk. The 1988 Accord has been updated in order to improve risk measurement, i.e. the calculation of the ratio denominator. Credit risk measurement techniques are now more elaborate.

Moreover, the new framework provides for the measurement of operational risk. However, the calculation techniques of market risks prescribed in the 1996 Market Risk Amendment have not been amended.

The second pillar, the supervisory review process, recognises the necessity for supervisory authorities to ensure that each credit institution has sound internal assessment procedures to determine its capital adequacy based on a thorough assessment of the risks it incurs. The new framework stresses the importance that the bank management develops an internal capital assessment process and sets capital targets that are commensurate with the bank's risk profile and control environment.

Market discipline, the third pillar of the new framework, will be strengthened through enhanced disclosure requirements for banks. Efficient financial communication is essential to ensure that market participants better understand the banks' risk profiles and their capital adequacy compared to their risks. The new framework provides for requirements and recommendations as regards financial disclosure in several areas, notably calculation mode of capital adequacy and risk assessment method.

Inquiries into Late Trading and Market Timing practices (press release of 15 June 2004)

Since its press release of 17 February 2004, the CSSF has continued its inquiries with the aim of getting an overall view of the possible propagation of Late Trading and Market Timing practices within Luxembourg collective investment schemes.

In November 2003, the CSSF launched a large-scale investigation encompassing 425 entities, mainly Luxembourg registrar and transfer agents, central administrations, distributors of units of investment funds, depository banks and asset management companies, requesting them to respond to some detailed questions relating to Late Trading and Market Timing.

The CSSF then launched a second investigation by selecting about a hundred compartments of funds investing their assets mainly in securities from the Asian or American markets.

In this regard, the CSSF has also required those Luxembourg entities belonging to a financial group mentioned in the international press for having perpetrated or letting perpetrate Late Trading or Market Timing operations, to take a position on the alleged facts and to make a statement on the possible impact of these operations on the Luxembourg collective investment schemes.

The CSSF then sought out those Luxembourg collective investment schemes which had delegated tasks to one of the managers accused of having promoted or practised Late Trading or Market Timing activities. It has asked these investment funds to comment on these accusations and to make a statement on the possible impact of the controversial practices on the Luxembourg collective investment schemes.

The CSSF has noticed that the vast majority of the entities questioned had for some time already been alerted of the inherent problems of Late Trading and Market Timing and had taken or were in the process of taking the necessary protective measures. In this sense, the investigation has allowed the CSSF to get a concrete idea of the procedures and controls already set up by the various service providers of Luxembourg collective investment schemes.

The investigations have revealed two cases where orders have been placed after the cut-off time set in the prospectus of the investment fund concerned.

Press release

In the first case, a technical malfunction generated during the installation of the facility to subscribe via Internet had resulted in the extension of the cut-off time for orders placed by electronic means. The entity concerned has submitted a detailed report to the CSSF in which it concludes that the investors, who had placed "late" orders did not take advantage of this situation and did not exploit any arbitrage opportunity, given the duration of the average holding of their units and the absence of correlation between the size of the orders given after the cut-off time and the scale of the market fluctuations.

In the second case, a prior agreement made with an investor was at the origin of an approximate two and half hour delay on the official cut-off time outlined in the prospectus in force. However, the investor did not benefit from this delay as he used to transmit his orders before the financial markets opened.

The CSSF notes that in the aforementioned two cases, corrective measures have been taken by the entities concerned, who confirm moreover that these transactions had no impact on the investment funds.

In addition, several entities questioned have informed the CSSF about their suspicions on possible Market Timing practices within some investment funds. The CSSF has requested explicit information.

Indeed, opportunities arise to the market timer, if the NAV is calculated on the basis of stale prices or if the investment fund has already started with the calculation of its NAV while it is still possible to place orders.

The CSSF considers that the practice of Market Timing cannot be allowed, insofar as it either diminishes the performance of the investment fund through an increase in fees, or brings about a dilution of the profit.

The CSSF's attention was drawn to about twenty investors who had started to adopt atypical investment behaviour by subscribing and redeeming in a relatively short period of time, without however being able to prove that they were actually market timers.

The documents provided showed that these investors have been unable to develop their activities in Luxembourg, while the investment fund has promptly terminated its relationship or imposed restrictions on them.

In all the cases cited, the impact of these short term transactions on the investment fund has been considered insignificant.

In addition, the CSSF has not detected any elements which could prove that the Luxembourg financial centre lends itself to suspicious dealings by people who, with the help of a professional of the financial centre, are in pursuit of a certain and fast profit at the expense of others.

The CSSF concludes that the investigations not only alerted potential market timers, but also showed that those responsible in the investment fund field are conscious of their professional duties and have done the necessary research. Where problems have occurred, solutions have been put in place.

The CSSF will continue to make sure that the protection and the equal treatment of investors is not disturbed by Late Trading or Market Timing practices and will carry out controls in this regard.

Finally, a circular concerning Late Trading and Market Timing is about to be finalised.

Regulation

Recent regulatory changes

Circular 04/146 concerning the protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices

The purpose of circular 04/146 is to protect undertakings for collective investment (UCIs) and their investors against Late Trading and Market Timing practices.

To that end, it defines both concepts and clarifies the protective measures to be adopted by UCIs and certain of their service providers. It also sets out certain general rules of conduct to be complied with by all the professionals subject to the supervision of the CSSF.

With a view to strengthen the protection of UCIs and of their investors, it expressly provides that any person who is guilty of knowingly undertaking or supporting Late Trading or Market Timing practices exposes himself to sanctions or to the obligation of repairing the damage caused to the UCI.

Finally, it extends the mission of the auditor of the UCI as regards the verification of the procedures and controls established by the UCI to protect the UCI against Late Trading and Market Timing practices.

CESR launches its first consultation on the investment services Directive

On 18 June 2004, CESR (The Committee of European Securities Regulators) published its first consultation paper on its advice to the European Commission regarding the possible technical measures to implement the proposed markets in financial instruments Directive.

The new Directive on markets in financial instruments is intended to deliver an effective "single passport" allowing investment firms and regulated markets to operate across Europe. The new Directive will broaden the range of investment services for which authorisation is required and expand the list of financial instruments that may be traded on regulated markets and between investment firms. It will also introduce rules on the provision of investment advice and conflicts of interest.

CESR requests comments and reactions to its proposal from market participants and, in particular, from retail investors by 17 September 2004.

CESR's draft advice is structured into three sections relating to the regulation of intermediaries, markets and co-operation and enforcement issues, notably as regards the content for transaction reports.

The EU Commission's provisional mandates request CESR to submit its advice on the appropriate measures to implement the Directive by 31 January 2005.

Responses to the consultation can be submitted online by 17 September 2004 through CESR's website (www.cesr-eu.org) under the section "Consultations".

Regulation

CESR consults on the implementation of the Regulation implementing the Prospectus Directive

On 24 June 2004, CESR launched a consultation paper (Ref. CESR/04-225) on possible recommendations for the consistent implementation of the European Commission's Regulation on Prospectus (Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards the information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements).

The Prospectus Directive and its accompanying Regulation establish a harmonised format for prospectus in Europe and enable companies to use this prospectus to list on all European markets without having to re-apply for approval from the local regulator and by doing so, it is intended to help companies avoid the inherent delays and cost that this may involve.

The purpose of the consultation is to seek comments on the recommendations that CESR proposes to issue on a number of items set out in the schedules and building blocks included in the annexes of the Regulation. These annexes set out how different types of prospectuses or offering documents should be structured and the type of information they should include.

Responses to the consultation are requested by 18 October 2004 and can be submitted directly to CESR through their new website (www.cesr-eu.org), under the section "Consultations". CESR also welcomes interested parties to attend an open hearing at their premises in Paris on 7 September 2004.

Database

The European Commission has created an electronic and regularly updated database containing information on the persons, groups and entities submitted to restrictive measures of the European Union. Since 11 June 2004, the consolidated list and other useful information can be consulted on the following website:

http://www.europa.eu.int/comm/external_relations/cfsp/sanctions/index.htm

Official lists

LIST OF BANKS

<u>Changes of address:</u>

Kaupthing Bunadarbanki, Reykjavik (Islande), Luxembourg Branch
12, rue Guillaume Schneider
L-2522 Luxembourg

Deutsche Postbank International S.A.
PB Finance Center
18-20, Parc d'Activités Syrdall
L-5365 Munsbach
(address: L-2633 Senningerberg)

Deutsche Postbank AG, Bonn (Allemagne), Luxembourg branch
PB Finance Center
18-20, Parc d'Activités Syrdall
L-5365 Munsbach
(address: L-2633 Senningerberg)

Joh. Berenberg, Gossler & Co – Berenberg Bank -, Hamburg (Germany), Luxembourg branch
23, rue Aldringen
L-1118 Luxembourg

LIST OF PROFESSIONALS OF THE FINANCIAL SECTOR (PFS)

<u>New establishments:</u>

GLOBAL FACILITIES S.A.
14, rue de Luxembourg
L-3360 Leudelange
authorised as **client communication agent**
Ministerial authorisation of 15 June 2004

LAB SERVICES PSF S.A.
Zone Industrielle
L-5366 Munsbach
authorised as **client communication agent**
Ministerial authorisation of 15 June 2004

<u>Change of address:</u>

KEYTRADE LUXEMBOURG S.A.
62, rue Charles Martel
L-2134 Luxembourg
authorised as **commission agent**

<u>Withdrawal:</u>

ERSEL ASSET MANAGEMENT S.A.
7-11, avenue Pasteur
L-2311 Luxembourg
was authorised as **financial adviser**
Withdrawal on 5 June 2004

LIST OF MANAGEMENT COMPANIES

Change of name:

LRI Fund Management Company S.A.
into
LRI Invest S.A.

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 May 2004**

Registrations

- AXA ACTIVE PROTECTION, 58, boulevard Grande-Duchesse Charlotte, L-1330 Luxembourg
- BERENBERG EURO STRATEGIE AKTIEN FONDS VI, 4, rue Thomas Edison, L-1445 Luxembourg-Strassen
- DEXIA DYNAMIX, 69, route d'Esch, L-1470 Luxembourg
- DIT-BUSINESS PORTFOLIO EURO, 6A, route de Trèves, L-2633 Senningerberg
- DIT-GARANTIEFONDS KLASSIK 95, 6A, route de Trèves, L-2633 Senningerberg
- DWS FLEXPENSION I, 2, boulevard Konrad Adenauer, L-1115 Luxembourg
- DWS OPTIRENT (MEDIUM), 2, boulevard Konrad Adenauer, L-1115 Luxembourg
- DWS OPTIRENT (SHORT), 2, boulevard Konrad Adenauer, L-1115 Luxembourg
- GENERALI HEDGE FUNDS SICAV, 291, route d'Arlon, L-1150 Luxembourg
- HAIG GELDMARKT-FONDS, 21, avenue de la Liberté, L-1931 Luxembourg
- SF (LUX) SICAV 1, 291, route d'Arlon, L-1150 Luxembourg
- THE MOVIE PORTFOLIO FUND, 13, rue Goethe, L-1637 Luxembourg
- UNIEURORENTA REAL ZINS, 308, route d'Esch, L-1471 Luxembourg
- VCH EXPERT, 21, avenue de la Liberté, L-1931 Luxembourg

Withdrawals

- CDC ALTERNATIVE, 39, allée Scheffer, L-2520 Luxembourg
- CONSULTING GROUP GLOBAL CAPITAL MARKETS FUNDS (LUXEMBOURG), 23, avenue de la Porte-Neuve, L-2227 Luxembourg
- DOUBLE FANTASY, 1B, Parc d'activité Syrdall, L-5365 Munsbach
- MDB FUND, 287, route d'Arlon, L-1150 Luxembourg
- PRUMERICA GUARANTEED FUNDS, 49, avenue J-F Kennedy, L-1855 Luxembourg
- SAISICAV, 17, rue de la Chapelle, L-1325 Luxembourg
- SPÄNGLER ALTERNATIVE INVESTMENTS, 4, rue Jean Monnet, L-2180 Luxembourg
- TARGET MULTI STYLE, 11, rue Aldringen, L-1118 Luxembourg

Financial centre

Main updated figures regarding the financial centre:

Number of banks: **167** (30 June 2004)

Balance sheet total: **EUR 682.080 billion** (31 May 2004)

Profit before provision: **EUR 1.038 billion** (31 March 2004)

Employment: **22,360 people** (31 March 2004)

Number of UCIs: **1,916** (13 July 2004)

Total net assets: **EUR 1,026.667 billion** (31 May 2004)

Number of pension funds: **11** (30 June 2004)

Number of management companies: **11** (30 June 2004)
(Chapter 13 of the Law of 20 December 2002)

Balance sheet total: **EUR 485.333 million** (31 March 2004)

Employment: **280 people** (31 March 2004)

Number of PFS: **159** (30 June 2004)

Balance sheet total: **EUR 31.889 billion** (31 May 2004)

Net profit: **EUR 212.79 million** (31 May 2004)

Employment: **4,776 people** (31 March 2004)

Total employment in the supervised establishments: **27,082 people** (31 Dec. 2003)

Total employment in the supervised establishments: **27,416 people** (31 March 2004)

CSSF Newsletter

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