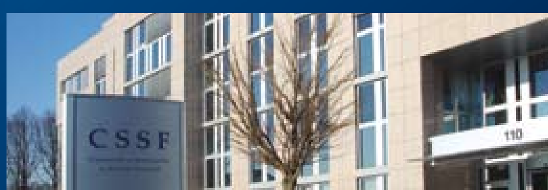
2008

Commission de Surveillance du Secteur Financier Annual Report 2008

Commission de Surveillance du Secteur Financier

COMMISSION de SURVEILLANCE du SECTEUR FINANCIER



ANNUAL REPORT 2008

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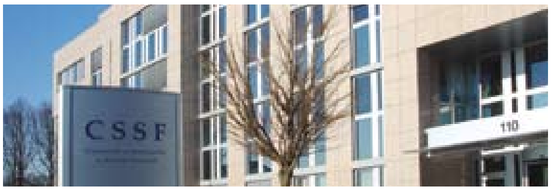

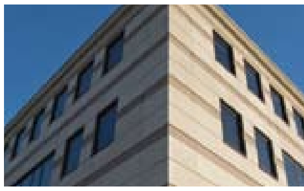

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Commission de Surveillance du Secteur Financier

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We live in times where everything moves at high speed and changes can be unpredictable and sudden. Whereas the 2007 results for the financial sector were entirely satisfying, the situation deteriorated considerably in 2008 following the turmoil in the financial markets.

In the preface to the Annual Report of 2006, I advised that one should not "indulge in naive over-confidence", given the exceptional results in the Luxembourg financial sector. Two years later, the crisis has rattled our financial sector which, given its international dimension, certainly suffered from the setbacks of other financial markets, but it was not shaken in its foundations. We therefore need to equip ourselves with patience and give ourselves the tools to prepare for the aftermath of the crisis.

In 2008, several banks in the financial centre were suddenly confronted with problems due to inappropriate decisions which had been taken by their parent company or provoked by the total collapse of the economy in their home country. As for investment funds, they suffered from the catastrophic situation reigning in the markets generally and several funds were victims, in particular, of a financial swindle of enormous dimensions originating from the United States.

The profound change in the world of finance suddenly crystallised the need to spell out in more detail the legal provisions required to ensure an optimal protection of the investor, even though the regulation will become more rigid and will loose the advantage of flexibility which, in the past, has been highly valued by financial professionals.

Generally speaking, a new consciousness of risk is now required. The basic principle, that perspectives of high earnings are intimately linked to high risk, has to be re-absorbed by all players and a shrewd understanding by bankers of risk is indispensable. It is also desirable that clients be better informed about the functioning of the financial sector so as to be able to improve their own judgment of whether certain financial products are really appropriate to their personal needs.

While remaining prudently optimistic about the future situation in Luxembourg, one should nevertheless not close one's eyes to what is going on in the world. The Luxembourg financial centre is in essence international and decisions on prudential supervision are intimately linked to decisions taken abroad.

In conclusion, I would like to stress that I believe in the future of the centre provided professionals do not repeat their errors from the past, often due to negligence in carrying out the necessary research, but rather continue to demonstrate the same capacity for innovation which they have been so successful at to date.

On a personal note, I observe that this is the last Annual Report of the CSSF which I have the honour to preface. I would therefore like to seize the opportunity to thank all the colleagues and members of staff I have encountered during my 40-year professional life and who contributed in making the Luxembourg financial centre one of the most important financial centres in the world.

Jean-Nicolas SCHAUS
Director General

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CORPORATE GOVERNING BODIES OF THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

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Vice-chairman	Gaston REINESCH *General administrator, Ministry of Finance*
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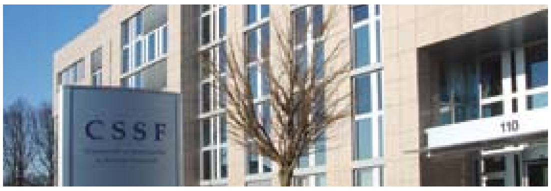
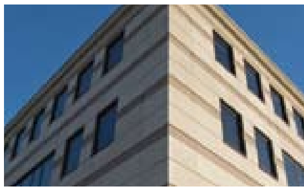
Director General	Jean-Nicolas SCHAUS
Directors	Arthur PHILIPPE, Simone DELCOURT





CHAPTER I

SUPERVISION OF THE BANKING SECTOR

1. Developments in the banking sector in 2008
2. Prudential supervisory practice

1. DEVELOPMENTS IN THE BANKING SECTOR IN 2008

1.1. Major events in 2008

1.1.1. A difficult year

The year 2008 will be remembered as *annus horribilis* in the financial sector. The collapse of Lehman Brothers on 15 September 2008 marks the end of the "ancient world" in international finance, whereas the outline of the "new world", which will rise from the ashes of the "ancient world", only appears slowly.

The completely unforeseeable and unexpected change of paradigm which followed the bankruptcy of Lehman Brothers swept deep-rooted certainties and entrenched ideas away. The sudden disappearance of the interbank market and the drops in the financial assets weakened many European banks. Almost all European states, or at least the ones which had the means, had to greatly support their banking systems.

In Luxembourg, the subsidiaries of the three Icelandic banks Kaupthing, Landsbanki and Glitnir were placed under the regime of suspension of payments following the failure of the parent companies.

The Luxembourg government had to participate in the stabilisation action for Dexia and Fortis groups, due to their systemic importance for the financial system.

1.1.2. Suspension of payments of Icelandic banks

Considering the crisis in the financial markets, the Icelandic parliament adopted a special law on 6 October 2008 conferring to the Icelandic supervisory authority special powers over the banks with difficulties, including among others the power to exercise the prerogatives of the general meeting of shareholders, to suspend the board of directors and to appoint a liquidation committee.

These powers were exercised on 7 October 2008 for Landsbanki Islands hf and Glitnir bank hf, and on 9 October 2008 for Kaupthing bank hf, thus placing these banks under the regime of suspension of payments.

Given that the liquidity reserves of the Luxembourg subsidiaries were kept at the respective parent companies, the failure of the latter generated the immediate shortage of liquidity of the Luxembourg subsidiaries as well as the suspension of payments.

- ***Landsbanki Luxembourg S.A.***

On 8 October 2008 Landsbanki Luxembourg S.A. applied for the suspension of payments following the freezing of liquid assets due to the failure of the parent company. The public limited company Deloitte S.A., represented by Mr Franz Prost, was appointed administrator with the main mission of setting up a recovery plan.

In his report of 25 November 2008, quoted in the judgment ordering the judicial winding-up, the administrator concluded that due to the parent company's reluctance to fulfil its commitment to convert the debt into capital and to the refusal of BCL to subordinate its claims, together with an increase in debt towards BCL due to the decrease in value and the technique of realisation of the pledge used by BCL, a recovery of the bank seems unconceivable and the current assets will not, in his opinion, satisfy the clients. Following this report, the State Prosecutor applied for an order for the dissolution and the winding-up of Landsbanki Luxembourg S.A., judgment which was declared on 12 December 2008. Me Yvette Hamilius, attorney-at-law, and Mr Franz Prost, accountant, external auditor and partner at Deloitte S.A., have been appointed liquidators.

- ***Glitnir Bank Luxembourg S.A.***

  On 8 October 2008 Glitnir Bank Luxembourg S.A. applied for the suspension of payments considering that the freezing of liquid assets due to the failure of the parent company did not allow the former to fulfil the margin call set by the Luxembourg Central Bank. The company KPMG Advisory S.à r.l., represented by Mr Eric Collard, was appointed administrator with the main mission of setting up a recovery plan.

  The recovery of the bank not being possible, the administrator suggested the creditors a plan which provides a voluntary winding-up after the immediate and full repayment of the depositors. This plan was accepted by the creditors on 16 March 2009.

- ***Kaupthing Bank Luxembourg S.A.***

  The media events in Iceland led to the beginning of massive withdrawals of deposits from Kaupthing Bank Luxembourg S.A.. At the same time, the parent company Kaupthing bank hf was placed under the regime of suspension of payments on 9 October 2008. The liquidity problems arisen from these events led Kaupthing Bank Luxembourg S.A. to apply for the suspension of payments on 9 October 2008. The company PricewaterhouseCoopers S.à r.l, represented by Mrs Emmanuelle Caruel-Henniaux and Me Franz Fayot were appointed administrators with the main mission of setting up a recovery plan.

  At the date of the drawing-up of this report, a final recovery plan has not yet been put in place so that the future of the bank is still uncertain.

- ***Intervention of the deposit guarantee scheme***

  At the time when the deposits of the three banks of Icelandic origin were unavailable, the AGDL deposit guarantee scheme ensured the repayment of the deposits up to EUR 20,000. The total amount to be distributed by the AGDL for the three banks is estimated approximately at EUR 320 million. The final loss for the AGDL cannot be determined until the end of the winding-up and of the measures provided for in the recovery plans. The guarantee scheme was able to cover the claims, considering that the banks set up provisions, which approximately amounted to EUR 800 million as at 31 December 2007, in order to cover such events.

1.2. Characteristics of the Luxembourg banking sector

The Luxembourg banking legislation provides for three types of banking licences, namely licences governing the activities of universal banks (147 institutions had this status on 31 December 2008), those governing the activities of banks issuing mortgage bonds (5 institutions had this status on 31 December 2008) and those governing the activities of banks issuing electronic means of payment (no institution had this status on 31 December 2008).

The banks fall under three categories according to their legal status and geographical origin:

- banks incorporated under Luxembourg law (111 on 31 December 2008);
- branches of banks originating from an EU Member State or assimilated (33 on 31 December 2008);
- branches of banks originating from non-EU Member States (8 on 31 December 2008).

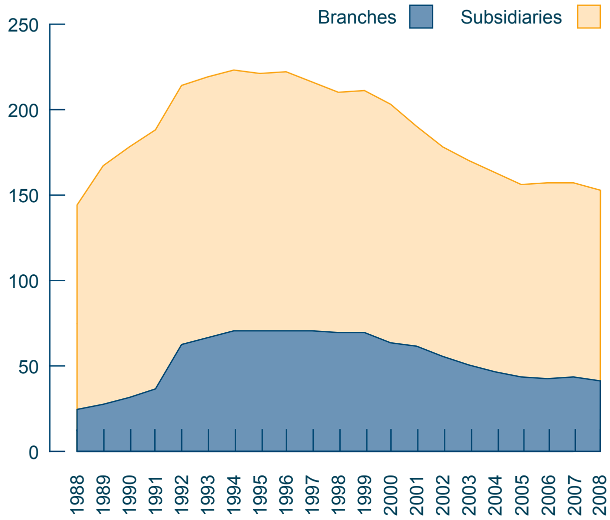
In addition, there is the special case of the unit formed by all *caisses rurales* (13 on 31 December 2008) and their central establishment, Banque Raiffeisen, which, according to the law on the financial sector, is to be considered as a single credit institution.

1.3. Development in the number of credit institutions

With 152 entities authorised at the end of the financial year 2008, the number of banks decreased by 4 entities as compared to 31 December 2007 (156). Among those 152 entities, 111 are banks incorporated under Luxembourg law (113 in 2007) and 41 are branches (43 in 2007).

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



Five banks were thus withdrawn from the official list during the year:

- Crédit Agricole Luxembourg Bank — Merger with Crédit Agricole Luxembourg on 26 April 2008
- Banca Antonveneta S.p.A., succursale de Luxembourg — Cessation of activities on 30 June 2008
- Capitalia Luxembourg S.A. — Merger with UniCredit International Bank (Luxembourg) S.A. on 1 July 2008
- Landsbanki Luxembourg S.A. — Dissolution and judicial winding-up ordered on 12 December 2008
- Banque CIC Est, succursale de Luxembourg — Cessation of activities on 31 December 2008

One bank started activities in 2008 :

- Banque Öhman S.A. — 23 September 2008

Following its authorisation as bank, received on 6 December 2007, Banque Öhman S.A. finally adopted this status on 23 September 2008. Banque Öhman S.A. belongs to the Swedish group E. Öhman J: or AB and results from the change of the professional of the financial sector (PFS) E. Öhman J: or Luxembourg S.A., authorised in Luxembourg since 9 March 2006, into a bank. The group intends to offer loans to its current and future clients in the scope of its private banking activity, and intends, at the same time, to supplement the range of the services offered by depositary bank services.

The following credit institutions changed their name in 2008:

Former corporate name	New corporate name (date of change)
Kredietbank S.A. Luxembourgeoise	KBL European Private Bankers S.A. (19.03.2008)
Banco Popolare di Verona e Novara (Luxembourg) S.A.	Banco Popolare Luxembourg S.A. (27.02.2008)
Banque du Gothard (Luxembourg) S.A.	BSI Luxembourg S.A. (01.07.2008)
Banque du Gothard S.A., succursale de Luxembourg	BSI Niederlassung Luxemburg (01.07.2008)
The Bank of New York Europe Limited, Luxembourg Branch	The Bank of New York Mellon (International) Ltd, Luxembourg Branch (01.07.2008)
PFPC Bank Limited, Luxembourg Branch	PNC International Bank Limited, Luxembourg Branch (09.07.2008)
LRI Landesbank Rheinland-Pfalz International S.A.	LBBW Luxemburg S.A. (01.09.2008)
EFG Private Bank (Luxembourg) S.A.	Eurobank EFG Private Bank Luxembourg S.A. (01.10.2008)
FORTIS BANQUE LUXEMBOURG	BGL (22.12.2008)

The breakdown of credit institutions according to their geographical origin has changed as follows (2007 figures between brackets). Banks of German origin remain the highest in number with 43 (43) entities, followed by Belgian and Luxembourg banks with 21 (21) entities.

Geographical origin of banks

Country	Number
Germany	43
Belgium / Luxembourg	21
France	14
Switzerland	12
Italy	11
Sweden	7
United Kingdom	6
United States	5
Japan	5
China	4
Netherlands	4
Brazil	3
Israel	3
Portugal	3
Denmark	2
Iceland	2
Others	7
Total	**152**

1.4. Development in the local branches network in Luxembourg

Following years of consolidation of the local branches network on the national territory, this trend stopped in 2008.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Local branches	240	231	226	225	214	207	200	253*	246*	234*	229*	229*
Banks concerned	11	11	10	9	9	8	8	9	9	9	9	9

* including the Caisses Rurales Raiffeisen affiliated to Banque Raiffeisen and the local branches of these Caisses Rurales.

1.5. Development in banking employment

The total number of employees of credit institutions of the financial centre as at 31 December 2008 reached 27,205, which represents an increase of 1,066 employees (+4.1%) over a year. Compared to the 5.6% increase in 2007 or 6.5% in 2006, a certain slowdown in the growth is recorded; however, it should be pointed out that the banking employment has increased for the fifth consecutive year.

The view is less optimistic when we examine the quarterly development of this key figure of the banking sector. Indeed, this view shows that the financial crisis, which sharply intensified during the fourth quarter, is perfectly reflected in the level of employment created in the banking sector. While employment increased by 374 units during the first quarter of 2008 and by 489 units in the second quarter, this rhythm substantially calmed down between July and September 2008 with an increase of only 267 units and at the end of the year a fall of 64 units was recorded.

Among the credit institutions registered on the official list as at 31 December 2008, 76.3% maintained, or even increased, their staff over a period of one year. This percentage was 75% in 2007, 74% in 2006 and 63% in 2005. During 2008, a total of 1,747 employments were created whereas 681 disappeared following the cessation of activities by banks (cf. point 1.3. above) or the direct or indirect impact (*via* the parent company) of the crisis. The banks that substantially increased their staff are mainly those active in the investment funds sector and those that are developing their presence in Luxembourg.

The breakdown of total employment shows that the share of executives within total employment continued to grow. It rose from 23.5% to 24.9% during 2008. The female employment rate remained almost unchanged with 45.7% (45.6% in 2007).

Breakdown of the number of employees per bank

	Number of banks					
Number of employees	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
> 1,000	4	4	4	5	5	5
500 to 1,000	4	2	6	7	9	8
400 to 500	4	6	4	3	2	4
300 to 400	6	8	7	8	10	11
200 to 300	11	8	7	10	9	8
100 to 200	19	19	20	18	18	16
50 to 100	21	21	18	18	21	20
< 50	100	94	89	87	82	80
Total	**169**	**162**	**155**	**156**	**156**	**152**

Situation of employment in credit institutions

	Total		Management			Office staff			Technical staff			Total staff		
	Luxemb.	Foreigners	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
1995	8,170	10,113	2,533	451	2,984	7,318	7,813	15,131	49	119	168	9,900	8,383	18,283
1996	8,113	10,469	2,658	490	3,148	7,476	7,809	15,285	48	101	149	10,182	8,400	18,582
1997	8,003	11,086	2,765	547	3,312	7,631	8,013	15,644	44	89	133	10,440	8,649	19,089
1998	7,829	12,005	2,900	577	3,477	7,846	8,377	16,223	47	87	134	10,793	9,041	19,834
1999	7,797	13,400	3,119	670	3,789	8,362	8,961	17,323	34	51	85	11,515	9,682	21,197
2000	7,836	15,232	3,371	783	4,154	9,030	9,801	18,831	35	48	83	12,436	10,632	23,068
2001	7,713	16,148	3,581	917	4,498	9,222	10,046	19,268	33	62	95	12,836	11,025	23,861
2002	7,402	15,898	3,654	977	4,631	8,941	9,657	18,598	25	46	71	12,620	10,680	23,300
2003	7,117	15,412	3,720	1,049	4,769	8,486	9,211	17,691	23	40	63	12,229	10,300	22,529
2004	7,001	15,553	3,801	1,111	4,912	8,451	9,138	17,589	19	34	53	12,271	10,283	22,554
2005	6,822	16,405	3,948	1,183	5,131	8,641	9,397	18,038	20	38	58	12,609	10,618	23,227
2006	6,840	17,912	4,280	1,294	5,574	9,153	9,974	19,127	19	32	51	13,452	11,300	24,752
2007	6,962	19,177	4,669	1,475	6,144	9,525	10,407	19,932	32	31	63	14,226	11,913	26,139
2008	6,898	20,307	5,101	1,672	6,773	9,658	10,729	20,387	15	30	45	14,774	12,431	27,205

1.6. Impact of the change in the accounting standards for banking statistics

The re-casting of the prudential reporting in 2008 introduced the COREP (capital ratio) and FINREP (financial reporting, balance sheet and profit and loss account) tables. The purpose of both reporting frameworks developed by the Committee of European Banking Supervisors (CEBS) is, among others, to lighten the administrative burden of banks by harmonising the reporting frameworks throughout the EU. While the introduction of COREP was required under the Basel II regime, FINREP, which is based on IFRS accounting standards, was introduced following a consultation of the industry, the majority of which was in favour of a reporting based on IFRS standards.

The implementation of FINREP and COREP reporting frameworks on 1 January 2008 led to a break in the banking statistics regarding the balance sheet, the profit and loss account and the solvency ratio. This break is greater than the reading of the tables presented below could suggest and for which the CSSF has maintained, as far as possible, the presentation of the previous years in order to be able to compare the figures in a basic manner.

The change of the accounting standards affects the statistical tables in form as well as in substance.

Regarding the form, the CSSF developed, *via* regular publications (Newsletter, website, annual report), a model for the publication of the balance sheet and the profit and loss account which maximally absorbs the consequences of the break in order to keep some historical and comparative overview of the statistics.

Regarding the substance, however, the break cannot be easily avoided. This break should, therefore, be taken into account during the interpretation of the development deriving from the presented aggregated figures. Since the comparability of the data is reduced, the explanatory texts below in this chapter, bring to the fore the various aspects which explain the developments shown by the gross figures.

1.6.1. FINREP

FINREP (Financial Reporting), the common European reporting applicable since 1 January 2008, differs from the prior reporting tables in substance as well as in form. It includes the balance sheet, the profit and loss account and some other tables which are less important in this context. Moreover, the CSSF receives additional information regarding the balance sheet and the profit and loss account.

The former reporting framework under Lux-Gaap was based on an accounting framework which was already harmonised at European level and which was of Continental European inspiration, with the following main characteristics:

- the Lux-Gaap accounting framework resulting from the common European accounting principles (cf. Directives 78/660/EEC, 83/349/EEC and 86/635/EEC);
- the presentation of the accounting situation focused on the "historical cost" decreased by possible losses in value;
- the principle of prudence (the latent capital losses shall be provisioned, the latent capital gains shall be ignored).

The FINREP accounting framework is based on international IAS/IFRS accounting standards which are characterised as follows:

- standards resulting from international works by the International Accounting Standards Board (IASB) with a view to harmonising the accounting standards (cf. Regulation (EC) No 1606/2002 of 19 July 2002);
- the dominance of substance over form (the IFRS accounts show an economic reality rather than a formal reality);
- the broader use of fair value; this valuation at market value results in the fact that latent gains and losses are both taken into account and directly influence either the profit and loss account or the balance sheet and/or accounting capital; the financial information is, thus, directed towards the needs of possible investors (shareholder's point of view);
- the goodwill is not amortised over a predefined period of time; only impairments are assessed in accounting.

All these elements contribute that IAS/IFRS standards be a framework which should enhance transparency of a company's real economic value for investors and shareholders.

1.6.2. COREP

The new solvency ratio is defined in Circular CSSF 06/273 transposing the relevant provisions of Directive 2006/48/EC (Capital Requirements Directive - CRD).

The main purpose of CRD is to introduce at European level the equivalent of the agreement on international convergence of capital measurement and capital standards adopted on 26 June 2004 by the Basel Committee on Banking Supervision (Basel II) and published in July 2004.

In order to allow the supervisory authorities an easy supervision of the compliance with the new capital adequacy regime applicable to credit institutions and investment firms, the new common European reporting COREP (Common Reporting), drawn up by CEBS, was introduced at the beginning of 2008.

• ***Definition of own funds under Basel II***

The constituents of own funds remain roughly the same as for the former solvency ratio, but prudential filters are added for the actual calculation of own funds. The purpose of these prudential filters is to ensure that the prudential own funds observe certain qualitative standards specific to their status, while they are based on accounting elements of own funds included in the balance sheet which, in turn, must observe qualitative and formal standards.

Thus, prudential own funds must observe:

- a certain prudent approach, with a stability/absence of volatility of own funds;
- a quality marked with continuity;
- the availability to absorb losses;
- the reliability of the valuation.

• ***Capital requirements under Basel II***

An important role is attributed to internal risk management systems of banks, which may be substituted under certain conditions for exclusively "standard" approaches.

More flexible than the former solvency ratio and developed in close co-operation with authorities represented in the Basel Committee and the industry, the new Basel II ratio presents three important new characteristics:

- the possibility to use internal models to determine capital requirements for credit risk instead of the standardised approach;
- the consideration of the operational risk;
- risk mitigation techniques which are more detailed under Basel II: these techniques are set up on a basis of much larger instruments and elements, but the eligibility and consideration criteria are far more binding (qualitative and legal standards to be observed) and the calculation and monitoring methods much more detailed, and therefore complex, than for the former ratio.

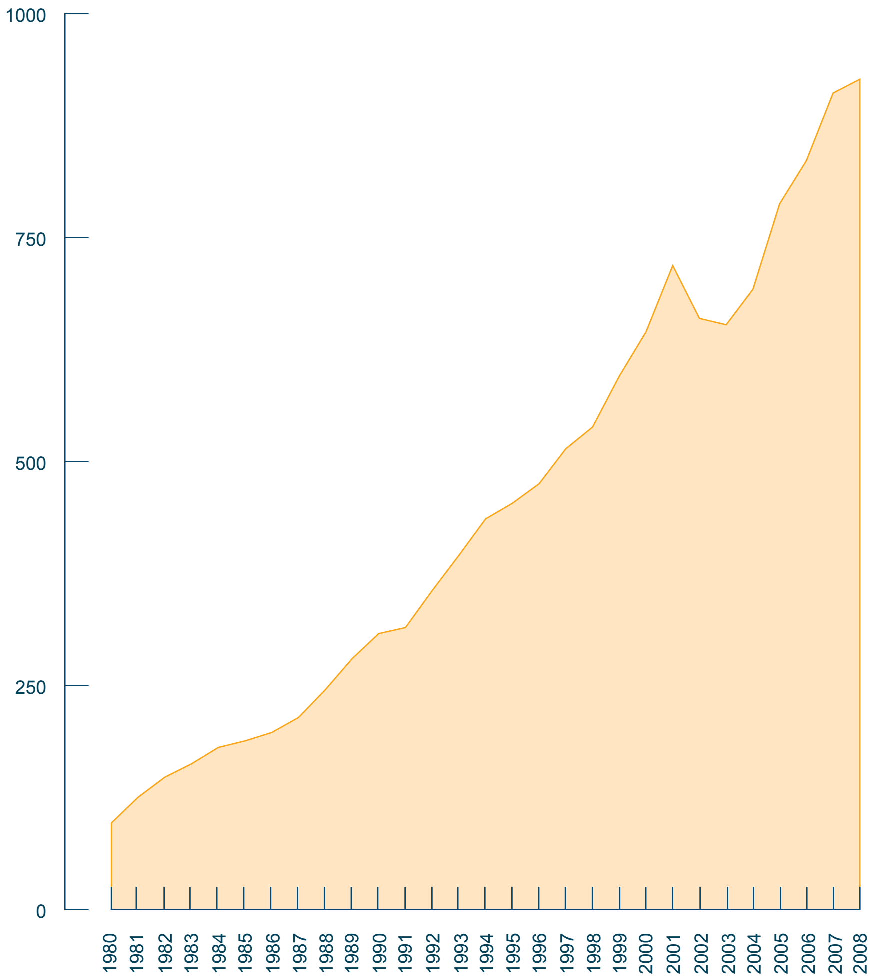
While the methods for the calculation of exposures and requirements were unique for the former ratio, the new ratio provides different methods which may be applied according to the needs and competences of each bank. The choice of the methods and, where applicable, the internal models used are validated and monitored by CSSF experts. It should be borne in mind that the chosen methods must be applied permanently.

1.7. Development in the balance sheets

The balance sheet total of credit institutions of the financial centre set at EUR 930,857 million at the end of 2008 against EUR 915,341 million at the end of 2007, which represents an increase of 1.7% over the year.

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	**930.86**



As at 31 December 2008, the aggregated balance sheet was drawn up in accordance with two guidelines:

- allow to compare as much as possible the figures of 2007 under Lux-Gaap with those of 2008 under FINREP based on the IAS/IFRS accounting framework;
- adjust as much as possible to a presentation line "counterparty type" although FINREP is directed to "portfolio type".

Aggregated balance sheet total – in million EUR

ASSETS	2007	2008(*)	Variation	LIABILITIES	2007	2008(*)	Variation
Loans and advances to central banks and central governments	26,116	58,729	124.9%	Amounts owed to central banks	38,662	46,865	21.2%
Loans and advances to credit institutions	445,783	427,179	-4.2%	Amounts owed to credit institutions	400,823	429,565	7.2%
Loans and advances to customers	187,525	191,608	2.2%	Amounts owed to customers	302,610	279,027	-7.8%
Financial assets held for trading	N/A	22,188		Amounts owed represented by securities	89,328	77,692	-13.0%
Fixed-income securities	207,797	194,693	-6.3%	Liabilities (other than deposits) held for trading	N/A	21,840	
Variable-yield securities	20,767	19,419	-6.5%	Provisions	10,806	6,231	-42.3%
Fixed assets and other assets	27,354	17,040	-37.7%	Subordinated debts	11,223	14,712	31.1%
				Other liabilities	22,367	15,914	-28.9%
				Equity	39,521	39,012	-1.3%
Total	**915,341**	**930,857**	**1.7%**	**Total**	**915,341**	**930,857**	**1.7%**

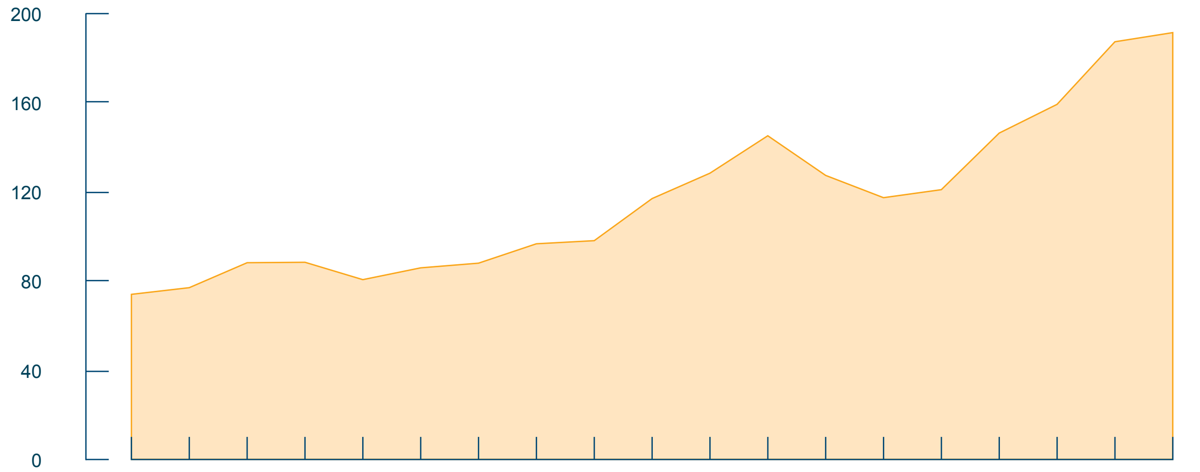
(*) Preliminary figures

- ***Assets***

Regarding assets, the growth of **loans and advances to central banks and central governments** shows that certain banks seek security when choosing their counterparty following the distrust which took hold of the financial markets in the fourth quarter of 2008. At the same time, the investments on the interbank market decreased by 4.2% (- EUR 18.6 billion).

The **loans and advances to customers** are strikingly stable and show even a slight increase of 2.2% (+ EUR 4 billion) as compared to the end of 2007.

Long-term development in loans and advances to customers – in billion EUR



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Loans and advances to customers	74.1	77.1	88.3	88.5	80.7	86.0	88.1	96.8	98.2	117.1	128.5	145.3	127.5	117.5	121.1	146.5	159.4	187.5	191.6

The 1.7% growth in the balance sheet total as compared to 2007, mainly results from the new item **"Financial assets held for trading"** including mainly all derivatives which were reported in the off-balance sheet under Lux-Gaap. These derivatives contributed, for a short time, to a record level of the balance sheet total when it exceeded EUR 1,000 billion at the end of October 2008.

The 6.3% decrease (- EUR 13.1 billion) of **fixed-income securities** can be explained by the fall in the stock markets which had a direct impact on the balance sheet positions, stated at fair value, under the new accounting rules. Furthermore, certain banks reduced, as far as possible, their securities portfolio in order to limit their leverage.

- ***Liabilities***

Regarding liabilities, the 21.2% increase of the **amounts owed to central banks** (+ EUR 8.2 billion as compared to 2007) proves that credit institutions greatly use this financing means.

The **amounts owed to credit institutions** show an increase of EUR 28.7 billion (+7.2%), which is exceptional in the context of liquidity crisis and reveals the quality perceived in the banks of the financial centre. The use of interbank financing did not engender a pressure on the interest-rate margin as the analysis of the results shows in point 1.8. below.

The new item **"Liabilities (other than deposits) held for trading"** includes mainly the derivatives undergoing a latent capital loss. In general, they are counterparty of reverse transactions which are included in item "Financial assets held for trading".

Under the effects of the new IAS/IFRS accounting standards which do not recognise anymore the AGDL provisions and the lump sum provision, the item **provisions** records a decrease of EUR 4.6 billion (-42.3%).

Structural balance sheet

ASSETS	2007	2008(*)	LIABILITIES	2007	2008(*)
Loans and advances to central banks and central governments	2.85%	6.31%	Amounts owed to central banks	4.22%	5.03%
Loans and advances to credit institutions	48.70%	45.89%	Amounts owed to credit institutions	43.79%	46.15%
Loans and advances to customers	20.49%	20.58%	Amounts owed to customers	33.06%	29.98%
Financial assets held for trading	N/A	2.38%	Amounts owed represented by securities	9.76%	8.35%
Fixed-income securities	22.70%	20.92%	Liabilities (other than deposits) held for trading	N/A	2.35%
Variable-yield securities	2.27%	2.09%	Provisions	1.18%	0.67%
Fixed assets and other assets	2.99%	1.83%	Subordinated debts	1.23%	1.58%
			Other liabilities	2.44%	1.71%
			Equity	4.32%	4.19%
Total	**100.00%**	**100.00%**	**Total**	**100.00%**	**100.00%**

(*) Preliminary figures

1.8. Development in the profit and loss account

Net profit of the Luxembourg banking sector in 2008 reached EUR 564 million, which represents an 88.1% fall compared to the previous year. This drop takes place in the context of the international economic and financial crisis together with a heavy depreciation of financial assets.

Three big trends impacted on the profit and loss account of Luxembourg credit institutions during 2008:

- the good liquidity situation of the financial centre in its entirety which is reflected by the strong growth of interest margin;
- the depreciation of certain financial assets resulting in a significant decline of the income from financial operations and a substantial increase in the creation of provisions;
- the difference in performance of the banks from the financial centre; in particular six institutions, particularly exposed to capital markets, totalled three quarters of the decline of the aggregated income over a year.

Development in the profit and loss account – in million EUR

	2007	Relative share	2008(*)	Relative share	Variation 2007/2008 in volume	Variation 2007/2008 in %
Interest-rate margin	6,002	55%	7,416	71%	1,414	23.6%
Net commissions received	4,010	37%	3,726	36%	-283	-7.1%
Other net income	964	9%	-728	-7%	-1,692	-175.5%
Banking income	**10,976**	**100%**	**10,414**	**100%**	**-562**	**-5.1%**
Costs	4,420	40%	4,564	44%	144	3.2%
of which: staff costs	*2,372*	*22%*	*2,471*	*24%*	*100*	*4.2%*
of which: general administrative expenses	*2,048*	*19%*	*2,092*	*20%*	*44*	*2.1%*
Result before depreciation	**6,556**	**60%**	**5,851**	**56%**	**-706**	**-10.8%**
Net depreciation	1,038	9%	4,997	48%	3,959	381.5%
Taxes	780	7%	289	3%	-490	-62.9%
of which: income	*N/A*		*-732*			
of which: expenses	*N/A*		*443*			
Net result for the financial year	**4,739**	**43%**	**564**	**5%**	**-4,175**	**-88.1%**

(*) Preliminary figures

The **interest-rate margin**, which amounted to EUR 7,416 million as at 31 December 2008, increased by 23.6% as compared to the previous year. This rise, similar to the one in 2007, proves the good liquidity situation of the whole Luxembourg banking sector. Throughout 2008, the liquidity surplus from the asset management, exercised in the financial centre, allowed Luxembourg banks to gather substantial liquidity premiums increased by the financial crisis.

Yet, this EUR 1,414 million increase of the interest-rate margin was not sufficient to offset the decrease in other items of operating income. The sluggish stock market depressed the income from the portfolio management and brokerage. Thus, the **commission income** declined by EUR 283 million year-on-year. The decline of the income is sharper for **other net incomes** which include value variations of trading-book securities and which fall by EUR 1,692 million as compared to 31 December 2007. This decrease shows the effects of the value decrease recorded in particular for financial assets in 2008.

Consequently, **banking income**, i.e. the whole operating income, decreases by 5.1% as compared to 31 December 2007. Given the 3.2% increase in costs, **profit before provisions** falls by EUR 706 million (-10.8%).

The **net impairment** increased by EUR 3,959 million year-on-year. This amount mainly represents the impairment for non-trading book assets, which became necessary because of the depreciation of financial instruments due to the economic and financial crisis. By adding the capital loss recorded in the trading book, the estimated amount of financial charge from the crisis, borne by the profit and loss accounts of Luxembourg credit institutions, is valued at approximately EUR 6 billion in 2008.

The 62.9% reduction in the **tax** charges is explained by the possibilities offered by IFRS standards to activate future tax charges by crediting the tax expenses account. Indeed, according to IFRS standards, an undertaking which reports a loss for a financial year may, during that financial year, take into its result the tax charges avoided for the financial years to come in the form of positive tax expenses.

By removing these positive tax expenses, mainly recorded by those six banks reporting important losses, a real tax charge of EUR 732.3 million remains and the decrease is then only 6.1%.

It should be borne in mind that the sharp decline of 88.1% in one year in the aggregated **net result** hides great differences in performance by the banks of the financial centre. For three quarters of the credit institutions, the profit and loss account shows a positive net result in 2008. Amongst the banks with losses, seven institutions, more exposed to the capital markets affected by the crisis, have a net result in decrease by more than EUR 3 billion in a year.

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

	2001	2002	2003	2004	2005	2006	2007	2008(*)
Interest-rate margin	4,383	4,141	4,080	3,913	3,905	4,830	6,002	7,416
Net commissions received	2,793	2,615	2,533	2,771	3,209	3,674	4,010	3,726
Other net income	672	1,258	942	734	1,140	2,296	964	-728
Banking income	**7,848**	**8,014**	**7,554**	**7,418**	**8,255**	**10,800**	**10,976**	**10,414**
Costs	-3,624	-3,490	-3,385	-3,461	-3,693	-3,981	-4,420	-4,564
of which: staff costs	*-1,759*	*-1,809*	*-1,752*	*-1,798*	*-1,945*	*-2,160*	*-2,372*	*-2,471*
of which: general administrative expenses	*-1,866*	*-1,681*	*-1,632*	*-1,663*	*-1,748*	*-1,821*	*-2,048*	*-2,092*
Result before depreciation	**4,224**	**4,524**	**4,170**	**3,957**	**4,562**	**6,819**	**6,556**	**5,851**
Net depreciation	-536	-1,166	-637	-344	-296	-305	-1,038	-4,997
Taxes	-826	-638	-658	-746	-768	-843	-780	-289
Net result for the financial year	**2,862**	**2,720**	**2,874**	**2,866**	**3,498**	**5,671**	**4,739**	**564**

(*) Preliminary figures

Structural ratios

	2007	2008(*)
Cost / income ratio	40.3%	43.8%
Profit before taxes / assets	0.6%	0.1%
Profit before taxes / risk-weighted assets	26.0%	4.3%
Profit before taxes / tier-1 capital	17.1%	2.9%
Interest-rate margin / banking income	54.7%	71.2%
Income excluding interest / banking income	45.3%	28.8%

(*) Preliminary figures

Development of certain indicators of the profit and loss account per employee

(in million EUR)	**2006**	**2007**	**2008(*)**
Banking income / employee	0.438	0.420	0.383
Staff costs / employee	0.087	0.091	0.091

(*) Preliminary figures

1.9. Off-balance sheet items and derivative financial instruments

The banks of the financial centre used derivative financial instruments for a nominal amount of EUR 830 billion in 2008 against EUR 1,027 billion in 2007. The use of derivative financial instruments thus decreased by 19% as compared to 2007. Following sustained increases of 6.5% in 2003, 14.4% in 2004, 14.1% in 2005 and 7.7% in 2006 and the almost stagnation in 2007 (+0.5%), derivative financial instruments only represented 89.2% of the balance sheet total in terms of volume in 2008. Compared to the previous years, this percentage clearly decreased (112.2% in 2007 and 121.6% in 2006).

The transactions related to interest rate remain the most used type of transaction representing 55% of the total nominal volume of the transactions in derivatives (60% in 2007). Their EUR 163 million decrease in volume is crucial for the total decline in volume of derivative financial instruments. Among the transactions related to interest rate, options and futures remain marginal and loose in relative importance. Interest rate swaps, which are considered to be classic derivatives, represent 97% of EUR 457 billion, the total amount of the transactions related to interest rate.

Transactions related to title deeds (in the form of options or futures) still represent only 5% of the total nominal volume of the transactions in derivatives (3% in 2007). Their slight increase in relative importance is rather attributable to the fact that the two other transaction categories are slightly decreasing.

The transactions related to exchange rates fell by 11% and amount to EUR 334 billion at the end of 2008 against EUR 374 billion in 2007. This drop is entirely attributable to forward foreign exchange transactions (-EUR 65 billion, i.e. -19%), the quota of which, nevertheless, remains the highest at 84% (92% in 2007). Options on exchange rates (EUR 20 billion) and cross-currency interest rate swaps (EUR 34 billion) rose slightly compared to the previous year and represent the remaining 16% of the total volume of the transactions related to exchange rates, whereas their part was much more marginal in 2007 with 7%.

Assets deposited by customers: off-balance sheet

(in billion EUR)	**2007**	**2008(*)**	**Variation**
Assets deposited by UCIs	1,993.7	1,503.5	-24.6%
Assets deposited by clearing or settlement institutions	490.9	470.5	-4.2%
Assets deposited by other professionals acting in the financial markets	6,084.7	6,375.3	4.8%
Other deposited assets	417.8	263.2	-37.0%

(*) Preliminary figures

Use of derivative financial instruments by credit institutions

Notional amounts *(in billion EUR)*	2007	2008(*)	Variation in volume	Variation in %	Structure 2007	Structure 2008
Transactions related to interest rate	**621**	**457**	**-163**	**-26%**	**60%**	**55%**
of which: options	*32*	*4*	*-28*	*-87%*	*5%*	*1%*
of which: interest rate swaps	*557*	*444*	*-114*	*-20%*	*90%*	*97%*
of which: future or forward rate agreements (FRA)	*4*	*5*	*1*	*18%*	*1%*	*1%*
of which: interest rate futures	*27*	*4*	*-22*	*-84%*	*4%*	*1%*
Transactions related to title deeds	**32**	**39**	**6**	**20%**	**3%**	**5%**
of which: futures	*20*	*20*	*0*	*1%*	*61%*	*51%*
of which: options	*13*	*19*	*6*	*48%*	*39%*	*49%*
Transactions related to exchange rates	**374**	**334**	**-40**	**-11%**	**36%**	**40%**
of which: forward foreign exchange transactions	*345*	*280*	*-65*	*-19%*	*92%*	*84%*
of which: cross-currency IRS	*20*	*34*	*15*	*73%*	*5%*	*10%*
of which: options	*9*	*20*	*11*	*117%*	*2%*	*6%*
Total	**1,027**	**830**	**-197**	**-19%**	**100%**	**100%**

(*) Preliminary figures

1.10. Development in own funds and in the solvency ratio

1.10.1. Number of banks required to meet a solvency ratio

As at 31 December 2008, the number of banks required to meet a non-consolidated solvency ratio stood at 112, including 111 banks incorporated under Luxembourg law and one branch of non-EU origin. 94 banks carry out limited trading activities, and are therefore authorised to calculate a simplified ratio. Actual trading activities remain confined to a limited number of banks. Among the 29 banks that also calculate a consolidated solvency ratio, twelve are required to calculate an integrated ratio.

Number of banks required to meet a solvency ratio	Integrated ratio		Simplified ratio		Total	
	2007	2008	2007	2008	2007	2008
Non-consolidated	11	18	103	94	114	112
Consolidated	10	12	21	17	31	29

1.10.2. Development in the solvency ratio

Since 1 January 2008, banks must observe the solvency ratio called Basel II and use the related harmonised reporting framework COREP. The main changes from the Basel I ratio are stated in point 1.6.2. above.

The figures below are based on consolidated figures for banks required to meet a consolidated solvency ratio. Data from 2007 were adapted in order to allow them to be compared to data from 2008 based on the new COREP reporting framework.

- ***Aggregated ratio***

Notwithstanding the fact that the framework to calculate the solvency ratio changed in 2008, the aggregated ratio at the end of 2008 is almost similar to the one in 2007, namely 14.7%, exceeding easily the minimum threshold of 8% required under the existing prudential regulations. This continuity is essentially due to the existence of a minimum threshold still to be applied in 2008 and 2009, which was introduced by the authors of Basel II in order not to experience a fast decrease in capital requirements. Without this minimum threshold, the ratio would reach 15.5% in 2008. Considering only core equity capital (Tier 1), the aggregated ratio for the financial centre fell from 12.1% at the end of 2007 to 11.9% at year-end 2008.

- ***Own funds***

For the components of Tier 1, representing still over 83% of the ratio's numerator with EUR 31,704.9 million (EUR 32,206.9 million in 2007), we note a 15.4% increase of the paid-up capital compared to 2007. Indeed, some banks increased their capital basis at year-end 2008 in order to better manage the effects of the financial crisis. The position "Silent participation" (*Stille Beteiligungen*) (and assimilated) falls by EUR 354.2 million (i.e. -20%), mainly due to the reimbursement of a matured "Stille Einlage".

In addition, the deductions to be applied on original own funds increased and amount to EUR 1,089.3 million in 2008, against only EUR 855.9 million in 2007. The new position "Other deductions from original own funds", including, among others, the deductions caused by the first adoption of IFRS standards, amount to EUR 479.3 million in 2008.

Tier 2 amounts to EUR 6,301.3 million in 2008, against EUR 6,690.6 million in 2007, following the impact of the 26.6% decrease of cumulative preference shares without fixed maturity and subordinated upper Tier 2 debt instruments, and having regard to applicable upper limits and deductions. Thus, Tier 2 represents 16.5% of the numerator of the solvency ratio in 2008, against 17.2% in 2007.

Tier 3, i.e. sub-additional own funds, remains very marginal even if the relative share in own funds increases to 0.7% in 2008.

- ***Capital requirements***

The overall capital requirements fall by 0.6% due to the effects of the decrease of the credit risk requirements, partially compensated by the increase of other requirements and by the introduction of the capital requirement against operational risk.

The requirement to cover credit risk remains the most important item of the requirements and totals EUR 18,027.1 million in 2008 against EUR 20,778.7 million in 2007, representing a decrease of 13%. It was, indeed, predictable that the new Basel II framework would cause a decrease of the capital requirements.

Capital requirements to cover interest rate risk, risks in relation to equities, risks in relation to commodities, capital requirements according to the internal model and capital requirements against settlement/delivery risk remain marginal.

Operational risk is covered under the new solvency ratio Basel II for the first time. It is defined as the risk of loss resulting from inadequate or failed processes, personnel and internal systems or external events. Capital requirements against operational risk amount to EUR 1,501.5 million.

"Other capital requirements" existed, in principle, already under the former ratio, but they were marginal. For the purpose of CSSF's Annual Report, the requirements were aggregated with other requirements under the item "Requirement to cover trading risk". If the other requirements as such remained marginal, the amount for 2008 includes nevertheless another element unique and exceptional in size, i.e. additional capital requirements under the threshold level. This requirement, to be calculated only for 2008 and 2009, is intended to avoid a sharp fall of capital requirements following the first applications of the new calculation method. Thus, the amount of EUR 1,574.7 million is a consequence of the effects of the decline in capital requirements against credit risks induced by the new methods explained above.

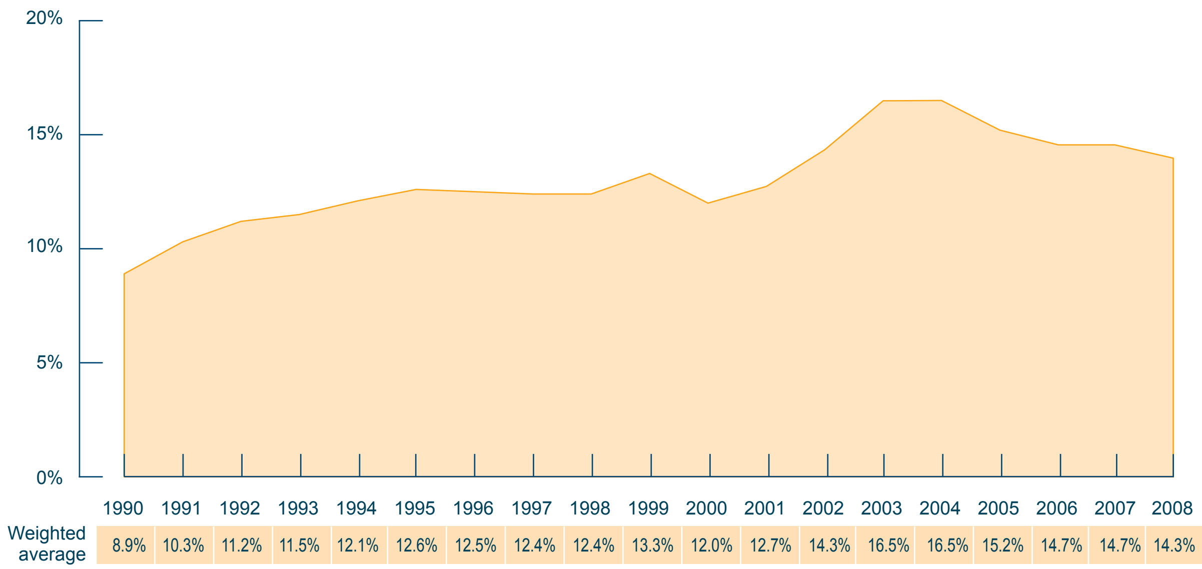
(in million EUR)

NUMERATOR	2007	2008
Original own funds	***33,994.6***	***34,808.9***
Paid-up capital	11,153.5	12,876.4
Silent participation ("Stille Beteiligungen")	1,771.4	1,417.2
Share premium account, reserves, profits and losses brought forward and from the current financial year, funds for general banking risks and minor interests	21,069.7	20,515.3
including prudential filters	*N/A*	*915.5*
Items to be deducted from original own funds	***-1,767.4***	***-3,104.0***
Own shares	-0.2	-1.3
Intangible assets	-931.7	-1,534.0
Deductions from original own funds	855.9	-1,089.3
Other deductions from original own funds	N/A	-479.3
ORIGINAL OWN FUNDS (Tier 1)	**32,206.9**	**31,704.9**
Additional own funds before capping	***7,514.2***	***7,686.9***
Upper Tier 2	4,120.8	3,845.6
of which part of own funds instruments exceeding the limits for the inclusion in the original own funds and integrated in Tier 2	*N/A*	*136.6*
of which prudential filters	*N/A*	*1,366.4*
of which cumulative preference shares without fixed maturity and Upper Tier 2 subordinated debt instruments	*3,023.8*	*2,220.1*
Lower Tier 2: Lower Tier 2 subordinated debt instruments and cumulative preference shares with fixed maturity	3,393.4	3,841.3
Additional own funds after capping	***7,460.2***	***7,280.8***
Deductions from additional own funds	769.5	979.4
ADDITIONAL OWN FUNDS after capping and after deductions (TIER 2)	**6,690.6**	**6,301.3**
Sub-additional own funds before capping	68.6	463.2
SUB-ADDITIONAL OWN FUNDS after capping (TIER 3)	**33.3**	**274.5**
OWN FUNDS BEFORE DEDUCTIONS (T1 + T2 + T3)	**38,930.9**	**38,280.7**
Deductions from the total of own funds	N/A	-123.2
ELIGIBLE OWN FUNDS	**38,930.9**	**38,157.5**

DENOMINATOR		
TOTAL CAPITAL ADEQUACY REQUIREMENT	**21,203.5**	**21,327.7**
Requirement to cover credit risk	20,778.7	18,027.1
Requirement to cover foreign exchange risk	101.1	75.8
Requirement to cover interest rate risk	303.6	106.5
Requirement to cover the risk in relation to equities	16.9	18.2
Requirement to cover the risk in relation to commodities	0.0	2.3
Requirement according to internal models	3.2	21.3
Requirement to cover settlement/delivery risk	0.0	0.3
Requirement to cover operational risk	N/A	1,501.5
Other capital adequacy requirements (amongst others exceeding large exposures, threshold, etc.)	0.0	1,574.7
RATIO		
Solvency ratio (base 8%)[1]	14.7%	14.3%
Solvency ratio (base 100%)[2]	183.6%	178.9%
Tier 1 Ratio (base 8%)[3]	12.1%	11.9%
Tier 1 Ratio (base 100%)[4]	151.9%	148.7%

The graph below plots the development of the solvency ratio (base 8%) since 1990. The weighted average is the ratio of total eligible own funds in the financial centre and total weighted risks. This average takes into account credit institutions according to their business volume.

Development in the solvency ratio (base 8%)



The introduction of the IAS/IFRS accounting standards did not have a negative impact on the volatility of own funds, thanks to the prudential filters. The aggregated ratio remains stable, at a comfortably high level, which also reflects the increasing concerns in optimal allocation of own funds under profitability constraints.

1 Eligible own funds/(Total capital adequacy requirement * 12.5)

2 Eligible own funds / Total capital adequacy requirement

3 (Original own funds - Items to be deducted from original own funds) / (Capital adequacy requirement * 12.5)

4 (Original own funds - Items to be deducted from original own funds) / Capital adequacy requirement

1.10.3. Development in the solvency ratio distribution (base 8%)

In non-aggregated terms, the high solvency ratio is due to a limited number of banks whose ratio is situated within the weak capitalisation bands, i.e. below 10%. For instance, as at 31 December 2008, the percentage of banks with a solvency ratio below this 10% threshold was only 14%. Conversely, 50% of credit institutions of the financial centre recorded a solvency ratio exceeding 15%. However, this figure decreased slightly compared to 31 December 2007, when it exceeded 51% or compared to the end of 2006, when it exceeded 57%.

Development in the solvency ratio (base 8%)

	2007		2008	
Ratio	**Number of banks**	**as % of total**	**Number of banks**	**as % of total**
<8%	0	0%	1	1%
8%-9%	6	5%	5	4%
9%-10%	13	11%	10	9%
10%-11%	6	5%	8	7%
11%-12%	8	7%	6	5%
12%-13%	5	4%	11	10%
13%-14%	11	10%	9	8%
14%-15%	6	5%	7	6%
15%-20%	20	18%	24	21%
>20%	39	34%	31	29%
Total	**114**	**100%**	**112**	**100%**

One bank whose solvency ratio was below the 8% limit at the closing of 2008, received a substantial capital increase at the beginning of 2009 so that the ratio exceeds again the minimum threshold imposed.

1.11. International expansion of Luxembourg banks

Number of branches established in the EU/EEA as at 31 December 2008

Country	Luxembourg branches established in the EU/EEA	Branches of EU/EEA banks established in Luxembourg
Austria	2	-
Belgium	6	-
Finland	-	1
France	1	4
Germany	3	16
Greece	1	-
Ireland	3	1
Italy	4	1
Netherlands	1	2
Portugal	2	2
Spain	5	-
Sweden	1	1
United Kingdom	3	4
Total	**33**	**32**[5]

[5] Including an EU financial institution according to Article 31 of the law of 5 April 1993 on the financial sector, as amended.

Freedom to provide services within the EU/EEA as at 31 December 2008

Country	Luxembourg banks providing services in the EU/EEA	EU/EEA banks providing services in Luxembourg
Austria	33	25
Belgium	55	22
Bulgaria	11	-
Cyprus	16	3
Czech Republic	16	-
Denmark	35	8
Estonia	15	1
Finland	32	9
France	59	68
Germany	59	46
Gibraltar	2	5
Greece	31	2
Hungary	16	6
Iceland	5	2
Ireland	31	31
Italy	45	8
Latvia	15	-
Liechtenstein	2	2
Lithuania	15	1
Malta	14	4
Netherlands	48	27
Norway	14	3
Poland	21	2
Portugal	32	8
Romania	13	-
Slovakia	16	1
Slovenia	16	-
Spain	48	5
Sweden	31	5
United Kingdom	46	92
Total number of notifications	**793**	**386**
Total number of banks concerned	**73**	**386**

1.12. Banks issuing mortgage bonds
(Banques d'émission de lettres de gages, Pfandbriefbanken)

Like the majority of the banks of the financial centre, banks issuing mortgage bonds were also affected by the financial and economic crisis. Apart from the fact that the assets of these banks suffered a certain market value reduction despite their quality, the general instability of the financial markets prevented the banks issuing mortgage bonds to launch important new issues, so that the banks contented themselves with the execution of more moderate issues or the sole management of their existing cover assets.

Despite the effects of the crisis, a new player, namely the Luxembourg branch of German origin, Dekabank Deutsche Girozentrale, Zweigniederlassung Luxemburg, intends to issue public mortgage bonds. A notification regarding the launch of this activity by the branch was sent to the Luxembourg and German supervisory authorities. The branch is subject to all the provisions of Articles 12-1 to 12-9 of the law of 5 April 1993, as amended; however, some softening regarding Article 12-8(5) is provided (cf. below). The legal framework providing the issue of mortgage bonds *via* a branch was established by the law of 24 October 2008 improving the legal framework of the Luxembourg financial centre (cf. below for a brief description of the amendments introduced). At the moment, the bank has not yet completed its first issue. It should be borne in mind that other banks also showed interest in issuing mortgage bonds *via* their Luxembourg branch.

Due to the market difficulties, the positive development of the balance sheet total and the volume of mortgage bonds issued was quite moderate. As at 31 December 2008, the balance sheet of the five banks issuing mortgage bonds totalled EUR 52.8 billion (against EUR 50.6 billion at the end of 2007). The total of public-sector mortgage bonds issued (and in circulation) by those five banks amounted to EUR 34.1 billion compared to EUR 32.6 billion at the end of 2007.

Issues of mortgage bonds are guaranteed by ordinary cover assets and by substitute cover assets. As at 31 December 2008, public sector mortgage bonds in circulation benefited from an over-collateralisation (nominal value) of EUR 7.9 billion. Over-collateralisation calculated according to the current value amounted to EUR 3.7 billion as at 31 December 2008.

The ordinary cover assets of public sector mortgage bonds, for the five issuing banks, break down as follows:

- claims on or guaranteed by public organisations: EUR 11.97 billion;
- bonds issued by public organisations: EUR 15 billion;
- public sector mortgage bonds of other issuers: EUR 7.9 billion;
- derivative transactions: EUR 4.6 billion.

Besides these ordinary cover assets, the banks used substitute cover assets to cover their public sector mortgage bonds amounting to EUR 2.5 billion as at 31 December 2008.

Erste Europäische Pfandbrief- und Kommunalkreditbank, Aktiengesellschaft in Luxembourg continued to be the only bank issuing mortgage bonds (*lettres de gage hypothécaires*). The cover assets of these mortgage bonds are exclusively made up of other mortgage bonds complying with the provisions of Article 43(4) of the law of 20 December 2002 on undertakings for collective investment, as amended. As at 31 December 2008, the total volume of mortgage bonds issued reached EUR 150 million; these bonds are guaranteed by cover assets worth EUR 163 million. Over-collateralisation (nominal value) represented EUR 13 million, while over-collateralisation according to the current value was EUR 12.8 million as at 31 December 2008.

Owing to the faultless quality of investments of specialised banks and the scale of over-collateralisation in relation to the mortgage bonds issued, public sector mortgage bonds continue to receive an AAA rating from rating agencies.

- ***Law of 24 October 2008 improving the legal framework of the Luxembourg financial centre***

As time went by, a certain number of issues of the legislation needed an adaptation. Thus, together with the players in the financial centre, the CSSF elaborated a bill modernising the provisions of the law of 5 April 1993 on the financial sector, as amended, relating to the banks issuing mortgage bonds. The new text was voted on 15 October 2008 and introduced the following amendments:

a) Introduction of new mortgage bond types

Until now, the provisions of the law of 5 April 1993, as amended, on banks issuing mortgage bonds, included only two mortgage bond types, i.e. public sector bonds and mortgage bonds. Given the development of foreign legislation in this field, the banks may, pursuant to the new text, finance assets such as aircrafts, ships, objects relating to railways, etc., and refinance them with moveable-property bonds, provided that one may exercise rights in rem in these assets or charges on these assets and enter them in a public register in a Member State of the European Union, the European Economic Area or the OECD and that these charges confer a right on the property that is capable of being asserted against third parties.

In order to provide the banks with flexibility regarding the choice of assets, the possible assets are not listed in an exhaustive and limitative manner in the text; however, Article 12-1 is completed by a paragraph which provides that a bank may finance these assets as long as it observes the conditions set out in the law.

The launch of this new category of moveable-property bonds is subject to prior approval by the CSSF. The definition, nature and practical proposals regarding each category will be set at that moment by the CSSF. Moreover, for the purpose of transparency and legal certainty, a new separate collateral is provided for each new category of moveable-property bonds.

b) Luxembourg mortgage bonds issued by a branch

The new law clarifies the case of Luxembourg mortgage bonds being issued by a Luxembourg branch of an EU credit institution. In that case, the powers of the CSSF set out in Article 12-8(5), indents 1, 3, 5 and 6 concerning the management of collateral in case of reorganisation or liquidation of the bank issuing mortgage bonds, are exercised by the liquidator appointed by the authorities of the home Member State. In principle, this liquidator shall comply with the specific provisions of Luxembourg law.

c) Inclusion of securitisation structures in the collateral

The banks are now authorised to include tranches of issues in the different collaterals which were realised in the context of securitisations composed of eligible assets for the collateral, provided that this collateral does not include more than 10% of non-eligible assets, since a proliferation of the securitisation structures was observed over the last years and in order not to put at a disadvantage the Luxembourg financial centre compared to the practices of other countries and to take into account the fact that securitisations often comprise eligible and non-eligible assets for the collateral. Moreover, in order to guarantee the quality of mortgage bonds, the securities issued by these vehicles must have at least AA- rating (Standard & Poor's) or AA3 (Moody's).

d) Withdrawal of the principle of direct access to mortgage guarantees

In order to promote the development of the mortgage bond market, the new law withdrew the principle of direct access to mortgage guarantees and allows the inclusion of mortgage debts for which charges on real property are held by another bank on behalf of the bank issuing Luxembourg mortgage bonds in the mortgage bonds' collateral. Thus, in their assets, the banks may include participations in syndicated lending as well as open and silent sub-participations in mortgage credits granted to other banks established in a Member State of the European Union, the European Economic Area or the OECD. The mortgage debts shall, nevertheless, fulfil the requirements concerning "rights in rem in immoveable property" and "charges on real property" as laid down in Article 12-1, indent 4 of the law of 5 April 1993, as amended.

e) Implementation of a 2% over-collateral rate

In order to increase the protection of bondholders in case of liquidation of a bank issuing mortgage bonds, the nominal and the current value of the collateral must, henceforth, permanently exceed the nominal value, respectively the current value of the mortgage bonds in circulation by 2%.

Besides these essential amendments, the new text also provides less important amendments, such as:

- the explicit precision to include securities guaranteed by public entities of the European Union, the European Economic Area or the OECD in the collateral;
- the inclusion of credits guaranteed by other commitments of the public sector as for example public private partnerships;
- the precision regarding the access to guarantees (for the collateral, a bank may only use public debts eligible at any time and for which there are no exceptions from the basic relation giving rise to this debt);
- the withdrawal of the specific limitation of 60 times the own funds so that the banks may issue mortgage bonds beyond this limit, and
- the increase up to 80% of the maximum rate of the estimated value of the realisation of residential real estate which may be included in the collateral.

2. PRUDENTIAL SUPERVISORY PRACTICE

2.1. The impact of the financial crisis on prudential supervision

Given the historic aspect of the financial crisis, the efficiency of the banking regulation must be questioned. Before answering this question, the origin of the current financial crisis in the European banking sector should be briefly presented.

Under the pressure of their shareholders who required a greater profitability, a certain number of European banks increased the volume of transactions by taking into their balance sheet risks, the quality of which turned out to be less high than initially estimated. Other banks followed expansion strategies which turned out to be catastrophic in a crisis situation.

2.1.1. A defaulting regulatory framework?

The regulation in force in Luxembourg mainly consists in the authentic transposition of European directives. Only the issue of liquidity is subject to national regulation.

It has to be noted that the extremely detailed European regulation on solvency and large exposure limits did not prevent the historic financial crisis. The banking sector does certainly not suffer from a lack of regulation but from an excess of rather inefficient regulation. The degree of detail and complexity of the existing regulation absorbs an important part of the supervisory capacities, without any improvement to the quality of the supervision.

Today, it is widely acknowledged that the solvency ratios Basel II and Basel I allowed an overly important leveraging. Furthermore, Basel II suffers from the fact that capital requirements may be calculated either by using internal models or by basing on external ratings. It is more and more accepted that the absolute leveraging of the banks should be limited by using simple tools like, for example, the ratio between original own funds and the balance sheet and off-balance sheet total.

Based on mathematical models, Basel II regulations provide the illusion that the regulation is an exact science capable of precisely defining the capital amount necessary to cover future losses. However, the regulation like the bank management is a matter of common sense rather than mathematics.

The IFRS accounting standards spread by the European Commission are not such as to increase the stability of the banking sector (which, as a matter of fact, was not the aim). IFRS standards are of Anglo-Saxon inspiration and their main purpose is to determine the value of an undertaking from the point of view of the investing shareholder. The European Union forced the listed undertakings to publish their consolidated accounts using IFRS with the Regulation (EC) No 1606/2002. The accounting standards based on the European Directive 86/635/EEC which was of Continental European inspiration and elaborated for the creditors' protection, cannot, therefore, be used any more by big banking groups.

The main deficiencies of IFRS standards are the prohibition to set up anti-cyclical provisions and the possibility to maintain the non value items in the assets of the balance sheet, like goodwill and differed taxes.

Finally, even though the harmonised European regulation was greatly incapable to avoid an unprecedented financial crisis, the option to impose regulation in Luxembourg which goes beyond the European rules would harm the competition of the financial centre and should therefore be excluded.

2.1.2. An inefficient supervision?

The CSSF must reflect on the question whether a different methodology of prudential supervision would have avoided or reduced the effects of the financial crisis. Before answering this question, the missions regarding prudential supervision entrusted to the CSSF by the legislator should be pointed out. According to Article 3 of the law of 23 December 1998 establishing a financial sector supervisory commission, as amended: "The CSSF shall [...] carry out prudential supervision of undertakings and persons coming under its authority in accordance with the laws and regulations governing such supervision".

Pursuant to Article 43 ("Purpose of supervision") of the law of 5 April 1993 on the financial sector, as amended: "The CSSF shall monitor the application of the laws and regulations relating to the financial sector by the persons subject to its supervision.".

It is generally admitted that the purpose of the prudential supervision is the protection of the public's savings. It is of course an obligation of due care and not an obligation to achieve a given result. Pursuant to the above-mentioned Article 43, the prudential supervision is exclusively exercised in the public interest. Thus, the prudential supervision is not exercised to guarantee the interest of individual professionals, their clients or third parties.

The mission, as it is set by the legislator, is likely not to live up to the public's expectations regarding the CSSF's mission and which aspires to the absence of any banking deficiency. Reducing this expectation gap would, however, entail a big change in the methodology of supervision which would then no longer be limited to the control of the compliance with the standards, but which would directly and severely intervene in the commercial decisions of the banks, or even question entire business models.

Given the experience of the financial crisis, it becomes more and more conspicuous that the regulator must, in some cases, intervene directly in the banks' commercial policies. Nevertheless, the problems generated by such a supervisory method should be borne in mind:

- The current legislation does not expressly provide the CSSF with such a right. The CSSF only has the right to request a capital surplus as compared to the minimum required when the process of prudential review brings a negative decision.
- In a market economy which is composed of private banks, the banks shall define their own risk profile and appetite. It will be extremely difficult to determine the appropriate timing of the regulator's intervention.
- It would be wrong to think that the CSSF agents are generally in a better position to express judgment on the commercial policies than the managers of the banks themselves.

- The direct intervention in the commercial policies includes the risk of bad assessment, either by omitting to intervene when it was needed or by intervening without justification.
- The intervention in commercial policies will comply with difficulty with the principle of equal treatment of banks before the regulation.
- A withdrawal of responsibility of the banks' management bodies should be avoided. The regulator cannot become manager of banks.

Finally, even if the public opinion might be disappointed, it should be noted that prudential supervision has limits and that it cannot prevent all banking deficiencies or avoid financial crises induced by the burst of speculative bubbles. The purpose of the banking prudential supervision is to reduce as much as possible the number of the banks' bankruptcies; they cannot be totally avoided.

In a market economy, the disappearance of inefficient banks must be possible, even through bankruptcy. But the negative effects on the public's savings must still be neutralised, as far as possible, which is only possible with an efficient deposit guarantee scheme.

A characteristic of the Luxembourg financial centre is that the banking players are generally part of a group in which they have a specific role. In agreement with the representatives of the industry and pursuant to the possibilities offered by EU legislation, the CSSF never exercised ring fencing around Luxembourg subsidiaries which means that problems which can arise in a group will inevitably affect the Luxembourg bank.

Nevertheless, the CSSF will, in principle, be reluctant to approve projects which include the reception of deposits from the public abroad, be it *via* subsidiaries or *via* internet, because of the risks such models create for the deposit guarantee scheme. Pursuant to the principle of legal certainty, the CSSF however cannot question the existing models based on such a concept.

2.2. Monitoring of quantitative standards

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

- evidence of minimum equity capital;
- a maximum ratio between own funds on the one hand and capital requirements on the other hand;
- limitation of the risk concentration to a single debtor or a group of associated debtors;
- liquidity ratio;
- limitation of qualifying holdings.

In 2008, the CSSF intervened once in writing regarding the non-compliance with the capital ratio. In this specific case and pursuant to the legal provisions in force, the credit institution informed the CSSF of a temporary non-compliance with the solvency ratio and of its will to restore the situation as soon as possible. The CSSF requested that the necessary measures be taken to sort out the situation.

Furthermore, the CSSF had to take measures three times regarding failure to meet the liquidity ratio. The CSSF stressed that the liquidity ratio shall be complied with at all times and that in case of non-compliance the banks concerned shall inform the CSSF. The CSSF may then authorise a temporary non-compliance with the ratio and grant a time limit to the bank in order to remedy the situation.

In each case where one of the two above-mentioned ratios was not met, the CSSF required the institution concerned to provide information on the measures taken to remedy the situation. The situations have been sorted out either immediately or within the allocated time frame where acceptable explanations could be given.

Within the scope of monitoring compliance with large exposure limits, the CSSF intervened 11 times in writing in 2008 (12 times in 2007), 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 intends to take to bring back the commitments within the regulatory limits.

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 external auditors;
- management letters and similar reports prepared by external auditors;
- on-site inspections undertaken by CSSF agents;
- reports prepared by internal auditors of the banks;
- compliance reports.

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 on the basis of reports, through the preparation of deficiency letters, to convening the bank's management or on-site inspections undertaken by CSSF agents. Where necessary, the CSSF may use its formal powers of injunction and suspension.

During 2008, the CSSF sent 77 deficiency letters to banks based on shortcomings in terms of organisation (87 in 2007).

2.4. Analytical reports

The analytical report prepared by the external auditor is one of the most important instruments to assess the Luxembourg credit institutions' quality of the organisation and exposure to different risks. The CSSF requires an analytical report on a yearly basis for every Luxembourg credit institution as well as for the Luxembourg branches of non-EU credit institutions. Furthermore, credit institutions supervised on a consolidated basis are required to submit a yearly consolidated analytical report and individual analytical reports of each subsidiary included in the consolidation and carrying out an activity of the financial sector.

In 2008, the CSSF analysed 139 individual analytical reports (133 in 2007), 33 consolidated analytical reports (30 in 2007) and 142 analytical reports of subsidiaries of Luxembourg banks (109 in 2007).

2.5. Co-operation with external auditors

Article 54 of the law on the financial sector governs the relationship between the CSSF and the external auditors. This article confers upon the CSSF the power to establish the rules relating to the scope of the audit mandate and the content of the audit report. The professionals supervised shall communicate all the reports issued by the external auditor within the course of the audit of the accounting documents to the CSSF.

Furthermore, the external auditors are required by law to inform the CSSF swiftly of any serious facts, defined more specifically under Article 54(3) of the above-mentioned law, which have come to their attention in the course of their duties.

The supervision of the CSSF is thus based to a large extent on the work of the external auditors and their reports. Since 2002, the CSSF holds annual meetings with the main audit firms in order to exchange opinions on specific issues encountered within the supervised institutions. Discussions also address the quality of the reports produced and the results of the inspections.

2.6. On-site inspections

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

Since 2004, inspections focus on the internal governance of credit institutions, i.e. the functioning of the banks' bodies, the position of the bank within the group, as well as the efficiency of the control functions such as internal audit. Indeed, the verification of the proper operation of internal governance and control functions has proved to present the best means used/results ratio for the CSSF teams.

During the year under review, 66 inspections were carried out, against 52 in 2007. Besides the inspections of control functions, greater emphasis was laid on the control of compliance with professional obligations regarding the fight against money laundering and terrorist financing. Moreover, the missions to validate the internal models within the scope of the implementation of the Basel II framework continue to absorb a very important part of the resources.

In addition, in 2008, CSSF agents carried out many on-site inspections on the liquidity situation of Luxembourg credit institutions in close co-operation with the representatives of the Central Bank. Indeed, in the context of the recent financial crisis, the purpose of these inspections was to take stock of the liquidity management practices within Luxembourg establishments. The existing practices will be placed in relation to the principles and recommendations concerning the management and supervision of the liquidity risk published by BIS and CEBS in 2008.

In addition to the actual on-site inspections, the CSSF also visits the newly established banks on their premises.

2.7. Combating money laundering

Article 15 of the law of 12 November 2004 concerning the fight against money laundering and financing of terrorism provides that the CSSF is the relevant authority to ensure compliance with professional obligations as regards the fight against money laundering and financing of terrorism by every person subject to its supervision. However, non-compliance with the professional obligations in full knowledge falls under the penal law and relevant proceedings thus fall within the competence of the State Prosecutor's office.

The CSSF uses the following instruments to supervise compliance with these rules: reports of external auditors and those prepared by internal auditors, as well as the inspections made by CSSF agents.

During the year under review, the CSSF sent 15 letters to banks in relation to shortcomings concerning money laundering. These letters, based on on-site inspections and/or external or internal audit reports, listed the shortcomings identified and enquired about the corrective measures envisaged. Among the most frequently observed shortcomings are:

- an incomplete documentation of customer files, especially during the opening of accounts;
- an incomplete documentation in the context of cash transactions, especially the absence of information on the origin of the funds;
- the absence of systematic staff training in the fight against money laundering and terrorist financing;
- deficiencies in classifying the customers according to their risk profile.

The yearly analytical report prepared by external auditors must specifically cover compliance with legal requirements and the adequate implementation of internal procedures concerning the prevention of money laundering.

The law of 12 November 2004 requires banks with branches or subsidiaries abroad to ensure that these entities comply with Luxembourg professional obligations, as far as these subsidiaries or branches are not subject to equivalent professional obligations provided for by the laws applicable at the place of their establishment. The CSSF verifies compliance with this requirement by means of analytical reports of external auditors to be prepared for each subsidiary carrying out an activity of the financial sector. Furthermore, the CSSF requires that the internal audit of the Luxembourg parent company periodically verify that subsidiaries and branches abroad comply with the group's anti-money laundering directives. The results of these inspections must be included in the summary report which has to be submitted to the CSSF on an annual basis.

2.8. Management letters

Management letters drawn up by external auditors for the attention of the banks' management are an important source of information as regards the quality of the credit institutions' organisation. In these reports, the external auditors point out weaknesses they observed in the internal control system in the course of their assignment. During 2008, the CSSF analysed 63 management letters and similar documents (68 in 2007).

2.9. Meetings

The CSSF regularly holds meetings with bank executives to discuss business and any problems. It also requires prompt notification by the banks if a serious problem arises. In 2008, 237 meetings were held between CSSF representatives and bank executives.

2.10. Specific controls

Article 54(2) of the law of 5 April 1993 on the financial sector, as amended, allows the CSSF to require an external auditor to conduct a specific audit in a given institution.

The CSSF made use of this power in spring 2008 by inviting three banks of Icelandic origin established in the financial centre to appoint their external auditor to execute an audit mission regarding their credit activity and to draw up a report allowing the CSSF to define and evaluate the risks taken by these banks in relation to this activity. After receiving these reports, the CSSF required certain recovery measures, all of which could not be implemented before the suspension of payments of the banks of Icelandic origin.

2.11. Internal audit and compliance reports

The CSSF takes into account the work of the internal audit when assessing the quality of the organisation and risk management by analysing the summary report which the internal auditor must prepare every year, as well as the report of the Compliance officer. In 2008, the CSSF analysed 117 summary reports (126 in 2007). It also requested 45 specific internal audit reports in order to obtain more detailed information on particular subjects (34 in 2007). The CSSF also analysed 113 compliance reports (125 in 2007).

2.12. Supervision of branches of EU banks

The supervision carried out by the CSSF of EU branches established in Luxembourg is limited to the areas in which the CSSF is responsible as host authority. Thus, Article 45(3) of the law of 5 April 1993 on the financial sector, as amended, appoints the CSSF to supervise the liquidity of these branches, in co-operation with the competent authority of the home Member State. In order that the CSSF exercises its duties in this matter, these branches must provide the same information as the Luxembourg credit institutions.

In addition, the branches of EU banks must mandate their external auditor to issue the following reports:

- a report on control of compliance with the legal professional obligations relating to the fight against money laundering and terrorist financing;
- a report on the compliance with the rules of conduct for the provision of investment services to clients, in accordance with the provisions of Circular CSSF 07/307 concerning conduct of business rules in the financial sector.

2.13. Supervision on a consolidated basis

As at 31 December 2008, 31 banks under Luxembourg law (34 at the end of 2007), two financial holding companies under Luxembourg law (*idem* in 2007), as well as one financial holding company incorporated under foreign law (*idem* in 2007) were supervised by the CSSF on a consolidated basis.

The conditions governing submission to a consolidated supervision, the scope, content and methods of supervision on a consolidated basis are laid down in Part III, Chapter 3 of the law of 5 April 1993 on the financial sector, as amended. The practical application of the rules governing supervision on a consolidated basis is explained in Circular IML 96/125.

As Circular IML 96/125 does not take into account the amendments of the legislation introduced by the law of 7 November 2007 (the "Basel II law") transposing Directive 2006/48/EC into national law, this circular is being recast. The major amendments are in relation to the following points:

- enhanced co-operation between prudential supervisory authorities with respect to consolidated supervision (Article 50-1 of the law on the financial sector);
- extension of the scope of consolidated supervision which now also includes capital adequacy for operational risk, the internal capital adequacy assessment process and internal governance (Article 51 of the law on the financial sector).

The CSSF pays particular attention to the "group head" function set up at the Luxembourg establishment falling under its consolidated supervision. Thus, the CSSF sees more specifically to the way the Luxembourg parent company communicates its policies and strategies to its subsidiaries as well as to the controls set up at the Luxembourg parent company in order to monitor the organisation and activities of the subsidiaries and their exposures.

The means the CSSF may use for 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.
- 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 to explain the consolidated risk profile of the group or sub-group subject to the consolidated supervision.
- The reports prepared by the external auditors are another source of information. Circular CSSF 01/27 on practical rules regarding the mission of the external auditor requires that a consolidated analytical report of a group subject to the consolidated supervision of the CSSF must be drawn up. The purpose of this consolidated report is to provide the CSSF with an overview of the group's situation and to inform on the risk management and structures of the group.
- The CSSF requires an individual analytical report for each major subsidiary.

- By virtue of Circular IML 98/143 on internal control, a summary report on the activities carried out by the internal audit department is to be communicated to the CSSF on an annual basis. The CSSF requires that the scope of intervention of the internal audit of the Luxembourg parent company be extended also to the subsidiaries in Luxembourg and abroad. This report must mention the controls carried out within the subsidiaries and the results thereof. The main observations made within the subsidiaries as regards the compliance function defined in Circular CSSF 04/155 shall also be mentioned therein.
- 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 systematically obtain, 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 means of regular meetings with the management of the Luxembourg credit institution or the financial holding company under consolidated supervision.
- The CSSF performs on-site inspections that cover, on the one hand, the manner in which the parent company sets up its policies and implements its strategies within the subsidiaries and, on the other hand, the follow-up applied to the subsidiaries. Until now, the CSSF has not carried out itself any on-site inspection at the premises of foreign subsidiaries of Luxembourg banks.

The CSSF also investigates indirect participations of banks subject to its consolidated supervision in accordance with the terms of Circular IML 96/125.

The law of 5 November 2006 on the supervision of financial conglomerates and amending the law of 5 April 1993 on the financial sector, as amended, requires the CSSF to verify that Luxembourg credit institutions whose parent undertaking is a credit institution or a financial holding company having its head office in a third country, are subject to a consolidated supervision by the competent authority of that third country that is equivalent to the consolidated supervision performed by the CSSF on credit institutions and financial holding companies. If there is no equivalent consolidated supervision by the third country, the CSSF must perform a consolidated supervision of this group or apply another method in order to achieve the objectives of consolidated supervision.

2.14. Supplementary supervision of financial conglomerates

The law of 5 November 2006 on the supervision of financial conglomerates introduces a supplementary supervision on financial conglomerates into Luxembourg law. A financial conglomerate is a group that includes at least one important regulated entity within the banking or investment services sector and one important entity within the insurance sector.

The law requires the CSSF to perform a supplementary supervision of the financial conglomerates for which it exercises the role of coordinator of the supervision, the coordinator being the authority responsible for the coordination and supplementary supervision of the financial conglomerate.

The CSSF's supplementary supervision of financial conglomerates does not affect at all the sectoral prudential supervision, both on the individual and consolidated level, by the relevant competent authorities.

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

2.15. International co-operation in matters of banking supervision

International co-operation, which has already been very comprehensive in the past, was further strengthened by Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions. There are three types of co-operation:

- the traditional bilateral co-operation as performed since the beginning of the 1980s;
- the strengthened multilateral co-operation with respect to certain groups; and
- the co-operation as set out in Article 129 of the above-mentioned Directive.

2.15.1. Traditional bilateral co-operation

Following the implementation of the second banking Directive, the CSSF concluded memoranda of understanding with the banking supervisory authorities of several Member States of the European Economic Area in the 1990s, with a view to specifying the terms of co-operation. These memoranda concern in particular the supervision of credit institutions involved in cross-border operations by way of the freedom to provide services or through the creation of branches.

Moreover, in accordance with the legal provisions in force, the CSSF co-operates and exchanges information on an informal basis with a number of other counterpart authorities.

In 2008, the CSSF held three bilateral meetings with banking supervisory authorities[6] in order to exchange prudential information on supervised institutions having a presence in both countries.

Besides the consultations required under the European Directives, the CSSF also informs the relevant authorities of all significant facts relating to supervision. In particular, it consults the relevant authorities regarding acquisitions of major holdings and restructurings of share ownerships.

2.15.2. Strengthened multilateral co-operation with respect to certain groups

The decentralised organisation of operational management units and centres of competence of certain banking groups called for an adaptation of the co-operation and prudential supervisory modes of the activities of these groups. In this context, the CSSF has signed specific co-operation agreements with:

- the Belgian and French authorities for the supervision of the DEXIA group;
- the German authority for the supervision of the Clearstream group;
- the Canadian and Belgian authorities for the supervision of the RBC Dexia group.

The key objective of such specific co-operation agreements is to ensure that all banking activities of these groups are adequately supervised. To this end, the authorities ensure in particular that the various sets of regulations are applied in a consistent manner in order to avoid any unbalanced treatment within the groups.

Co-operation between authorities is enacted on several levels:

- close consultation between the authorities in order to coordinate and align their prudential supervision;
- continuous and systematic exchange of information on any significant event likely to impact the group or its main constituent entities;
- regular consultation for the principal purpose of updating the list of points requiring the attention of the authorities within these groups, co-ordinating the drafting of control plans and, finally, examining the appropriateness of on-site inspections to be carried out by the competent authority in close co-operation with the other relevant authorities.

[6] Bundesanstalt für Finanzdienstleistungsaufsicht (Germany), Commission bancaire, financière et des assurances (Belgium), Autorité fédérale de la surveillance des marchés financiers (Switzerland).

Besides frequent exchanges of information between the persons directly responsible for the supervised entities and each authority concerned, the CSSF attended 15 meetings within the framework of this specific co-operation.

2.15.3. Co-operation in accordance with Article 129 of Directive 2006/48/EC

Co-operation between European competent authorities assumes a new dimension under Article 129 of Directive 2006/48/EC which requires intensive co-operation between the relevant competent authorities of cross-border banking groups and strives towards a more centralised supervision of these large cross-border groups at EU level.

Thus, the competent authority for the consolidated supervision of a European banking group shall henceforth plan and coordinate the prudential activities in co-operation with the other relevant competent authorities. In 2008, the CSSF participated in 14 meetings concerning each a large banking group and which were held within the context of strengthening the co-operation between European authorities for the purpose of consolidated supervision.

Similarly, for cross-border banking groups seeking to use advanced approaches for the calculation of capital requirements for credit risk or operational risk, European regulations require that the competent authorities co-operate closely to decide on authorising the use of these advanced approaches by the banking group. In the absence of a joint decision, the authority competent for the consolidated supervision of the banking group makes its own decision, which must be recognised by the other competent authorities as final and be applied by these authorities. In this context, the CSSF verifies the local use by the Luxembourg entity of the new risk management models and capital measurement models implemented by various banking groups and communicates its conclusions to the competent authorities in charge of the consolidated supervision.

2.16. Special points and decisions

2.16.1. Practical aspects relating to prudential filters

Since the prudential financial reporting (FINREP) is based on international financial reporting standards (IFRS), some prudential filters must be applied to accounting capital in order to establish the banks' regulatory capital used to calculate the capital ratio.

The prudential filters of portfolio revaluation reserves available for sale have been subject to discussions and decisions by the CSSF in 2008.

Thus, Circular CSSF 06/273 defining the capital ratios initially provided that unrealised losses and gains on debt securities categorised as available-for-sale assets (AFS) should be deducted in full from original own funds or may be included in additional own funds. Considering CEBS' (Committee of European Banking Supervisors) options for the assessment of unrealised results on available-for-sale debt securities, namely either to take into account these unrealised results during the calculation of regulatory capital, or to take no account of it, the CSSF decided to let the credit institutions choose between those two methods. Those can therefore, with the CSSF's approval, also opt for the method consisting in disregarding the revaluation results on this securities category for the calculation of prudential own funds. The chosen option shall be permanently applied. Circular CSSF 06/273 will be adapted accordingly in the next update.

2.16.2. Supervisory Review Process

a) Regulatory basis

Directive 2006/48/EC of 14 June 2006 is the European counterpart of Basel II, published in June 2004 by the Basel Committee on Banking Supervision. The Supervisory Review Process is the second Pillar of the regulatory framework, besides the Minimum Capital Requirements (Pillar I) and the Market Discipline (Pillar III). In Luxembourg, Directive 2006/48/EC has been transposed in national law by the law of 7 November 2007 and by Circular CSSF 06/273 of 22 December 2006.

Pillar II has been covered by two additional circulars specifying some provisions:

- Circular CSSF 07/301 on the implementation of the Internal Capital Adequacy Assessment Process (ICAAP);
- Circular CSSF 08/338 on the implementation of a stress test in order to assess the interest rate risk arising from non-trading book activities.

Finally, CEBS published detailed guidelines on the Supervisory Review Process (document CP03 of 25 January 2006).

Pillar II is defined as the supervision by the supervisory authority of the provisions, strategies, procedures and mechanisms implemented by the banks in order to comply with the banking regulation, and as the measurement by the supervisory authority of the risks the banks are or could be exposed to.

b) Practical implementation

The monitoring system in force already covered most of the Pillar II requirements, so that a material change was not necessary. This system had, however, to be structured differently and completed on certain points.

Pillar II comprises the following elements:

- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Governance;
- Supervisory Review and Evaluation Process (SREP);
- structured dialogue;
- prudential measures.

• ***Internal Capital Adequacy Assessment Process (ICAAP)***

The ICAAP requirements are detailed in Part XVII of Circular CSSF 06/273 and in Circular CSSF 07/301. ICAAP is an internal process allowing the banks to evaluate whether their capital is sufficient to cover all the risks to which they are or could be exposed. Due to its internal nature, no particular framework of this process was prescribed. ICAAP must be subject to a written annual report to be submitted to the administrative or supervisory bodies and to the CSSF. This report shall cover the following aspects:

- the risk profile;
- ICAAP's adequacy in relation to the bank's organisation and needs;
- the results of stress tests. The institutions shall identify the stress scenarios likely to affect their capital and simulate the effects of these scenarios. The banks using the internal models to calculate capital requirements must, moreover, carry out certain stress tests prescribed by Pillar I.
- Internal capital adequacy in relation to the risks.

- ***Internal Governance***

Directive 2006/48/EC lists a certain number of principles on good internal governance, the review of which is subject to a supervisory review process. CEBS' CP03 specified these principles in 21 points of internal governance (IG). The CSSF supervises these points partly on basis of the report of the external auditor and partly on basis of a supervisory plan of internal governance used by the CSSF agents during their inspections.

Most of the 21 points recommended by CEBS were already covered by existing assessment instruments. Until now, the following points were not yet imposed *expressis verbis* by the Luxembourg regulation:

- IG 4: The responsibilities of the bodies as well as the business objectives, risk strategies and risk profile should be defined in a document.
- IG 12: The management body should have policies for selecting, compensating, monitoring and planning the succession of key executives. The compensation policy shall not encourage rash risk taking.
- IG 19: The management body should put in place internal alert procedures (whistle blowing) for communicating internal governance concerns from the staff.

- ***Supervisory Review and Evaluation Process (SREP)***

Directive 2006/48/EC requires an annual prudential review of the credit institutions. Inspired by the document CP03 of CEBS, the CSSF developed an assessment methodology which takes into account a certain number of quantitative and qualitative criteria and which results in a scoring of banks.

The methodology differentiates essentially between the elements inherent in the "general situation" and the "risk profile" of the institution.

The following elements are taken into account for the assessment of the general situation of an institution:

- the quality of the shareholders, the potential capacity and will of the shareholders to support and the presence of a consolidated supervision;
- the quality of internal governance;
- the quality of the internal organisation; a particular emphasis is laid on recurrent shortcomings mentioned in the management letters and recorded during the inspections;
- the quality of the control functions (internal audit, compliance and risk management);
- the analysis of certain financial ratios which are used to assess the quality of the own funds (proportion of original own funds compared to borrowed capital), the gross leverage (assets and gross off-balance sheet elements compared to own funds) and the profitability.

All these elements allow setting a first scoring.

The following elements are used to set the risk profile:

- the determination of the activities exercised;
- the assessment of credit risk which takes into account the exposures in all form, of stress tests, of residual risks during the use of the risk mitigation techniques, of the securitisation risks and of the exposures on the markets which are not well-known or mastered;
- the interest rate risk, and more particularly the results of the stress tests covered by Circular CSSF 08/338 which simulates the effect of a 2% interest variation in the market on a bank's economic value;
- the other risks (liquidity, exchange, market, etc.).

All these elements allow setting a second scoring.

- ***Structured dialogue***

If the CSSF deems it necessary, it will enter into a structured dialogue during which both the results of SREP and the conclusions of ICAAP will be discussed. The scoring results will also be communicated to the banks, but cannot be made available to the public.

- ***Prudential measures***

In accordance with Article 53(2) of the law of 5 April 1993 on the financial sector, as amended, the CSSF may, in particular, require a surplus in own funds compared to the regulatory minimum if it assesses that the own funds detained do not ensure an adequate management and hedge of an institution's risks. Such a measure will be imposed individually and will be duly reasoned. It may particularly intervene in case of risk concentration in a specific area.

2.16.3. Essential rules of internal control regarding private banking

It is useful to remind, from time to time, of some essential rules of internal control regarding private banking. The private banking activity implies indeed non-negligible risks. The materialisation of these risks may even present a danger for the survival of a bank. The CSSF regularly acknowledges events which result in significant losses. The observation of some basic rules may substantially reduce these risks.

- ***A clear distinction should exist between the services of discretionary management, advice management and simple execution.***

If the practice of a business relationship with a client differs from the contractual basis, the bank will be in a difficult legal position in case of litigation. For example, a client opted for advisory management. As time went, the account manager has taken the habit to take decisions instead of the client, with the implicit approval of the latter. In case of litigation, the bank will not have evidence that the client ordered the past transactions on his account and the bank may be liable to compensate the client for the loss.

The service provided must, thus, always correspond to the one laid down in the agreement with the client.

- ***The set risk profile must be observed.***

If the bank offers several choices of risk profile regarding discretionary and advisory management, it must, of course, scrupulously observe them. Thus, a client who opted for a conservative risk profile cannot have a portfolio only constituted of shares. The bank must have a supervisory system to ensure the correlation between the profiles and the real management.

- ***The information to the client shall not be compromised.***

The bank shall be able to prove that the portfolio situation as it is presented in the books is regularly reported to the client who implicitly approves it if there is no complaint within a certain time limit.

This proof is sometimes difficult to produce for the clients having hold-mail. The procedure commonly applied to ensure regular information to the client consists in the transmission of the mail during the client's visit by a person independent of the manager. Clients with hold-mail who have not received their mail for a certain time must be subject to a close follow-up. The banks must also ensure that parallel communication channels (by fax, by e-mail, etc.) were not installed.

- ***The transmission of cash and physical securities must be supervised by a second person.***

  The cashier must be physically present during each withdrawal or paying-in. Similarly, each delivery and withdrawal of physical securities must be executed in the presence of a second employee of the bank.

- ***The clients' complaints must be taken seriously and dealt with by a neutral body.***

  Internal frauds or organisational malfunctioning may sometimes be the source for clients' complaints. This is the reason why these complaints must be taken seriously and a neutral body within the bank must critically investigate, i.e. not to be satisfied with superficial explanations from account managers.

- ***The input of the clients' identification data must be supervised.***

  Changes in the clients' identification data (name, mailing address, etc.) must be made according to the principle of the separation of tasks.

- ***Rules regarding holidays.***

  Each employee of the bank should take at least two consecutive weeks of holidays per year. During the holidays, it should be ensured that the replacement will indeed take on responsibility for the absent manager's clients. The manager shall, in principle, not access his working place during his holidays.

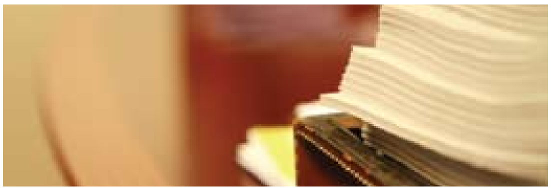
2.16.4. Segregation requirement between the clients' financial instruments and the bank's financial instruments with the sub-depositaries

The law of 13 July 2007 on markets in financial instruments (MiFID law) and Grand-ducal regulation of 13 July 2007 relating to organisational requirements and rules of conduct in the financial sector presented specifications for the protection of clients' financial instruments deposited in Luxembourg credit institutions and investment firms as well as in Luxembourg branches of credit institutions and investment firms having their registered office in a third country and sub-deposited with third parties.

Article 18(1) d) of the above-mentioned regulation requires the professionals concerned to take any necessary measures to ensure that all clients' financial instruments deposited with a third party may be identified separately from the financial instruments belonging to these credit institutions or investment firms.

In order to make the credit institutions aware of this requirement, the CSSF asked, in 2008, all Luxembourg credit institutions and branches of credit institutions having their registered office in a third country about the compliance with the segregation requirements between their financial instruments and those held on behalf of their clients with all their sub-depositaries. Moreover, they were invited to confirm that all the sub-depositaries were clearly informed which financial instruments belong to the professionals and which to their clients.

Furthermore, Article 37-1(7) of the law of 5 April 1993 on the financial sector, as amended, requires the depositaries of clients' financial instruments to take adequate measures to preserve the property rights of their clients, particularly in case of insolvency of the credit institution or investment firm. It results from this requirement that they have to deposit their clients' financial instruments with sub-depositaries which would have no hold on the clients' financial instruments sub-deposited with them, in case of insolvency of the credit institution or investment firm, whether pursuant to contractual or legal provisions.



CHAPTER II

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

1. DEVELOPMENTS IN THE UCI SECTOR IN 2008

1.1. Major events in 2008

1.1.1. UCIs and the financial crisis

- ***The 2008 crisis by stages***

The subprime crisis, which started in July 2007, continued to influence financial markets throughout 2008. Given many market players' persistent risk aversion, the usual price determination based on offer and demand no longer worked in many segments of the financial markets.

The unexpected bankruptcy of Lehman Brothers in September 2008 spread the crisis to the global financial system. The rise and volatility of risk premiums paralysed the international interbank markets towards the end of 2008. In this situation of tension in the global economy, the dynamic interdependence between credit risk and equity risk, in the expectancy of an economic downturn, made equity markets fall sharply at the end of the year. Finally, the fraudulent bankruptcy of the Madoff group in December 2008 again negatively influenced the different banking and UCI activities in Europe.

- ***CSSF prudential measures for UCIs investing in ABS securities***

Those UCIs investing in ABS and CDOs were the first segment of the Luxembourg UCI industry to be affected by the financial crisis. Given the lack of demand for a large number of ABS and CDOs in a climate of extreme risk aversion, there no longer was a market for this type of securities. The lack of availability of representative market rates resulted first in a liquidity problem for this type of UCI and secondly in a valuation problem for ABS holdings in UCI portfolios.

The subprime crisis already showed in 2007 that ABS and CDO products and structures often lack transparency and that such securities can consequently be subject to "information inefficiencies" in the financial market. The CSSF imposed requirements on those UCIs investing a certain percentage in ABS and CDOs by tightening the rules in terms of transparency in the prospectus and adequacy in risk management techniques.

The CSSF analysed all the options proposed by the UCI promoters for those UCIs investing in ABS which were affected by the crisis. Two types of proposed measures were to be seen:

- measures aiming to keep the UCI open;
- suspensive measures, liquidation or changes in structure.

The measures aiming to keep the UCI open included in particular the acceptance of below par rating on the sale price of ABS and CDOs, the injection of funds by the promoter to account for the difference between the valuation price and the sale price of ABS securities, the sale of ABS securities intra-group at fair value, the financing of UCI redemptions through subscriptions by the promoter, the financing of redemptions through temporary loans, the application of mark-to-model for the valuation of illiquid securities as well as the change in frequency of NAV calculation in order to allow the fund managers more time to liquidate the holdings.

Where problems with the liquidity of the portfolio and the redemption requests no longer allowed for the equal treatment of investors or the regular functioning of the UCI, promoters implemented suspensive measures, liquidation or measures envisaging a change in structure. Among these measures was the suspension of redemptions and of the UCI's NAV calculation or the liquidation of the UCI.

At the end of 2008, six UCIs investing in ABS securities had still suspended their NAV calculation and redemptions. The CSSF watched the following aspects relating to the affected UCIs: portfolio liquidity, development of the portfolio's credit risk, decisions by the board of directors and all action geared towards investors.

- ***Unexpected bankruptcy of Lehman Brothers in September 2008***

After the declaration of bankruptcy of Lehman Brothers in September 2008, the CSSF first analysed the impact of the direct effects of this bankruptcy on the Luxembourg UCI sector. The collection of data on the exposure by Luxembourg UCIs to Lehman Brothers covered exposure to Lehman Brothers securities, exposure to derivative instruments, exposure to Securities Lending and Repurchase Agreements, exposure to Lehman Brothers counterparty risk as well as exposure to operational risk.

The analysis showed that the Luxembourg UCI industry was affected only very marginally by this bankruptcy.

- ***Prudential measures set in place to control the effects of the crisis on Money Market Funds***

The Lehman Brothers bankruptcy sharply increased uncertainty by market players relating to the quality of their counterparties. As a direct consequence, the subsequent increase in volatility of spreads led to a drying up of international money markets. Interbank money markets became illiquid towards the end of 2008 which in turn caused liquidity problems for a number of Luxembourg money market funds *vis-à-vis* their investors.

In this context the CSSF set up a daily monitoring programme for money market UCIs in order to supervise the development of their liquidity situation. Pursuant to Article 50(2) of the law of 20 December 2002 on undertakings for collective investment as amended, certain money market funds had to temporarily take out short-term loans to finance their redemptions.

- ***Prudential measures set in place to control the effects of the crisis on hedge funds***

Towards the end of 2008, the financial crisis touched most segments of the financial markets globally and equally affected hedge funds and funds of hedge funds.

In order to assess the global impact of the financial crisis on hedge funds and funds of hedge funds in Luxembourg, the CSSF sent a questionnaire to UCIs with a hedge funds and funds of hedge funds investment policy. This questionnaire dealt mainly with the leverage, portfolio liquidity, problems of pricing, developments of net redemptions, developments of the NAV, decisions by the board of directors and information for investors.

As regards measures implemented by promoters and actors in this sector, it can be said that at the end of 2008, 11 funds of hedge funds units had suspended their NAV calculation and redemption activities. Several funds of hedge funds set up side pockets. Finally, several funds of hedge funds were liquidated.

- ***Fraudulent Madoff bankruptcy in December 2008***

On 12 December 2008, the Madoff case touched upon the Luxembourg UCI industry. The impact on Luxembourg UCIs directly and indirectly exposed to the Madoff case amounted to ca. EUR 1.9 billion, i.e. 0.15% of global net assets of UCIs in the month of November 2008. At the end of 2008, the CSSF started its investigations to assess potential infringements of legal or contractual provisions.

1.1.2. The UCITS IV Directive

On 3 December 2008, the EU Council (ECOFIN) agreed to a vast review of the Community framework regulating investment funds. The main proposed amendments of the UCITS Directive are as follows:

- the simplified prospectus will be replaced with the concept of "key information for investors", the Key Information Document (KID): this is a simple document providing investors with essential information in a clear and understandable language to assist them in taking investment decisions in full knowledge of the facts;
- mergers between UCITS funds will be made easier: the conditions to be fulfilled for the merger between funds to be authorised and the information to be submitted to investors shall be subject to a single regulation throughout the European Union;
- the creation of "master-feeder" structures allowing a (feeder) fund to invest all of its assets in another (master) fund will be possible;
- the introduction of a European passport for UCITS management companies will allow the management of a fund approved in one Member State by a management company incorporated in another Member State;
- the notification system for UCITS will be changed so that their distribution can commence without delay as soon as the fund's regulator has notified the regulator in the EU Member State in which distribution is planned.

Following the vote by the European Parliament on 13 January 2009, the Council still has to formally approve the Directive before it can be adopted. Member States shall then transpose the Directive into national law by 1 July 2011.

1.2. Developments in the UCI sector

The number of UCIs registered on the official list is of 3,371 UCIs as at 31 December 2008 against 2,868 UCIs at the end of the previous year, representing an increase of 503 entities (+17.5%). The number of newly registered UCIs is 712. The number of withdrawals reaches 209 entities.

Over the last ten years, the number of UCIs has grown by 1,850 entities to reach 3,371 entities in 2008, which corresponds to an average growth of 12.2% per year. Although less pronounced than in 2007, the increase observed during 2008 remains vastly superior to the average.

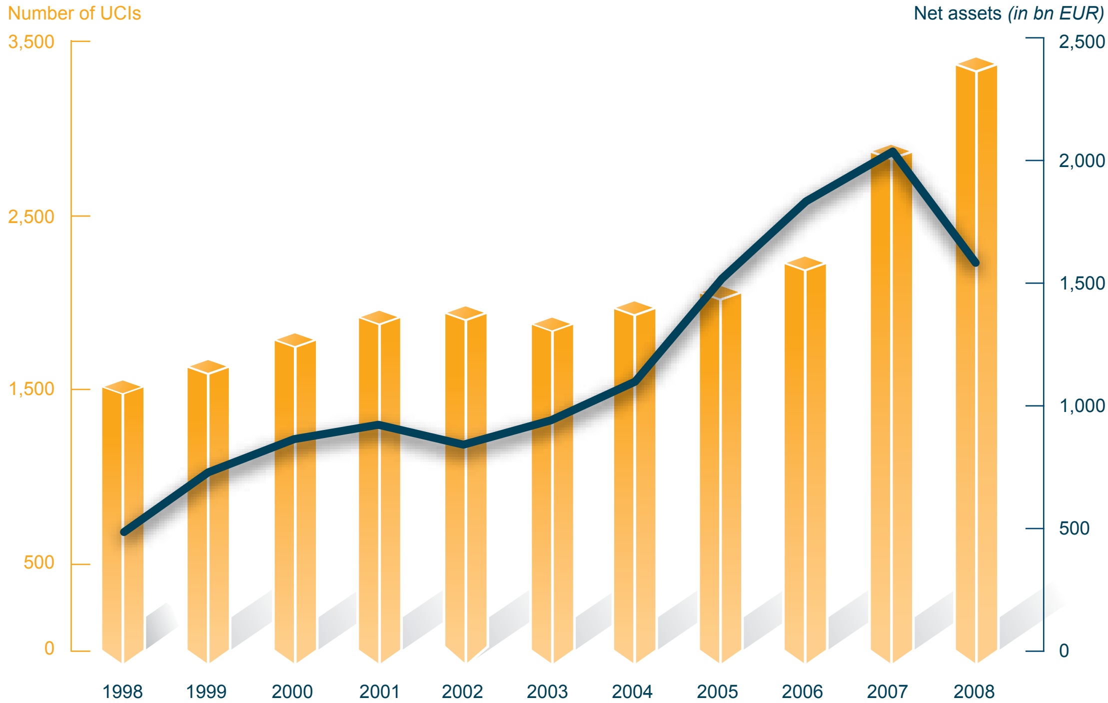
Development in the number and net assets of UCIs

	Number of UCIs	Registration on the official list	With-drawals from the list	Net variation	in %	Net assets *(in bn EUR)*	Net issues *(in bn EUR)*	Net asset variation *(in bn EUR)*	in %	Average net assets per UCI *(in bn EUR)*
1998	1,521	234	139	95	6.7%	486.8	84.1	95.0	24.3%	0.320
1999	1,630	265	156	109	7.2%	734.5	140.1	247.7	50.9%	0.451
2000	1,785	278	123	155	9.5%	874.6	168.1	140.1	19.1%	0.490
2001	1,908	299	176	123	6.9%	928.4	121.7	53.8	6.2%	0.487
2002	1,941	222	189	33	1.7%	844.5	57.3	-83.9	-9.0%	0.435
2003	1,870	175	246	-71	-3.7%	953.3	82.6	108.8	12.9%	0.510
2004	1,968	202	104	98	5.2%	1,106.2	113.7	152.9	16.0%	0.562
2005	2,060	266	174	92	4.7%	1,525.2	236.3	419.0	37.9%	0.740
2006	2,238	345	167	178	8.6%	1,844.8	241.3	319.6	21.0%	0.824
2007	2,868	824	194	630	28.2%	2,059.4	188.5	214.6	11.6%	0.718
2008	3,371	712	209	503	17.5%	1,559.7	-77.2	-499.7	-24.3%	0.463

The current turmoil on the financial markets and the important redemptions in certain classes of assets led to the total net assets of Luxembourg UCIs to reduce by EUR 499.7 billion in one year to reach EUR 1,559.7 billion as at 31 December 2008. This decrease of 24.3% is made up of 15.4% net redemptions and 84.6% losses in the financial markets. Net capital redemptions in Luxembourg UCIs amounted to EUR -77.2 billion in 2008.

Net assets have increased over the past ten years by EUR 1,072.9 billion, representing an average growth of EUR 107.3 billion per year. The increase was most important during 2005 and 2006 with an increase of +EUR 419 billion in 2005 (of which EUR 236.3 billion of net issues) and +EUR 319.6 billion in 2006 (of which EUR 241.3 billion of net issues).

Development in the number and net assets of UCIs



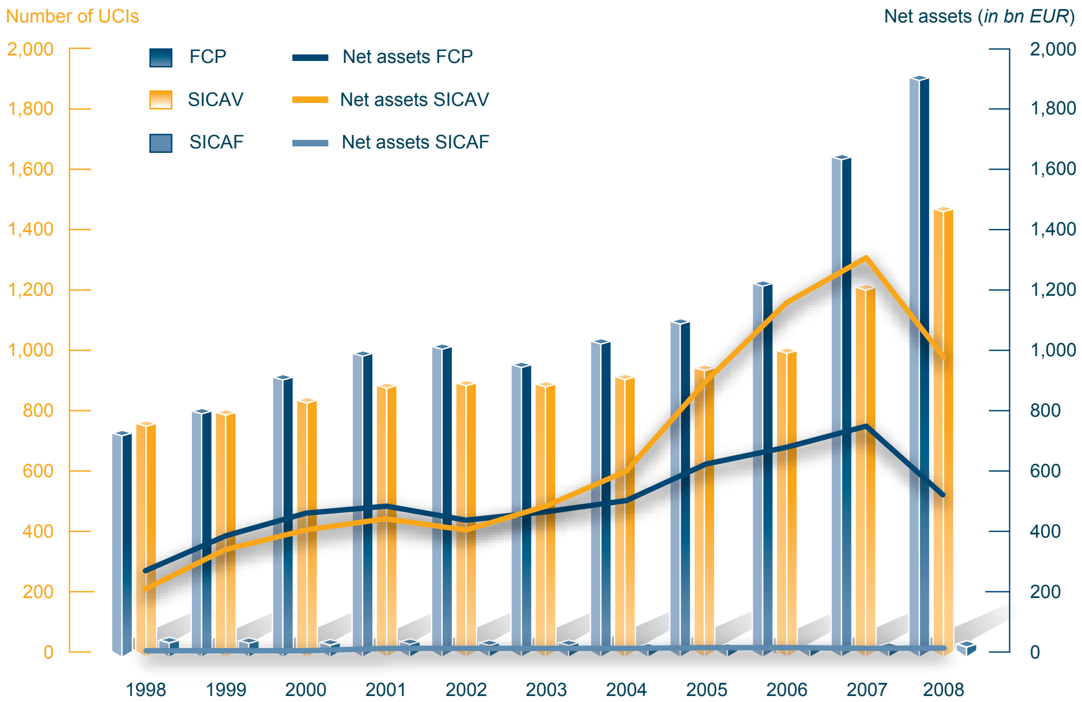
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
UCI	1,521	1,630	1,785	1,908	1,941	1,870	1,968	2,060	2,238	2,868	3,371
Net Assets	486.8	734.5	874.6	928.4	844.5	953.3	1,106.2	1,525.2	1,844.8	2,059.4	1,559.7

The breakdown of UCIs in *fonds communs de placement* (FCP), *sociétés d'investissement à capital variable* (SICAV) and *sociétés d'investissement à capital fixe* (SICAF) reveals that as at 31 December 2008, FCP was still the prevailing form with 1,910 entities out of a total of 3,371 active UCIs, against 1,443 entities operating as SICAV and 18 as SICAF. After several years of decline, the legal form of SICAF has seen a slight increase, mainly in the area of specialised investment funds (SIF).

	FCP		**SICAV**		**SICAF**		**Total**	
	Number	Net assets *(in bn EUR)*	Number	Net assets *(in bn EUR)*	Number	Net assets *(in bn EUR)*	Number	Net assets *(in bn EUR)*
1998	727	270.8	758	210.3	36	5.7	1,521	486.8
1999	800	385.8	795	341.0	35	7.7	1,630	734.5
2000	914	462.8	840	404.0	31	7.8	1,785	874.6
2001	994	482.1	885	441.5	29	4.8	1,908	928.4
2002	1,017	435.8	896	405.5	28	3.2	1,941	844.5
2003	957	466.2	888	483.8	25	3.3	1,870	953.3
2004	1,036	504.0	913	600.3	19	1.9	1,968	1,106.2
2005	1,099	624.3	946	898.2	15	2.7	2,060	1,525.2
2006	1,224	681.3	1,000	1,161.1	14	2.4	2,238	1,844.8
2007	1,645	748.7	1,211	1,308.4	12	2.3	2,868	2,059.4
2008	1,910	567.2	1,443	990.9	18	1.6	3,371	1,559.7

At the end of 2008, FCPs' net assets reached EUR 567.2 billion, representing 36.4% of the total net assets of UCIs. SICAVs' net assets reached EUR 990.9 billion representing 63.5% of total net assets of UCIs. SICAFs' net assets amounted to EUR 1.6 billion at the same date.

Breakdown of UCIs by legal status



The following table illustrates the distribution of UCIs depending on whether they fall within the scope of Part I or Part II of the law of 20 December 2002, as amended, or the law of 13 February 2007 relating to specialised investment funds (SIF).

Breakdown of UCIs according to Parts I and II of the law and specialised investment funds

	Part I		Part II		SIF	
	Number	Net assets (*in bn EUR*)	Number	Net assets (*in bn EUR*)	Number	Net assets (*in bn EUR*)
1998	1,008	360.2	400	111.0	113	15.6
1999	1,048	564.2	450	137.0	132	33.3
2000	1,119	682.0	513	153.3	153	39.3
2001	1,196	708.6	577	178.2	135	41.6
2002	1,206	628.9	602	171.6	133	44.0
2003	1,149	741.1	583	169.3	138	42.9
2004	1,303	929.3	516	131.2	149	45.7
2005	1,358	1,260.0	524	204.0	178	61.2
2006	1,469	1,516.5	552	249.9	217	78.4
2007	1,653	1,646.4	643	295.9	572	117.1
2008	1,826	1,169.4	708	259.8	837	130.5

UCIs falling under Part I of the law of 20 December 2002, as amended, are those which comply with the provisions of the EU Directive on UCITS and which can therefore benefit from the marketing facilities provided. Part II encompasses all the other UCIs which solicit the public for the subscription of their units, whereas specialised investment funds are UCIs whose securities are reserved to well-informed investors according to the criteria set out in Article 2 of the law of 13 February 2007.

Breakdown of UCIs and their net assets according to legal status and law applicable

Situation as at 31 December 2008	Number of UCIs				Net assets *(in bn EUR)*			
	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	1,181	645	0	1,826	409.646	759.743	0.000	1,169.389
Part II	312	387	9	708	83.631	174.679	1.499	259.809
SIF	417	411	9	837	73.914	56.416	0.125	130.455
Total	**1,910**	**1,443**	**18**	**3,371**	**567.191**	**990.838**	**1.624**	**1,559.653**

54.2% of UCIs registered on the official list as at 31 December 2008 were UCITS governed by Part I of the law of 2002 and 21.0% were other UCIs governed by Part II (non-coordinated UCIs). Specialised investment funds represented 24.8% of the 3,371 Luxembourg UCIs. Net assets were distributed at the same date as follows: 75.0% for UCIs under Part I, 16.6% for UCIs under Part II and 8.4% for specialised investment funds.

The following table compares the development in 2008 of the number of UCIs and net assets according both to the legal status and scope of the laws.

Breakdown of UCIs according to Parts I and II of the law and specialised investment funds

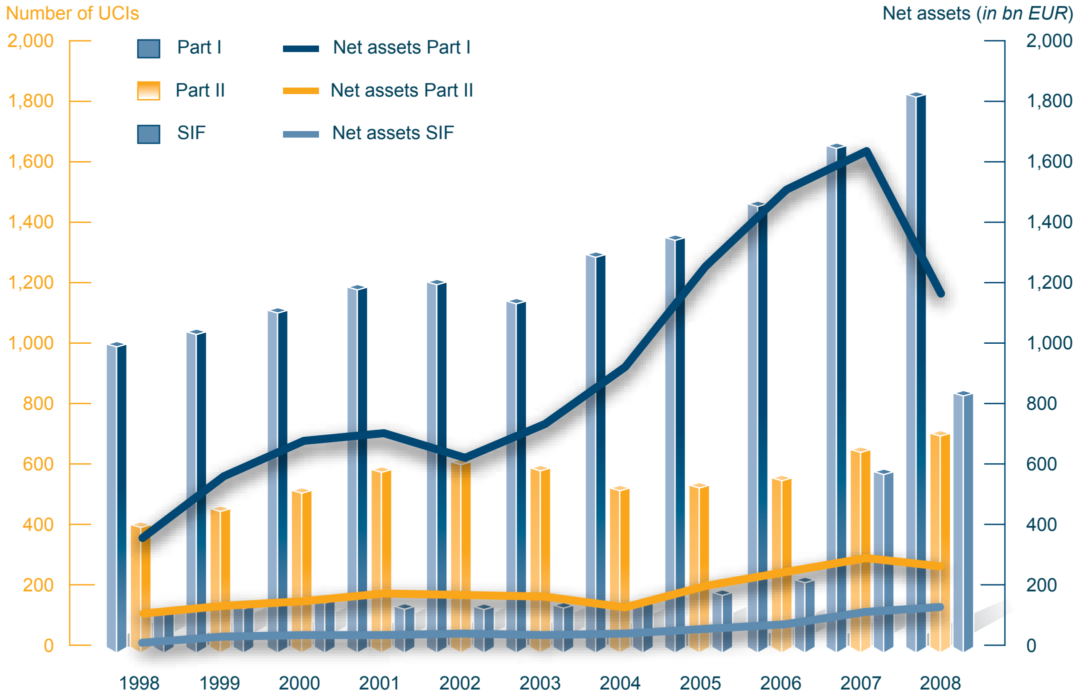
	2007				2008				Variation 2007/2008			
Number of UCIs	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	1,064	589	0	1,653	1,181	645	0	1,826	11.00%	9.51%	0.00%	10.47%
Part II	246	388	9	643	312	387	9	708	26.83%	-0.26%	0.00%	10.11%
SIF	335	234	3	572	417	411	9	837	24.48%	75.64%	200.00%	46.33%
Total	**1,645**	**1,211**	**12**	**2,868**	**1,910**	**1,443**	**18**	**3,371**	**16.11%**	**19.16%**	**50.00%**	**17.54%**
Net assets	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	567.647	1,078.694	0.000	1,646.341	409.646	759.743	0.000	1,169.389	-27.83%	-29.57%	0.00%	-28.97%
Part II	109.590	184.097	2.252	295.939	83.631	174.679	1.499	259.809	-23.69%	-5.12%	-33.44%	-12.21%
SIF	71.434	45.646	0.035	117.115	73.914	56.416	0.125	130.455	3.47%	23.59%	257.14%	11.39%
Total	**748.671**	**1,308.437**	**2.287**	**2,059.395**	**567.191**	**990.838**	**1.624**	**1,559.653**	**-24.24%**	**-24.27%**	**-28.99%**	**-24.27%**

As far as Part I is concerned, the number of UCIs rose by 10.47% as compared to the end of the previous year and net assets recorded an increase of 28.97%. The number of UCIs under Part II increased by 10.11% whereas net assets of these UCIs decreased by 12.21%.

As regards specialised investment funds (SIF), their number sharply increased by 46.33% and their net assets by 11.39%.

It should be borne in mind in this context that the law of 20 December 2002, as amended, allows the creation of sub-funds and classes of units reserved to one or several institutional investors with respect to the UCIs under this law. However, the current reporting of UCIs does not allow discerning institutional investors in Parts I and II of the law of 20 December 2002, as amended.

Breakdown of UCIs according to Parts I and II of the law and specialised investment funds



In 2008, UCIs under Part I of the law of 2002 showed important net redemptions totalling EUR 108.871 billion. However, UCIs under Part II showed positive net issues totalling EUR 2.789 billion while net issues of specialised investment funds amounted to EUR 28.891 billion.

Breakdown of net issues according to Parts I and II of the law and specialised investment funds

(in million EUR)	FCP	SICAV	SICAF	Total	in %
Part I	-65,952	-42,919	0	-108,871	141.0%
Part II	-5,621	8,678	-268	2,789	-3.6%
SIF	10,031	18,862	-2	28,891	-37.4%
Total	**-61,542**	**-15,379**	**-270**	**-77,191**	**100.0%**

1.3. Development in umbrella funds

In 2008, the number of umbrella funds increased by 331 entities. This structure, which brings together under the same legal entity several sub-funds centred on investment in a given currency, geographical region or economic sector, enables investors to re-focus their investment without having to switch to another investment fund. Promoters may thus offer, within a single entity, a whole range of sub-funds investing in equities, debt securities, money market securities or even sometimes warrants, thereby enabling investors to benefit from the best perspectives of return. The structure of umbrella funds also enables promoters to create new sub-funds and to manage a collective pool of assets which are normally not large enough for a separate management in a traditionally structured fund.

Umbrella funds

	Total number of UCIs	Number of umbrella funds	as % of total	Number of sub-funds	Average number of sub-funds per umbrella fund	Total number of entities	Net assets of umbrella funds *(in bn EUR)*	as % of total	Net assets per sub-fund *(in bn EUR)*
1998	1,521	797	52.4	4,454	5.59	5,178	384.3	78.9	0.086
1999	1,630	913	56.0	5,119	5.61	5,836	604.9	82.4	0.118
2000	1,785	1,028	57.6	6,238	6.07	6,995	739.1	84.5	0.118
2001	1,908	1,129	59.2	6,740	5.97	7,519	797.8	85.9	0.118
2002	1,941	1,190	61.3	7,055	5.93	7,806	724.8	85.9	0.103
2003	1,870	1,180	63.1	6,819	5.78	7,509	820.9	86.1	0.120
2004	1,968	1,226	62.3	7,134	5.82	7,876	962.8	87.0	0.135
2005	2,060	1,298	63.0	7,735	5.96	8,497	1,341.4	87.9	0.173
2006	2,238	1,387	62.0	8,622	6.22	9,473	1,639.6	88.9	0.190
2007	2,868	1,688	58.9	9,935	5.89	1,115	1,812.4	88.0	0.182
2008	3,371	2,019	59.9	10,973	5.43	1,325	1,349.9	86.5	0.123

As at 31 December 2008, 2,019 out of 3,371 UCIs have adopted a multiple sub-fund structure. The number of traditionally structured UCIs increased from 1,180 to 1,352 entities. Moreover, the number of active sub-funds rose from 9,935 to 10,973, which represents a 10.4% growth as compared to 31 December 2007. Like the number of UCIs registered on the official list as at 31 December 2008, the number of active economic entities reached a record high with 12,325 entities.

The average number of sub-funds per umbrella fund decreased slightly and amounted to 5.43 as at 31 December 2008. This average is in decline given that the number of umbrella funds which only contain a single sub-fund is constantly rising.

At the end of 2008, umbrella funds' net assets totalled EUR 1,349.9 billion, i.e. a decrease of 25.5% compared with the previous year-end. Net assets of traditionally structured UCIs recorded a 15.1% decrease over the same period.

The average net assets per traditional UCI amounted to EUR 155 million and thereby exceeded the average net assets per sub-fund of umbrella funds (EUR 123 million). The decrease of average net assets, both for traditional UCIs as well as for umbrella UCIs, is the result of an increasing number of entities on the one hand and a general decrease in net assets in 2008 on the other.

1.4. Valuation currencies used

As regards the valuation currencies used, the proportions in terms of entities remain the same as in 2007. Most entities (8,519 out of a total of 12,325) are denominated in Euros, followed by those in US dollars (2,559) and those in Swiss francs (306). In terms of net assets, the entities denominated in Euros encompass EUR 996.295 billion of a total EUR 1,559.653 billion, ahead of entities expressed in US dollars (EUR 426.692 billion) and Swiss francs (EUR 45.505 billion).

1.5. UCIs' investment policy

The table below describes the development in the number of UCIs and net assets according to their investment policy. It should be noted that UCIs investing in other assets notably include UCIs investing in venture capital and UCIs investing in insurance contracts or in debts.

Net assets and entities of UCIs according to their investment policy

	2007		2008		Variation in %	
	Number of entities	Net assets *(in bn EUR)*	Number of entities	Net assets *(in bn EUR)*	Number of entities	Net assets
Fixed-income TS[1]	3,189	783.528	3,208	723.778[2]	0.60%	-7.63%
Variable-yield TS	3,534	772.522	3,710	375.624[3]	4.98%	-51.38%
Mixed TS	2,199	259.692	2,901	246.201[4]	31.92%	-5.20%
Fund of funds	1,811	192.455	2,021	152.003[5]	11.60%	-21.02%
Cash	132	15.109	151	22.211	14.39%	47.01%
Real estate	104	15.446	137	20.926	31.73%	35.48%
Futures, options, warrants	124	19.483	141	16.998	13.71%	-12.75%
Others	22	1.160	56	1.912[6]	154.55%	64.83%
Total	**11,115**	**2,059.395**	**12,325**	**1,559.653**	**10.89%**	**-24.27%**

The general decrease on stock exchanges and the turbulences in options transactions and markets for derivative instruments generally are reflected in the related categories, especially as regards variable-yield securities and fund of funds. That said, the categories of UCIs investing principally in money market instruments and cash and real estate witnessed an increase in their net assets following the inflow of new capital and as a result of the setting-up of new vehicles.

The following table illustrates, per quarter, the annual flow of subscriptions and redemptions divided into the main investment policies:

1 - Variable-yield transferable securities (equities)

2 - Fixed-income transferable securities (excluding money market instruments and other short-term securities)

3 - Mixed transferable securities

4 - Cash, money market instruments and other short-term securities

5 - Other securities

in million EUR

	1st quarter 2008			2nd quarter 2008			3rd quarter 2008			4th quarter 2008			Totals		
Pol.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.
1	101,591	141,249	-39,658	96,194	100,535	-4,341	70,745	90,178	-19,433	64,222	86,984	-22,762	332,752	418,946	-86,194
2	83,403	106,838	-23,435	82,790	86,963	-4,173	58,982	76,557	-17,575	60,170	108,662	-48,492	285,345	379,020	-93,675
3	56,019	42,528	13,491	46,775	30,490	16,285	43,240	37,109	6,131	40,683	48,427	-7,744	186,717	158,554	28,163
4	565,715	523,684	42,031	524,654	517,925	6,729	743,157	728,104	15,053	1,147,353	1,145,537	1,816	2,980,879	2,915,250	65,629
5	46,896	33,084	13,812	36,413	32,557	3,856	30,872	30,617	255	32,228	41,265	-9,037	146,409	137,523	8,886
Total	853,624	847,383	6,241	786,826	768,470	18,356	946,996	962,565	-15,569	1,344,656	1,430,875	-86,219	3,932,102	4,009,293	-77,191

After years of positive net issues, 2008 experienced net redemptions in its third quarter and even

[1] Transferable securities.

[2] Including EUR 320.712 billion in money market instruments and other short-term securities.

[3] Including EUR 3.294 billion in non-listed securities and EUR 0.288 billion in venture capital.

[4] Including EUR 1.425 billion in non-listed securities and EUR 0.388 billion in venture capital.

[5] Including EUR 0.074 billion in non-listed securities.

[6] Including EUR 0.060 billion in venture capital.

more so during the fourth quarter in 2008. Net redemptions were concentrated on those UCIs investing principally in variable-yield transferable securities and UCIs investing in fixed-income transferable securities.

UCIs' investment policy

Situation as at 31 December 2008	**Number of entities**	**Net assets** *(in bn EUR)*	**Net assets** *(in %)*
UCITS subject to Part I			
Fixed-income transferable securities[7]	2,376	605.003	38.8
Variable-yield TS	3,214	336.262	21.6
Mixed TS	1,854	188.950	12.1
Fund of funds	658	30.840	2.0
Cash	30	3.016	0.2
Futures and/or options	41	5.244	0.3
Other securities	5	0.074	0.0
UCITS subject to Part II[8]			
Fixed-income transferable securities[9]	443	81.110	5.2
Variable-yield TS	212	21.360	1.4
Mixed TS	500	28.019	1.8
Fund of funds	943	93.999	6.0
Cash	103	17.371	1.1
UCITS subject to Part II[10]			
Non-listed transferable securities	25	2.565	0.2
Venture capital	9	0.333	0.0
Other UCIs subject to Part II			
Real estate	16	6.180	0.4
Futures, options, warrants	72	8.588	0.6
Other securities	9	0.284	0.0
Specialised investment funds			
Fixed-income transferable securities[11]	389	37.665	2.4
Variable-yield TS	234	14.420	0.9
Mixed TS	513	27.419	1.8
Non-listed transferable securities	36	2.228	0.1
Fund of funds	419	27.090	1.7
Cash	18	1.824	0.1
Venture capital	16	0.403	0.0
Real estate	121	14.746	1.0
Futures and/or options	28	3.166	0.2
Other securities	41	1.494	0.1
Total	**12,325**	**1,559.653**	**100.0**

7 Including EUR 258.284 billion in money market instruments and other short-term securities (270 entities).

8 UCITS excluded from Part I of the law of 20 December 2002, as amended, pursuant to Article 3, points 1 to 3, i.e. UCITS disallowing any repurchase, not promoted in the EU or only sold to individuals in third-party countries outside the EU.

9 Including EUR 56.284 billion in money market instruments and other short-term securities (127 entities).

10 UCITS excluded from Part I of the law of 20 December 2002, as amended, pursuant to Article 3, point 4, i.e. UCITS under one of the categories laid down by Circular CSSF 03/88 owing to their investment and loan policy.

11 Including EUR 6.144 billion in money market instruments and other short-term securities (141 entities).

1.6. Development in guarantee-type UCIs

Given the fluctuations inherent in financial markets, guarantee-type UCIs aim to offer investors greater security than that offered by traditional collective management products. According to the investment policy pursued by the funds concerned, the guarantee ensures that the investor is reimbursed either a proportion of the capital invested or is fully reimbursed his initial investment or even receives a return on his investment at the end of one or several pre-determined periods.

In 2008, the number of guarantee-type UCIs rose from 154 to 176 and the number of entities from 360 to 382. In terms of entities, the rise is attributable to the launch of 58 new entities, while the given guarantee came to maturity or was not extended for 36 entities.

As at 31 December 2008, the 382 entities comprised 41 entities guaranteeing investors only a proportion of the invested capital, 151 entities guaranteeing repayment in full of the invested capital (money-back guarantee) and 190 entities offering their investors a surplus as compared to the initial subscription price.

UCIs offering their investors a surplus compared to their initial investment thus remain dominant. These funds generally track a stock market index and, through the use of derivatives, enable investors to participate to some extent in the growth of this index.

Net assets of guarantee-type UCIs increased by EUR 1.1 billion to EUR 44.83 billion in 2008, i.e. an increase of 2.5%. It is also worth noting that guarantee-type UCIs created by German promoters alone accounted for 86.6% of the total net assets of guarantee-type UCIs.

Development in guarantee-type UCIs

	Number of UCIs	Number of economic entities	Net assets *(in bn EUR)*
1998	86	99	15.00
1999	85	116	17.13
2000	79	119	14.30
2001	74	115	17.09
2002	75	151	17.40
2003	76	166	20.89
2004	90	207	21.41
2005	104	248	24.69
2006	121	297	32.56
2007	154	360	43.73
2008	176	382	44.83

1.7. Promoters of Luxembourg UCIs

The breakdown of Luxembourg UCIs according to geographic origin of their promoters highlights the multitude of countries represented in the financial centre. Promoters of Luxembourg UCIs spread over 50 countries.

The main countries actively promoting UCIs in Luxembourg are Germany, the United States, Switzerland, Belgium, Great Britain, Italy and France.

Origin of promoters of Luxembourg UCIs

Situation as at 31 December 2008	**Net assets** *(in bn EUR)*	**in %**	**Number of UCIs**	**in %**	**Number of entities**	**in %**
Germany	328.331	21.1%	1,580	46.9%	2,885	23.4%
United States	305.913	19.6%	136	4.0%	960	7.8%
Switzerland	270.885	17.4%	390	11.6%	2,148	17.4%
Belgium	142.036	9.1%	165	4.9%	1,653	13.4%
Great Britain	136.354	8.7%	197	5.8%	999	8.1%
Italy	131.659	8.4%	123	3.6%	896	7.3%
France	102.585	6.6%	222	6.6%	1,005	8.2%
Netherlands	36.076	2.3%	58	1.7%	312	2.5%
Japan	25.772	1.7%	67	2.0%	167	1.4%
Sweden	23.458	1.5%	90	2.7%	239	1.9%
Others	56.584	3.6%	343	10.2%	1,061	8.6%
Total	**1,559.653**	**100.0%**	**3,371**	**100.0%**	**12,325**	**100.0%**

1.8. Marketing of Luxembourg UCIs and marketing of foreign UCIs in Luxembourg

In the context of the notification procedure laid down in Circular CSSF 07/277, the CSSF sent 3,016 letters of notification, as provided for in annexe I of the CESR document CESR/06-120b to 1,463 different UCITS in 2008. These letters of notification concerned 9,400 different sub-funds.

Over the past year, two UCITS each received 19 certifications, 10 UCITS received between 10 and 15 certifications, 87 UCITS received between five and nine certifications and 1,364 UCITS received between one and four certifications (among which 702 UCITS having received a single certification). These figures show that UCITS structures are regularly updated and amended which equally brings about changes to the offering documents.

From 1 January 2009, Luxembourg UCITS submit their prospectuses in electronic form *via e-file* and receive an electronic letter of notification signed by the CSSF with an SSL certificate issued by Luxtrust, the certification authority for electronic signatures in Luxembourg. The validity of the electronic signature can be verified from each computer which has access to the Luxtrust website (www.luxtrust.lu) provided it has integrated the CSSF's public certificate in Adobe Reader. This public certificate is available for download on the CSSF website (www.cssf.lu, section "Electronic Prospectuses UCI/SIF").

As regards foreign UCITS marketed in Luxembourg at the end of 2008, 213 foreign UCITS took advantage of the marketing facilities provided for by the Directive to offer their units/shares in Luxembourg. Furthermore, 13 non-EU foreign UCIs were authorised to market their shares in Luxembourg.

Marketing of foreign UCIs in Luxembourg

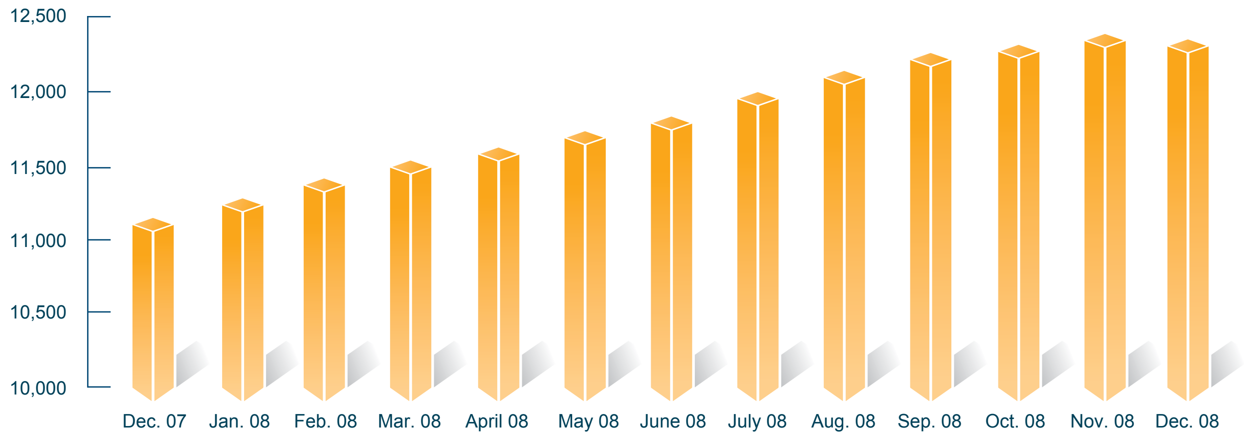
Country of origin	2004	2005	2006	2007	2008
EU UCITS					
Germany	69	63	67	60	54
France	27	28	35	44	52
Ireland	31	33	41	42	48
Sweden	0	0	5	19	19
Belgium	10	11	13	14	14
Great Britain	6	6	7	9	13
Norway	0	0	6	6	6
Finland	0	0	4	5	4
Austria	0	0	0	1	1
Denmark	0	0	0	1	1
Malta	0	0	0	1	1
Sub-total	**143**	**141**	**178**	**202**	**213**
Other foreign UCIs					
Germany	9	9	8	8	7
Switzerland	9	6	6	6	6
Belgium	1	0	0	0	0
Sub-total	**19**	**15**	**14**	**14**	**13**
Total	**162**	**156**	**192**	**216**	**226**

2. DEVELOPMENTS OF UCI ENTITIES IN 2008

2.1. General situation

In 2008, the number of entities[12] progressed in absolute terms by 1,210 entities, i.e. an average increase of slightly more than 100 entities per month. Only the month of December 2008 witnessed a slight decrease in terms of number of entities.

Monthly development of the number of entities



	Dec. 07	Jan. 08	Feb. 08	Mar. 08	April 08	May 08	June 08	July 08	Aug. 08	Sep. 08	Oct. 08	Nov. 08	Dec. 08
Number of entities	11,115	11,262	11,387	11,498	11,602	11,716	11,797	11,964	12,110	12,234	12,300	12,374	12,325

[12] The term "entity" refers both to traditional UCIs and to sub-funds of umbrella funds. The number of new "entities" therefore means, from an economic point of view, the number of economic vehicles created.

2.2. Entities approved in 2008

3,361 new entities were approved in 2008, representing 483 entities more than in 2007 and even 1,242 entities more than in 2006. In relative terms, this corresponds to an increase by 16.8% as compared to 2007 and by 58.6% as compared to 2006. A slight slow-down can be seen from looking at the number of entities approved over the course of the year: as a matter of fact, 27% of the entities were approved during the first quarter, 26% during the second, 24% during the third and 23% during the fourth quarter.

60% of the newly approved entities (59% in 2007) are UCIs set up under Part I of the law of 20 December 2002, 24% are specialised investment funds (24% in 2007) and 16% UCIs under Part II of the law (15% in 2007).

	2004	2005	2006	2007	2008
Newly approved entities	1,434	1,806	2,119	2,878	3,361
of which: launched in the same year	*961*	*1,022*	*1,263*	*1,916*	*2,008*
In %	67.0%	56.6%	59.6%	66.6%	59.7%

2,008 out of the 3,361 newly approved entities, representing 59.7%, were launched in the same year. This represents a slight improvement in relation to the number of entities launched in 2007.

Investment policy of UCIs approved in 2008

	2007		2008	
Investment policy	Number of entities	As a % of total	Number of entities	As a % of total
Fixed-income transferable securities (excluding money market instruments and other short-term securities)	420	14.59%	425	12.65%
Variable-yield TS	804	27.94%	754	22.43%
Mixed TS	1,004	34.89%	1,337	39.78%
Fund of funds	496	17.23%	558	16.60%
Cash, money market instruments and other short-term securities	69	2.40%	146	4.34%
Futures, options, warrants (derivative instruments)	26	0.90%	47	1.40%
Others	59	2.05%	94	2.80%
Total	**2,878**	**100.00%**	**3,361**	**100.00%**

The proportion of newly approved entities that chose to invest in mixed securities has continued to increase in 2008 and accounts for nearly 40%. On the other hand, the proportion of entities investing in variable-yield or in fixed-income securities has gone down.

The number of entities whose investment policy provides for investment in cash, money market instruments and other short-term securities more than doubled (+146 entities in 2008 against +69 entities in 2007).

The number of entities investing in derivative instruments (futures, options, warrants) improved with the launch of 47 new entities in 2008, as against 26 in 2007.

2.3. Entities closed down in 2008

With 1,321 entities, the number of entities closed down in 2008 increased considerably as compared to the previous year (+532 entities or +67.4%). The number of matured entities remained practically stable whereas the number of liquidated and merged entities increased by more than 70%.

	2002	2003	2004	2005	2006	2007	2008
Liquidated entities	490	643	393	426	412	424	752
Matured entities	49	47	64	70	45	83	84
Merged entities	326	488	237	202	223	282	485
Total	**865**	**1,178**	**694**	**698**	**680**	**789**	**1,321**

Investment policy of entities closed down in 2008

	2007		2008	
Investment policy	Number of entities	As a % of total	Number of entities	As a % of total
Fixed-income transferable securities (excluding money market instruments and other short-term securities)	241	30.55%	349	26.42%
Variable-yield TS	241	30.55%	394	29.83%
Mixed TS	110	13.94%	274	20.74%
Fund of funds	136	17.24%	197	14.91%
Cash, money market instruments and other short-term securities	39	4.94%	75	5.68%
Futures, options, warrants (derivative instruments)	21	2.66%	15	1.13%
Real estate	1	0.12%	8	0.61%
Others	0	0.00%	9	0.68%
Total	**789**	**100.00%**	**1,321**	**100,00%**

The distribution by investment policy shows that the closed entities having invested in variable-yield securities account for the largest proportion of entities closed down in 2008.

3. SPECIALISED INVESTMENT FUNDS (SIF)

3.1. Development of specialised investment funds in 2008

The demand by better informed clients to invest in a more flexible investment vehicle resulted in an increase in the number of specialised investment funds, which amounted to 837 funds as at 31 December 2008 against 572 funds as at 31 December 2007, representing an increase of 265 funds.

In terms of assets under management, specialised investment funds counted EUR 130.455 billion at the end of 2008, i.e. an increase of 11.39%. Their assets represent 8.36% of the total UCI assets (EUR 1,559.653 billion as at 31 December 2008). The proportion of SIFs in the total assets under management has thus clearly progressed in comparison to 2007 when it represented 5.69%.

3.2. NAV calculation errors or non-compliance with the investment rules as regards specialised investment funds

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 in principle does not apply to SIFs. Nevertheless, the CSSF considers that SIFs apply Circular CSSF 02/77 in the aforementioned cases unless they have other internal rules. It goes without saying that these rules must remain within reasonable limits with respect to the SIF's investment policy.

4. UCIS INVESTING PRINCIPALLY IN REAL ESTATE ASSETS

The interest of promoters in creating Luxembourg UCIs whose main object is to invest in the real estate sector continued in 2008. The statistical data shows that this trend, which began in 2004, intensified again last year. In 2008, net assets of UCIs investing mainly in real estate assets thus increased by more than 35%.

Development of UCIs investing mainly in real estate assets

	Number of real estate UCIs	of which active entities	of which Part II	of which SIFs	**Net issues** *(in bn EUR)*	**Net assets** *(in bn EUR)*
2003	14	13	6	8	0.322	2.865
2004	23	22	7	16	0.173	3.130
2005	52	41	16	36	1.591	5.287
2006	76	64	22	54	2.653	8.057
2007	104	80	21	83	6.497	15.446
2008	137	111	16	121	7.126	20.926

The trend for promoters to set up real estate UCIs pursuant to the provisions of the law of 13 February 2007 rather than complying with the provisions of Part II of the law of 20 December 2002, as amended, continued in 2008. At the end of 2008, 88% of real estate UCIs were specialised investment funds.

Net assets of UCIs investing principally in real estate assets and subject to the provisions of the law of 13 February 2007 witnessed an increase of EUR 8.131 billion in 2008 and reached EUR 14.746 billion (+81%) whereas net assets of UCIs investing principally in real estate assets and subject to the provisions of Part II of the law of 20 December 2002, as amended, went down by 15.5% and decreased by EUR 6.180 billion.

5. PERFORMANCE ANALYSIS OF THE MAJOR LUXEMBOURG UCI CATEGORIES IN 2008

5.1. Objectives and methodology

The objective of this section is to analyse the performance distribution of several Luxembourg UCI categories in relation to their investment policy.

The UCI categories selected are the following:

Monetary UCIs	Bond UCIs	Equity UCIs
EURO	Europe	Europe
	Global	Global
	Emerging markets	Emerging markets

The category "European equity" only takes into account entities investing in standard European equities. Entities investing in Midcap and Smallcap shares have not been considered.

The category "European bonds" only takes into account entities investing in standard European bonds. Entities investing in High Yield bonds have not been considered.

For the analysis of the results, it is important to highlight that past performances do not presume future performances.

Methodological aspects:

- Base currency: to measure the performance of the various UCI categories, the Euro has been used as base currency.
- Population considered: the population considered is composed of a total of EUR 458.442 billion net assets and 1,564 entities. The entities with no performance in all 12 months of 2008 have not been taken into consideration.
- The average return and the average standard deviation per UCI category have been calculated with the weighting of the entities' average net assets.
- To compare the performances of the various investment policies, a risk-performance indicator is applied, i.e. the Sharpe ratio.

The Sharpe ratio was developed by William Sharpe, Nobel Laureate in Economics in 1990. The Sharpe ratio divides the difference between the return of a securities portfolio and a risk-free rate, i.e. a fixed-rate investment, by the portfolio standard deviation. It measures in this manner the excess return, realised per risk unit considered. The Sharpe ratio is calculated as follows:

$$\text{Sharpe ratio} = \frac{\text{Portfolio return} - \text{Risk-free rate}}{\text{Portfolio standard deviation}}$$

The 12-month money market rate applicable at the beginning of January 2008, i.e. 4.56%, has been used as risk-free rate.

- For the maximum performance calculation of a UCI category, the average of the highest performance classes has been used and for the minimum performance calculation of a UCI category, the average of the lowest performance classes has been considered.
- Source of UCI data: CSSF database.
- For entities investing in bonds, JPMorgan indices are used as benchmark.
- For entities investing in shares, MSCI indices are used as benchmark.

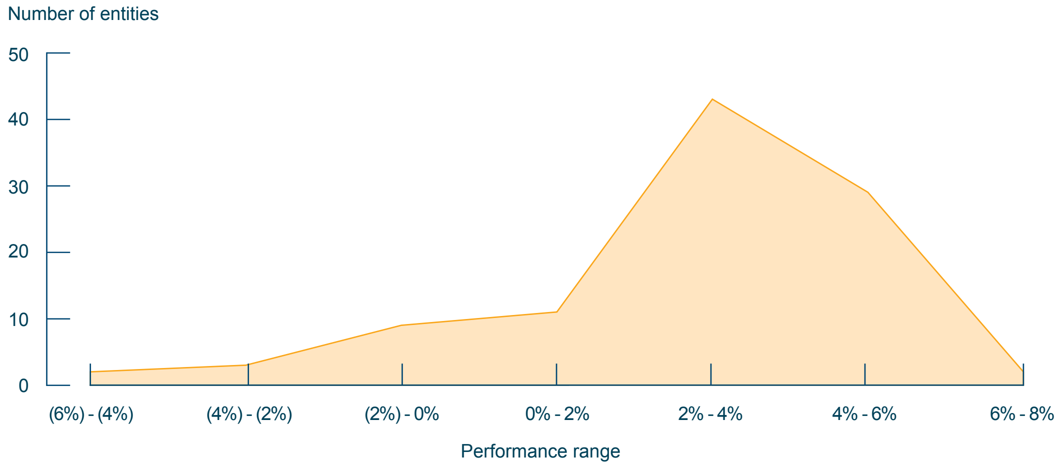
- For the categories "international bonds" and "emerging market bonds", hedged indices are used in order to exclude the influence of currency movements on the performance of the benchmark.
- The term "entity" refers both to traditional UCIs and to sub-funds of umbrella funds.

5.2. Performance of the major Luxembourg UCI categories in 2008

5.2.1. Entities whose investment policy consists in investing in Euro money market instruments

The following graph illustrates the performance distribution of entities whose investment policy consists in investing in Euro money market instruments.

Performance of entities investing in Euro money market instruments in 2008



The average performance realised in 2008 by entities whose investment policy consists in investing in Euro money market instruments is of 3.36%. The average performance of the maximum return class amounts to 6.13% whereas the average performance of the minimum return class is of -4.33%. The standard deviation of the performance of these entities amounts to 2.31%.

Central values and dispersion characteristics

Average performance	3.36%
Maximum performance	6.13%
Minimum performance	-4.33%
Standard deviation of performance	2.31%
Performance spread	10.46%
Statistical population	99

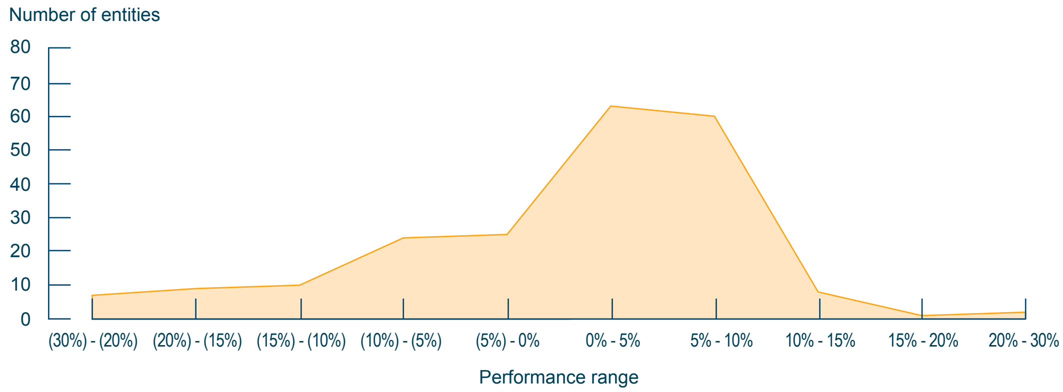
Statistical performance distribution of entities investing in money market instruments

Performance	**Number of entities**			
Return classes	Absolute frequency	Relative frequency	Cumulative absolute frequency	Cumulative relative frequency
-6% to -4%	2	2.02%	2	2.02%
-4% to -2%	3	3.03%	5	5.05%
-2% to 0%	9	9.09%	14	14.14%
0% to 2%	11	11.11%	25	25.25%
2% to 4%	43	43.43%	68	68.69%
4% to 6%	29	29.29%	97	97.98%
6% to 8%	2	2.02%	99	100.00%
Total	**99**	**100.00%**		

5.2.2. Entities whose investment policy consists in investing in EUR-denominated bonds

The following graph illustrates the performance distribution of entities whose investment policy consists in investing in EUR-denominated bonds. It should be noted that entities investing in High Yield bonds are not included in this category.

Performance of entities investing in EUR-denominated bonds in 2008



The average performance realised in 2008 by entities whose investment policy consists in investing in EUR-denominated bonds is of 2.61%. The average performance of the maximum return class amounts to 23.86% whereas the average performance of the minimum return class is of -24.06%. The standard deviation of the performance of these entities amounts to 8.61%.

Central values and dispersion characteristics

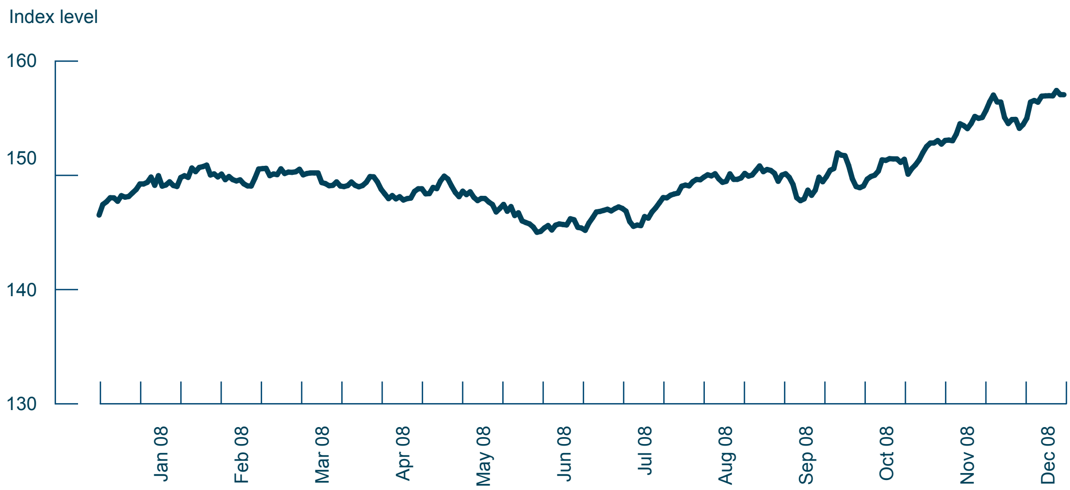
Average performance	2.61%
Maximum performance	23.86%
Minimum performance	-24.06%
Standard deviation of performance	8.61%
Performance spread	47.92%
Statistical population	209

Statistical performance distribution of entities investing in EUR-denominated bonds

Performance	**Number of entities**			
Return classes	Absolute frequency	Relative frequency	Cumulative absolute frequency	Cumulative relative frequency
-30% to -20%	7	3.35%	7	3.35%
-20% to -15%	9	4.31%	16	7.66%
-15% to -10%	10	4.78%	26	12.44%
-10% to -5%	24	11.48%	50	23.92%
-5% to 0%	25	11.96%	75	35.89%
0% to 5%	63	30.14%	138	66.03%
5% to 10%	60	28.71%	198	94.74%
10% to 15%	8	3.83%	206	98.56%
15% to 20%	1	0.48%	207	99.04%
20% to 30%	2	0.96%	209	100.00%
Total	**209**	**100.00%**		

The index JPMorgan Euro denominated Aggregate: Credit + Pfandbriefe + EMU Local Government Bond Index Level realised a performance of 7.16% in 2008. 41 entities investing in European bonds, i.e. 19.62% of all entities, realised a higher performance than this index. The market volatility for European bonds is of 4.71% in 2008 (source: JPMorgan, CSSF calculation).

JPMorgan Euro denominated Aggregate: Credit + Pfandbriefe + EMU Local Government Bond Index Level



Source: JPMorgan

Interpretation of the Sharpe ratio

UCIs investing in EUR-denominated bonds realised in 2008 on average a negative return of -0.32% per risk entity considered. For the performance of the maximum return class, a positive return of 1.17% on average could be observed per risk entity. For the performance of the minimum return class, a negative return of -1.92% on average could be observed per risk entity considered.

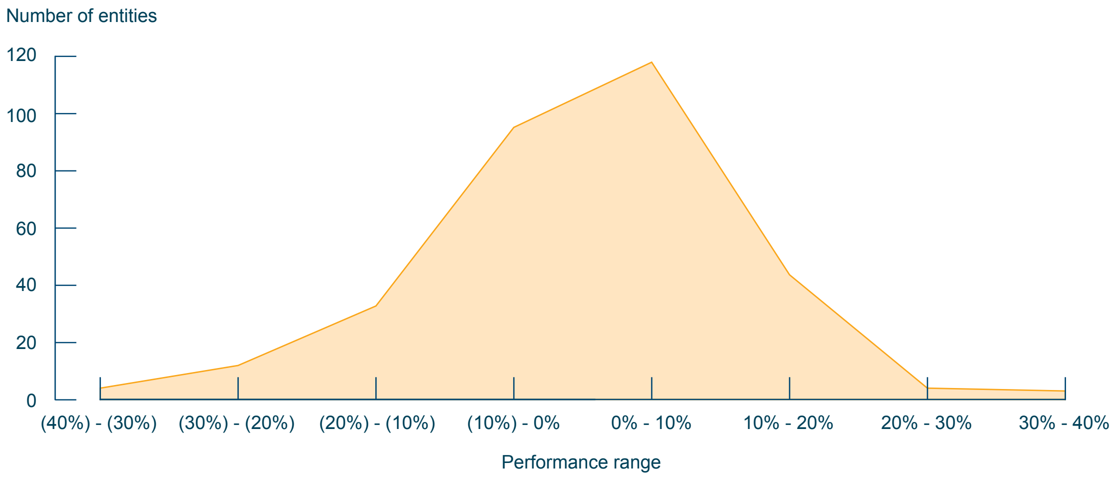
Summary table of the category of entities investing in EUR-denominated bonds

Average performance	2.61%
Maximum performance	23.86%
Minimum performance	-24.06%
Standard deviation of performance	8.61%
Performance spread	47.92%
Statistical population	209
Performance of the index JPMorgan Euro denominated Aggregate: Credit + Pfandbriefe + EMU Local Government Bond Index Level	7.16%
Market volatility	4.71%
Number of entities with higher performance than JPMorgan Euro denominated Aggregate: Credit + Pfandbriefe + EMU Local Government Bond Index Level	41
Sharpe ratio – average performance	-0.32
Sharpe ratio – maximum performance	1.17
Sharpe ratio – minimum performance	-1.92

5.2.3. Entities whose investment policy consists in investing in global bonds

The following graph illustrates the performance distribution of entities whose investment policy consists in investing in global bonds.

Performance of entities investing in global bonds in 2008



The average performance realised in 2008 by entities whose investment policy consists in investing in global bonds is of 1.75%. The average performance of the maximum return class amounts to 37.01% whereas the average performance of the minimum return class is of -35.28%. The standard deviation of the performance of these entities amounts to 11.12%.

Central values and dispersion characteristics

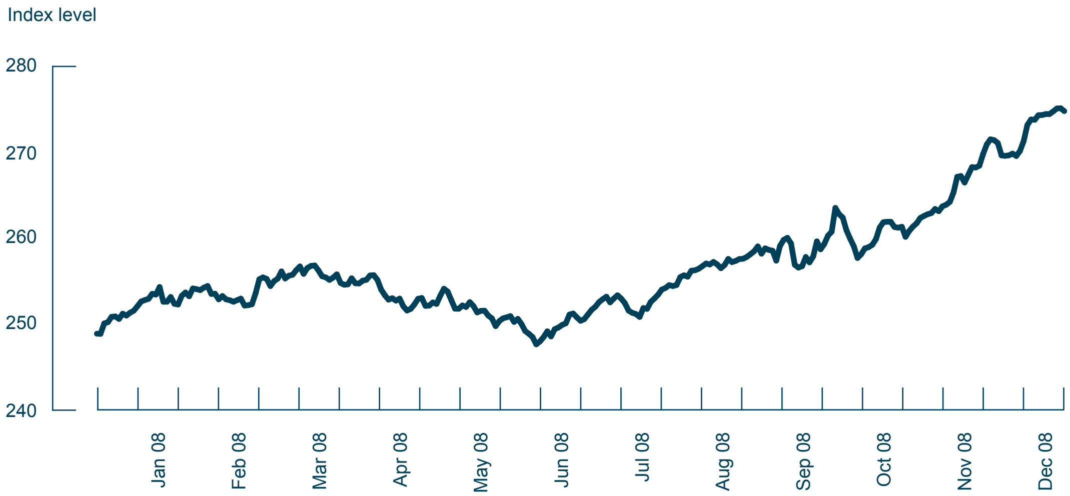
Average performance	1.75%
Maximum performance	37.01%
Minimum performance	-35.28%
Standard deviation of performance	11.12%
Performance spread	72.29%
Statistical population	315

Statistical performance distribution of entities investing in global bonds

Performance	**Number of entities**			
Return classes	Absolute frequency	Relative frequency	Cumulative absolute frequency	Cumulative relative frequency
-40% to -30%	4	1.27%	4	1.27%
-30% to -20%	12	3.81%	16	5.08%
-20% to -10%	33	10.48%	49	15.56%
-10% to 0%	96	30.48%	145	46.03%
0% to 10%	119	37.78%	264	83.81%
10% to 20%	44	13.97%	308	97.78%
20% to 30%	4	1.27%	312	99.05%
30% to 40%	3	0.95%	315	100.00%
Total	**315**	**100.00%**		

The index JPMorgan GBI Global Hedged Index Level Euro realised a performance of 10.42% in 2008. 47 entities investing in global bonds, i.e. 14.92% of all entities realised a higher performance than this index. The market volatility for global bonds is of 4.09% (source: JPMorgan, CSSF calculation).

JPMorgan GBI Global Hedged Index Level Euro



Source: JPMorgan

Interpretation of the Sharpe ratio

UCIs investing in global bonds realised in 2008 on average a negative return of -0.40% per risk entity considered. For the performance of the maximum return class, a positive return of 1.22% on average could be observed per risk entity. For the performance of the minimum return class, a negative return of -1.74% on average could be observed per risk entity considered.

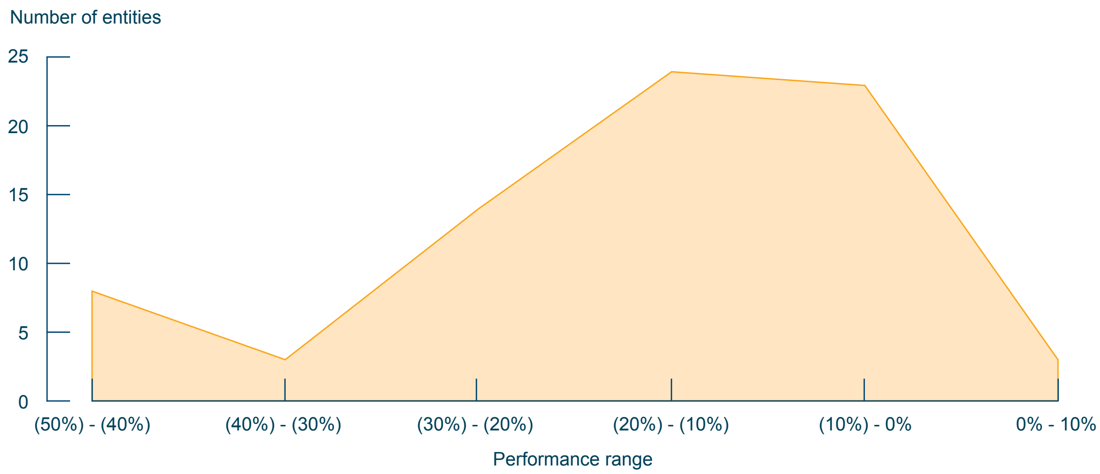
Summary table of the category of entities investing in global bonds

Average performance	1.75%
Maximum performance	37.01%
Minimum performance	-35.28%
Standard deviation of performance	11.12%
Performance spread	72.29%
Statistical population	315
Performance of the index JPMorgan GBI Global Hedged Index Level Euro	10.42%
Market volatility	4.09%
Number of entities with higher performance than JPMorgan GBI Global Hedged Index Level Euro	47
Sharpe ratio – average performance	-0.40
Sharpe ratio – maximum performance	1.22
Sharpe ratio – minimum performance	-1.74

5.2.4. Entities whose investment policy consists in investing in emerging market bonds

The following graph illustrates the performance distribution of entities whose investment policy consists in investing in emerging market bonds.

Performance of entities investing in emerging market bonds in 2008



The average performance realised in 2008 by entities whose investment policy consists in investing in emerging market bonds is of -16.61%. The average performance of the maximum return class amounts to 3.19% whereas the average performance of the minimum return class is of -44.97%. The standard deviation of the performance of these entities amounts to 13.14%.

Central values and dispersion characteristics

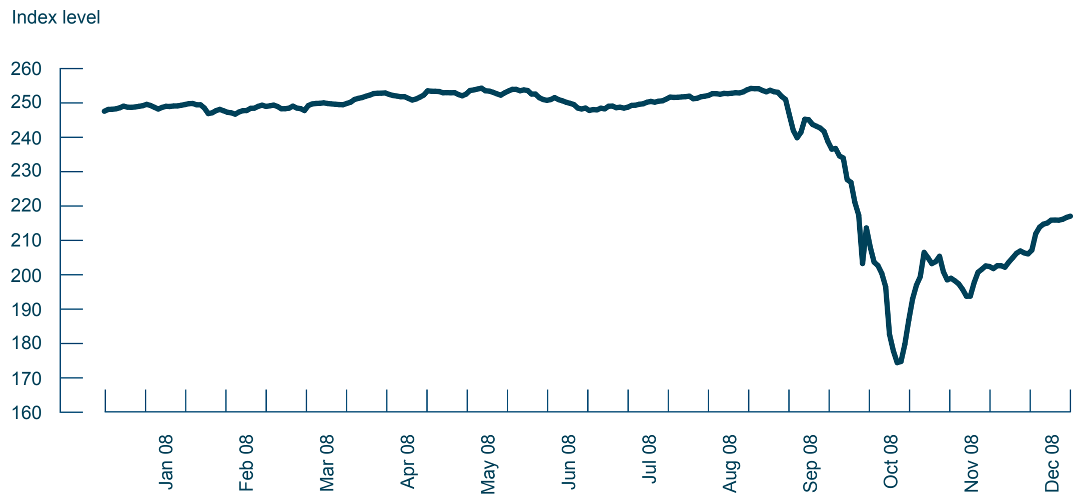
Average performance	-16.61%
Maximum performance	3.19%
Minimum performance	-44.97%
Standard deviation of performance	13.14%
Performance spread	48.16%
Statistical population	75

Statistical performance distribution of entities investing in emerging market bonds

Performance	**Number of entities**			
Return classes	Absolute frequency	Relative frequency	Cumulative absolute frequency	Cumulative relative frequency
-50% to -40%	8	10.67%	8	10.67%
-40% to -30%	3	4.00%	11	14.67%
-30% to -20%	14	18.67%	25	33.33%
-20% to -10%	24	32.00%	49	65.33%
-10% to 0%	23	30.67%	72	96.00%
0% to 10%	3	4.00%	75	100.00%
Total	**75**	**100.00%**		

The index JPMorgan EMBI Global EUR Hedged Index Levels realised a performance of -12.32% in 2008. 32 entities investing in emerging markets bonds, i.e. 42.67% of all entities, realised a higher performance than this index. The market volatility for emerging market bonds is of 16.10% (source: JPMorgan, CSSF calculation).

JPMorgan EMBI Global EUR Hedged Index Levels



Source: JPMorgan

Interpretation of the Sharpe ratio

UCIs investing in emerging market bonds realised in 2008 on average a negative return of -1.17% per risk entity considered. For the performance of the maximum return class, a slightly negative return of -0.12% on average could be observed per risk entity. For the performance of the minimum return class, a negative return of -1.29% on average could be observed per risk entity considered.

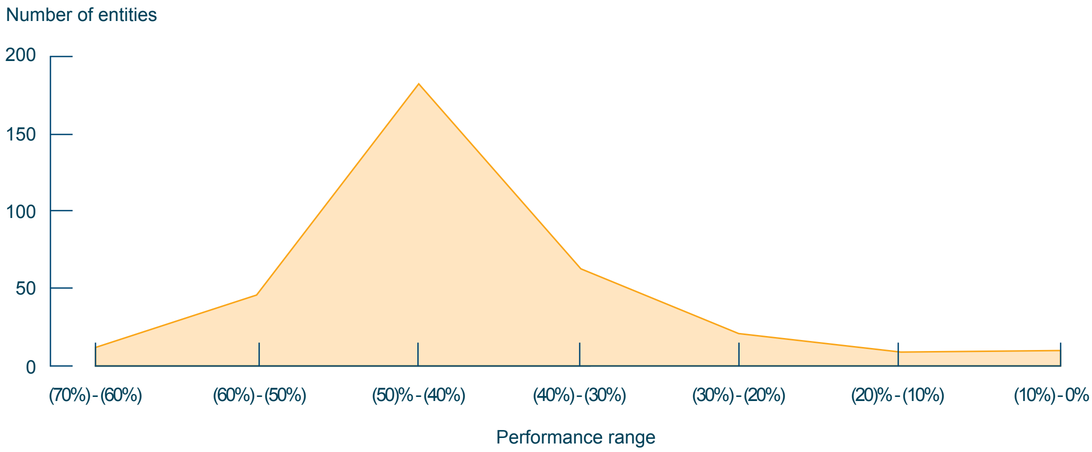
Summary table of the category of entities investing in emerging market bonds

Average performance	-16.61%
Maximum performance	3.19%
Minimum performance	-44.97%
Standard deviation of performance	13.14%
Performance spread	48.16%
Statistical population	75
Performance of the index JPMorgan EMBI Global EUR Hedged Index Levels	-12.32%
Market volatility	16.10%
Number of entities with higher performance than JPMorgan EMBI Global EUR Hedged Index Levels	32
Sharpe ratio – average performance	-1.17
Sharpe ratio – maximum performance	-0.12
Sharpe ratio – minimum performance	-1.29

5.2.5. Entities whose investment policy consists in investing in European equity

The following graph illustrates the performance distribution of entities whose investment policy consists in investing in European equity. It should be noted that entities investing in European Smallcap and Midcap shares are not included in this category.

Performance of entities investing in European equity in 2008



The average performance realised in 2008 by entities whose investment policy consists in investing in European equity is of -44.60%. The average performance of the maximum return class amounts to -6.38% whereas the average performance of the minimum return class is of -64.01%. The standard deviation of the performance of these entities amounts to 11.02%.

Central values and dispersion characteristics

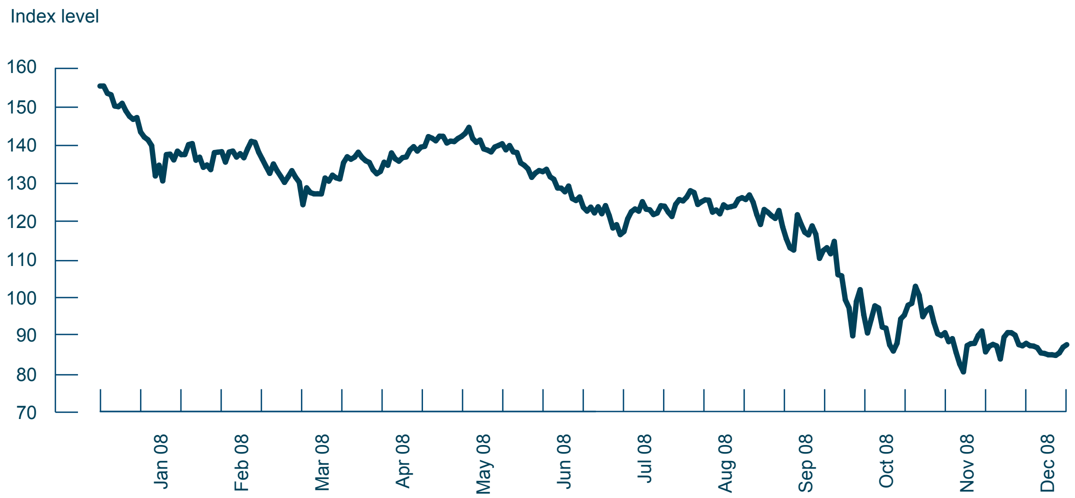
Average performance	-44.60%
Maximum performance	-6.38%
Minimum performance	-64.01%
Standard deviation of performance	11.02%
Performance spread	57.63%
Statistical population	344

Statistical performance distribution of entities investing in European equity

Performance	**Number of entities**			
Return classes	Absolute frequency	Relative frequency	Cumulative absolute frequency	Cumulative relative frequency
-70% to -60%	12	3.65%	12	3.49%
-60% to -50%	46	13.37%	58	16.86%
-50% to -40%	183	53.20%	241	70.06%
-40% to -30%	63	18.31%	304	88.37%
-30% to -20%	21	6.10%	325	94.48%
-20% to -10%	9	2.62%	334	97.09%
-10% to 0%	10	2.91%	344	100.00%
Total	**344**	**100.00%**		

The index MSCI Europe Net Index (EUR), which includes dividends, realised a performance of -43.65% in 2008. 164 entities investing in European equity, i.e. 47.67% of all entities, realised a higher performance than this index. The market volatility for European equity is of 36.89% (source: MSCI Barra, CSSF calculation).

MSCI Europe Net Index (EUR) 2008



Source: MSCI Barra[13]

Interpretation of the Sharpe ratio

The population of UCI entities investing in European equity realised in 2008 on average a negative return of -2.07% per risk entity considered. For the performance of the maximum return class, a negative return of -1.63% on average could be observed per risk entity. For the performance of the minimum return class, a negative return of -1.85% on average could be observed per risk entity considered.

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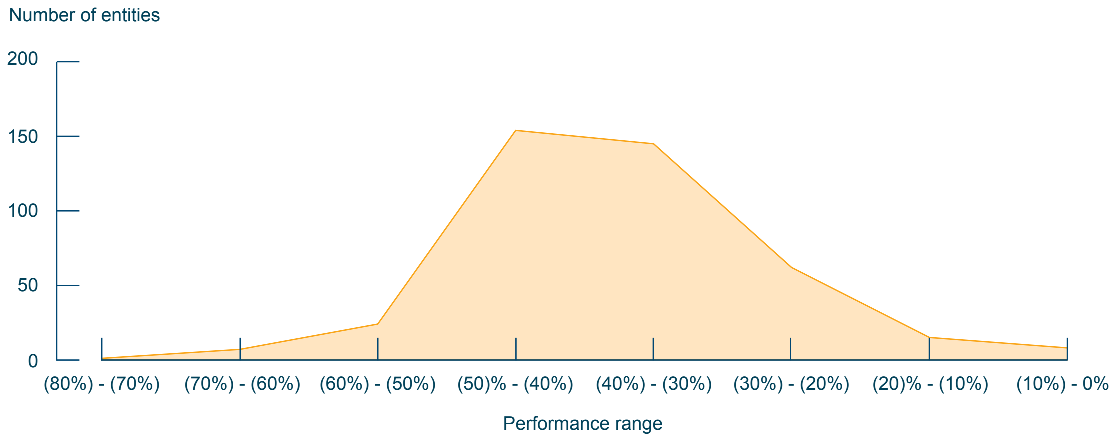
Summary table of the category of entities investing in European equity

Average performance	-44.60%
Maximum performance	-6.38%
Minimum performance	-64.01%
Standard deviation of performance	11.02%
Performance spread	57.63%
Statistical population	344
Performance of the index MSCI Europe Net Index (EUR)	-43.65%
Market volatility	36.89%
Number of entities with higher performance than MSCI Europe Net Index (EUR)	164
Sharpe ratio – average performance	-2.07
Sharpe ratio – maximum performance	-1.63
Sharpe ratio – minimum performance	-1.85

5.2.6. Entities whose investment policy consists in investing in international equity

The following graph illustrates the performance distribution of entities whose investment policy consists in investing in international equity.

Performance of entities investing in international equity in 2008



The average performance realised in 2008 by entities whose investment policy consists in investing in international equity is of -37.91%. The average performance of the maximum return class amounts to -4.91% whereas the average performance of the minimum return class is of -65.29%. The standard deviation of the performance of these UCIs amounts to 10.57%.

Central values and dispersion characteristics

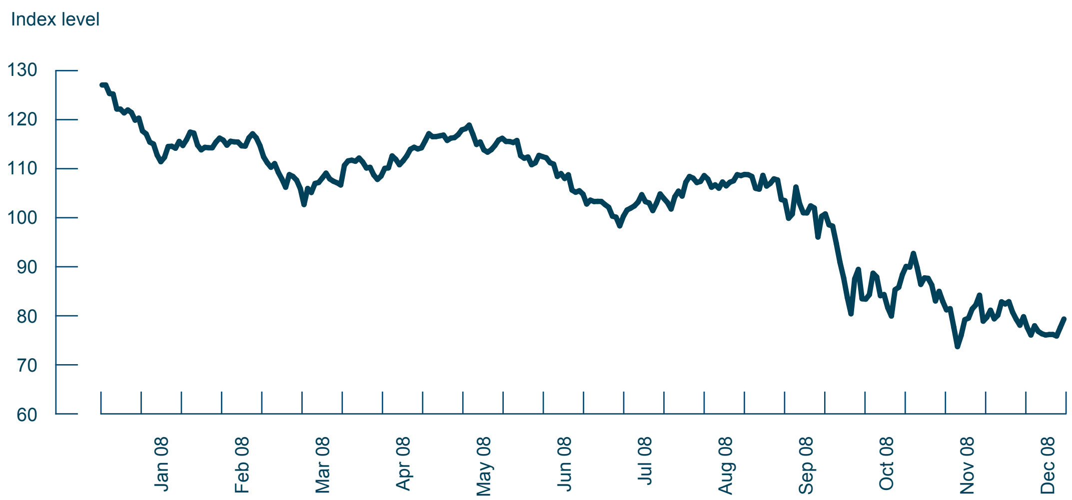
Average performance	-37.91%
Maximum performance	-4.91%
Minimum performance	-65.29%
Standard deviation of performance	10.57%
Performance spread	60.38%
Statistical population	416

Statistical performance distribution of entities investing in international equity

Performance	**Number of entities**			
Return classes	Absolute frequency	Relative frequency	Cumulative absolute frequency	Cumulative relative frequency
-80% to -70%	1	0.24%	1	0.24%
-70% to -60%	7	1.68%	8	1.92%
-60% to -50%	24	5.77%	32	7.69%
-50% to -40%	154	37.02%	186	44.71%
-40% to -30%	145	34.86%	331	79.57%
-30% to -20%	62	14.90%	393	94.47%
-20% to -10%	15	3.61%	408	98.08%
-10% to 0%	8	1.92%	416	100.00%
Total	**416**	**100.00%**		

The index MSCI World Index Net (EUR), which includes dividends, realised a performance of -37.64% in 2008. 184 entities investing in international equity, i.e. 44.23% of all entities, realised a higher performance than this index. The market volatility for international equity is of 31.20% (source: MSCI Barra, CSSF calculation).

MSCI World Index Net (EUR) 2008



Source: MSCI Barra

Interpretation of the Sharpe ratio

The population of UCI entities investing in international equity realised in 2008 on average a negative return of -2.02% per risk entity considered. For the performance of the maximum return class, a negative return of -1.42% on average could be observed per risk entity. For the performance of the minimum return class, a negative return of -1.76% on average could be observed per risk entity considered.

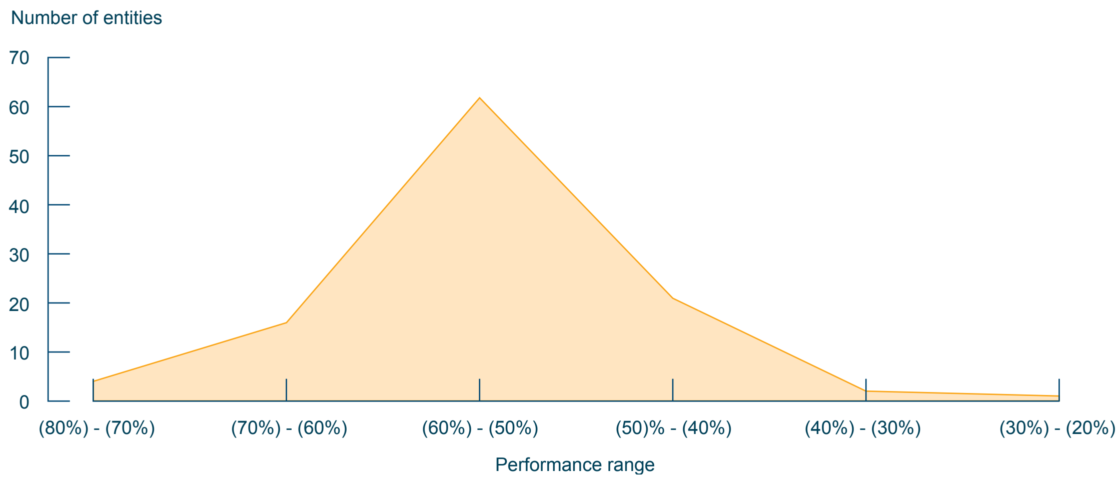
Summary table of the category of entities investing in international equity

Average performance	-37.91%
Maximum performance	-4.91%
Minimum performance	-65.29%
Standard deviation of performance	10.57%
Performance spread	60.38%
Statistical population	416
Performance of the index MSCI World Index Net (EUR)	-37.64%
Market volatility	31.20%
Number of entities with higher performance than MSCI World Index Net (EUR)	184
Sharpe ratio – average performance	-2.02
Sharpe ratio – maximum performance	-1.42
Sharpe ratio – minimum performance	-1.76

5.2.7. Entities whose investment policy consists in investing in emerging market equity

The following graph illustrates the performance distribution of entities whose investment policy consists in investing in emerging market equity.

Performance of entities investing in emerging market equity in 2008



The average performance realised in 2008 by entities whose investment policy consists in investing in emerging market equity is of -51.91%. The average performance of the maximum return class amounts to -29.16% whereas the average performance of the minimum return class is of -72.23%. The standard deviation of the performance of these entities amounts to 8.38%.

Central values and dispersion characteristics

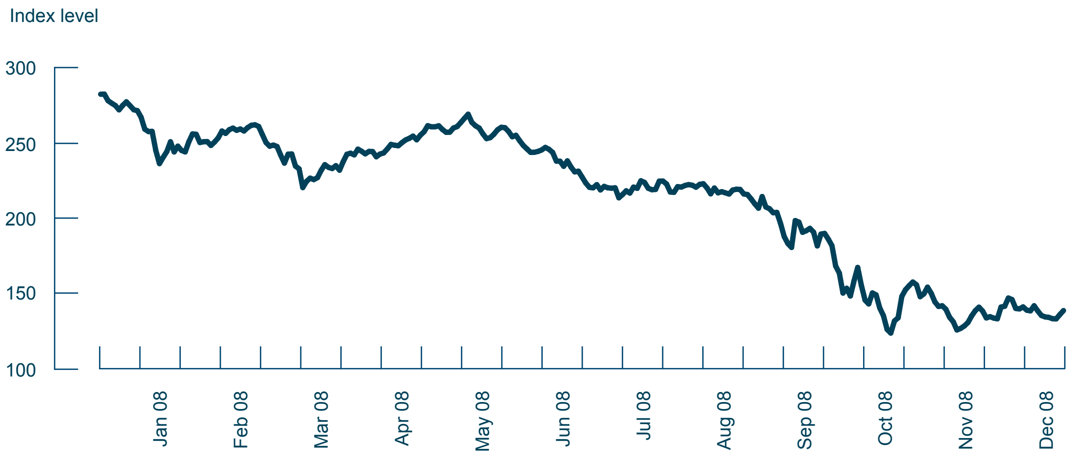
Average performance	-51.91%
Maximum performance	-29.16%
Minimum performance	-72.23%
Standard deviation of performance	8.38%
Performance spread	43.07%
Statistical population	106

Statistical performance distribution of entities investing in emerging market equity

Performance	**Number of entities**			
Return classes	Absolute frequency	Relative frequency	Cumulative absolute frequency	Cumulative relative frequency
-80% to -70%	4	3.77%	4	3.77%
-70% to -60%	16	15.09%	20	18.87%
-60% to -50%	62	58.49%	82	77.36%
-50% to -40%	21	19.81%	103	97.17%
-40% to -30%	2	1.89%	105	99.06%
-30% to -20%	1	0.94%	106	100.00%
Total	**106**	**100.00%**		

The index MSCI Emerging Markets Net Index (EUR), which includes dividends, realised a performance of -50.91% in 2008. 28 entities investing in emerging market equity, i.e. 26.42% of all entities, realised a higher performance than this index. The market volatility for emerging market equity is of 37.49% (source: MSCI Barra, CSSF calculation).

MSCI Emerging Markets Net Index (EUR) 2008



Source: MSCI Barra

Interpretation of the Sharpe ratio

The population of UCI entities investing in emerging market equity realised in 2008 on average a negative return of -1.73% per risk entity considered. For the performance of the maximum return class, a negative return of -1.58% on average could be observed per risk entity. For the performance of the minimum return class, a negative return of -1.76% on average could be observed per risk entity considered.

Summary table of the category of entities investing in emerging market equity

Average performance	-51.91%
Maximum performance	-29.16%
Minimum performance	-72.23%
Standard deviation of performance	8.38%
Performance spread	43.07%
Statistical population	106
Performance of the index MSCI Emerging Markets Net Index (EUR)	-50.91%
Market volatility	37.49%
Number of entities with higher performance than MSCI Emerging Markets Net Index (EUR)	28
Sharpe ratio – average performance	-1.73
Sharpe ratio – maximum performance	-1.58
Sharpe ratio – minimum performance	-1.76

6. MANAGEMENT COMPANIES AND SELF-MANAGED INVESTMENT COMPANIES

6.1. Self-managed investment companies

As at 31 December 2008, 198 investment companies qualified as "self-managed investment company" (SMIC), against 193 as at 31 December 2007 and 102 in 2006. These 198 SMICs represent 1,567 entities and their net assets amount to EUR 191 billion.

6.2. Management companies set up under Chapter 13 of the law of 20 December 2002, as amended

6.2.1. Development in numbers

In 2008, 11 applications for approval as management companies in accordance with the provisions of Chapter 13 of the law of 20 December 2002, as amended, were submitted to the CSSF, consisting of:

- seven projects for the setting-up of a new management company, of which three projects from players which were not yet established in Luxembourg,
- one project for the transformation of a company authorised under the status of professional of the financial sector (PFS) into a management company,
- three projects regarding the extension of the authorisation as management company subject to Chapter 14 of the law of 2002 to the status of management company subject to Chapter 13 of the same law.

By adding the two application files received in 2007 and finalised in 2008, 13 new entities were registered in 2008 on the official list of management companies under Chapter 13 of the law of 2002. The number of management companies authorised as at 31 December 2008 in accordance with Chapter 13 of the law of 2002 amounted to 189 entities.

Development in the number of management companies set up under Chapter 13 of the law of 2002

	2003	2004	2005	2006	2007	2008
Registrations	3	23	47	80	31	13
Withdrawals	/	/	1	3	/	4
Total	**3**	**26**	**72**	**149**	**180**	**189**

Five out of the 13 new authorisations were granted to financial players which established for the first time in Luxembourg. Moreover, all the new authorisations exclusively cover the activity of collective management within the meaning of Article 77(2) of the law of 2002.

One management company active exclusively in collective management widened its authorisation in 2008 to discretionary portfolio management and investment advice whereas four management companies gave up their authorisation to provide ancillary services.

Development in the number of management companies whose authorisation covers, in addition to the activity of collective management, one or several services referred to in Article 77(3) of the law of 2002

	2003	2004	2005	2006	2007	2008
Registration	2	6	5	10	4	1
Cessation of extended activities	/	/	/	/	3	4
Total	**2**	**8**	**13**	**23**	**24**	**21**

6.2.2. Geographical origin of management companies

Compared to the past, management companies of German and Swiss origin remained predominant on the Luxembourg market, followed by entities from France and Italy. Generally speaking, the interest in the Luxembourg financial centre by the neighbouring countries was confirmed in 2008.

Breakdown of management companies under Chapter 13 of the law of 2002 according to their geographical origin

Country	2004	2005	2006	2007	2008
Belgium	2	4	5	7	8
Canada	/	/	/	1	1
Denmark	1	2	3	3	3
France	3	5	14	20	21
Germany	8	15	39	42	46
Great Britain	3	6	7	8	10
Greece	/	/	1	2	2
Iceland	/	/	1	1	1
Italy	3	8	17	19	20
Japan	/	/	1	1	1
Liechtenstein	/	/	1	1	1
Luxembourg	/	1	8	9	8
Netherlands	2	3	3	4	3
Portugal	/	/	/	2	2
Spain	/	1	2	3	3
Sweden	2	4	5	6	6
Switzerland	1	18	35	44	45
United States	1	5	7	7	8
Total	**26**	**72**	**149**	**180**	**189**

6.2.3. Assets managed

As at 31 December 2008, the total net assets managed by management companies set up under Chapter 13 of the law of 2002 amounted to EUR 1,107.1 billion, against EUR 1,476.8 billion at the end of 2007, representing a drop of 25.0%. The withdrawal of capital and the negative performance of the main financial stock exchanges account for this considerable decrease in assets under management. Considering total net assets of EUR 1,559.6 billion invested as at 31 December 2008 in Luxembourg UCIs, management companies set up under Chapter 13 of the law of 2002 managed 70% of the total assets of Luxembourg UCIs.

Development in the net assets of management companies

(in billion EUR)	**2006**	**2007**	**2008**	**Variation 2007/2008**
Total net assets	1,306.0	1,476.8	1,107.1	-25.0%
of which:				
in "fonds communs de placement"	*594.6*	*657.0*	*479.4*	*-27.0%*
in investment companies	*711.4*	*819.8*	*627.7*	*-23.4%*

Distribution of management companies in terms of assets under management as at 31 December 2008

Assets under management	**Number of management companies**		
	2006	2007	2008
< 100 million EUR	15	32	41
100 - 500 million EUR	30	26	33
500 - 1,000 million EUR	13	25	21
1 - 5 billion EUR	34	40	49
5 - 10 billion EUR	23	21	17
10 - 20 billion EUR	16	15	13
> 20 billion EUR	18	21	15
Total	**149**	**180**	**189**

6.2.4. Movement in staff numbers

The total number of employees working for management companies amounts to 2,386 people as at 31 December 2008 (2,348 as at 31 December 2007), which represents an increase of 38 employees (+1.60%) over a year. In spite of a difficult economic environment, employment with management companies resisted the financial crisis fairly well.

6.2.5. Balance sheet and profit and loss account

The provisional total balance sheet of management companies reached EUR 6.353 billion as at 31 December 2008, as against EUR 7.188 billion at the end of 2007 (-11.61%). This drop can be explained by a reduction of activity of management companies.

The decrease of management companies' activities goes hand in hand with a decrease of their net results. The provisional net profits (before payment of interim dividends) amount to EUR 1.459 billion as at 31 December 2008 against EUR 2.349 billion as at 31 December 2007 (-37.87%). This drop originates from the reduction in assets under management which reduces current operating income. As far as expenses are concerned, general administrative expenses increased by 12.35% over one year.

29 out of 189 management companies announced a loss at the end of 2008 (18 in 2007) and the aggregated losses increased in comparison to the previous year. The year 2008 is thus characterised by a considerable loss in profitability for management companies governed by Chapter 13 of the law of 2002.

6.2.6. International expansion

- ***Right of establishment***

Three management companies incorporated under Luxembourg law (six in 2007) introduced an application in 2008 in order to establish a branch abroad:

- Berenberg Lux Invest S.A. opened a branch in Germany;
- Dexia Asset Management Luxembourg S.A. opened a branch in Austria, and
- Natixis Global Associates opened a branch in France.

In contrast, the management company Creutz & Partners Global Asset Management S.A. closed its German branch as at 31 December 2008.

As at 31 December 2008, the following management companies were represented in one or several countries abroad by means of a branch:

- Assenagon Asset Management S.A.	Germany
- Berenberg Lux Invest S.A.	Germany
- Casa 4 Funds Luxembourg European Asset Management	Switzerland
- Dexia Asset Management Luxembourg S.A.	Austria, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland
- Eurizon Capital S.A.	Chile, Singapore
- Fortis Investment Management S.A.	Greece
- JPMorgan Asset Management (Europe) S.à r.l.	Austria, France, Germany, Greece, Italy, Netherlands, Spain, Sweden
- Natixis Global Associates	France

Eurizon Capital S.A. decided to close its Chilean branch during the first half of 2009.

No management company of another EU Member State established a branch in Luxembourg in 2008.

- ***Free provision of services***

Five management companies incorporated under Luxembourg law introduced a notification to carry on their activities in one or several EU countries by way of free provision of services in 2008. These notifications concerned marketing, portfolio management and other ancillary services.

In 2008, the number of notifications to freely provide services in Luxembourg introduced by management companies from other EU Member States registered a decrease as compared to 2007. Indeed, 12 management companies (23 in 2007) of other EU Member States notified their intention to provide services in Luxembourg by way of free provision of services. The majority of these notifications were submitted by French and Spanish management companies and concerned collective and discretionary portfolio management activities.

- ***Representative offices***

In 2008, three management companies opened representative offices abroad:

- AllianceBernstein (Luxembourg) S.A.	Switzerland
- Institutional Trust Management Company S.à r.l.	Italy
- Sparinvest S.A.	Netherlands, Sweden

By contrast, Fortis Investment Management S.A and Ökoworld Lux S.A. closed the representative offices respectively in Switzerland and in Germany.

6.2.7. Supervisory practice

- ***Application of the MiFID Directive***

Following the entry into force of the law of 13 July 2007 on markets in financial instruments, amending, among others, the law of 20 December 2002 concerning undertakings for collective investment, some management companies set up under Chapter 13 of the law of 2002 now fall under the scope of MiFID Directives 2004/39/EC and 2006/73/EC. This applies in particular to those management companies the authorisation of which covers one or more services under Article 77(3) of the law of 2002, notably managing investment portfolios on a discretionary client-by-client basis in accordance with a mandate given by investors, investment advice as well as the safekeeping and administration of units of UCIs.

a) Applicability to management companies of Circulars CSSF 04/155 and IML 98/143

Management companies governed by Chapter 13 of the law of 2002 which are authorised to provide services under Article 77(3) fall within the scope of Circular CSSF 07/307 which provides *inter alia* under point 20 that Circular CSSF 04/155 on the compliance function and Circular IML 98/143 on internal control are applicable. Consequently, compliance with these circulars has to be verified by the external auditor.

b) Verification of compliance with conduct of business rules and organisational requirements by the branch of management companies governed by Chapter 13 of the law of 2002 the authorisation of which covers a wide range of activities

Article 32 of the MiFID Directive (2004/39/EC) established a framework for the control of compliance with conduct of business rules and organisational requirements by branches of credit institutions and investment firms set up under Luxembourg law. It specifies that the branch's host state authority is responsible for the verification, among others, of the conduct of business rules.

Article 66 of the MiFID Directive lists those articles which apply to management companies the authorisation of which covers a wide range of activities. Given that this article does not refer to Article 32 above, the CSSF considers that the host state authority of a management company's branch is not responsible for the verification of the conduct of business rules.

The CSSF nevertheless considers that the provisions of Articles 13 (organisational requirements) and 19 (conduct of business rules) apply to branches of management companies governed by Chapter 13 of the law of 2002. The CSSF is therefore of the opinion that a Luxembourg management company's internal audit function must control and cover compliance with conduct of business rules and organisational requirements by branches in its report.

- ***Capital requirements due to operational risk***

According to Part XV of Circular CSSF 07/290, management companies which are authorised to undertake discretionary portfolio management activities may submit to the CSSF a request for exemption from the calculation of capital requirements due to operational risk according to one of the three following techniques: the Basic Indicator Approach, the Standardised Approach or the Advanced Measurement Approaches.

This request for exemption has to be accompanied by a description of policies and procedures which are in place to allow the management company to value and manage its exposure to operational risk, including to low probability and high severity events. Furthermore, the management company has to put in place emergency and follow-up activity plans which ensure its capacity to limit losses and not to interrupt its activity in times of severe disruption.

- ***Capital investments***

Concerning the reuse of the legally required capital for management companies, the CSSF requires that these funds be put at the permanent disposal of the management company and be available in case of need. As a consequence, the capital cannot be used for the purpose of investing with the shareholder or financing a loan granted to the shareholder. On condition of complying with the prudent person rule, it is nevertheless admissible that the funds in question be invested for the operational needs of the management company.

7. DEVELOPMENTS IN THE REGULATORY FRAMEWORK

7.1. Circular CSSF 08/356 on the rules applicable to undertakings for collective investment when they employ certain techniques and instruments relating to transferable securities and money market instruments

The techniques and instruments referred to in Circular CSSF 08/356 are securities lending transactions, sale with right of repurchase transactions and repurchase/reverse repurchase agreements. These techniques and instruments must be used by the undertaking for collective investment in transferable securities (UCITS) for the purpose of an efficient portfolio management.

The purpose of the circular is to specify the conditions and limits within which a UCITS is authorised to employ the above techniques and instruments. The conditions and limits set out in this circular apply, in principle, also to UCIs under Part II of the law of 20 December 2002 concerning undertakings for collective investment, as amended.

The circular limits the UCITS' counterparty risk exposure to a single counterparty in one or more securities lending transactions, sale with right of repurchase transactions and/or repurchase/reverse repurchase agreements and allows the UCITS to take into consideration an appropriate collateral to mitigate this risk. At the same time, it provides details on the form of this collateral and on the requirements that the UCITS must comply with in order to take it into consideration. As regards cash received as collateral, the circular allows its reinvestment by the UCITS while setting reinvestment limits.

Finally, the circular specifies the type of information that a UCITS must disclose in its prospectus and financial reports when employing these techniques and instruments.

7.2. Circular CSSF 08/371 on the electronic transmission of prospectuses and financial reports of UCIs and SIFs to the CSSF

From 1 January 2009, Luxembourg UCIs and SIFs are obliged to submit prospectuses, simplified prospectuses, offering documents and annual reports to the CSSF in electronic form *via* the exchange platform *e-file*.

Prospectuses, simplified prospectuses and offering documents receive a Visa that consists of:

- an electronic "stamp" that is added to the first page of the prospectus. This stamp includes a Visa number, the information that the Visa may not be used as a sales argument, the date of the Visa, the issuer of the Visa, i.e. the CSSF, and the scanned signature of a director of the CSSF,
- an electronic signature of the CSSF based on an SSL certificate issued by Luxtrust. Luxtrust is the certification authority for electronic signatures in Luxembourg.

The electronic prospectuses, simplified prospectuses and offering documents are thus visa stamped and returned to the applicant *via* the *e-file* platform.

Together with the approved electronic prospectus, a UCITS that is registered pursuant to Part I of the amended law of 20 December 2002 will also receive an electronic attestation pursuant to Circular CSSF 07/277 concerning the notification procedure in line with the guidelines of the Committee of European Securities Regulators (CESR). This attestation is signed by the CSSF with the same Luxtrust certificate.

The validity of the digital signature can be verified on any Internet-PC which has access to the Luxtrust website (www.luxtrust.lu) directly in Acrobat Reader after having installed the public certificate of the CSSF. The public certificate can be downloaded from the CSSF website (www.cssf.lu) under the heading "Electronic Prospectuses UCI/SIF".

7.3. Circular CSSF 08/372 concerning guidelines for depositaries of specialised investment funds adopting alternative investment strategies, where those funds use the services of a prime broker

The purpose of the circular is to set up guidelines allowing the depositary of a SIF which, while making use of derivatives or adopting alternative investment strategies, uses the services of a prime broker to achieve its supervisory mission in accordance with the provisions of the law of 13 February 2007. First, the circular reminds that the responsibility for the choice of the prime broker and its degree of implication lies with the management board, in case the SIF is a legal entity, or the management company, in case the SIF is organised as *fonds commun de placement*. Second, the circular defines the criteria which the depositary bank has to verify in order to choose a prime broker, specifies the organisational elements regarding the relationship between the depositary and the prime broker and provides that the SIF offering documents should inform appropriately the investors on the prime broker's role and the risks relating to it.

7.4. Circular CSSF 08/380 concerning guidelines of the Committee of European Securities Regulators (CESR) concerning eligible assets for investment by UCITS

This circular draws the attention of UCITS subject to Part I of the amended law of 20 December 2002 to the publication of the amended version of the guidelines published by CESR known as "CESR's guidelines concerning eligible assets for investment by UCITS – March 2007 (Updated September 2008)", Ref.: CESR/07-044b.

This version cancels and replaces the document "CESR's guidelines concerning eligible assets for investment by UCITS – March 2007", Ref.: CESR/07-044, included in Circular CSSF 08/339.

The new version only amends the first paragraph of point 24 relating to techniques and instruments used for the purpose of efficient portfolio management and clarifies the prohibition for UCITS to enter into operations of physical short-selling.

8. PRUDENTIAL SUPERVISORY PRACTICE

8.1. Prudential supervision

8.1.1. Standards to be observed by UCIs

One of the fundamental duties of the CSSF in the supervision of UCIs is to ensure application of the laws and regulations relating to UCIs. The aim of this supervision is to ensure adequate investor protection as well as stability and security in the UCI sector.

8.1.2. Instruments of prudential supervision

The CSSF's permanent supervision aims to ensure that UCIs subject to its supervision observe all legislative, regulatory and contractual provisions relating to the organisation and operation of UCIs, as well as to the distribution, investment or sale of their securities. This supervision is based in particular on:

- the examination of the periodic financial information which UCIs must submit to the CSSF on a monthly and annual basis;
- the analysis of annual and semi-annual reports which UCIs must publish for their investors;
- the analysis of the management letters issued by the external auditor, which must be communicated immediately to the CSSF;
- the analysis of the statements made in accordance with the circular on the protection of investors in case of a NAV (net asset value) calculation error and correction of the consequences resulting from non-compliance with the investment rules applicable to UCIs;
- on-site inspections carried out by CSSF agents.

8.1.3. Means of control

- ***Review of semi-annual and annual reports***

The review of semi-annual and annual reports carried out by the CSSF shows that these reports are in general drawn up in accordance with the applicable legal rules.

- ***Review of financial information for the CSSF and STATEC***

In accordance with Circular IML 97/136 and pursuant to Article 118 of the law of 2002, as amended, the central administrations of Luxembourg UCIs must transmit financial information by electronic means to the CSSF, on a monthly (tables O 1.1.) and yearly (tables O 4.1. and O 4.2.) basis. The deadline to transmit the monthly financial information is twenty days following the reference date, which is in principle the last day of each month. As regards yearly financial information, the reference date is the date of the close of the financial year and the time limit is four months.

As far as monthly financial information is concerned, the CSSF considers that UCIs must, on the one hand, scrupulously observe the allocated deadline to submit table O 1.1. and, on the other hand, pay due attention when drawing up this table so as to ensure that the format and content are correct. For information, the format and content of about 12,000 files, representing nearly 28,000 types of units/shares, are controlled every month.

- ***Surveys on Late Trading and Market Timing***

In accordance with Circular CSSF 04/146 concerning the protection of UCIs and their investors against Late Trading and Market Timing practices, one case of potential Market Timing and a notification of Late Trading were reported to the CSSF in 2008. Following examination, one file was already closed in 2008.

- ***Meetings***

In 2008, 201 meetings were held between representatives of the CSSF and intermediaries of UCIs. These meetings concerned the presentation of new UCI projects, restructurings of UCIs, but also the application of the laws and regulations of UCIs.

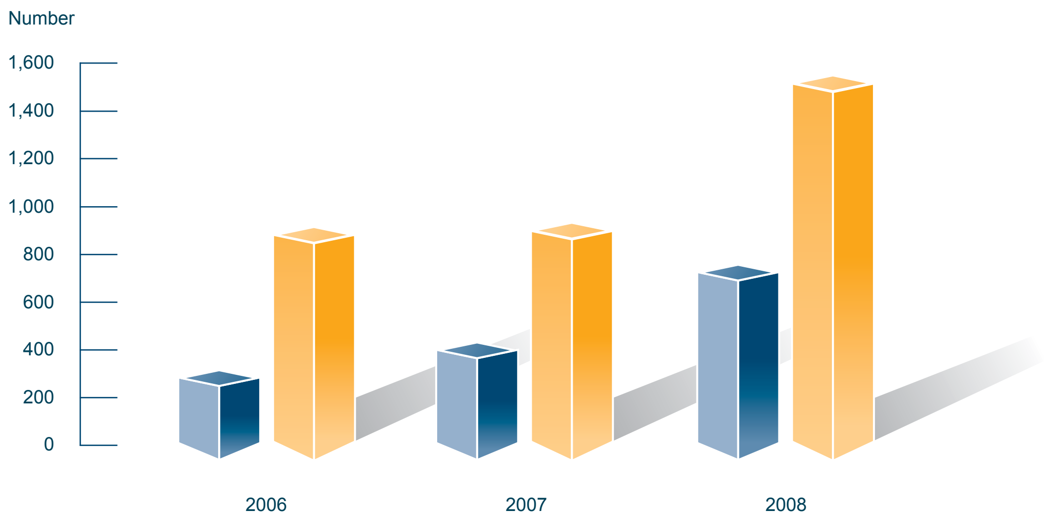
8.2. Circular CSSF 02/77 on the protection of investors in case of NAV calculation error and correction of the consequences resulting from non-compliance with the investment rules

8.2.1. Reports made in 2008 on the basis of Circular CSSF 02/77

In 2008, the CSSF received 2,233 statements on the basis of Circular CSSF 02/77, against 1,292 statements in 2007, representing an increase of 73%.

Among these reports, 714 cases (393 in 2007) concerned NAV calculation errors and 1,519 cases (899 in 2007) non-compliance with investment rules.

Development in the number of NAV calculation errors and cases of non-compliance with investment rules notified to the CSSF over the last three years



	2006	2007	2008
NAV calculation error	274	393	714
Non-compliance with investment rules	876	899	1,519

As far as the number of NAV calculation errors is concerned, the rising trend which began in 2005 was confirmed in 2008. While the number of declarations barely increased in 2007, an increase of 82% was noted in 2008 that is one of the most important rises since the circular came into force. This rise cannot be explained only by the increasing numbers of UCIs registered on the official list but also finds its origins in the turbulences which affected financial markets over the past months.

The number of instances of non-compliance with investment rules also increased considerably by 69%.

As regards more particularly the reports received in 2008, 301 out of the 714 cases of NAV calculation errors and 333 out of the 1,519 cases of non-compliance with investment rules could not be closed at 31 December 2008, as the CSSF was still awaiting either further information, or the report(s) of the external auditor or the management letter, or the report on the UCI's activity following the application of the simplified procedure as provided for by Circular CSSF 02/77.

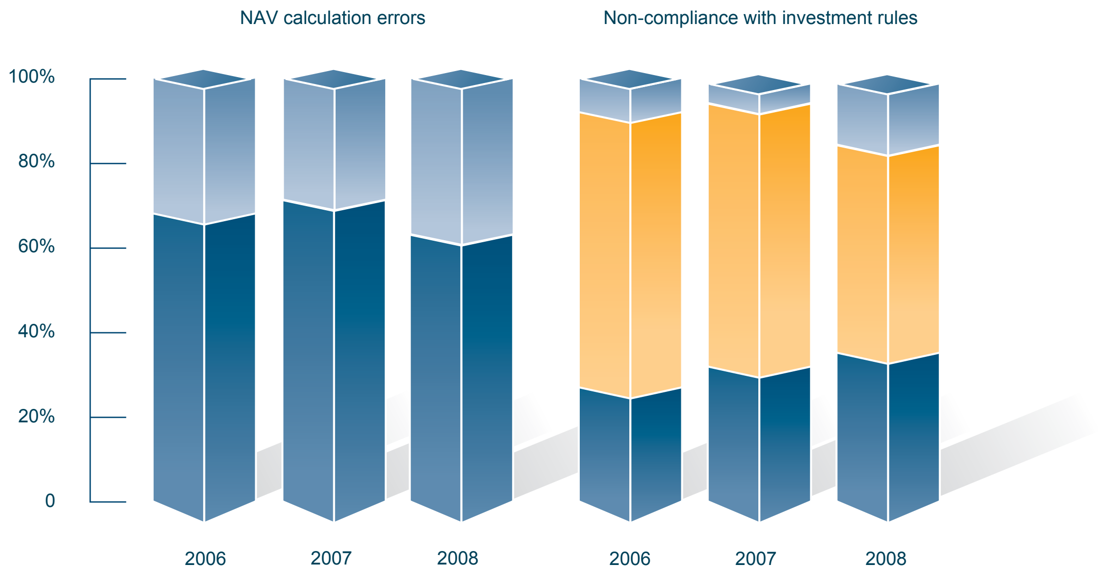
Indeed, Circular CSSF 02/77 introduced a simplified procedure for cases of NAV calculation errors or non-compliance with investment rules that entail losses for the UCI, where the indemnification amount does not exceed EUR 25,000 and the amount to be reimbursed to an investor does not exceed EUR 2,500.

In this event, no corrective action plan needs to be submitted to the CSSF, but the central administration must notify the occurrence of the calculation error or non-compliance to the CSSF and promptly take the measures necessary to correct the calculation error or non-compliance and arrange the indemnification of the damages occurred. The external auditor of the UCI must review the correction process and state in his annual audit report whether, in his opinion, the correction process is appropriate and reasonable.

In 2008, 446 out of 714 cases of NAV calculation errors fall within the scope of the simplified procedure (276 cases of 393 in 2007). 539 out of 1,519 cases of non-compliance with investment rules also applied this procedure (281 cases out of 899 in 2007).

The following graph plots the proportion of the cases of simplified procedure compared to the total number of reports received over the last three years.

Simplified procedure

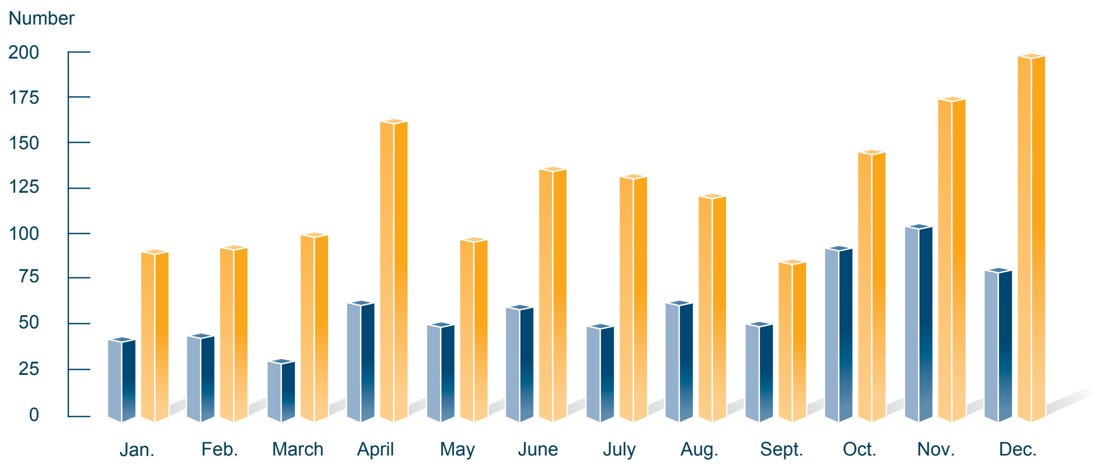


	NAV calculation errors 2006	NAV calculation errors 2007	NAV calculation errors 2008	Non-compliance with investment rules 2006	Non-compliance with investment rules 2007	Non-compliance with investment rules 2008
Normal procedure	32%	30%	38%	8%	7%	16%
Non-compliance without prejudice	-	-	-	65%	62%	56%
Simplified procedure	68%	70%	62%	27%	31%	35%

Thus in 2008, 62% of the reports of NAV calculation errors fell within the scope of the simplified procedure (70% in 2007 and 68% in 2006). As regards the cases of non-compliance with investment rules, 35% of the cases met the criteria of the simplified procedure (31% in 2007 and 27% in 2006) and 56% of the cases could be regularised without harming neither the investors nor the UCIs (62% in 2007 and 65% in 2006).

The following graph sets out in detail the reports made during 2008.

Development in the errors and instances of non-compliance notified in 2008



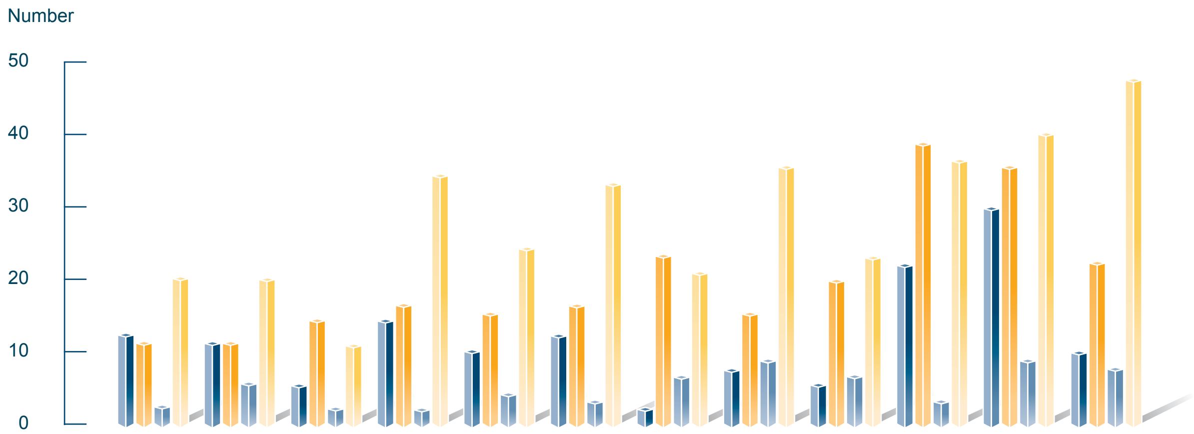
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
NAV calculation erreurs	41	43	29	61	49	59	48	61	50	91	103	79
Non-compliance with investment rules	89	91	99	161	96	135	130	120	84	144	173	197

10% of the reports were made during April 2008. This can be explained, among others, by the fact that the finalisation works for the close of the financial year commence at this moment and that the external auditor detects only then the NAV calculation errors or the instances of non-compliance with the investment restrictions that have not been previously identified. Furthermore, 35% of the reports were made during the months of October to December 2008. This can be explained by the turbulences in the financial markets.

NAV calculation errors may be linked to four different causes: pricing errors, booking errors, errors in the calculation of costs and accruals and other errors, for example in the valuation of swaps or futures.

The following graph plots the different causes of NAV calculation errors recorded in 2008.

Development of the causes for NAV calculation errors in 2008

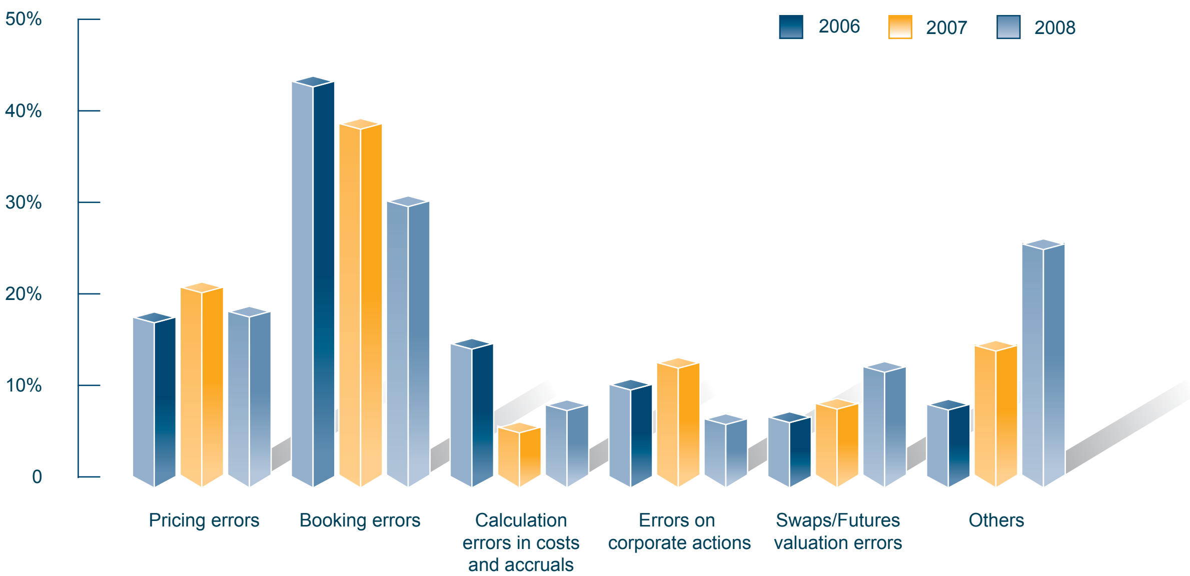


	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Pricing errors	11	10	5	13	9	11	2	7	5	20	27	9
Booking errors	10	10	12	15	14	15	21	14	18	35	32	20
Calculation errors in costs and accruals	2	5	2	2	4	3	6	8	6	3	8	7
Others	18	18	10	31	22	30	19	32	21	33	36	43

During the relevant period, 18% of NAV calculation errors were due to pricing errors, 30% to booking errors and 8% to calculation errors in costs and accruals. Among the other causes of error, problems linked to corporate actions represent 6% of the cases reported and errors in the valuation of swaps and futures account for 12% of the NAV calculation errors.

The following table shows the development of the causes of NAV calculation errors recorded since 2006.

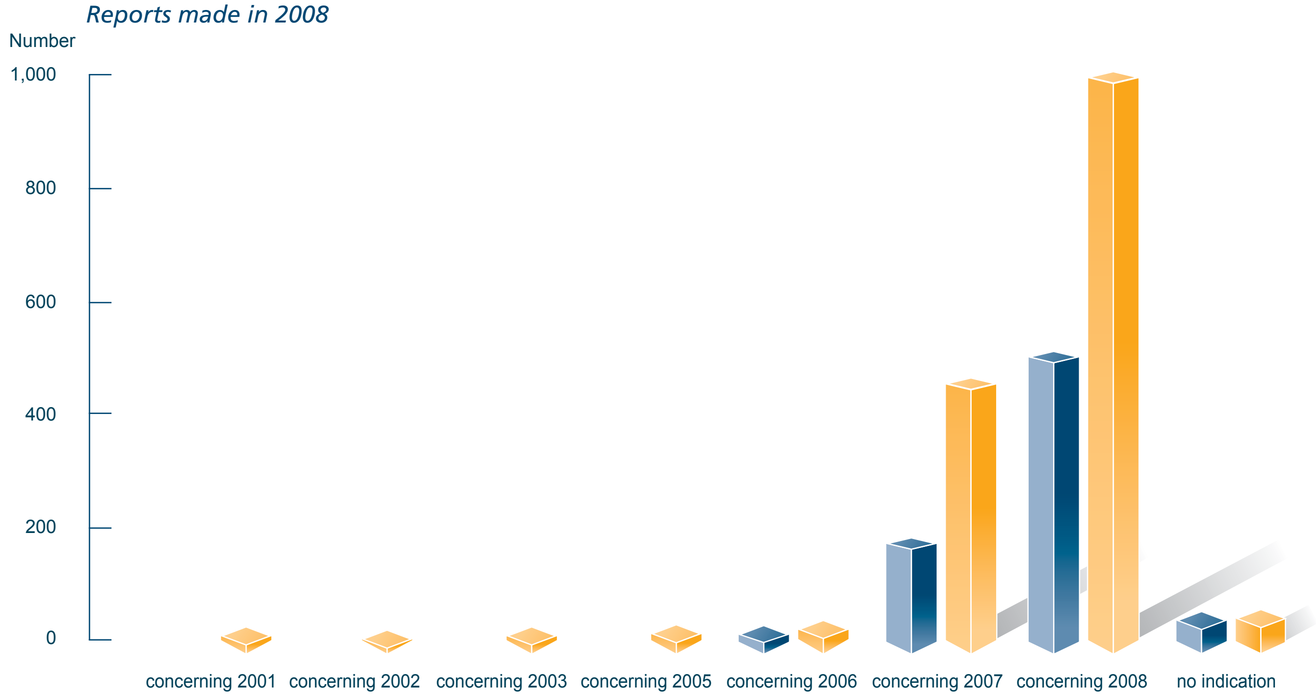
Development of the causes of NAV calculation errors over the last three years



Over the last three years, booking errors and errors in the valuation of securities held by UCIs were the main causes for NAV calculation errors. The increase already noted during 2007 of errors due to problems in the valuation of swaps/futures is confirmed in 2008. On the other hand, the increase in errors originating from corporate actions already apparent since 2006, is not confirmed in 2008 and even drops by 7%. The number of calculation errors in costs and accruals increased slightly in 2008.

It should be noted that reports made during 2008 do not always refer to errors and instances of non-compliance that occurred during 2008. Indeed, they can also relate to errors or instances of non-compliance detected in 2008, but which relate to errors or instances of non-compliance that occurred previously, as shown in the graph below.

Reports made in 2008



	concerning 2001	concerning 2002	concerning 2003	concerning 2005	concerning 2006	concerning 2007	concerning 2008	no indication
NAV calculation errors	0	0	0	0	10	170	500	34
Non-compliance with investment rules	3	2	3	9	18	452	996	36

Out of the 2,233 reports received in 2008, instances which already occurred in 2001, 2002 or 2003[14] each account for 0.1%. 0.4%, 1.3% and 27.9% respectively of reports concerned errors or instances of non-compliance which occurred in 2005, 2006 and 2007 while 67.0% of instances related to errors or instances of non-compliance which actually occurred in 2008.

8.2.2. Compensation paid following regularisation of NAV calculation errors or instances of non-compliance with investment rules

The table below sets out the compensation amounts notified in 2007 and 2008. It has to be noted that it is based on data available to the CSSF as at 31 December 2007 and 31 December 2008 respectively, while the compensation amounts had not yet been notified in certain cases.

Compensation paid following NAV calculation errors

	Investors		UCI/Sub-fund	
	2007	2008	2007	2008
EUR	3,253,241.53	5,400,901.01	3,142,331.54	7,439,544.87
USD	4,747,222.19	5,181,765.38	3,412,389.02	3,244,553.74
GBP	6,359.93	4,015.33	109,911.09	85,202.42
CHF	-	10,210.10	-	267,422.78
Other currencies*	488,096.45	29,849.35	205,190.56	66,648.62
Total *(in EUR**)*	**6,974,806.52**	**9,232,525.22**	**5,815,444.94**	**10,173,285.82**

Compensation paid following non-compliance with investment rules

	Investors		UCI/Sub-fund	
	2007	2008	2007	2008
EUR	3,564.09	1,381.74	1,887,615.92	4,671,131.43
USD	-	-	2,124,264.02	1,490,522.27
GBP	-	-	5,783.05	22,648.40
CHF	-	-	13,863.53	67,712.00
Other currencies*	-	-	10,416.12	46,769.06
Total *(in EUR**)*	**3,564.09**	**1,381.74**	**3,814,166.39**	**5,908,039.95**

* converted in EUR at the exchange rate applicable on 31 December 2008 and 31 December 2007 respectively.

** exchange rate as at 31 December 2008 and 31 December 2007 respectively.

The increase of the amounts paid out as a compensation following non-compliance with investment rules which emerged in 2006 was confirmed in 2008. This rise can be explained in particular by the increase in the number of reports received during the year. However, it should be noted that the compensation amounts linked to only 11 instances of non-compliance with investment rules represented 56% of the total amount paid out to sub-funds.

The increase in the compensation amounts linked to NAV calculation errors can be explained notably by the sharp increase in the number of errors reported. However, it should be noted that the compensation amounts linked to 33 NAV calculation errors represented 61% of the total amount paid out to investors and 59% of the total amount paid out to sub-funds.

[14] No report related to errors or instances of non-compliance in 2004.

8.2.3. Management letters

Chapter P of Circular IML 91/75 of 21 January 1991 states that UCIs must automatically and immediately communicate to the CSSF the management letters issued by external auditors in the context of the audits which the latter are obliged to undertake pursuant to Article 113 of the law of 2002.

The analysis below is based on the data of the year 2007, since these are more pertinent. Indeed, most UCIs close their financial year on 31 December so that the data relating to 2007 are established by the CSSF in 2008.

As in the previous years, many management letters, namely 69%, are management letters that contain no recommendations, i.e. the external auditor has not detected any irregularities in the management of the UCIs. 20% are management letters with recommendations by which the external auditors have reported irregularities of various types. 11% of the management letters have not been submitted yet.

With regard to management letters with recommendations, the irregularities pointed out by external auditors can be divided into four main categories: overstepping of statutory or regulatory limits, NAV calculation errors, non-compliance with investment policy and problems in the organisation of UCIs.

8.3. Long form reports

Circular CSSF 02/81 of 6 December 2002 sets out the rules concerning the scope of the audit of the annual accounting documents and the content of the long form reports to be drawn up pursuant to the law on UCIs. The circular, which applies to all Luxembourg UCIs, takes account of the fact that in practice, the role and function of the external auditor are one of the pillars of the prudential supervision of UCIs.

The purpose of the long form report introduced by Circular CSSF 02/81 is to report on the findings of the external auditor in the course of its audit concerning the financial and organisational aspects of the UCI comprising *inter alia* its relationship with the central administration, the depositary bank and other intermediaries (investment managers, transfer agents, distributors, etc.).

The reports enable the CSSF to strengthen the supervision of UCIs as they provide detailed information on the organisation of UCIs and on their relationships with the central administration, the depositary bank or any other intermediary.

8.4. Enforcement of the legislation concerning UCIs

8.4.1. Deposit of the residue of the liquidation of a UCI at the *Caisse de Consignation*

Article 107 of the law of 20 December 2002, as amended, provides that in the event of a voluntary or compulsory liquidation of a UCI, the sums and assets payable in respect of units whose holders failed to present themselves at the time of the closure of the liquidation, shall be paid to the public trust office (*Caisse de Consignation*) to be held for the benefit of the persons entitled thereto.

The CSSF considers that the closure of the liquidation of a UCI shall in principle take place within a period of nine months starting from the decision of the board of directors relating to the liquidation. Where the procedure of liquidation of a UCI or of a sub-fund cannot be closed within a period of nine months, a written request for exemption shall be submitted to the CSSF detailing the reasons why the closure of the liquidation cannot be pronounced.

As soon as the closure of the liquidation of a UCI has been decided, whether this decision is taken before the nine-month period has expired or at a later date, any residue shall be deposited as soon as possible at the *Caisse de Consignation*.

The same principle applies to umbrella funds at the closure of one or more sub-funds. The procedure laid down by the *Institut Monétaire Luxembourgeois* on 29 March 1993 regarding the closure of a sub-fund of an umbrella fund is therefore amended in this respect.

8.4.2. Determination of the exposure limit to counterparty risk associated with OTC derivative financial instruments with financial collateral pursuant to Article 43(1) of the law of 2002 and Circular CSSF 07/308

Section III.2.3.1 of Circular CSSF 07/308 sets out the principles to be applied by UCITS when calculating counterparty risk associated with OTC derivative financial instruments. This calculation is to be done in three consecutive steps: (1) ascertain the current replacement cost, (2) ascertain potential future credit exposure and (3) allocate a risk weighting to the sum of the current replacement cost and the potential future credit exposure.

For those UCITS which receive financial collateral from the counterparty so as to reduce the counterparty risk, the three-step calculation can be summarised on hand of the following formula as regards a position in OTC derivative financial instruments:

[((current replacement cost) + (notional/ underlying x add-on)) – (collateral x (1-haircut))] x weighting factor

with:

- current replacement cost	current replacement cost of all contracts with positive values obtained by mark-to-market valuation
- notional / underlying	value of the notional principal or the underlying asset of the contract
- add-on	factor to be applied to the value of the notional principal of the underlying asset in order to calculate the risk of potential future credit exposure
- collateral	market value of financial collateral received from the counterparty
- haircut	factor to be applied to the market value of financial collateral presenting a significant risk of value fluctuation (including the risk of currency mismatch)
- risk weight factors	weight factor to be applied to the sum of the current replacement cost and risk of potential future credit exposure after deduction of financial collateral received; this factor has a value of 20% or 50%.

The different factors to be taken into consideration for the counterparty risk assessment are described in more detail in section III.2.3.1. of the above-mentioned circular.

8.4.3. Eligible financial collateral for the purpose of counterparty risk mitigation associated with OTC derivative financial instruments (Circulars CSSF 07/308 and CSSF 08/356)

The CSSF points out that the types of financial collateral which are eligible under section II.b) of Circular CSSF 08/356 can also be used by UCITS for the purpose of counterparty risk mitigation associated with OTC derivative financial instruments. More specifically, the units of a UCI or UCITS which comply with the criteria set out in Circular CSSF 08/356 section II.b) points (iii) and (iv) also fall within the boundaries of financial collateral which the CSSF considers as eligible under Circular CSSF 07/308.

The CSSF recalls that financial collateral received can only be taken into consideration for the purpose of counterparty risk mitigation associated with OTC derivative financial instruments if it is adequately diversified. The diversification criteria shall be assessed in relation to the level of risk and the liquidity of the financial collateral the UCITS received.

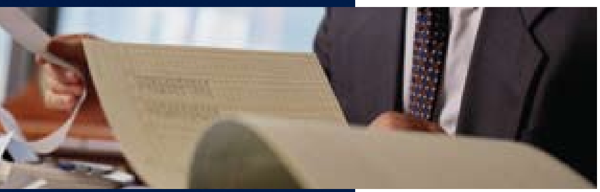
8.4.4. Financial index

The CSSF has decided that the directors of the UCITS concerned are responsible for assessing the qualification of a specific financial index as underlying asset of a derivative financial instrument pursuant to Article 41(1) g) of the law of 20 December 2002 as amended, based on the criteria of Article 9 of the Grand-ducal regulation of 8 February 2008 and Circular CSSF 08/380 on the guidelines of the Committee of European Securities Regulators (CESR) concerning eligible assets for investment by UCITS. Consequently such assessment does not require the prior recognition of the financial index by the CSSF.

In this context the CSSF shall have at its disposal a detailed description of the methodology adopted by the UCITS' management company or the self-managed SICAV in relation with the due diligence which has to be completed where the investment policy of a UCITS is characterised by the exposure to a financial index. This methodology has to assure that the relevant index qualifies as financial index pursuant to Article 9 of the above-mentioned Grand-ducal regulation or Circular CSSF 08/380.

The methodology does not need to be submitted individually for each UCITS; this can be done by the management company in respect of all the UCITS it manages.

The CSSF points out that the qualification of a given index as financial index is the UCITS' responsibility. The UCITS shall of course be able to provide the CSSF *a posteriori*, upon request, with the justification of the stance taken.



CHAPTER III

SUPERVISION OF PENSION FUNDS

1. Developments in the pension funds sector in 2008

2. International co-operation

1. DEVELOPMENTS IN THE PENSION FUNDS SECTOR IN 2008

1.1. Pension funds

As at 31 December 2008, 13 pension funds 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), as amended, were registered on the official list of pension funds.

Net assets of these pension funds reached EUR 286 million at the end of 2008 against EUR 266 million as at 31 December 2007.

There were no new registrations on the official list during 2008. In general, the pension funds sector stagnated over the past years. Thus, the pan-European pension funds market has not evolved since the entry into force on 23 September 2005 of Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision (IORP Directive) which confers a European passport on institutions for occupational retirement provision.

The CSSF expects a more dynamic development of the pension funds' activities for the year 2009, through the development of the pension funds' activities as well as through the establishment of new entities in Luxembourg.

1.2. Liability managers

There has been no new registration in 2008 on the official list of professionals authorised to act as liability managers for pension funds subject to the law of 13 July 2005 as amended. Consequently, the number of liability managers of pension funds approved by the CSSF amounted to 12 as at 31 December 2008.

2. INTERNATIONAL CO-OPERATION

Work in progress at the level of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

After mapping out the prudential approaches across Member States in the main areas concerning the rules and principles on prudential supervision of the activities of institutions for occupational retirement provision, the Occupational Pensions Committee of CEIOPS published a report in April 2008 which deals with the different ways the key aspects of the IORP Directive were implemented in the Member States. The report concludes that additional work will be necessary to find a common interpretation of the provisions of the Directive. This report is available on the CEIOPS website (www.ceiops.eu).

A second report, published in early April 2008, deals with the mapping out of static (valuation assumptions) and dynamic (adjustment/protection mechanisms) aspects of scheme funding activity across the EEA in order to analyse the existing systems in the Member States designed to ensure the solvency of institutions for occupational retirement provision.

The European Commission has to assess these reports against the IORP Directive in order to consider, where applicable, amendments to the relevant provisions of the Directive.

CEIOPS has drawn up its first conclusions on the workings of the Budapest protocol[1] in which it assessed the effectiveness of the notification procedure among Member States and analysed various definitional difficulties. It is anticipated that a revised protocol be published in November 2009.

Furthermore, an additional report relating to the provisions on outsourcing applicable in the Member States has been drawn up.

An assessment on the content of social and labour laws applicable to institutions for occupational retirement provision in the Member States has also been completed.

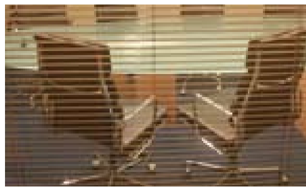
In 2009, the Occupational Pensions Committee will decide on the follow-up to the observations and recommendations with regard to the above-mentioned reports and continue its fact-finding mission with respect to other topics. The publication of reports on internal control and risk management requirements for institutions for occupational retirement provision is also planned.

CEIOPS will also develop a legal reference tool relating to the provision of occupational pensions by pension schemes or institutions which are not covered by or are explicitly excluded from the scope of the Directive.

The publication of a document dealing with practical aspects of the various interpretations of the concept of cross-border activity and the implications of such definition on the prudential supervision of the cross-border activities of institutions for occupational retirement provision (IORP) and the protection of members and beneficiaries is, in principle, expected for autumn 2009. At the same time, a report on the implications of the different national approaches as regards cross-border activities by IORPs concerning the ring-fencing of assets and commitments in stress situations should be drawn up.

Last but not least, CEIOPS publishes periodic press releases on the development of cross-border activities of institutions for occupational retirement provision (www.ceiops.eu).

[1] Protocol relating to the Collaboration of the Relevant Competent Authorities of the Member States of the European Union in Particular in the Application of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs) Operating Cross-Border (http://www.ceiops.org/media/files/publications/protocols/CEIOPS-DOC-08-06BudapestProtocol.pdf).



CHAPTER IV

PRUDENTIAL SUPERVISION OF SICARS

1. Developments in the SICAR sector in 2008
2. Regulatory framework
3. Prudential practice

1. DEVELOPMENTS IN THE SICAR SECTOR IN 2008

In 2008, the CSSF received 59 files from SICARs applying for registration on the CSSF's official list of SICARs, representing a 17% fall compared to 2007. Five files have been withdrawn, at the initiators' request, during the process of scrutiny.

The number of SICARs registered on the CSSF's official list grew from 182 entities as at 31 December 2007 to 221 entities as at 31 December 2008. At that date, about forty files were still being processed.

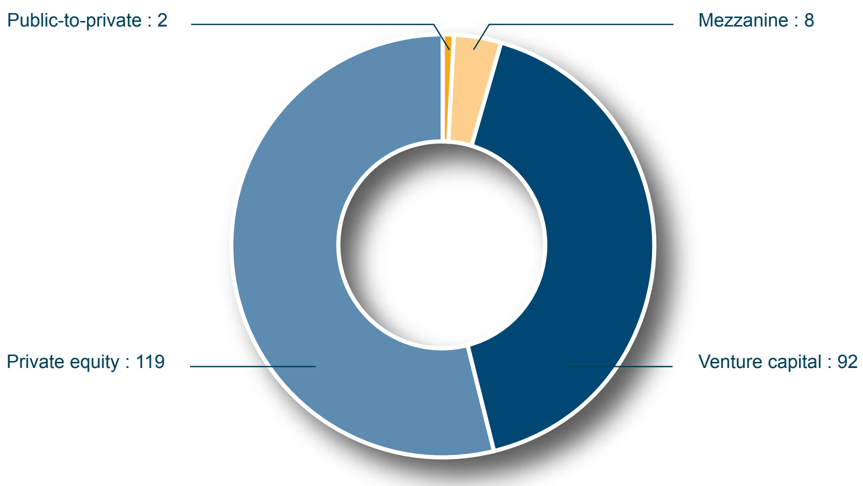
A first analysis of the figures available for the year ending on 31 December 2008 reveals that the SICAR sector, just as other sectors of the financial world, has been strongly shaken by the crisis. SICARs being required to assess their assets at fair value, a substantial decrease in valuations has been observed in a certain number of cases. Moreover, certain SICAR projects have been put on hold, or, in other cases, fund collection has been suspended.

Therefore, the CSSF expects a slow-down in the growth of the number of SICARs in 2009, as well as a business cessation of a certain number of existing SICARs.

The following graphs break down the 221 SICARs registered on the official list as at 31 December 2008 according to investment policy and investment strategy.

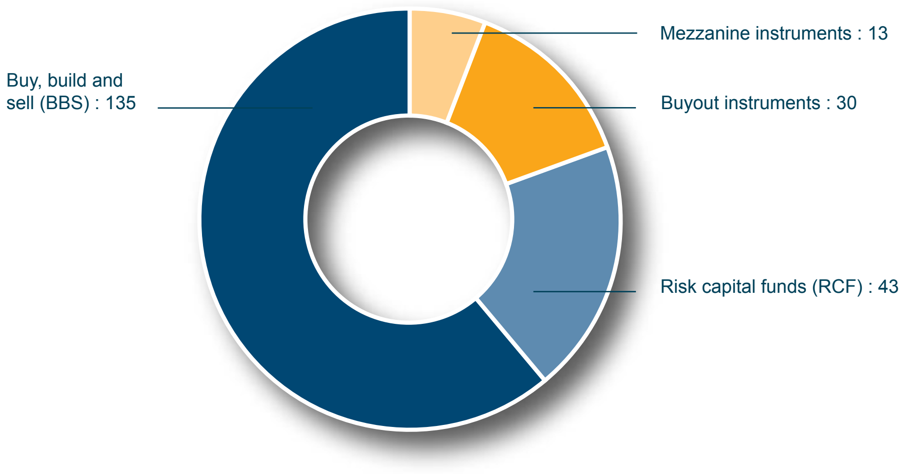
As regards the investment policy, the graph highlights a slight preference for private equity, followed by venture capital, without however revealing an actual trend for a specific investment policy.

Investment policy



As regards the inherent investment strategy, it can be observed that SICARs chose either to limit their policy to a particular strategy (buy, build and sell, buyouts, mezzanine financing, risk capital funds, etc.), or to adopt a combination of strategies generally used in the field of risk capital.

Investment strategy



As regards the sector-based distribution, 110 SICARs would rather not limit their investment policy to a particular investment sector. Among the SICARs having adopted a specialised policy, there is a certain concentration in the real estate and technology sectors.

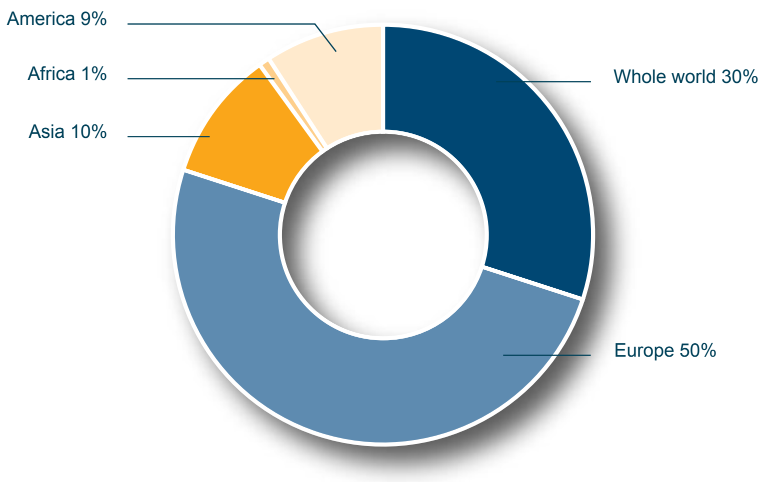
Moreover, there has been an increase in SICARs investing in the (renewable) energy sector in 2008. The objective of SICARs that take an interest in renewable energy is to invest in entities fighting climate change, *inter alia* the reduction in greenhouse gases, or to foster the use of renewable energy.

Sector-based distribution

Sector	Number
All sectors	110
Real estate	42
Technology	22
Energy	12
Industry	11
Services	8
Finance	4
Science	4
Microfinance	2
Precious metals and gemstones	2
PPP	2
Sports	2
Total	**221**

As for the geographical area of the investments, 50% of the SICARs invest in Europe, whereas 30% of the SICARs are not limited to a specific region.

Investment region



As far as the geographical origin of the initiators is concerned, those from Europe are largely predominant, followed by US initiators.

Geographical origin of the initiators

Countries	as % of total
France	16.3%
Luxembourg	14.1%
Germany	13.2%
Switzerland	12.8%
United States	8.4%
Italy	7.9%
United Kingdom	4.5%
Belgium	4.0%
Spain	4.0%
Austria	3.1%
Netherlands	1.8%
Denmark	0.9%
Egypt	0.9%
Finland	0.9%
Iceland	0.9%
Portugal	0.9%
Russia	0.9%
Turkey	0.9%
Australia	0.4%
British Virgin Islands	0.4%
Greece	0.4%
Guernsey	0.4%
India	0.4%
Kuwait	0.4%
Latvia	0.4%
Lebanon	0.4%
Slovenia	0.4%
Total	**100.0%**

Following the implementation as at 31 December 2008 of a standardised reporting to be transmitted *via* a secured transmission channel, the CSSF noted many delays in the transmission of financial reports and a substantial number of SICARs still have not submitted their figures. As a result, the figures below do not represent the whole sector.

Moreover, a large number of SICARs used the possibility provided under Circular CSSF 08/376 to prepare their financial information, if necessary, based on provisional figures as far as the valuation of investments in risk capital is concerned.

In this context, the CSSF invites SICARs having prepared their reports based on provisional figures to submit a final version of the financial report as soon as the valuation of investments is terminated.

Based on the available data, total subscribed capital unpaid and capital commitments of investors in SICARs came close to EUR 15.8 billion, whereas capital commitments of SICARs themselves amounted to about EUR 10.4 billion. The SICARs' balance sheet total amounted to about EUR 19.7 billion.

Investment in risk capital amounted to EUR 16.9 billion, while current assets added up to EUR 1.2 billion.

It should be noted that SICARs are mainly financed by their shareholders. Total subscribed capital and share premiums amounted to EUR 19.2 billion.

2. REGULATORY FRAMEWORK

2.1. Law of 24 October 2008 improving the legal framework of the Luxembourg financial centre

The law of 24 October 2008 provides for a certain number of amendments to the law of 15 June 2004 relating to the investment company in risk capital in order to take into account the needs of the industry and the promoters and which came to the CSSF's attention during discussions and presentations of concrete SICAR projects.

The main adaptations are:

- introduction of the possibility for a SICAR to have compartments which may have their own investment policy or their own circle of investors;
- repeal of the requirement for directors and other persons intervening in the management of the SICAR to fulfil the conditions stated in Article 2 of the law aiming to establish the criterion of a well-informed investor;
- recognition of share premiums for the determination of a SICAR's minimum capital;
- introduction of the obligation to complete the name of the company with the reference "SICAR";
- repeal of paragraph (3) of Article 8 which listed in a limitative manner certain control missions of the depositary bank. While there is more to the safe-keeping mission of the depositary bank than just keeping assets, as it implies also a general asset supervisory mission, it has been considered appropriate to remove the limitative listing of certain control missions, especially as the missions listed specifically under paragraph (3) did not reflect the specific characteristics of investment in risk capital;
- possibility for the SICARs in the form of a limited partnership to become companies with variable capital;
- repeal of the obligation for SICARs to inform the investors of the net asset value on a half-yearly basis.

2.2. Circular CSSF 08/376 regarding financial information to be submitted by investment companies in risk capital

Article 32 of the law of 15 June 2004 on investment companies in risk capital requires SICARs to submit a set of financial information on a half-yearly basis to the CSSF. This information will be used by the CSSF for prudential supervisory and statistical purposes.

The circular provides explanations regarding the content and preparation of standardised half-yearly information and introduces the electronic transmission of the standardised half-yearly reporting. The circular also describes the SICARs' other reporting obligations on an annual and *ad hoc* basis.

3. PRUDENTIAL PRACTICE

3.1. Umbrella SICARs

3.1.1. Transformation of traditional SICARs into umbrella SICARs

Following the amendment of Article 3 of the law of 15 June 2004 relating to investment companies in risk capital, the CSSF noted that some SICARs already registered on the official list were quite interested in becoming umbrella SICARs.

The creation of compartments within a SICAR incorporated without multiple compartments requires the articles of association to be changed in order to provide for the possibility to set up compartments and the procedures relating to them. This change must be authorised by the CSSF beforehand and be approved by the partners at a general meeting in compliance with the quorum and the majority rules that apply according to the articles of association and the legal status of the SICAR as regards amendments to those articles.

Where an existing SICAR decides to create multiple compartments by splitting its assets, the existence of compartments may however not be invoked with respect to debts that existed before the splitting of the assets, unless explicitly agreed upon by the creditors concerned.

3.1.2. Documents to be prepared by umbrella SICARs

Umbrella SICARs may draw up a prospectus per compartment for the sole intention of the investors in that compartment.

Umbrella SICARs are required to draw up their annual accounts and reports per compartment.

3.2. Registrar agent for a SICAR

The status of registrar agent within the meaning of Article 25 of the law of 5 April 1993 on the financial sector, as amended, is needed in principle to maintain the SICAR register on a professional basis, which includes the reception and the execution of orders, except however for SICARs which exclusively pool funds from a predefined circle of investors according to a commitment mechanism spread over one or several tranches.

3.3. Identification of the SICARs' beneficial owners

For the purpose of authorising the SICAR, the CSSF requires to be informed of the identity of the beneficial owner(s) within the meaning of Article 1(7) of the law of 12 November 2004, as amended. This information must be provided in addition to the setting-up of a nominee structure and will be updated periodically.

While the CSSF requires this information from now on for SICARs in the process of being authorised, a mail will soon be sent to the SICARs already registered on the official list informing them about the practical arrangements for data collection.

3.4. Application of the MiFID rules to SICARs

The MiFID regime is likely to apply to the marketing of SICAR securities as this activity may be qualified as distribution of securities.

Where SICAR shares are marketed by a third party, the CSSF considers that this third party distributor falls under the scope of the MiFID regulations, and, if it is a Luxembourg entity, it is required to seek an authorisation under the law of 5 April 1993 on the financial sector, as amended, and to comply with the organisational requirements and conduct of business rules that apply for the provision of investment services.

As regards foreign entities distributing SICAR shares, it is for the SICAR to ensure that its service providers comply with the legislation in force in the distributor's home country.

3.5. Application of Article 5(1) of the law of 15 June 2004 relating to the investment company in risk capital

Article 5(1) of the law of 15 June 2004 provides that SICARs may issue new shares in accordance with the conditions and procedures set forth in the articles of association. The CSSF's opinion was sought as regards the SICARs' possibility to depart from the foundations of Article 5(1) in favour of the provisions of the law of 10 August 1915 on commercial companies regulating the issue of shares without voting rights.

The CSSF considers that such is not the case insofar as Article 5(1) aims foremost to grant a certain freedom to SICARs as regards the marketing arrangements for their securities.

3.6. Registration on the official list following the approval of the CSSF's executive board and start of activities

It is tolerated that a SICAR that has obtained the authorisation of the CSSF's executive board but which does not start its activities immediately may refrain from immediately requesting its registration on the official list of SICARs.

However, this flexibility is not permitted where the incorporation of the company as SICAR is already achieved. Indeed, in such case, the SICAR's articles of association provide for its submission to the SICAR law. Thus, the fact that the company is not officially authorised, nor registered on the official list, does not relieve the company in principle from complying with the requirements of the law of 15 June 2004, as amended. Moreover, being incorporated companies, common law requires the SICARs concerned to publish their accounts. In this context, the requirement to have the company's accounts audited does not result exclusively from the said law, but also from the company's articles of association which provide in general for the control of accounts by an external auditor.

Moreover, those SICARs would run the risk of breaching Article 33 of the law of 15 June 2004, as amended, which provides that "no SICAR shall make use of designations or of a description giving the impression that it is subject to this law if it has not obtained the authorisation provided for in Article 12".

It is thus absolutely required that SICARs that are authorised by the CSSF's executive board register on the official list of SICARs as soon as the company is incorporated.

3.7. Co-operation with SICAR service providers

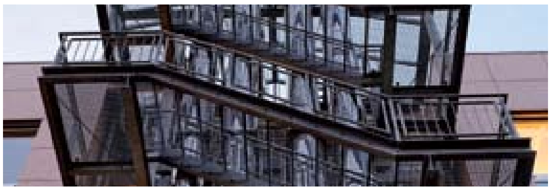
The CSSF encourages the professionals in charge of the central administration and the function of depositary bank of SICARs to communicate on their own initiative and as soon as possible any problem or irregular situation observed in the functioning of the SICARs they manage and which could be of a nature to jeopardise the sound future functioning or continuity of the SICAR.

3.8. Publication of abridged accounts by SICARs

The CSSF considers that SICARs may publish a balance sheet as well as a profit and loss account in abridged form in accordance with Articles 35 and 47 of the law of 19 December 2002 on the trade and companies register and the accounting and the annual accounts of companies.

In this context, the CSSF underlines however that the abridged accounts must also be audited and that the SICARs are still required to prepare a full annual and audited report in accordance with the law of 15 June 2004 on the investment company in risk capital, as amended.

CHAPTER V




SUPERVISION OF SECURITISATION UNDERTAKINGS

1. DEVELOPMENTS IN THE SECTOR OF AUTHORISED SECURITISATION UNDERTAKINGS

During 2008, the CSSF received seven applications for registration on the official list of authorised securitisation undertakings held by the CSSF in accordance with the law of 22 March 2004 on securitisation. Upon request of its initiator, one file was nevertheless withdrawn during its review.

Four multiple-compartment securitisation undertakings were granted authorisation by the CSSF during 2008, namely:

- C-Moon Securitisation S.A.
- Codeis Securities S.A.
- Reinet Investments S.C.A.
- Taurus Capital S.A.

The securitisation undertaking Strategic Investment Portfolios (Luxembourg) S.A. was withdrawn from the official list during 2008.

As at 31 December 2008, 20 securitisation undertakings were registered on the official list of securitisation undertakings against 17 entities as at 31 December 2007. Five application files of securitisation undertakings were still being processed at the end of 2008. The balance sheet total of authorised securitisation undertakings exceeded EUR 16.5 billion at the end of 2008, i.e. an increase of EUR 1.2 billion against 2007.

The submitted application files reveal that securitisation operations mainly consist in the securitisation of debt, loans and other comparable assets, as well as in repackaging transactions in the form of structured products issues linked to various financial assets.

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.

To date, the CSSF has not received any application file for the authorisation of 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. Authorised securitisation undertakings usually appoint a trustee governed by foreign law.

In the year 2009, the CSSF expects the securitisation activities to continue their slow but ongoing growth, a trend that is being confirmed by several application files currently under review.

2. PRUDENTIAL SUPERVISORY PRACTICE

2.1. Prudential financial supervision

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

- financial information to be submitted by authorised securitisation undertakings on a half-yearly basis:
  - a draft balance sheet and profit and loss account, where applicable on a sub-fund basis. In this context it is important to point out that in the absence of a standardised report, securitisation undertakings shall, in accordance with Article 47 of the law of 22 March 2004 on securitisation, comply with the provisions of Chapter IV of the law of 19 December 2002 on the trade and companies register and the accounting and the annual accounts of companies. Securitisation

funds are subject to the accounting regime for *fonds communs de placement* provided for by the law of 20 December 2002 on undertakings for collective investment, as amended.

- a listing of the new issues of securities, of other outstanding issues and issues which matured during the period under review. It is useful to specify for each issue the nominal amount issued and the nature of the securitisation transaction, the investor profile and, where applicable, the relevant compartment. In connection with every issue, information should be included on the initial issue price and the current market price (if available) of each outstanding issue, or on the redemption price of each matured issue, as well as information on any issues (or certain tranches of an issue) for which the securitisation undertaking was not able to realise the projected yield rate or to guarantee the final redemption price. In such cases, details on the effective yield or the redemption value are to be indicated.

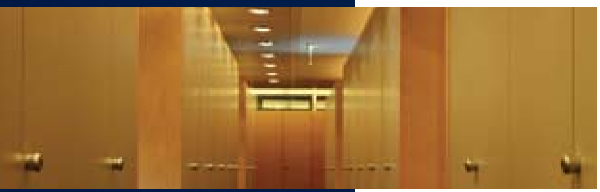
- audited annual accounts;
- the management letter from the external auditor in the context of the audit of the annual accounts. In case the auditor does not issue a management letter, a written statement by the external auditor stating that no such letter was issued shall be sent to the CSSF.
- on-site inspections.

It is hereby pointed out that Article 24(2) of the law of 22 March 2004 on securitisation authorises the CSSF to request an authorised securitisation undertaking to provide any additional information it may deem necessary for the fulfilment of its supervisory task.

2.2. On-site inspections

On-site inspections are an efficient means to obtain a complete and direct overview on the situation and the practical functioning of the authorised securitisation undertakings and it is expected that they will be carried out more widely in the years to come.

In 2008, the CSSF undertook one on-site inspection of a securitisation undertaking subject to its supervision. This was directed, *inter alia*, at the review of the adequacy of the administrative and accounting organisation of the securitisation undertaking in question.



CHAPTER VI

SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

1. DEVELOPMENTS IN 2008 OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR (PFS)

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

- PFS incorporated under Luxembourg law (the activities performed by these institutions in another EU/EEA Member State, by means of a branch or under the free provision of services, are also subject to the prudential supervision of the CSSF; certain aspects of the prudential supervision, in particular the compliance with the rules of conduct for the provision of investment services to clients, fall under the competence of the host Member State[1]);
- branches of investment firms from non-EU/EEA countries;
- branches of PFS other than investment firms originating from EU/EEA or from non-EU/EEA countries.

The supervision of branches set up in Luxembourg by investment firms originating from another EU/EEA Member State is based on the principle of the supervision by the home Member State authority. Nevertheless, certain specific aspects of the supervision fall under the competence of the CSSF, supervisory authority of the host Member State[2].

Summary of the PFS categories referred to in Part I, Chapter 2, Section 2 of the law of 5 April 1993, as amended by the MiFID law of 13 July 2007

Investment firms	Article of the law
Investment advisers	24
Brokers in financial instruments	24-1
Commission agents	24-2
Private portfolio managers	24-3
Professionals acting for their own account	24-4
Market makers	24-5
Underwriters of financial instruments	24-6
Distributors of units/shares of UCIs	24-7
Financial intermediation firms	24-8
Investment firms operating an MTF in Luxembourg	24-9
Certain PFS other than investment firms	
Registrar agents	25
Professional custodians of financial instruments	26
Operators of a regulated market authorised in Luxembourg	27
Operators of payment or securities settlement systems	28-1
Currency exchange dealers	28-2
Debt recovery	28-3
Professionals performing credit offering	28-4

[1] In accordance with the law of 13 July 2007 on markets in financial instruments transposing into Luxembourg law Directive 2004/39/EC on markets in financial instruments.

[2] *Idem.*

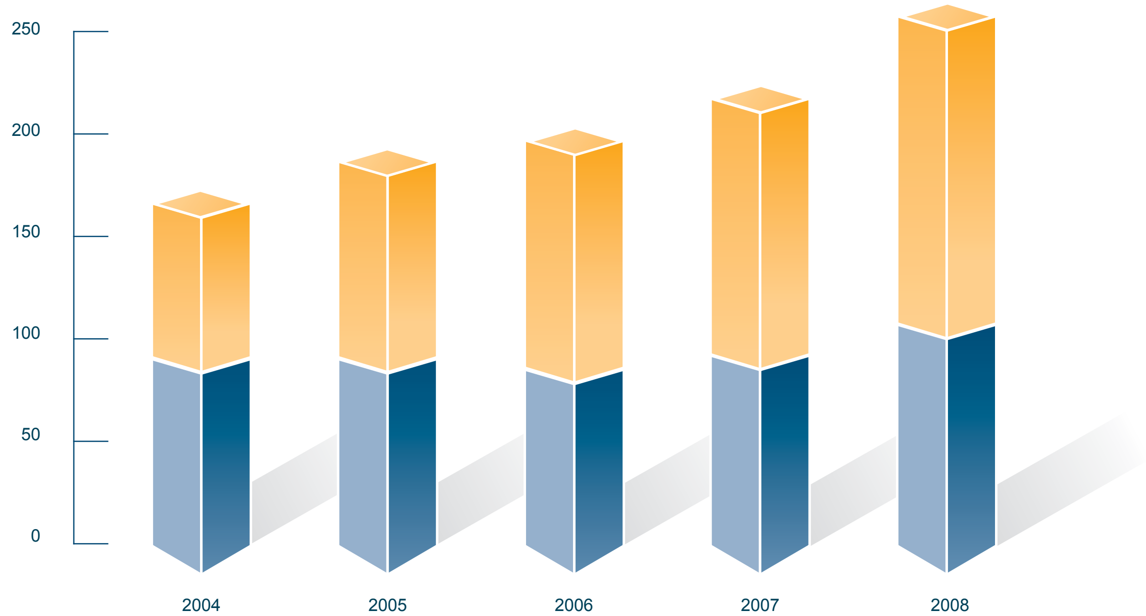
Professionals performing securities lending	28-5
Professionals performing money transfer services	28-6
Administrators of collective savings funds	28-7
Management companies of non-coordinated UCIs	28-8
PFS carrying out a connected or complementary activity to the financial sector	
Domiciliation agents of companies	29
Client communication agents	29-1
Administrative agents of the financial sector	29-2
Primary IT systems operators of the financial sector	29-3
Secondary IT systems and communication networks operators of the financial sector	29-4
Professionals performing services of setting up and management of companies	29-5

1.1. Development in the number of PFS

The year 2008 reveals a remarkable upward trend, the positive development in the number of PFS subject to the prudential supervision of the CSSF being more than proportional as compared to the previous years. This stronger increase as compared to 2007, which is partially due to the legal amendments introduced by MiFID law, confirms the ongoing interest in the Luxembourg financial centre. The entities authorised in 2008 opted mainly for the categories of PFS performing a connected and complementary activity to a financial sector activity and, to a lesser degree, for certain categories of PFS other than investment firms. The number of newly authorised PFS has nevertheless notably decreased during the last quarter of 2008 compared to the first nine months of the year. This development can be explained by the unstable situation of the financial markets and by the international economic crisis in general.

The number of PFS thus rose from 215 entities as at 31 December 2007 to 257 as at 31 December 2008. The number of entities having been authorised in 2008 greatly exceeds the number of entities having been authorised in the previous year (57 new entities in 2008 against 29 in 2007). Fifteen entities abandoned their status as PFS in 2008 against 10 withdrawals in 2007.

Development in the number of PFS



	2004	2005	2006	2007	2008
Investment firms	90	88	85	92	100
Other PFS	76	97	111	123	157
Total	**166**	**185**	**196**	**215**	**257**

The breakdown of the PFS in investment firms and other PFS shows that the positive development in the total of PFS comes mainly from other PFS which recorded a continuous growth since 2004 and an increase which is more than proportional in 2008.

PFS other than investment firms as well as PFS performing activities connected or complementary to a financial sector activity gain thus constantly in importance within the financial centre.

Breakdown of PFS by geographical origin

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belgium	24	21	22	22	18	21	23	28	32	38
France	10	11	14	13	9	12	12	12	14	12
Germany	7	11	11	10	10	10	13	18	20	22
Luxembourg	17	22	31	31	32	48	56	66	72	83
Netherlands	3	7	12	15	15	18	19	17	18	24
Switzerland	4	7	11	10	10	10	12	11	11	15
United Kingdom	8	8	9	10	11	8	8	8	8	13
United States	3	4	8	8	8	11	13	12	13	12
Others	14	22	27	26	29	28	29	24	27	38[3]
Total	**90**	**113**	**145**	**145**	**142**	**166**	**185**	**196**	**215**	**257**

The number of Luxembourg PFS rose from 72 entities as at 31 December 2007 to 83 entities as at 31 December 2008. The regular growth registered over the past years allowed Luxembourg entities to still represent a large majority of entities.

[3] Including Italy (8 entities), Sweden (3 entities), Denmark (5 entities).

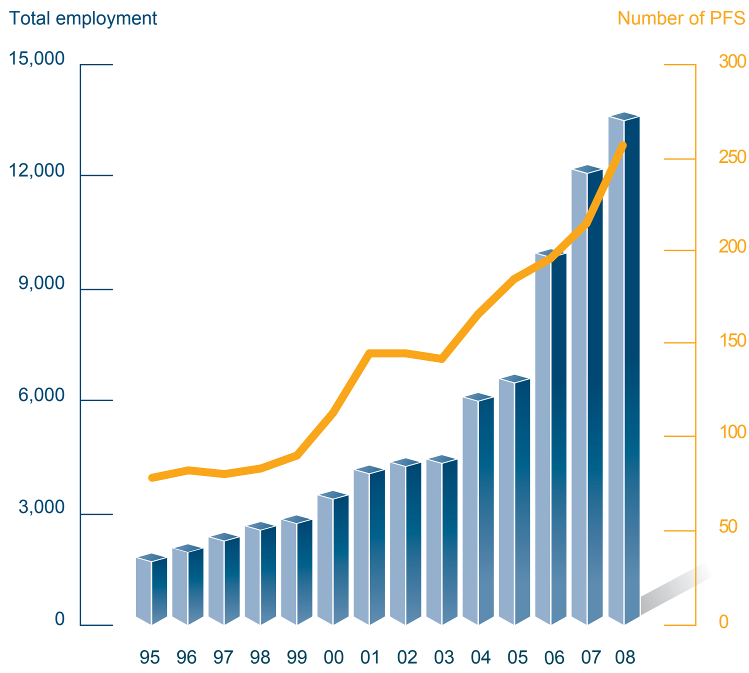
The year 2008 confirms the interest in the Luxembourg financial centre at international level. The number of Belgian and Dutch PFS increased by six entities each, whereas UK PFS show a growth of five entities. It should also be noted that Switzerland is more and more interested in the financial centre: after a long period of stability, the number of Swiss PFS increased by four entities in 2008.

1.2. Development in employment for PFS[4]

The constant rise in employment recorded during the last years is confirmed in 2008. The increase in employment is however less pronounced than in 2007, this development being partially due to the international economic crisis in the last months of 2008. The staff rose from 12,174 units as at 31 December 2007 to 13,605 units as at 31 December 2008, representing an annual increase of 11.76%. This positive development is largely due to the PFS newly registered on the official list of PFS, 2008 being marked by an important growth in the number of financial players. The increase in employment for PFS which were already active before 2008 (support PFS and, to a lesser extent, traditional PFS) also slightly contribute to the increase of the staff total.

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

Year	Number of PFS	Total staff
1995	78	1,827
1996	82	2,017
1997	80	2,323
1998	83	2,612
1999	90	2,788
2000	113	3,499
2001	145	4,176
2002	145	4,399
2003	142	4,455
2004	166	6,059
2005	185	6,547
2006	196	9,928
2007	215	12,174
2008	**257**	**13,605**[5]



Considering the development in employment during the year, a considerable growth of 644 units can be observed for the first quarter, whereas the second quarter records only a weak increase of 96 units. The total staff of PFS totals thus 12,818 units as at 31 March 2008 and 12,914 units as at 30 June 2008. The boom of the first half year can mainly be explained by the newly authorised PFS during this period.

The second half year shows a slightly smaller increase in PFS staff, which climbed from 12,914 units as at 30 June 2008 to 13,404 units as at 30 September 2008 to reach 13,605 units as at 31 December 2008. The growth in employment of existing PFS, and more particularly of support PFS, as well as of the newly authorised PFS during the second half year explain this development. The less important progress during the last quarter of 2008 (+201 units) predicts, for the year 2009, a difficult situation on the financial sector's labour market, a consequence of the international economic crisis.

4 These figures include the staff of support PFS. Further details on employment in support PFS are available in point 3. hereafter.

5 Preliminary figures.

1.3. Changes in 2008 on the official list of PFS

1.3.1. Luxembourg PFS having started their activities in 2008

- ***Investment firms and other PFS*** (except PFS with only one or several support PFS statuses, as referred to in Articles 29-1, 29-2, 29-3 and 29-4 of the law on the financial sector; support PFS have been considered in a distinct table)

Name of the PFS	Start of business
Aberdeen Global Services S.A.	May 2008
Advantage Financial S.A.	June 2008
Allfunds International S.A.	January 2008
Alpha Wealth Management Luxembourg S.A.	July 2008
Alter Domus Alternative Asset Fund Administration S.à r.l.	April 2008
Alternative Advisers S.A.	June 2008
AMS Fund Services S.A.	September 2008
Anphiko Asset Management S.A.	June 2008
Arkai Luxembourg S.A.	June 2008
Atel Derivatives S.à r.l.	January 2008
Baumann & Partners S.A.	June 2008
Catella Financial Office (Luxembourg) S.A.	January 2008
CB Richard Ellis Investors S.à r.l.	April 2008
Cemex Global Funding S.à r.l.	August 2008
Centralis S.A.	September 2008
CF Fund Services S.A.	December 2008
Citco C & T (Luxembourg) S.A.	July 2008
Citco Fund Services (Luxembourg) S.A.	July 2008
Citco Reif Services (Luxembourg) S.A.	July 2008
DAM Capital Management S.à r.l.	January 2008
Monsieur Benoni Dufour	January 2008
EP Services S.A.	January 2008
European Value Partners Advisors S.à r.l.	February 2008
Fideos Financial Services S.A.	April 2008
Fiduciaire F. Winandy & Associés S.A.	September 2008
First Climate Asset Management S.A.	August 2008
Gadd & Cie Luxembourg S.A.	March 2008
Ireim Services Luxembourg PSF S.à r.l.	April 2008
KMC Finance S.A.	January 2008
LFS Multi-Family Office S.A.	February 2008
Lux Nordic Wealth Mangement S.A.	April 2008
Mercuria Services S.A.	June 2008
Partners Group (Luxembourg) S.à r.l.	June 2008
Private Trustees S.A.	October 2008
Profida Luxembourg S.A.	June 2008
Saltgate S.A.	January 2008
Sanne Group (Luxembourg) S.A.	May 2008
Securities & Compliance Luxembourg S.A.	February 2008
SGG Corporate Services S.A.	June 2008
Skandia Invest S.A.	May 2008

Name of the PFS	Start of business
Tandem Partners S.à r.l.	October 2008
TASL PSF S.A.	May 2008
Vistra Fund Services S.à r.l.	September 2008
VP Lux S.à r.l.	April 2008
VRS Financial Partners S.A.	January 2008

It should be noted that institutions cumulating one or more support PFS statuses with one or more other PFS statuses are included in the table above.

- ***Support PFS***

Support PFS are PFS authorised only as client communication agent (Article 29-1 of the law of 5 April 1993 on the financial sector, as amended), administrative agent of the financial sector (Article 29-2), primary IT systems operator of the financial sector (Article 29-3) or secondary IT systems and communication networks operator of the financial sector (Article 29-4), excluding any other PFS status. Entities cumulating one or several of those four statuses are also considered as support PFS. This support PFS grouping allows to better consider the specificities of these activities and their importance in the financial sector.

During 2008, the following support PFS started their activities:

Name of the PFS	Start of business
Accenture (Luxembourg) S.à r.l.	June 2008
C.K. S.A.	February 2008
Damovo Managed Services Luxembourg S.à r.l.	June 2008
Easi S.A.	June 2008
Halian PSF S.à r.l.	March 2008
Logica Luxembourg S.A.	January 2008
Mercuria Independent Risk Solutions S.A.	January 2008
Michel Greco S.A.	April 2008
Netcore PSF S.A.	January 2008
Société Luxembourgeoise de Téléphonie S.A.	February 2008
System Solutions Luxembourg S.A.	January 2008
VR Netze Luxembourg S.à r.l.	July 2008

1.3.2. PFS having abandoned their status in 2008

Fifteen institutions, including seven investment firms, abandoned their PFS status in 2008 for the following reasons:

- change or cessation of activities, no longer requiring an authorisation as PFS because they do not fall anymore under the scope of application of the law of 5 April 1993 on the financial sector, as amended

  AIG Global Investment (Luxembourg) S.A.

  LCF Edmond de Rothschild Conseil

- withdrawal of the status of PFS because they do not fall anymore under the scope of application of the law of 5 April 1993 on the financial sector, as amended, following the provisions introduced by the MiFID law

  Société Générale d'Arbitrages et de Participations (SGAP) Luxembourg S.A.

- liquidation

  Banque Invik Asset Management S.A.

  Investors Trust S.à r.l.

  Luxigec S.A.

- merger

  BNP Paribas Fund Services, in abbreviated form BPFS (merger by takeover by BNP Paribas Securities Services Paris)

  First Trust S.A. (merger by takeover by the PFS ATC-RCS Corporate Services (Luxembourg) S.A.)

  Foyer Asset Management S.A. (merger with the PFS Foyer Patrimonium S.A.)

  HSH Financial Markets Advisory S.A. (merger by takeover by the PFS HSH Investment Management S.A.)

  Mercuria Services S.A. (merger by takeover by the PFS MDO Services)

  SGG Corporate Services S.A. (merger by takeover by the PFS Services Généraux de Gestion, in abbreviated form SGG)

- winding-up

  Citco (Luxembourg) S.A.

  Mercuria Services S.A.

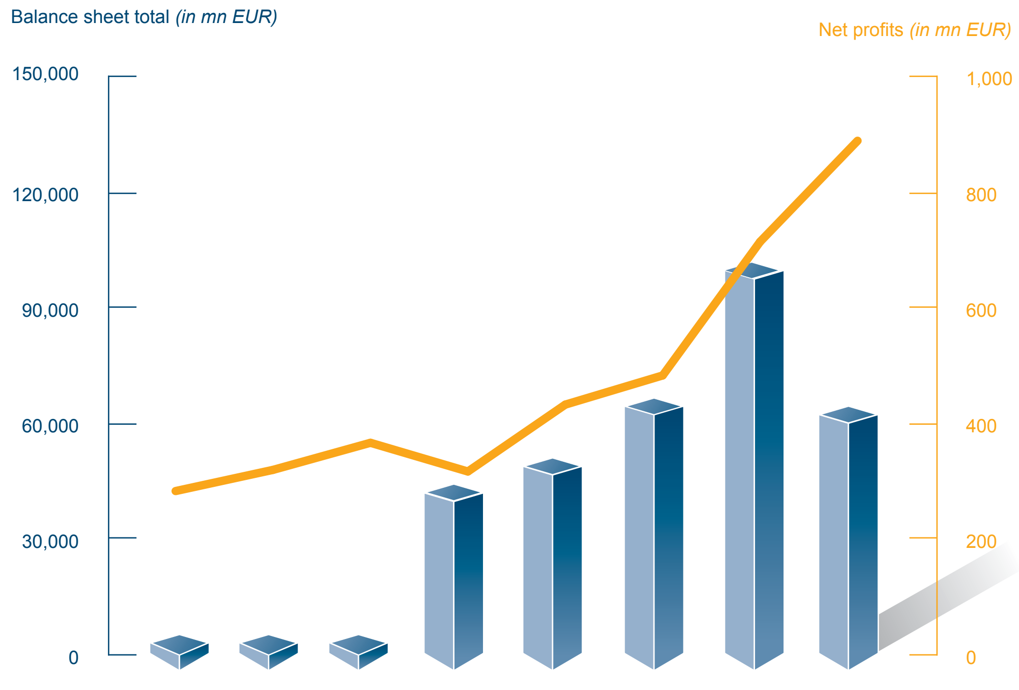
- change into a Luxembourg credit institution

  E. Öhman J: OR Luxembourg S.A.

1.4. Development of balance sheets and profit and loss accounts

The balance sheet total of the PFS established in Luxembourg (257 entities as at 31 December 2008) reached EUR 62,676 million as at 31 December 2008 as against EUR 107,703 million at the end of 2007, which represents a 41.81% decrease. This significant decrease over a period of 12 months is almost exclusively attributable to the reduction in business volume of an entity authorised as professional performing securities lending. The increase in the balance sheet total due to the positive development of the number of PFS during 2008, moving from 215 units as at 31 December 2007 to 257 units as at 31 December 2008, has only slightly blocked this negative variation.

However, the financial players recorded an upward development of their net profits. Indeed, the provisional net profits amounted to EUR 890.67 million as at 31 December 2008 against EUR 715.70 million as at 31 December 2007, representing +24.45% over a year. This development results from different components. Given the unstable situation of the financial markets and the effects of the economic crisis, many institutions recorded a drop in their net profits in 2008, whereas others managed to keep a certain stability. However, save for the increase in the profits of some players less dependent on the development of the financial markets, one entity, in particular, which newly registered in 2008 as professional performing credit offering, largely contributed to the increase in the global net result of all the PFS over the year due to its high result.



	2001	2002	2003	2004	2005	2006	2007	2008[6]
Balance sheet total	2,316	2,292	2,482	45,131	53,421	69,854	107,703	62,676
Net profits	283.52	320.23	367.17	317.37	433.34	483.90	715.70	890.67

CSSF's position regarding the investment of a PFS' own profits (except for profits of professionals acting for their own account), and more specifically the profits of a private portfolio manager

Looking at the recent development in the financial markets and having regard to the general economic situation, the CSSF considers that a PFS, except for a professional acting for its own account, must commit to invest its profits with "due and proper care" and to avoid using them for trading. It results that investments without risks and particularly long-term investments are recommended in the framework of a sound management of the profits realised. However, the rotation of the own portfolio in order to speculate is against the investment criteria "due and proper care". It should also be noted that profit means the total of profits brought forward from the previous financial years and of the profit of the current financial year.

1.5. Expansion of PFS at international level

- ***Formation of subsidiaries during 2008***

In 2008, the investment firms Fidessa Asset Management S.A. and Fuchs & Associés Finance S.A. opened a subsidiary each in Switzerland.

- ***Freedom of establishment***

In 2008, nine investment firms incorporated under Luxembourg law established a branch in one or more EU/EEA countries based on the freedom of establishment.

[6] Preliminary figures.

Name of the PFS	Country of establishment of the branch
Bisa S.A.	Germany
DAM Capital Management S.à r.l.	United Kingdom
Fuchs & Associés Finance S.A.	Belgium
HSH Asset Management S.A.	Germany
Moventum S.C.A.	Austria
Orbit Private Asset Management S.à r.l.	Belgium
Skandia Invest S.A.	France, Spain
UBS Fund Services (Luxembourg) S.A.	Poland
WH Selfinvest S.A.	France

As at 31 December 2008, the following Luxembourg investment firms were represented in one or several EU/EEA countries by means of a branch:

Name of the PFS	Country of establishment of the branch
Bisa S.A.	Germany
Compagnie Financière et Boursière Luxembourgeoise S.A., in abbreviated form "Cofibol"	Belgium
Createrra S.A.	Belgium
DAM Capital Management S.à r.l.	United Kingdom
European Fund Services S.A.	Germany Ireland
Farad Investment Advisor S.A.	Italy
Fidessa Asset Management S.A.	Netherlands
Foyer Patrimonium S.A.	Belgium
Fuchs & Associés Finance S.A.	Belgium
HSH Asset Management S.A.	Germany
HSH Investment Management S.A.	Germany
Luxembourg Financial Group A.G.	United Kingdom
Moventum S.C.A.	Austria Germany
Orbit Private Asset Management S.à r.l.	Belgium
Rhein Asset Management (Lux) S.A.	Germany
Skandia Invest S.A.	France Spain
SZL S.A.	Belgium
UBS Fund Services (Luxembourg) S.A.	Poland
Valbay International S.A.	Sweden
Vontobel Europe S.A.	Austria Germany Italy Spain United Kingdom
WH Selfinvest S.A.	Belgium France

Having been absorbed in 2008 by HSH Investment Management S.A., HSH Financial Markets Advisory S.A. is not registered anymore as Luxembourg investment firm with a branch in one or several EU/EEA countries at the end of 2008. The situation is similar for BNP Paribas Fund Services, in abbreviated form BPFS, following the merger by takeover by BNP Paribas Securities Services Paris. Moreover, HSH Investment Management S.A. closed its branch in the United Kingdom in 2008.

It should also be noted that IAM Strategic S.A., represented by a branch in Sweden, changed its denomination in Valbay International S.A. during the year 2008.

As regards non-EU/EEA countries, one investment firm incorporated under Luxembourg law, namely Privalux Management S.A., is represented through a branch in Switzerland.

It should be further added that two PFS which do not have the status of investment firm were registered by means of a branch in an EU/EEA country as at 31 December 2008. One PFS, which is not an investment firm, is established in Switzerland *via* a branch.

The number of branches of investment firms originating from another EU/EEA Member State established in Luxembourg decreased to set at nine units as at 31 December 2008 against 11 units at the end of 2007. Indeed, three branches stopped their activities in Luxembourg in 2008, namely Aberdeen Asset Managers Limited (branch from the United Kingdom), Gadd Capital Management Ltd (branch from Gibraltar) and Mellon Fund Administration Limited (branch from Ireland). The Austrian branch Superfund Asset Management GMBH started its business activities in Luxembourg during 2008.

The branch PFPC International Limited changed its denomination in PNC Global Investment Servicing (Europe) Limited in 2008.

EU/EEA branches established in Luxembourg as at 31 December 2008

Name of the branch	Country of origin
AIG Investments Europe Ltd	United Kingdom
Eiger Securities LLP	United Kingdom
Morgan Stanley Investment Management Limited	United Kingdom
Nevsky Capital LLP	United Kingdom
PNC Global Investment Servicing (Europe) Limited	Ireland
Superfund Asset Management GMBH	Austria
T. Rowe Price Global Investment Services Limited, in abbreviated form "TRPGIS"	United Kingdom
Thames River Capital LLP	United Kingdom
Tullett Prebon (Europe) Ltd	United Kingdom

- ***Free provision of services***

In 2008, 12 investment firms incorporated under Luxembourg law applied to pursue business in one or several EU/EEA countries by way of free provision of services. The total number of investment firms which, following a notification, are active in one or more EU/EEA countries amounted to 49 entities as at 31 December 2008. The majority of the investment firms concerned performed their activities in several EU/EEA countries by way of free provision of services.

The total number of investment firms established in the EU/EEA and authorised to perform activities by way of free provision of services within the Luxembourg territory amounted to 1,689 entities as at 31 December 2008 (against a total of 1,410 entities as at 31 December 2007).

As at 31 December 2008, the global situation relating to free provision of services in or from the EU/EEA was as follows:

Country	Luxembourg investment firms providing services in the EU/EEA	EU/EEA investment firms providing services in Luxembourg
Austria	13	29
Belgium	32	15
Bulgaria	1	-
Cyprus	2	14
Czech Republic	3	-
Denmark	9	14
Estonia	1	-
Finland	7	2
France	22	63
Germany	26	59
Gibraltar	-	4
Greece	3	6
Hungary	3	-
Iceland	2	-
Ireland	4	41
Italy	18	8
Latvia	2	-
Liechtenstein	1	4
Lithuania	3	-
Malta	2	1
Netherlands	17	74
Norway	6	21
Poland	5	-
Portugal	5	4
Romania	1	-
Slovakia	2	-
Slovenia	2	2
Spain	15	11
Sweden	11	7
United Kingdom	13	1,310
Total number of notifications	**231**	**1,689**
Total number of investment firms concerned	**49**	**1,689**

The geographical breakdown of EU/EEA investment firms active 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 352 new notifications for free provision of services on the Luxembourg territory received in 2008 (slightly decreasing number as compared to the 369 notifications in 2007), those originating from the United Kingdom represented a large majority. The notification flow from UK investment firms, recorded since the entry into force of Directive 2004/39/EC on markets in financial instruments on 1 November 2007, persisted in 2008. This development can be explained by a review of the activities and/or policy by the UK entities concerned.

Following the United Kingdom are mainly firms from countries close to Luxembourg, like the Netherlands, France and Germany which show considerable and ongoing interest in exercising here their activities by way of free provision of services. Among the new members of the European Union, Cyprus shows the greatest interest for the Luxembourg financial centre.

The target countries of investment firms incorporated under Luxembourg law, whose total number of notifications amounted to 231 as at 31 December 2008, are Luxembourg's neighbouring countries (Belgium, Germany and France). Italy, the Netherlands and Spain follow closely with 18, 17 and 15 notifications, respectively, for free provision of services on their territory. The interest shown by Luxembourg investment firms to provide services in the new EU Member States is still limited.

2. PRUDENTIAL SUPERVISORY PRACTICE

The aspects of the prudential supervisory practice concerning support PFS, i.e. PFS authorised only as client communication agent (Article 29-1 of the law of 5 April 1993 on the financial sector, as amended), administrative agent of the financial sector (Article 29-2), primary IT systems operator of the financial sector (Article 29-3) or secondary IT systems and communication networks operator of the financial sector (Article 29-4), excluding any other PFS status, are described under point 3. below.

2.1. Instruments of prudential supervision

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

- financial information to be submitted periodically to the CSSF allowing an ongoing supervision of the activities of PFS and the inherent risks, as well as the periodic control of capital ratios pursuant to Article 56 of the law of 5 April 1993 on the financial sector, as amended;
- the annual report drawn up by the external auditor (including a certificate relating to the fight against money laundering and a certificate concerning compliance with the rules of conduct in the financial sector; as regards investment firms, the auditors' report shall moreover include a description and a comment on the Compliance function in accordance with Circular CSSF 04/155);
- the internal audit reports relating to audits carried out during the year and the management's report on the state of the internal audit of the PFS, as well as the obligation for the internal audit to include in the scope of intervention the implementation of the Internal Capital Adequacy Assessment Process (ICAAP) according to the provisions of Circular CSSF 07/301 which addresses investment firms incorporated under Luxembourg law and branches of non-EU investment firms;
- on-site inspections carried out by the CSSF.

Notice of the CSSF on the granting of loans by a PFS to its shareholders, directors, employees or third parties

Owing to prudential considerations, the CSSF does not accept that a PFS grants loans to its shareholders, directors, employees or third parties. Indeed, on the one hand, it is essential that all holding in the capital of a professional of the financial sector is financed through own funds and not through borrowed funds. On the other hand, the CSSF considers that the granting of advances and loans to shareholders results in the return of the capital to the shareholders. Finally, the CSSF considers that the credit or loan activity, whether for shareholders, directors, employees or third parties, is not a regular activity of a PFS, except for the categories of PFS authorised to exercise this activity by their ministerial authorisation.

2.2. On-site inspections

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

In 2008, the CSSF carried out on-site inspections at the premises of four PFS incorporated under Luxembourg law.

The purpose of one on-site inspection was to verify the implementation by the PFS of appropriate measures relating to the fight against money laundering. The fundamental purpose of these verifications was to ensure that procedures appropriate to the rules into force as well as an adequate practical application were in place in the PFS.

The on-site inspection realised by the CSSF in another PFS also concerned the fight against money laundering and, more specifically, the analysis of the compliance of the PFS with the know-your-customer obligation. The billing system in place in the PFS was another area subject to the control by the CSSF.

The CSSF undertook an on-site inspection in a PFS regarding problems which appeared in the administrative organisation. The resignations within administrative and management bodies of the PFS as well as the customer acceptance policy were subject to in-depth controls and research.

The verifications realised in another PFS took place in the framework of the financial crisis and aimed at the PFS' financial situation in particular. The financial situation of the PFS is closely linked to events involving the international group to which the PFS belongs. Several meetings allowed defining and analysing the situation in order to contemplate the measures to be taken. The company was then admitted to the benefit of the procedure of the suspension of payments by the Luxembourg District Court (*Tribunal d'Arrondissement de Luxembourg*). In this context, it should be noted that the CSSF was for a short period of time, i.e. between the date of the request for the suspension of payments and the date of the order of the suspension of payments, administrator of the PFS (mission to monitor the management of the assets of the entity concerned) with a daily presence on the premises.

2.3. Meetings

137 meetings related to the activities of professionals of the financial sector were held on the CSSF's premises during the year under review.

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

The other meetings with the PFS representatives mainly covered the following areas:

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

2.4. Specific controls

Article 54(2) of the law of 5 April 1993 on the financial sector, as amended, entitles the CSSF to require external auditors to carry out a specific audit 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. The CSSF has not made formally use of this right in 2008.

2.5. Supervision on a consolidated basis

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

The CSSF carries out supervision on a consolidated basis for investment firms falling under the scope of application of the above-mentioned law. An in-depth study of the financial groups to which most investment firms belong was required in order to determine whether, at what level and in what form, consolidation should apply. For the investment firms concerned, Circular CSSF 00/22 on the supervision of investment firms on a consolidated basis specifies the practical aspects of the rules as regards this type of supervision.

The following eleven PFS were subject to supervision by the CSSF on a consolidated basis as at 31 December 2008:

- Brianfid-Lux S.A.
- Capital at Work Int'l S.A.
- Crédit Agricole Luxembourg Conseil S.A., in abbreviated form "CAL Conseil"
- Farad Investment Advisor S.A.
- Fidessa Asset Management S.A.
- Fortis Intertrust (Luxembourg) S.A.
- Fuchs & Associés Finance S.A.
- Hottinger & Cie
- HSH Investment Management S.A.
- Petercam (Luxembourg) S.A.
- Valbay International S.A.

Interpretation of Article 51-3(3) of the law of 5 April 1993 on the financial sector, as amended, (hereinafter "LFS") regarding the consolidated prudential supervision of an investment firm having a management company as the only subsidiary

Following certain amendments in the provisions of Chapter 3a "Supervision of investment firms on a consolidated basis" of the LFS by the law of 7 November 2007 transposing Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast), the purpose of the new Article 51-3(3) of the LFS is to include asset management companies as defined in Directive 2002/87/EC as well as ancillary services undertakings in consolidations, where consolidated supervision is required, whereas the former Article 51-3(3) of the LFS referred only to ancillary services undertakings.

The fact that an investment firm has an asset management company, as defined in Directive 2002/87/EC, as the only subsidiary, is not sufficient to trigger the consolidated prudential supervision. Nevertheless, in case a consolidated control of an investment firm is required for other purposes, an asset management company as defined in Directive 2002/87/EC is included in the scope of consolidation. The management companies concerned by Article 51-3(3) of the LFS are only management companies aimed at Chapter 13 of the law of 20 December 2002 relating to undertakings for collective investment, as amended. The CSSF considers, however, that the management companies as defined in Chapter 14 of this law are dealt with in the same way as the management companies as defined in Chapter 13.

3. SUPPORT PFS

Support PFS include financial professionals which have been authorised only under Articles 29-1, 29-2, 29-3 or 29-4 of the law of 5 April 1993 on the financial sector, as amended. The term "support" has been defined by the market in agreement with the CSSF. The characteristic of support PFS is that they do not receive deposits from the public and act mainly as subcontractor of operational functions on behalf of other financial professionals.

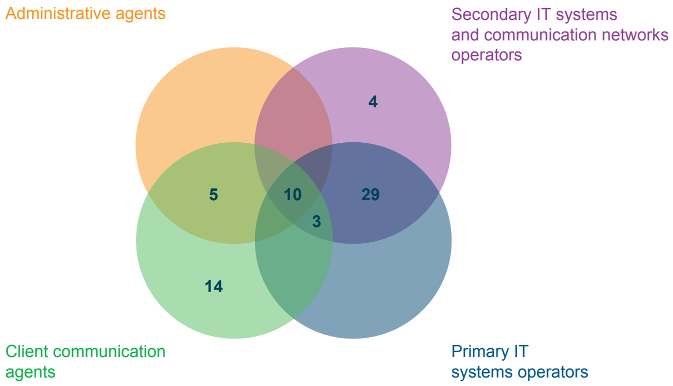
3.1. Development in the number of support PFS

Following the entry into force on 1 November 2007 of the law of 13 July 2007 which introduces the differentiation between "primary" and "secondary" PFS replacing the single status of systems and communication networks operator of the financial sector, the first authorisations as secondary operators were granted in 2008.

Twelve new support PFS received their authorisation in 2008 (+4 entities as compared to 2007), namely:

- one client communication agent;
- one administrative agent;
- four primary IT systems operators;
- three secondary IT systems and communication networks operators;
- two entities cumulating the statuses of client communication agent and secondary IT systems and communication networks operator;
- one entity cumulating the statuses of administrative agent, client communication agent, primary IT systems operator and secondary IT systems and communication networks operator.

As at 31 December 2008, the financial centre recorded 67 support PFS which can be divided as follows:



Client communication agents + secondary IT systems and communication networks operators : 2 entities

It should be noted that administrative agents are *ipso jure* authorised to exercise activities as client communication agent. As a result, no entity has the single status of administrative agent. The same is true for primary IT systems operators cumulating *ipso jure* the status of secondary IT systems and communication networks operator of the financial sector.

3.2. Development in employment for support PFS

The staff of support PFS grew from 6,546 units as at 31 December 2007 (55 active entities) to 7,458[7] units as at 31 December 2008 (67 active entities), representing an annual increase of 912 units.

Situation of employment in support PFS[8]

	2007			2008			Variation
	Luxemb.	Foreigners	**Total**	Luxemb.	Etrangers	**Total**	
Executives	91	248	**339**	120	314	**434**	+95
Office staff	1,190	4,282	**5,472**	1,347	4,411	**5,758**	+286
Technical staff	148	587	**735**	106	651	**757**	+22
of which part-time	*63*	*491*	***554***	*86*	*495*	***581***	*+27*
TOTAL	**1,429**	**5,117**	**6,546**	**1,573**	**5,376**	**6,949**	**+403**
of which men	1,178	3,922	**5,100**	1,331	4,199	**5,530**	+430
of which women	251	1,195	**1,446**	242	1,177	**1,419**	-27

[7] Preliminary figures.

[8] Given that the proposed breakdown was not available for twelve PFS, representing 509 people, at the time when this report was finalised, the table is based for 2008 on a staff of 6,949 people instead of the preliminary total of 7,458 people.

3.3. Prudential supervisory practice of support PFS

3.3.1. Circular CSSF 08/350

Although it is addressed to all supervised entities, Circular CSSF 08/350 of 22 April 2008 is the first circular specifically for support PFS. It covers the following four points: (1) Description of the activities of OSIP (primary IT systems operators) and OSIS (secondary IT systems and communication networks operators), (2) Supervisory mode for support PFS, (3) Prudential rules and rules of conduct, and (4) Transitional provisions.

- ***Description of the activities of OSIP and OSIS***

The purpose of the circular is to inform the whole financial sector of the distinction between the activities of OSIP and OSIS so that the supervised entities are capable of apprehending the statuses required by their support PFS providers according to the works they entrust to the latter. Indeed, the CSSF considers it important for the financial professionals that use support PFS to be informed of the specificities applicable to them, so that the services are provided in a context of enhanced transparency with respect to the relevant requirements.

The distinction between the activities of OSIP and OSIS is based on the analysis of the operated systems. According to the circular, the OSIP status concerns IT systems allowing the establishment of accounts and financial statements, i.e. those which:

- record the accounting entries;
- establish the accounts balances or the accounts statements guiding management decisions (insofar as they are included in the accounting function);
- establish the accounts statements used for the publications of financial data, including the annual accounts, the intermediary financial statements and the legal and prudential reporting required.

In any other case the OSIS status is sufficient.

In order to distinguish between OSIP and OSIS, it is important to know if the application or the system running the application includes accounting rules. In this matter, the circular provides examples, the most striking being the one of portfolio valuation software. In case of an accounting software of investment funds, the valuation is included in the accounting application and the status required to operate such a system is OSIP. However, a portfolio valuation for the client, the sole purpose of which is to provide an indication on the assets, is not an accounting software which includes algorithms for accounting entries and the status required is OSIS. Similarly, a system for the management of mass storage and which serves multiple IT systems, even if it contains the database used by the accounting software, does not fall under the scope of the OSIP status because its purpose is not accounting but of technical nature, i.e. mass storage in the network. However, the systems supporting an accounting application (central units) can only be operated by a PFS which has the OSIP status.

- ***Supervisory mode for support PFS***

Circular CSSF 08/350 changes the way in which the supervision will take place in the future by introducing the concept "risk based approach". Indeed, the supervision will take into account the specificities of support PFS and their diversities, for their activities as well as for their clients belonging or not to the financial sector. The purpose is to give more responsibility to the entity concerned for the risks its clients of the financial sector bear and allowing it at the same time to define the best measures to reduce these risks assuming that the "business" competences are more important for the entity than for the regulator. In the long run, a risk based approach should improve the supervision of the crucial elements for the financial sector. If the activity provided to the financial sector has no major impact, the risk management will be simplified pursuant to the principle of proportionality. The practical modes for the implementation of such type of supervision will be defined in accordance with the professionals concerned.

- ***Prudential rules and rules of conduct***

The circular provides an interpretation of the prudential rules and of the rules of conduct specific to the MiFID Directive which is adapted to different non-financial activities of support PFS. The emphasis is laid on the necessity of transparency and balance in the relations between the financial professional and its support PFS.

Thus, the circular specifies that "the clients' interests, the market integrity, the experience in the area of investment must be put into the context of the specific service provision of support PFS. The service provision shall not be prejudicial to the client of the financial sector, even if the contractual conditions are observed.

The market mentioned as having to remain upright is at the same time the field of the outsourced activity and the one of financial activities and services.

The experience in the area of investment must be understood as the experience linked to the outsourced activities. As an example, a financial professional outsourcing its IT may not have the specific competence to assess the proper investments for the implementation of an IT infrastructure adapted to its needs. The contract between a support PFS and its financial professional client must provide for the extent of information the client requires in order for the latter to be able to judge the rightfulness of the investments which would be made specifically for the needs of this service provision."

The circular also specifies the necessity for support PFS to take into account the services provided outside the financial sector. Thus, "due to the extension of the scope of intervention, the variety of services offered by support PFS is likely to be significantly larger and diverse than the variety offered to the financial sector, with very different risks as well.

The service provisions other than those performed for the financial sector must be in line with the PFS activities and under no circumstances shall they be likely to negatively influence the service provisions to the financial sector.

The service provisions to entities of the financial sector must be realised under the best quality and availability conditions and the provisions outside the financial sector may under no circumstances hinder service provisions to the financial sector, or even impact the latter due to a reputational spill-over risk from outside the financial sector."

Finally, the circular includes an element specific to support PFS, in particular to IT systems operators, which is the mutualisation of infrastructure or equipment. Since the financial professionals are entirely responsible for their outsourcing choice, the provider cannot exceed certain limits, particularly by imposing a mutualisation not wanted by its client. The circular specifies in this matter: "As soon as an OSIP or OSIS provider decides to share amongst customers a single physical environment, being its own IT system or not, it will have to clearly communicate the contemplated solution to the clients concerned, so as to make them understand the effects and limits. If this mutualisation has not been foreseen in the initial contract, if its conditions have fundamentally changed, or if there have been important changes in the service provision which cannot be accepted by the financial professional which is subject to specific supervisory obligations, a transitional solution must be provided for in the contract in order to enable a transfer of the service provision to another subcontractor or a takeover of the service provision by the financial professional itself."

- ***Transitional provisions***

Due to the automatic transition provided by the law of 13 July 2007, the former IT systems and communication networks operators of the financial sector (OSIRC) became automatically OSIP, with the result that a former OSIRC establishment which intends to abandon the OSIP status for the OSIS status must expressly mention it.

3.3.2. Compliance improvements: setting-up of internal control

The CSSF notes in 2008 a clear improvement in the internal control of support PFS, especially in the procedures for segregation of functions, audit and, generally, compliance with the prudential framework. The elements which still need particular attention concern cascade outsourcing and, for companies belonging to large international groups, integration of services within the group, where the support PFS status and its obligations are sometimes misunderstood.

3.3.3. Responsibility of the persons in charge of the daily management (managers and managing directors)

Given the experience acquired in 2008, the CSSF considers that the role and the appointment of support PFS managers shall be specified.

First, it should be noted that Article 19(3) of the law of 5 April 1993 on the financial sector, as amended, provides that "the persons responsible for the management ... must be at least two in number" ("authorised management responsible for the daily management"). During the scrutiny of the application file and during the ongoing supervision, the CSSF checks whether there is a decision of the board of directors which entrusts the daily management to the authorised management.

However, in case of a limited company, there is no board of directors and often there is only one manager who has management powers. In order to reconcile the obligation of a two-headed management and the concept of management in limited companies, two or more managers must be provided constituting, according to the usual term, the "management board" which is by definition in charge of the daily management.

As a result, it is important to stress that any manager of a support PFS must be part of the authorised management in charge of the daily management. Indeed, the legal obligation of an at least two-headed management was voluntarily provided in order not to concentrate all decisions and powers within one person. Each person responsible for the daily management is responsible of the deeds of his counterpart, creating a cross supervision concept. There cannot be a third manager who would have the power of daily management without being authorised by the CSSF, while he could unilaterally decide. This was the case particularly within certain support PFS, in which a third manager was in charge of the daily management of the services provided outside the financial sector, without being authorised by the CSSF.

However, it is not excluded that one or more managers delegate the daily management to one or more third persons who will also have to be authorised by the CSSF. In this case, the managers and the third persons mandated for the daily management will be authorised.

3.3.4. Creation of the *Association des PSF de support* (Support PFS Association)

Given the increasing number of support PFS, the CSSF welcomed the creation in 2008 of the *Association des PSF de support* which can act as a discussion partner representing the interests of the profession. Therefore, the president of the association or a designated representative was invited to become member of the internal committee "Support PFS", allowing thus a more effective bidirectional communication with all the members of the profession.

This synergy of the discussion allows to synchronise the ongoing works such as those regarding the new supervisory mode (risk based approach).

3.3.5. *Ad hoc* reporting

Ad hoc reporting was amended in 2008 and was subject to Circular CSSF 08/369. There are three changes: (1) the electronic transmission of all *ad hoc* tables (II.1 to II.22) becomes compulsory, (2) the periodicity of the transmission is reduced from monthly to quarterly and (3) the transmission must take place *via* one of the two channels *e-file* (Luxembourg Stock Exchange) or SOFiE (Cetrel Securities) and use a LuxTrust electronic signature.

The support PFS are particularly concerned with the tables II.17 and II.18. Table II.17 registers, according to the status, the number of contracts and the pro rata turnover of the services provided during the ongoing period in the financial sector and outside the financial sector, with a specific distinction regarding the insurance sector and Luxembourg or foreign clients. Table II.18 registers the same elements, but allows the identification of the global contracts (up to 9). Global contract means a contract which covers several different service provisions.

Pro rata allows smoothing the total of the global contracts which were either billed at the beginning or at the end of the year and provides a true image of the business progress.

3.3.6. Outsourcing by a support PFS of activities not subject to authorisation

The support PFS and in particular IT systems operators can also provide services which as such do not need an authorisation. These services cover, for example, the development of software, the maintenance of applications or systems or the non-financial advice.

The question arises whether these activities can be outsourced by the support PFS to a third party which does not have an equivalent authorisation.

From an operational point of view, the main issue concerns the observation of the confidentiality principle which is specific to support PFS benefiting from an exception to the secrecy obligation as defined in Article 41(5) of the law of 5 April 1993, as amended. Indeed, the third party which will act as subcontractor of the support PFS, even if the former is subject to professional secrecy because it serves the PFS, must be supervised by whom is responsible for the confidentiality, i.e. the support PFS.

However, is it possible for a support PFS to provide for these types of intervention, not subject to authorisation, a contractual clause with its client, which states that the acting person is a third party and that the support PFS frees itself from the professional secrecy obligation assuming that the client could have contracted directly with the third party for the service provision?

From a prudential point of view, this solution is risky. On the one hand, there is the legal risk that the support PFS cannot depart from its secrecy obligation resulting from its status, due to the fact that it is the main contracting party. On the other hand, it is likely that there is an ambiguity for the personnel of the financial professional client, mainly in the long term, that the third-party provider is perceived as a support PFS even though it is legally not the case.

Unless the support PFS supervises the third-party subcontractor at all times in order to ensure that the latter does not receive any confidential data besides the strict minimum and certainly not in a great amount, the financial client should assume at all times this role if it accepts that the outsourcing be performed without reference to Article 41(5).

Thus, it is more prudent to consider that such an outsourcing is performed under the entire responsibility of the support PFS which has to put in place supervisory measures necessary to ensure the confidentiality it has to observe.

Agents hired in 2008 and 2009 - General Secretariat, Departments of "Supervision of the other professionals of the financial sector", "Supervision of securities markets", "Supervision of IT and support PFS" and "Public oversight for the audit profession"

Left to right : Michel KOHN, Christian SCHROEDER, Paul LEPAGE, Danijela STOJKOVIC, Catherine PHILLIPS, Céline GAMOT, Frédéric TABAK, Laurent DOHN, Isabelle MICHALAK, Agathe PIGNON

Absent: Sarah MOROSI

CHAPTER VII

SUPERVISION OF SECURITIES MARKETS

1. REPORTING OF TRANSACTIONS IN FINANCIAL INSTRUMENTS

1.1. Obligation to report transactions in financial instruments

The reporting regime in respect of transactions in financial instruments applicable since 1 November 2007 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 2004/39EC of 21 April 2004 on markets in financial instruments (MiFID Directive). This article specifies 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 of the European Economic Area. These arrangements are completed by the more detailed implementing measures of Regulation (EC) No 1287/2006 of 10 August 2006 implementing the MiFID Directive, specifying in particular the content and form of the reports and clarifying the notion of "transaction".

After having evaluated the replies to a questionnaire sent in 2007 to the institutions subject to the reporting obligation, the CSSF released a circular letter on 18 March 2008 introducing an FAQ clarifying certain elements of the regulatory provisions and reminding the institutions of their responsibility to comply with the implementation deadline for a transaction reporting system compliant with the MiFID law. Indeed, the evaluation of the replies to the questionnaire revealed that doubts remained with respect to certain notions introduced by the MiFID law, which gave rise to diverging interpretations by the entities concerned. In particular, these FAQs provided additional information on the notions of "execution venue" and "execution of a transaction" (entailing a reporting obligation) defined in section 2 "Transactions falling within the scope" of Circular CSSF 07/302 of 17 July 2007. The CSSF invited the entities concerned to review their transaction execution procedures in the light of the new clarifications and stressed that it is up to the entities themselves in the first place to assess whether the procedures give rise to a reporting obligation.

The provisions of Circular CSSF 07/302 were supplemented by Circular CSSF 08/365 of 23 July 2008 as regards the requirement to report transactions in derivative financial instruments admitted to trading on a regulated market of the European Economic Area and the identification of those derivative financial instruments to this end.

Circular CSSF 08/365 describes the new arrangements decided by the Committee of European Securities Regulators (CESR) concerning the obligation to report transactions in derivative financial instruments relating to non-securities derivatives. According to these provisions, credit institutions and investment firms that trade in their capacity as members or participants on regulated markets of non-securities derivatives of the European Economic Area are now exempt from reporting these transactions to the CSSF, as those regulated markets are in charge of reporting the transactions executed in their systems to the competent authority of their home Member State, acting as reporting system on behalf of their members and participants.

The circular also introduces a new code, the Alternative Instrument Identifier (AII code) for the identification, in the transaction reports, of securities derivatives admitted to trading on a regulated derivatives market of the European Economic Area where the ISIN code is not used. Credit institutions and investment firms must identify the securities derivatives in their transaction reports, using either the ISIN code or the AII code, depending on the codification used by the regulated market of derivative instruments that admits these instruments to trading. In this context, the deadline by which the institutions concerned must implement the AII codification in their transactions reports and make their reporting systems compliant with the new version of the *Recueil d'instructions* "Transaction in Financial Instruments Reporting (TAF) - Electronic Reporting Instructions" (version 1.2 of April 2008, new version of 25 July 2008) has been extended.

Please also note that CESR is currently revising the guidelines adopted in May 2007, with respect to the definition of "execution of a transaction" (giving rise to a reporting obligation) (Ref.: CESR/07-301 - CESR Level 3 Guidelines on MiFID Transaction reporting). Circular CSSF 07/302, which takes into account the guidelines drawn up at European level, will be revised as soon as CESR's work is finalised.

1.2. Implementation of the reporting regime

The year 2008 was marked by the implementation of the new requirements imposed on credit institutions and investment firms subject to Article 28 of the MiFID law. As at 31 December 2008, 250 entities (credit institutions and investment firms under Luxembourg law and Luxembourg branches of credit institutions and investment firms under foreign law) are potentially concerned by the reporting regime in respect of financial instruments under the MiFID law, of which 152 were banks and 98 investment firms. The latter are those professionals of the financial sector subject to the reporting requirement, insofar as they are authorised to execute 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 investment funds. The transition period during which the pre-MiFID law regime and the regime introduced by the MiFID law were applied simultaneously ended on 30 April 2008.

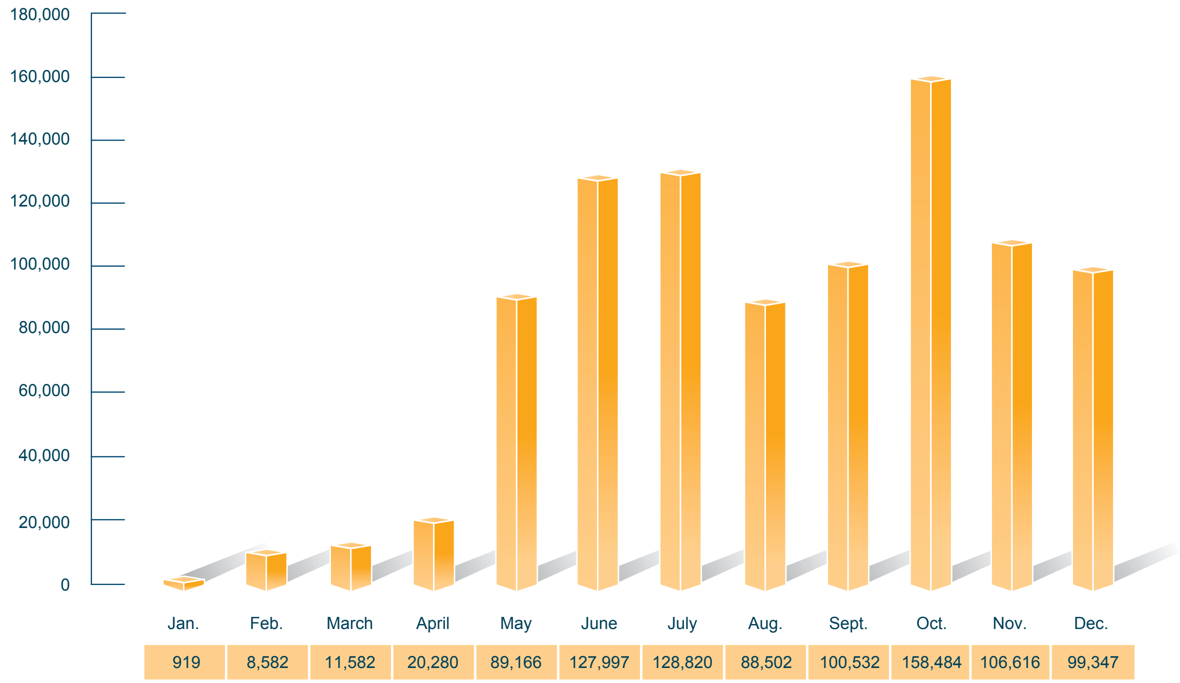
As at 31 December 2008, 106 entities (92 banks and 14 investment firms) were required to send their reports to the CSSF as their interventions had to be considered as "execution of transactions" within the meaning of the MiFID law, as specified by Circular CSSF 07/302. The difference in numbers as compared to the number of entities that are potentially concerned by the reporting regime confirms that a certain number of entities, mainly investment firms, are no longer or to a lesser degree subject to the obligation to report transactions in financial instruments owing to the fact that they do not conclude immediate market facing transactions and do not execute transactions on own account.

While the CSSF's work in this field until the end of 2008 mainly consisted in identifying the entities subject to the reporting requirements under the MiFID law and implementing the filing procedures of these entities in accordance with the *Recueil d'instructions*, the main challenge of 2009 will be to check and improve the quality of the data submitted.

1.3. Development in the number of trades reported

The number of trades reported in 2008 under the MiFID law regime and accepted by the CSSF was 940,827.

Monthly volume of TAF/MiFID reports accepted in 2008

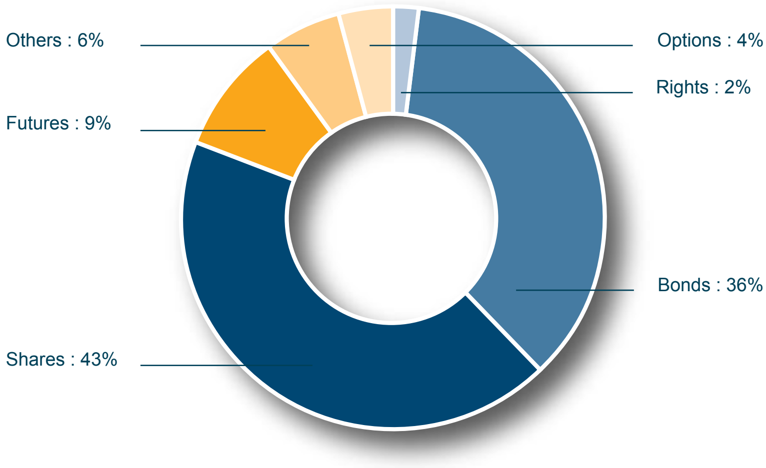


The graph shows that as of May 2008, the vast majority of entities were able to make transaction reports in accordance with the MiFID requirements.

Breakdown of transactions by type of instrument

CFi Code	**Bonds** (Dxxxxx)	**Shares** (Exxxxx)	**Futures** (Fxxxxx)	**Others** (Mxxxxx)	**Options** (Oxxxxx)	**Rights** (Rxxxxx)	**Total per month**
January	635	284	-	-	-	-	919
February	7,360	1,196	-	-	17	9	8,582
March	9,022	2,213	-	76	34	237	11,582
April	11,681	7,769	310	132	76	312	20,280
May	24,341	45,362	5,770	10,484	1,817	1,392	89,166
June	41,935	57,938	9,763	13,518	2,909	1,934	127,997
July	39,930	64,398	10,516	8,794	3,394	1,788	128,820
August	29,700	40,597	8,955	4,710	2,879	1,661	88,502
September	37,379	40,052	12,734	3,574	4,978	1,815	100,532
October	53,490	74,344	14,422	7,490	6,329	2,409	158,484
November	38,064	40,121	13,305	5,237	8,634	1,255	106,616
December	45,476	35,815	8,319	3,512	3,943	2,282	99,347
Annual total	**339,013**	**410,089**	**84,094**	**57,527**	**35,010**	**15,094**	**940,827**

Breakdown of transactions by type of instrument in relative terms



This data, as well as the evaluation of the information received *via* TREM (Transaction Reporting Exchange Mechanism), set up between competent authorities for their relevant supervisory missions, reveal the trends on European markets and, foremost, 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, based on the trades reported, are drawn up. These *ex post* analyses of transactions in financial instruments can be used as a starting point for the CSSF's inquiries.

2. SUPERVISORY PRACTICE

2.1. Supervision of stock exchanges

Upon the entry into force of the MiFID law on 1 November 2007, the establishment of a regulated market in Luxembourg is subject to a written authorisation of the Minister responsible for the CSSF. The authorisation as a regulated market is granted upon written request by the market operator and upon scrutiny by the CSSF of the conditions required under Chapter I of Title I of the MiFID law. In accordance with the authorisation conditions, the market operator and the regulated market systems must comply with the requirements of the MiFID law, and the regulated market must have its registered office or, where applicable, its central administration in Luxembourg. The acts relating to the organisation and operation of the regulated market are supervised by the CSSF. Where the market operator is established in Luxembourg, this operator must also obtain an authorisation as "PFS other than an investment firm" under Article 27(1) of the law of 5 April 1993 on the financial sector, as amended, according to the authorisation procedure laid down in that law.

The MiFID law added the operation of a multilateral trading facility (MTF) to the list of investment services and activities in accordance with the MiFID Directive it transposes. MTFs may be operated either by a market operator or by a credit institution or investment firm. As regards investment firms, if they are established in Luxembourg, they must obtain an authorisation as PFS under Article 24(9) of the law of 5 April 1993, as amended, according to the authorisation procedure set down in that law.

Except for the differences in the markets' structure and the persons authorised to operate them, regulated markets differ from MTFs mainly in that the admission to trading of a financial instrument on a regulated market is the element triggering the application of a certain number of harmonised provisions at EU level, as for example the provisions relating to international accounting standards which do not necessarily apply to MTFs or only apply to a lesser extent.

There are currently two markets that are operated by the same operator, namely the *Société de la Bourse de Luxembourg S.A.* (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 market operator authorised in Luxembourg as defined in Article 27(1) of the law of 5 April 1993, as amended. As such, the SBL is registered on the official list of the other professionals of the financial sector as "PFS other than investment firms". Owing to its PFS status, the SBL is subject, among others, to certain general provisions under Articles 13 to 23 of the law of 5 April 1993, as amended, to provisions relating to professional obligations, prudential rules and conduct of business rules under Part II and to certain provisions concerning the prudential supervision of the financial sector under Part III of that law. In addition, the relevant provisions of the MiFID law also apply.

As far as its supervisory mission is concerned, the CSSF has had several meetings and exchanged mail with the SBL notably with regard to the implications of the implementation of the regulatory framework laid down by the MiFID law within the SBL and the markets operated by the SBL, the development of the co-operation with NYSE Euronext and the setting-up of new clearing and settlement structures.

As regards post-trade activities, a central counterparty service was inaugurated in March 2008 for the markets operated by the SBL. The first trades were made *via* the new structure on 14 March 2008 and settled successfully. The new model was established in co-operation with the French LCH. Clearnet S.A. which acts as central counterparty. This structure allows members to operate with Clearstream Banking Luxembourg and Euroclear Bank to ensure the settlement and the delivery of securities. In accordance with Article 15 of the MiFID law, regulated markets may agree upon appropriate arrangements with such systems established in Luxembourg or in another Member State with a view to providing the settlement or the clearing of some or all trades concluded by their members under their systems. With some reservations, every regulated market must offer its members the right to designate the system for the settlement of the transactions in financial instruments undertaken on this market. In this context, the CSSF and the French authorities stayed in contact during 2008.

Within the scope of the partnership between the SBL and NYSE Euronext concluded in March 2007, the SBL migrated the securities admitted to the markets operated by the SBL to the Universal Trading Platform (UTP) of NYSE Euronext on 9 March 2009. As a consequence, the trading platform NSC® introduced in 2007 is no longer in use.

In order to take into account the new trading procedures, the Rules and Regulations of the SBL have been amended and, in accordance with the provisions of the MiFID law, the CSSF had been informed beforehand of the changes to the operating rules of the markets operated by the SBL.

Also, the CSSF is kept informed of market activities and related issues on a daily basis by means of an activity report provided by the SBL and may access information on stock exchange transactions electronically. In order to ensure continuity of prudential supervision of the market operator, the SBL is required to send a monthly report on its financial situation to the CSSF.

It is required to be "Member of the Luxembourg Stock Exchange" in order to have direct access to trading on one of the markets operated by the SBL. In this context, it can be noted that companies that are members of the NYSE Euronext cash trading may, under certain conditions, benefit from a simplified access procedure as cross-members. As at 31 December 2008, the SBL counted 65 members, including 12 cross-members.

As far as market activities are concerned, the trading turnover on the two markets operated by the SBL reached EUR 1,414.24 million in 2008 (against EUR 652.00 million in 2007). This growth is notably linked to the substantial volume traded in the shares of the Luxembourg company Reinet Investments S.C.A., newly admitted to trading in 2008. This volume was so important that the company's shares were integrated in January 2009 into the share basket composing the LuxX index.

2008 was again characterised by intense activity as regards admissions to the markets operated by the SBL with 11,651 new admissions (13,353 in 2007). As at 31 December 2008, the two markets operated by the SBL totalled 49,097 listings (against 45,573 in 2007), i.e. 32,933 bonds, 290 shares, 7,741 warrants and rights and 8,133 Luxembourg and foreign undertakings for collective investment and sub-funds. The regulated market accounted for 43,876 out of the 49,097 listings, and the Euro MTF for 5,221.

2.2. Investigations conducted by the CSSF at national and international level

The CSSF is the administrative authority competent to ensure that the provisions of the market abuse law of 9 May 2006 are applied. The purpose of this law is to combat insider dealing and market manipulation ("market abuse") 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 in response to a request for assistance from a foreign administrative authority within the framework of international co-operation. The decisions to open an investigation or to intervene against a professional of the financial sector are first based on analytical reports of daily trading activity at the Luxembourg Stock Exchange, as well as on the analysis of trades reported to the CSSF. After its assessment of all the available information, the CSSF decides on the appropriateness of an intervention.

2.2.1. Inquiries initiated by the CSSF

In 2008, the CSSF opened three inquiries into insider dealing and/or price manipulation. The information obtained in relation to one of these inquiries allowed the CSSF to close it without taking any further action. The examinations made by the CSSF in the context of the other inquiries opened in 2008 continue in 2009.

Moreover, the information obtained in relation to two inquiries already opened in 2007 allowed the CSSF to close one of these inquiries without taking any further action. The examinations made in the context of the other inquiry continue in 2009.

2.2.2. Inquiries conducted by the CSSF at the request of a foreign authority

- ***Inquiries into insider dealing***

In 2008, the CSSF processed 36 requests concerning inquiries into insider dealing (against 50 in 2007). The CSSF handled all these requests with the necessary diligence befitting co-operation between authorities and no major issues relating to the requests of information submitted to the involved financial institutions have arisen.

- ***Inquiries into price manipulation, fraudulent public offers, breaches of the requirement to report major shareholdings and other breaches of the law***

The CSSF received nine inquiries into price manipulations (two in 2007), five inquiries into breaches of the requirements to report major shareholdings (five in 2007) and nine other inquiries relating to Luxembourg-incorporated companies (three in 2007). The CSSF responded to all these requests within the scope of its legal competence.

2.2.3. Notifications of suspicious transactions under the law on market abuse

In accordance with Article 12 of the law on market abuse, any credit institution or other professional of the financial sector established in Luxembourg shall notify the CSSF if it reasonably suspects that a transaction might constitute insider dealing or market manipulation. Circular CSSF 07/280, as amended, specifies the application of this article.

Based on this provision, the CSSF received 25 suspicious transaction reports in 2008 (against 26 in 2007). For underlying financial instruments admitted to one or several foreign markets, the notified information was transmitted to the competent authorities of the market(s) concerned, thereby observing the co-operation obligation referred to in the law on market abuse. This information can, where necessary, lead these authorities to open inquiries.

In 2008, the CSSF received three suspicious transaction reports from foreign authorities.

2.3. Approval of prospectuses relating to offers to the public or admissions to trading on a regulated market

2.3.1. Application of the Prospectus law of 10 July 2005

Further to the entry into force of the law of 10 July 2005 on prospectuses for securities (Prospectus law), the CSSF is the sole intervening party in Luxembourg in the approval process for prospectuses relating to offers to the public of securities and admissions of securities to trading on a regulated market since 1 January 2006.

In 2008, the opinion of the department "Supervision of securities markets" competent for the enforcement of the Prospectus regulations was sought 209 times. Some positions of the CSSF are detailed in point 2.3.3. of this Chapter.

As far as the possibility of exempting issuers from including certain information in their prospectuses in accordance with Article 10 of the Prospectus law is concerned, the CSSF received some thirty omission of information requests, of which 24 were granted by the CSSF. It should be noted that ten requests concerned the detailed description of the State guarantors offering to support credit institutions weakened by the financial crisis.

According to the provisions of the Prospectus law, the issuers are, among other things, exempted from drawing up a prospectus where an offer is exclusively reserved for qualified investors. To this end, Grand-ducal regulation of 2 August 2006 determining the terms of implementation of a register of persons considered as qualified investors provides that the CSSF keeps a register of qualified investors up to date. As at 31 December 2008, eleven legal persons were registered.

In 2008, the CSSF delegated the approval of a prospectus to a competent authority of another Member State in accordance with Article 7(6) of the Prospectus law. The CSSF took this decision concerning a Luxembourg issuer, by taking into account the fact that the securities concerned were exclusively offered to the public in the Member State concerned, that, except for specialised vehicles involved in the structure, all the actors involved in the transaction were from the Member State concerned and that the competent authority of the Member State concerned had specific information on the actors involved allowing it to analyse the file with full knowledge of the facts. Moreover, the competent authority of the Member State concerned had specific experience with the structure concerned as it had already dealt with similar transactions presenting similar links notably with the persons involved. The CSSF considered, given the transaction's geographic specificity and particular complexity, that the transaction could conceal additional risks that would be more easily detected by an authority having prior information notably on the initiators of the offer concerned.

2.3.2. Approvals and notifications in 2008

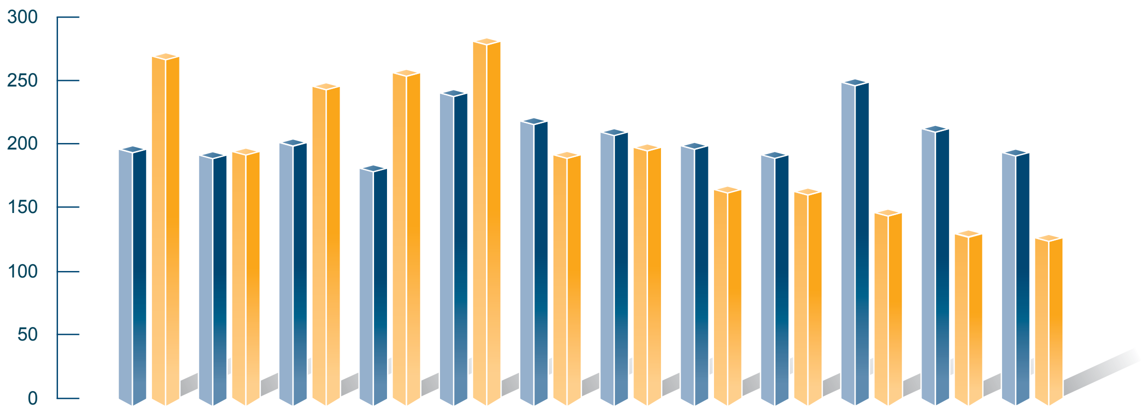
- ***Documents approved by the CSSF in 2008***

In 2008, 2,367 documents were approved by the CSSF, i.e. 1,044 prospectuses, 349 base prospectuses, 19 registration documents and 955 supplements. This represents a slight decrease of 4.63% as compared to 2007 when the number of documents approved by the CSSF amounted to 2,482.

A first drop beginning in June 2008 may be explained by the fact that one of the major issuers, having Luxembourg as home Member State, started issuing securities *via* Final Terms, instead of prospectuses to be approved as before. Secondly, and foremost in the last quarter of 2008, the dip in the number of approvals became more widespread and sharper due to the financial crisis affecting all the financial markets.

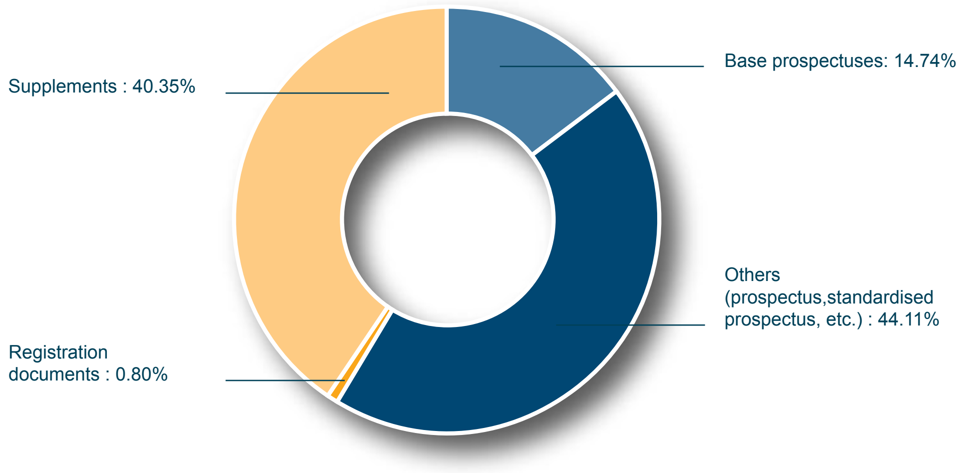
In 2008, the CSSF approved 1,393 prospectuses, representing 20.19% of all the prospectuses approved by the competent authorities of all the Member States (17.54% in 2007). Thus, it takes the lead among the competent authorities with the largest number of prospectuses approved in 2008.

Development in the number of documents approved by the CSSF



	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.
2007	196	191	202	181	240	218	210	199	192	249	212	192
2008	269	195	246	257	282	192	198	165	163	146	129	125
Variation in %	*37.24*	*2.09*	*21.78*	*41.99*	*17.50*	*-11.93*	*-5.71*	*-17.09*	*-15.10*	*-41.37*	*-39.15*	*-34.90*

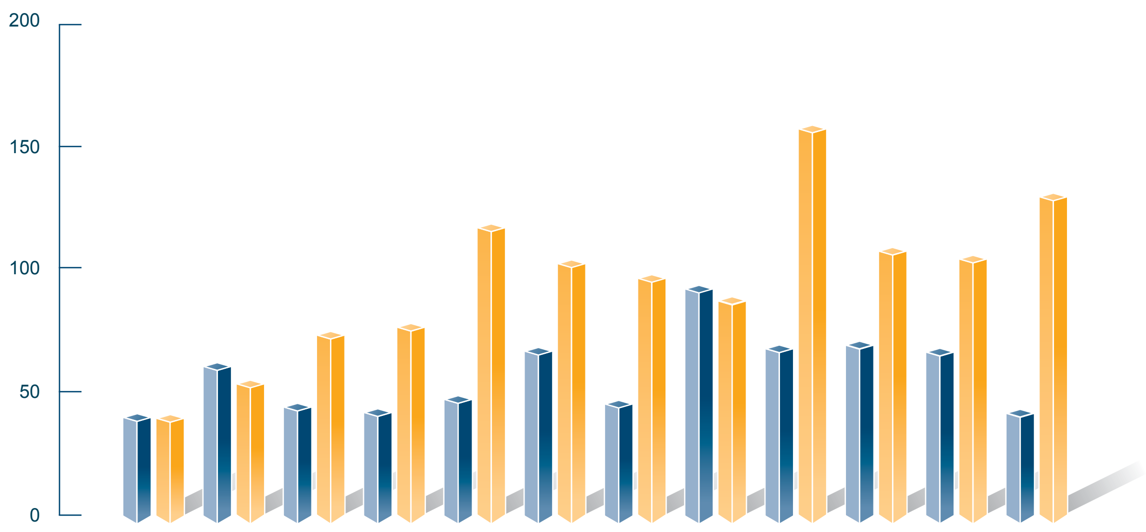
Distribution of documents approved in 2008



- ***Documents drawn up under the European passport regime in 2008***

In 2008, the CSSF received 1,144 notifications[1] (relating to 282 prospectuses and base prospectuses and 862 supplements) from the competent authorities of several EU Member States, against 677 in 2007, representing a 68.98% growth.

Development in the number of notifications received by the CSSF



	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2007	40	60	43	41	46	67	44	92	67	69	66	42
2008	40	53	73	76	118	102	96	87	157	108	104	130
Variation in %	*0.00*	*-11.67*	*69.77*	*85.37*	*156.52*	*52.24*	*118.18*	*-5.43*	*134.33*	*56.52*	*57.58*	*209.52*

[1] The statistics relating to the notifications received slightly differ from those published monthly in the CSSF Newsletter. Indeed, certain information provided by the regulatory authorities of the other Member States after the publication of the Newsletter are likely to have an impact on the statistics of the previous month.

Development and breakdown of the notifications received by the CSSF

	2007	2008	Variation
Prospectuses and base prospectuses	283	282	-0.35%
Supplements	394	862	118.78%
Total	**677**	**1,144**	**68.98%**

In 2008, the CSSF sent notifications for 1,070 CSSF-approved documents[2] (420 prospectuses and base prospectuses and 650 supplements) to the competent authorities of other EU Member States, against 900 documents (514 prospectuses and base prospectuses and 386 supplements) in 2007, which is an 18.89% increase.

Development and breakdown of the notifications sent by the CSSF

	2007	2008	Variation
Prospectuses and base prospectuses	514	420	-18.29%
Supplements	386	650	68.39%
Total	**900**	**1,070**	**18.89%**

- ***Approval of a SPAC (Special Purpose Acquisition Company)***

In 2008, the CSSF approved a first file relating to the offer to the public of shares issued by a SPAC. Special Purpose Acquisition Companies are publicly traded companies that raise money by an offer to the public of their shares for the purpose of acquiring, at short or medium term under certain predefined conditions, one or several existing companies. The proceeds of the subscription of shares are entrusted with a management team significantly experienced in takeovers.

- ***Approval of a prospectus relating to a significant Luxembourg share issuer***

One of the most significant prospectuses for the Luxembourg market in 2008 approved by the CSSF concerned the new Luxembourg issuer of shares Reinet Investments S.C.A. resulting from a complex restructuring within the Richemont group whose holding company was established in Luxembourg. The restructuring's complexity involving diverse authorisations of the CSSF under several regulations of the financial sector was handled in close collaboration with the relevant departments of the CSSF.

The shares were admitted to trading on the regulated market of the Luxembourg Stock Exchange on 21 October 2008. Market activity was strong from the first day of admission.

2.3.3. Questions regarding prospectuses raised in 2008

- ***Admission of SIFs and SICARs to the Luxembourg Stock Exchange***

The CSSF's opinion was sought on different files for admission to official listing and admission to trading on the regulated market operated by the SBL of specialised investment funds (SIFs) and investment companies in risk capital (SICARs). Indeed, two conditions seemed to be source of difficulties to issuers:

- free negotiability of securities and efficient settlement of transactions are required for trading on markets operated by the SBL, and
- acceptance by clearing and settlement systems.

As regards free negotiability, it must be noted that the transactions concluded on the markets operated by the SBL must be validly concluded, which means that any restrictions at buyer level

[2] This figure corresponds to the number of documents for which the CSSF sent one or several notifications. Where notifications have been sent at different dates and/or in several Member States, only the first notification is included in the statistical calculations. Each document notified in one or several Member States is thus only counted once.

must not affect the seller. However, the nature of the securities concerned may raise questions in this regard.

After consultation with the different intervening parties, the analysis of the applicable provisions and of the issue, in light notably of the observations made by the intervening parties, it turned out that the issue of free negotiability may in principle be solved for example through committing to take back securities at issuer level. As regards settlement, a differentiated settlement system can allow to solve these issues-related problems in certain cases where securities are not eligible for their acceptance in one of the clearing and settlement systems recognised at the level of the markets operated by the SBL.

- ***Changes to the Final Terms in the course of an offer to the public***

In 2008, the CSSF was approached several times by issuers wishing to change their Final Terms. The CSSF considers that the Final Terms may be replaced if the offer is still ongoing or if the admission to trading has not occurred yet. Where the offer to the public was closed or securities admitted on the regulated market of the Luxembourg Stock Exchange, the provisions regarding ongoing information apply. It must be noted that if the changes are a significant new factor or material mistake relating to the information on the issuer, a supplement to the base prospectus to which the Final Terms refer must be published.

In August 2008, CESR published a frequently asked question[3] on this subject in the 6th update of the Frequently Asked Questions, thereby confirming the CSSF's position while providing some more clarifications. CESR's analysis concerned the following two cases:

- where the amendments are not a new significant factor, material mistake or inaccuracy capable of affecting the assessment of the securities, the issuer can replace the Final Terms or make an announcement;
- where the amendments are a new significant fact, material mistake or inaccuracy capable of affecting the assessment of the securities, the issuer must publish a supplement to the related base prospectus with reference to the amended Final Terms.

- ***CSSF's position regarding Preference Shares or Beneficiary Shares***

In 2008, the CSSF's opinion was sought several times with regard to Preference Shares or Beneficiary Shares, which are preferred dividend stock with limited voting right exercisable within the conditions laid down beforehand. For the purposes of determining which information should be inserted into the prospectuses of those issues under the Prospectus regulations, the CSSF considers in principle these hybrid securities as debt securities and not as equity securities. Indeed, if no voting right, comparable to that of ordinary shares, is attached to these securities and these are not convertible securities, they shall be considered as debt securities under the scope of the Prospectus regulations. In all other cases, a detailed analysis of the securities' structure must be made in order to qualify the securities under the Prospectus regulations.

2.4. Takeover bids

2.4.1. Offer documents approved by the CSSF

In 2008, the CSSF did not have to approve or recognise any offer document in relation with takeover bids under the law of 19 May 2006 implementing Directive 2004/25/EC of 21 April 2004 on takeover bids (Takeover law).

[3] The Frequently Asked Questions are available on CESR's website (www.cesr.eu) - Expert Groups / Prospectus Level 3.

2.4.2. File under review

On 29 January 2009, after preliminary talks and negotiations in 2008, the Luxembourg company SOTEG S.A. announced, following the contribution of CEGEDEL S.A. shares by some former shareholders, that it holds 82.8% of the shares and voting rights in that company. As a consequence, in accordance with Article 5(1) of the Takeover law, SOTEG S.A. is required to launch a mandatory takeover bid for the remaining CEGEDEL S.A. shares not held by SOTEG S.A.. The offer document relating to the mandatory bid was filed with the CSSF for approval, and with the *Commission bancaire, financière et des assurances* (CBFA) in Belgium for recognition. As soon as the document has been approved by the CSSF and recognised by the CBFA, SOTEG S.A. will launch a mandatory takeover bid in Luxembourg and in Belgium to acquire the remaining shares of CEGEDEL S.A. in accordance with the Takeover law. SOTEG S.A. already announced its intention to exercise its right of squeeze-out as provided for by Article 15 of the Takeover law if the result of the bid allows to do so.

2.5. Supervision of issuers whose securities are admitted to trading on a regulated market and for which the CSSF is the competent authority pursuant to the law of 11 January 2008 on transparency requirements for issuers of securities

In accordance with Article 22(1) of the law of 11 January 2008 on transparency requirements for issuers of securities (Transparency law), the CSSF is the authority competent for the enforcement of the provisions of that law. It is thus in charge of supervising the issuers whose home Member State is Luxembourg in accordance with the Transparency law. More than 600 issuers are currently governed by the Transparency law and are, consequently, under the supervision of the CSSF. It is likely that this number will increase considerably over the next months, as many issuers have not formalised their choice of home Member State yet.

Following the entry into force of the Transparency law, the first task of the CSSF in this field was to determine the population of issuers to supervise. A large part of the work of the agents responsible for the supervision of the listed companies consisted in 2008 in contacting the different groups of issuers likely to fall under the scope of the Transparency law. In April 2008, based on information provided by the SBL, an identification number was given to the issuers of shares and issuers of debt securities the denomination per unit of which is less than EUR 1,000 which have automatically Luxembourg as home Member State. The other Luxembourg issuers whose securities are admitted to trading on the regulated market operated by the SBL, were contacted in May 2008 and invited to notify the choice of their home Member State. To date, all of these issuers (around 125) made their choice, the vast majority having chosen Luxembourg.

The information received from the SBL allowed to contact the issuers from third countries, i.e. those whose head office is in a country outside the European Economic Area, as well as those whose head office is inside the European Economic Area and that are entitled to choose Luxembourg as home Member State as their securities are admitted on the regulated market operated by the SBL. It was difficult to come into contact with the issuers of third countries so that a high number of those issuers have not yet approached the CSSF. Among those that made their choice, almost 60% opted for Luxembourg as home Member State. To date, more than a third do not have any more securities admitted to trading on the regulated market operated by the SBL (withdrawals during the year, changes of market, etc.) and 7% chose another Member State as home Member State.

As regards non-Luxembourg issuers whose head office is inside the European Economic Area and that have securities admitted to trading on the regulated market operated by the SBL, these issuers chose, in general, the State in which their head office is located as home Member State. Only 20% chose Luxembourg.

Finally, as regards the Luxembourg issuers that only have securities admitted to trading on the regulated markets situated or operated in other states of the European Economic Area, a CESR working group put into action a co-operation between the different Member States in order to identify the population concerned. For issuers of shares established in a Member State of the European Economic Area, a database set up within the scope of the MiFID Directive lists all the European issuers whose shares are admitted to trading on a regulated market of the European Economic Area. This database is kept up to date by the different competent authorities in accordance with the MiFID Directive. As regards the European issuers of other securities, the supervisory authorities exchanged their data on the issuers of the European Economic Area whose securities are admitted to trading on the different regulated markets. Based on this information, the CSSF contacted the Luxembourg issuers that have securities admitted to trading on non-Luxembourg regulated markets in December 2008. The responses given by these issuers reveal that the majority of the issuers established in Luxembourg chose Luxembourg as home Member State.

Besides taking stock of the entities to be supervised under the Transparency law, some guidelines, notably in the form of circulars, circular letters or FAQs, were drawn up in 2008 in order to promote the understanding of the legal framework. For further information on this subject, please refer to point 3. of this Chapter which outlines the development of the regulatory framework on the supervision of securities markets.

Taking into account the works of the *ad hoc* legal interpretation group on the legislation relating to capital markets and the different questions received from the interested parties, the CSSF worked out a set of FAQs which will be completed on a regular basis by the recurring questions regarding Transparency legislation. These FAQs, as well as all the legislative texts and circulars concerning the Transparency law, are available on the CSSF's website under the heading "Issuers/Prospectuses", sub-heading "Transparency requirements for issuers of securities".

One of the frequently asked questions in 2008 concerned the temporal scope of the Transparency law (cf. CSSF's Annual Report 2007). In this context, it should be noted that the annual financial reports relating to the financial years started on 1 January 2008 must be drawn up in accordance with the provisions of the Transparency law and be published, filed with the CSSF and stored with the OAM (cf. point 3. of this Chapter) by 30 April 2009.

Additional explanations were requested on how regulated information should be published as the Transparency law requires an efficient dissemination at European level. Question and Answer No10 specified the notion of effective dissemination. It also provides for a list of companies that contacted the CSSF and have been recognised by the CSSF as companies specialised in the dissemination of regulated information the issuers may use in order to fulfil their dissemination requirements. After having analysed the files received, the CSSF has recognised to date three entities as being able to provide effective dissemination of regulated information at European level. The list of those companies is available on the CSSF's website under the sub-heading mentioned above.

Given the large number of third country issuers that have securities admitted to trading on the Luxembourg regulated market, many questions have been raised as regards the equivalence of transparency obligations and the accounting standards used in those countries. In the context of transparency obligations, it should be noted that the CSSF has not yet assessed the equivalence of any foreign legislation. As regards accounting standards, the European Commission published its decision of 12 December 2008 on the use by those issuers of national accounting standards of certain third countries and international financial reporting standards to draw up their consolidated financial statements (cf. point 3. of this Chapter). In this context, the CSSF considers that the reasoning behind the decisions of the European Commission with regard to the accounting standards to be used to draw up consolidated financial statements should also apply to the preparation of individual accounts of a third country issuer, notably in view of ensuring consistency of the presentation of financial information and in view of taking into account the principle of continuity of the presentation of financial statements.

Other issues concerned the choice of the home Member State of the issuers, notably as regards the issuers whose head office is in a country outside the European Economic Area. This is due to the fact that many securities have been admitted to trading on the regulated market operated by the SBL before the entry into force of the Prospectus law or even before the delimitation of the notion of regulated market. Many issuers do not seem to realise that their securities are currently admitted to trading on a regulated market as defined in the MiFID Directive. They thus seem to have difficulty assessing the scope of the legislation applicable on these markets.

Moreover, Article 7 of the Transparency law which provides that certain categories of issuers are exempted from preparing periodic financial accounts (Articles 3 to 5) is often misinterpreted. Indeed, the issuers concerned, i.e. the States and their regional or local authorities, as well as those that issue only debt securities whose denomination per unit amounts to at least EUR 50,000 are often of the opinion that the provisions of the Transparency law do not apply to them at all. However, the exemption for these types of issuers only concern the drawing-up of financial reports, so that the obligations referred to in Articles 15(2), 15(3) and 17 of the Transparency law, as well as the obligation to publish their inside information also apply to them. These issuers are also subject to the obligation to choose a home Member State.

In general, it can be said that many issuers do not seem to be aware of their obligations (notably with respect to transparency) triggered by the admission of their securities to trading on a regulated market within the meaning of the European Directives. While 2008 was a transitional year with a certain number of transitional provisions provided by the Transparency law, notably as regards periodic information, the year 2009 will be dedicated to setting up a more stringent application of the legal framework as regards transparency by issuers.

3. DEVELOPMENTS IN THE REGULATORY FRAMEWORK

3.1. Development of the regulatory framework relating to the obligations to report transactions in financial instruments

Circular CSSF 08/365 of 23 July 2008 complements the measures described in Circular CSSF 07/302 as regards the obligation to report transactions in derivative financial instruments and the identification, to this end, of these derivative financial instruments. A more detailed description of this circular is available in point 1.1. of this Chapter.

3.2. Development of the regulatory framework regarding transparency requirements for issuers of securities

The Transparency law and the Grand-ducal regulation on transparency requirements for issuers of securities of 11 January 2008 set down the general framework that applies to the issuers of securities of which Luxembourg is the home Member State and of which the CSSF is the competent authority. Both texts, as well as Circular CSSF 08/337 on the entry into force of those new transparency provisions have been detailed in the CSSF's Annual Report 2007. In 2008, the CSSF published additional guidelines, notably with respect to the notification of major shareholdings and the storage of regulated information as defined in the Transparency law.

3.2.1. Circular CSSF 08/349 detailing the information to be notified with respect to major holdings in accordance with the law of 11 January 2008 on transparency requirements for issuers of securities

Circular CSSF 08/349 defines the content and the form of notifications to be made for an acquisition or disposal of a major holding in a company whose shares, including depositary receipts representing shares, are admitted to trading on a regulated market and which are required under Articles 8 and 9 of the Transparency law.

The circular thus introduces several standard forms, i.e. a standard form to be sent by the shareholders to the issuer and to the CSSF when the notification requirement has been triggered, a standard form to be used by the issuer for the disclosure of its total capital and total number of voting rights, as well as a standard form to be filed with the CSSF by a market maker seeking to benefit from the exemption provided for under Article 8(4) of the Transparency law. These forms are based on forms that the European Commission prepared by taking account of CESR's work in this field and have been adapted to the Luxembourg legislation.

The circular then presents the different situations referred to in Article 9 of the Transparency law, i.e. the situations in which a natural or legal person is entitled to acquire, dispose of or exercise voting rights (i.e. under a custody or proxy agreement) and which are likely to trigger a notification obligation.

Finally, it provides details regarding the treatment of certain specific financial instruments such as option contracts, forward contracts or swap contracts.

3.2.2. Circular CSSF 08/359 on minimum quality standards to be complied with by an officially appointed mechanism for the central storage of regulated information

Issuers of which Luxembourg is the home Member State are required to file their regulated information with a mechanism officially appointed for the central storage of regulated information (Officially Appointed Mechanism, OAM), as referred to in Article 20(2) of the Transparency law. The purpose of an OAM is to gather all periodic and ongoing regulated information that issuers subject to the Transparency Directive are required to provide in order to make them available to the public. This information notably includes the choice of home Member State, periodic financial reports, the information to be provided with respect to major shareholdings and inside information.

As regards storage mechanisms, the European Commission issued a recommendation in October 2007 which sets down the minimum technical standards that European OAMs must comply with in order to allow the setting-up of an electronic network linking all those OAMs. This recommendation was transposed in Luxembourg through Circular CSSF 08/359.

The principal object of the circular is to determine the minimum quality standards that an OAM must comply with regarding the source of the regulated information, the procedure for filing regulated information, the security mechanisms for the OAM's systems and the access to regulated information by end users. Moreover, the circular specifies that any Luxembourg OAM must be appointed by way of Grand-ducal regulation.

3.2.3. Grand-ducal regulation of 3 July 2008 on the official appointment of mechanisms for the central storage of regulated information within the meaning of the law of 11 January 2008 on transparency requirements for issuers of securities

The purpose of the Grand-ducal regulation is to appoint a mechanism for the central storage of regulated information relating to the issuers of which Luxembourg is the home Member State in accordance with the Transparency law. As laid down in the explanations to the bill relating to the Grand-ducal regulation concerned, the purpose of the OAM and the future Community network designed to link all the European OAMs is to promote a better organisation of the investors' access to regulated information relating to the issuers of securities and to promote the integration of capital markets.

After defining the notion of OAM, the Grand-ducal regulation designates the SBL, which already had a technical infrastructure likely to be able to ensure the functions relating to the centralised storage of regulated information, as Luxembourg OAM.

Furthermore, the Grand-ducal regulation specifies that the CSSF will supervise the Luxembourg OAMs and monitor that the minimum quality standards as referred to in Circular CSSF 08/359 are complied with.

Finally, the Grand-ducal regulation provides for the implementation of the SBL's services as OAM for 1 January 2009 at the latest and sets down that issuers are supposed to have their storage obligation for regulated information fulfilled by 31 December 2008 if they make them available to the public on a website. It must be noted that the OAM is operational since 1 January 2009 and that the transitional provision set out in the Grand-ducal regulation is, as a consequence, no longer applicable.

3.2.4. Circular letter of 16 December 2008 concerning the implementation of the officially appointed mechanism for the central storage of regulated information (Officially Appointed Mechanism or OAM) within the meaning of the law of 11 January 2008 on transparency requirements for issuers of securities and reminder of the requirements in relation to storage, dissemination and filing with the CSSF of this information

The main purpose of the circular letter is to announce the implementation of the mechanism for the central storage of regulated information drawn up by the issuers of securities. Thus, it underlines that all issuers of which Luxembourg is the home Member State in accordance with the Transparency law must file their regulated information with the SBL as Luxembourg OAM and that the transitional provisions relating to storage are repealed as from 1 January 2009. In the same context, it gives certain guidelines as regards the registration with the OAM and the filing of regulated information in the OAM's systems.

The circular letter reminds that regulated information must be disseminated with the public in all Member States and that an FAQ available on the CSSF's website specifies the notion of efficient dissemination.

Moreover, the circular letter specifies the filing of regulated information with the CSSF. Thus, it insists on the fact that the number and name of the issuer must be stated in the subject field of the e-mail at all times and that the issuer must clearly state whether it concerns a regulated information or not, and, where applicable, indicate the nature of the information. The procedure and dates for the dissemination of regulated information must also be stated in the e-mail relating to the filing.

Finally, the CSSF points out that certain obligations, notably with respect to major shareholdings, have not been complied with in all cases, and states the articles relating to the CSSF's powers and means of sanction.

3.2.5. Decision 2008/961/EC of 12 December 2008 on the use by third countries' issuers of securities of certain third country's national accounting standards and International Financial Reporting Standards to prepare their consolidated financial statements

Having regard to CESR's recommendations and Regulation (EC) No 1569/2007 of 21 December 2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers, the European Commission decided in December 2008 to consider the Japanese and US Generally Accepted Accounting Principles (GAAP) as equivalent to the IFRS standards adopted as from 1 January 2009. Although no final decision has been taken concerning the equivalence of the GAAP of China, Canada, South Korea and India, which are in the course of converging with IFRS standards, it has been considered appropriate to support the efforts undertaken by those countries and to allow third country issuers to prepare their annual and half-yearly consolidated financial statements in accordance with the national accounting principles applicable in those countries until 31 December 2011.

3.3. Developments in the regulatory framework relating to the prospectuses for securities

3.3.1. Regulation (EC) No 1289/2008 of 12 December 2008 amending Regulation (EC) No 809/2004 implementing Directive 2003/71/EC as regards information contained in prospectuses and dissemination of advertisements

Decision 2008/961/EC of 12 December 2008 on the use by third countries' issuers of securities of certain third country's national accounting standards and International Financial Reporting Standards to prepare their consolidated financial statements

This Regulation follows Regulation (EC) No 1569/2007 of 21 December 2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers and Decision 2008/961/EC of 12 December 2008 (cf. point 3.2.5. of this Chapter). It introduces the practical consequences of this decision as regards the application of the different points of the annexes provided for by Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC (Prospectus Regulation) through the amendment of Article 35 of the latter. It also allows the use, in general, of the Japanese and US GAAP and the use, for a transitional period, of the generally accepted accounting principles of China, Canada, South Korea and India in the context of the preparation of a prospectus under the Prospectus regulations.

3.3.2. Consultation of the European Commission on the review of the Prospectus Directive

After having studied the impact of the Prospectus Directive on the European financial markets and having held talks with the parties concerned, the European Commission launched a consultation[4] on 9 January 2009 on the review of the application of the Prospectus Directive which contains proposals for the improvement and simplification of this Directive. All the interested parties, and notably companies, investors and consumers, have been invited to take part in the consultation. The deadline for responses was 10 March 2009.

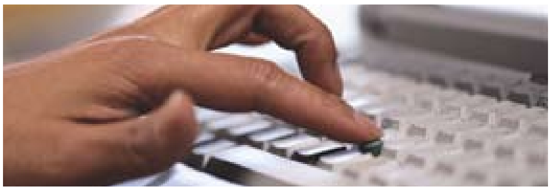
The consultation document starts with a general assessment of the overall functioning of the Prospectus Directive in terms of its effectiveness and efficiency. The European Commission concludes that most market participants appear satisfied with the application of the Directive. It then outlines several elements likely to be improved: the definition of qualified investors, review of exemptions, review of the obligation to prepare an annual document, deadlines regarding the right of withdrawal and certain thresholds set down by the Directive. Moreover, the European Commission wishes to gather the contributions and suggestions covering the subjects brought to its attention, such as the effectiveness of the summary, State guarantees and offers of rights.

[4] Consultation available on the website of the European Commission: http://ec.europa.eu/internal_market/consultations/2009/prospectus_en.htm

The CSSF, as a member of CESR's Prospectus contact group, actively contributed to the consultation.

3.4. *Ad hoc* legal interpretation group(s) on the legislation relating to capital markets

Following the success of the *ad hoc* interpretation group on the new prospectus legislation created and operational mostly in 2005, the *ad hoc* group on market abuse legislation, active in particular in 2006 and the works carried out within these groups with respect to takeover bids and transparency in 2007, the *ad hoc* group on transparency legislation started its works again at the beginning of the year 2008 and gathered fourteen times to discuss the interpretation of the transparency legislation.



CHAPTER VIII

SUPERVISION OF INFORMATION SYSTEMS

1. ACTIVITIES IN 2008

1.1. Meetings and participation in national and international groups

In 2008, the department "Supervision of IT and support PFS" took part in 138 meetings, 31 national meetings and 12 international meetings, 7 of which for CESR-Tech, i.e. a total of 181 meetings. The agents of the department also attended 19 conferences or seminars related to IT systems security, financial tools or applications, and to the Luxembourg economic outlook, notably on research in the fields of development, IT, communication and security.

The meetings related to IT supervision, except for those concerning authorisation requests or support PFS supervision, mainly focussed on issues already raised in 2007. Mobility is a recurrent theme and confirms financial professionals' growing need to grant remote access to certain IT systems to employees or representatives. This mobility has to be considered in close relationship with the architecture and security of the services accessed through the Internet.

As far as national meetings are concerned, the department in charge of IT supervision represents the CSSF within the following committees, commissions, associations or working groups:

- ABBL - Means of payment Commission. The Commission in which the CSSF participates as observer dealt with topics relating to payment and clearing systems, bank cards, direct debit and especially the European project SEPA (Single European Payment Area) coordinated by EPC (European Payment Council). The aspects of vulnerabilities specific to the use of financial services *via* the Internet have also been reviewed.
- CRP Henri Tudor. In 2007, the CRP started the research programme INNOFinance within the current economic and political context fostering the identification and promotion of services in which the Luxembourg financial centre intends to excel. Fostering excellence of services at an international level should lead to insourcing decisions, i.e. concentration of service provision activities in Luxembourg. The CSSF is involved in the strategic orientation of the INNOFinance programme. The CSSF also takes part in the strategic sub-committees in the fields of IT systems security and service quality.
- ANSIL (CNLSI/CNLQSI). The *Association de Normalisation pour la Société de l'Information Luxembourg* (ANSIL) is active in the standardisation of IT systems quality and security. ANSIL coordinates the standardisation initiatives of two working groups, namely CNLSI, working on ISO/IEC standards of the SC27 group and CNLQSI, dealing with quality (SC7 group of ISO). The setting-up of the *Institut luxembourgeois de la normalisation, de l'accréditation, de la sécurité et qualité des produits et services* (ILNAS) confirms the growing importance of standards within a services economy, and the CSSF pays particular attention to the ongoing works.
- The Operational Crisis Prevention Group for the financial sector (OCPG) under the aegis of the Luxembourg Central Bank. The mission of OCPG consists in identifying the risks supported by the financial sector in relation to critical infrastructures, in order to suggest measures enabling to prevent a possible operational crisis which would disrupt the functioning of the financial professionals and jeopardise the proper settlement of monetary operations.

1.2. International co-operation

The department in charge of the prudential supervision of IT systems took part in the annual international conference Supervisory Group on IT (ITSG), which gathers every year the persons responsible for the prudential supervision of the IT systems within the different authorities.

The aim of this group is to foster the exchange of information regarding the current technological challenges and covers aspects such as business continuity plans, electronic banking, countermeasures against the phishing phenomenon and, in general, the specific weaknesses of banking IT, as well as the supervision of cross-border IT outsourcing. Throughout the year, the group's members exchange information concerning IT and Internet-related frauds, attacks on IT systems, identity thefts or weaknesses of certain systems.

In 2008, the group continued to analyse the threats and attacks on the financial sector and noticed that the methods used became increasingly professional implying that these acts are attributable to organised crime and no longer to isolated "pirates". The complexity of the financial circuits used by criminals to recover deviated funds and of the networks set in place to perpetrate IT attacks (Botnets) are further indications towards a theory that acts of IT piracy have been taken over by criminal organisations. It is interesting to note a geographical disparity to the threats. The theft of credit card information from specialised payment service providers is far more common in the United States and in Asia than in Europe. The main challenge in the European regions remains linked to the theft of login IDs allowing access to e-banking sites. Solutions resulting from the use of a LuxTrust certificate should, in principle, protect users of Luxembourg financial services from the main known attacks for a while.

1.3. Developments in the regulatory framework

Circular CSSF 08/350 of 22 April 2008, which applies to support PFS, is the only circular issued in 2008 on IT systems and is discussed in more detail in point 3.3.1. of Chapter VI "Supervision of the other professionals of the financial sector".

2. SUPERVISORY PRACTICE

Supervision includes the verification that supervised entities comply with the legal and regulatory framework, with the direct or indirect purpose to maintain or improve the professionalism of the activities, focussing in particular on aspects relating to technologies implemented for information systems and by taking into account the specificities of the outsourcing of these services with support PFS or third parties, outside or within the group.

2.1. Mobility and remote access to IT services

Employees' mobility needs are taking a more concrete shape and more and more financial professionals, mainly credit institutions, are setting up mobile remote access solutions to the company's information system. As stated in the Annual Report 2007 (cf. Chapter VIII, point 2.1.), any mobile solution has to be thought through, secure and justified having regard to the lasting residual risks. Proper knowledge of the threats is thus required.

2.2. State of the vulnerabilities reported in Internet-based financial services

The CSSF reminds that every financial institution which offers Internet-based financial services or which simply disposes of an Internet access must set in place adequate measures to protect itself from an attack.

As a matter of fact, even though it is nowadays easier for an attacker to target a multitude of citizens' vulnerable PCs, the risk of intrusions *via* systems exposed to the Internet nevertheless remains high.

The CSSF noticed a successful attack, luckily without financial consequences, made possible by a re-bounce through systems exposed to the Internet into the financial professional's internal systems. This means that a possible infection of the professional's internal equipment, with all the consequences one might imagine, has to be considered. Such a re-bounce is only possible if the intrusion is possible at the first level of the system, i.e. that exposed to the Internet. However, an intrusion remains extremely rare if the different software updates of these systems are run regularly and as soon as possible when a vulnerability is revealed, given that providers are very vigilant to any flaws in their products and correct them as fast as they can.

The CSSF therefore brings back to attention that the management of updates/patches is fundamental and underlines that the supervised entities remain responsible for verifying the reliability of their updates prior to implementation in a live environment.

2.3. Dematerialisation of paper documents and corresponding archives

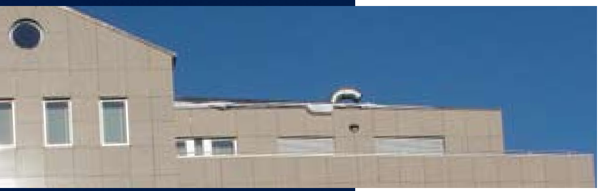
The CSSF is more and more solicited by questions about the destruction of paper documents and the legal value of their digitalised form.

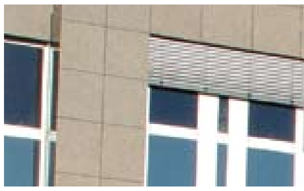
In the absence of a specific legal framework, which should nevertheless see the light of day, the CSSF recommends that financial professionals do not destroy documents commonly admissible as proof before the courts and which remain principally in paper form.

Nevertheless, the CSSF is following very closely the governmental initiatives aiming to define the legal framework on digital proof and, in particular, the admissibility before the courts of digitalised documents signed electronically.

The matter is made even more complex with the fact that the proof has to maintain its legal value over time, independently of technologies supporting it and independently of the renewal of certificates linked to the electronic signature. Added to this is the difficulty to correctly qualify the notion of permanence and availability of the media (concept of write once, read many (WORM) of optical disks, DVD and other) where nowadays there are softwares which have identical characteristics without being based on a physical phenomena.

Any financial professional wishing to digitise documents intended to be used in the future as proof, is invited to follow the development of the legal framework before implementing a solution which might not be acceptable in the future.





CHAPTER IX

MEANS OF SANCTION AVAILABLE TO THE CSSF

1. MEANS OF INTERVENTION AVAILABLE TO THE CSSF

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 establishment concerned to remedy the particular situation;
- suspension of persons, suspension of the voting rights of certain shareholders or suspension of the activities or of a sector of activities of the establishment concerned.

In addition, the CSSF has the right to:

- impose or ask the Minister of Treasury and Budget to impose disciplinary fines on the persons in charge of the administration or management of the establishments concerned;
- under certain conditions, apply to the District Court responsible for commercial affairs for suspension of payments of an establishment;
- ask the Minister of Treasury and Budget to refuse registration on or to withdraw registration from the official list of credit institutions or the other professionals of the financial sector, if an establishment does not fulfil or no longer fulfils the conditions for being or continuing to be registered on the official list in question;
- refuse registration on or to withdraw registration from the official list of undertakings for collective investment, pension funds, management companies (Chapter 13 of the law of 20 December 2002 as amended), SICARs or securitisation undertakings, if an establishment does not fulfil or no longer fulfils the conditions for being or continuing to be registered on the official list in question;
- in extreme cases and under precise conditions laid down by law, request the District Court responsible for commercial affairs to order the winding up and liquidation of an undertaking.

Moreover, the CSSF informs the State Prosecutor of any instance of non-compliance with legal provisions relating to the financial sector, giving rise to penal sanctions and that could entail prosecution against the implicated persons. The following cases are concerned:

- persons performing an activity of the financial sector without holding a licence;
- persons active in the field of company domiciliation without belonging to any of the professions entitled by the law of 31 May 1999 governing the domiciliation of companies as amended to carry on this activity;
- persons other than those registered on the official lists of the CSSF, who use a title or appellation, thereby breaching Article 52(2) of the law of 5 April 1993 on the financial sector, as amended, that gives the appearance that they are authorised to perform one of the activities reserved for persons registered on one of the lists;
- attempted fraud.

2. SANCTIONS IMPOSED IN 2008

2.1. Credit institutions

Pursuant to Article 59(1) of the law of 5 April 1993 on the financial sector, as amended, the CSSF gave an injunction to a credit institution which, in a long-lasting and continuous manner, did not meet the deadlines relating to the submission to the CSSF of prudential reporting on a monthly and quarterly basis.

2.2. Other professionals of the financial sector (PFS)

During 2008, the CSSF did not exercise the right of injunction nor the right of suspension under Article 59 of the law of 5 April 1993 on the financial sector, as amended. Neither did it impose disciplinary fines under Article 63 of that law on persons responsible for the administration or management of PFS.

The PFS Lehman Brothers (Luxembourg) S.A. was admitted to the benefit of the procedure of suspension of payments laid down in Part IV of the law of 5 April 1993 on the financial sector, as amended, by the Luxembourg District Court (*Tribunal d'Arrondissement de et à Luxembourg*), sitting in commercial matters, on 3 October 2008. The company PricewaterhouseCoopers S.à r.l., represented by Mr Jean-François Kroonen, was appointed administrator to control the management of the assets of Lehman Brothers (Luxembourg) S.A..

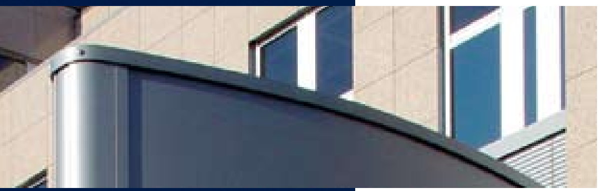
In 2008, the CSSF filed eleven complaints with the State Prosecutor's office for illegal exercise of financial sector activities. The majority of the entities concerned were either performing financial advisory services or investment services without being authorised thereto.

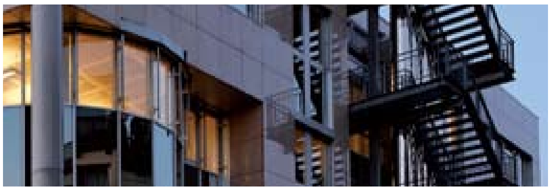
2.3. Undertakings for collective investment

In 2008, the CSSF did not need to order fines nor to impose sanctions against UCIs.

2.4. Investment companies in risk capital (SICAR)

Under Article 13 of the law of 15 June 2004 relating to the investment company in risk capital (SICAR) which provides that the registration and maintaining on the official list of SICARs is subject to compliance with all the legal, regulatory or contractual provisions concerning the organisation and functioning of SICARs, the CSSF decided to withdraw Atria Real Estate Partners S.C.A., SICAR from the official list effective 21 November 2008. The decision to withdraw the SICAR was motivated by the fact that Atria Real Estate Partners S.C.A., SICAR did not comply with all the legal provisions concerning its organisation and functioning anymore. On 20 January 2009, the Luxembourg District Court decided to open the liquidation procedure of that SICAR.





CHAPTER X

GENERAL SECRETARIAT

1. Activities in 2008
2. Customer complaints
3. Fight against money laundering and terrorist financing

1. ACTIVITIES IN 2008

The responsibilities of the General Secretariat (SG) cover the following fields:

• General Secretariat

The SG's task is to coordinate the external relations and communications of the CSSF, which includes contacts with foreign supervisory authorities, national and international administrations, professional associations, as well as with any other counterparty that does not fall within the remit of the other functions and departments of the CSSF.

In 2008, the SG was thus in contact, in writing, with the supervisory authorities of 44 different countries on subjects as diverse as the organisation of co-operation meetings between the CSSF and homologous authorities in their capacity as home or host authorities, consultation procedures laid down by European Directives, notifications regarding the freedom to provide services and establish branches, requests for information relating to national laws and regulations or authorised entities and natural persons, etc..

Moreover, the SG answers requests for general information of the public in relation to the CSSF's activities or the financial centre.

The SG is also in charge of producing, where applicable in co-operation with the functions and departments concerned, the CSSF's publications in the broad sense (annual report, brochures, press releases, monthly Newsletter, management of the website, etc.).

• Legal issues

The SG deals with general legal issues and cases of presumption of fraudulent and illegal activities in the financial sector (such as the performance of unauthorised or illegal activities), including the response to be given, if necessary, by the CSSF.

• Professional obligations and consumer protection

The SG handles specific files relating to professional obligations, conduct of business rules and consumer protection.

In this context, the SG deals with the complaints of customers against professionals under the CSSF's supervision (credit institutions, UCIs, PFS, SICARs, pension funds, securitisation undertakings) and intervenes with the professionals with a view to reaching an amicable settlement in accordance with Article 58 of the law of 5 April 1993 on the financial sector, as amended (cf. point 2. below).

Furthermore, the SG controls compliance, based on concrete files (*inter alia*, on reports to the State Prosecutor and observations following on-site inspections), with anti-money laundering rules (cf. point 3. below) and conduct of business rules.

2. CUSTOMER COMPLAINTS

The CSSF acts as an intermediary in the conflict settlement between professionals subject to its supervision and their customers. This mission is conferred on the CSSF by Article 58 of the law of 5 April 1993 on the financial sector, as amended, which provides that the CSSF "shall be competent to entertain complaints by clients of persons subject to its supervision and to approach those persons with a view to achieving an amicable settlement of such complaints". In drawing up this law, the legislator followed a recommendation by the European Commission which advocated that extra-judicial conflict settlement mechanism be set up. It considered that clients of the professionals of the financial sector have the right to bring their dispute before a public authority.

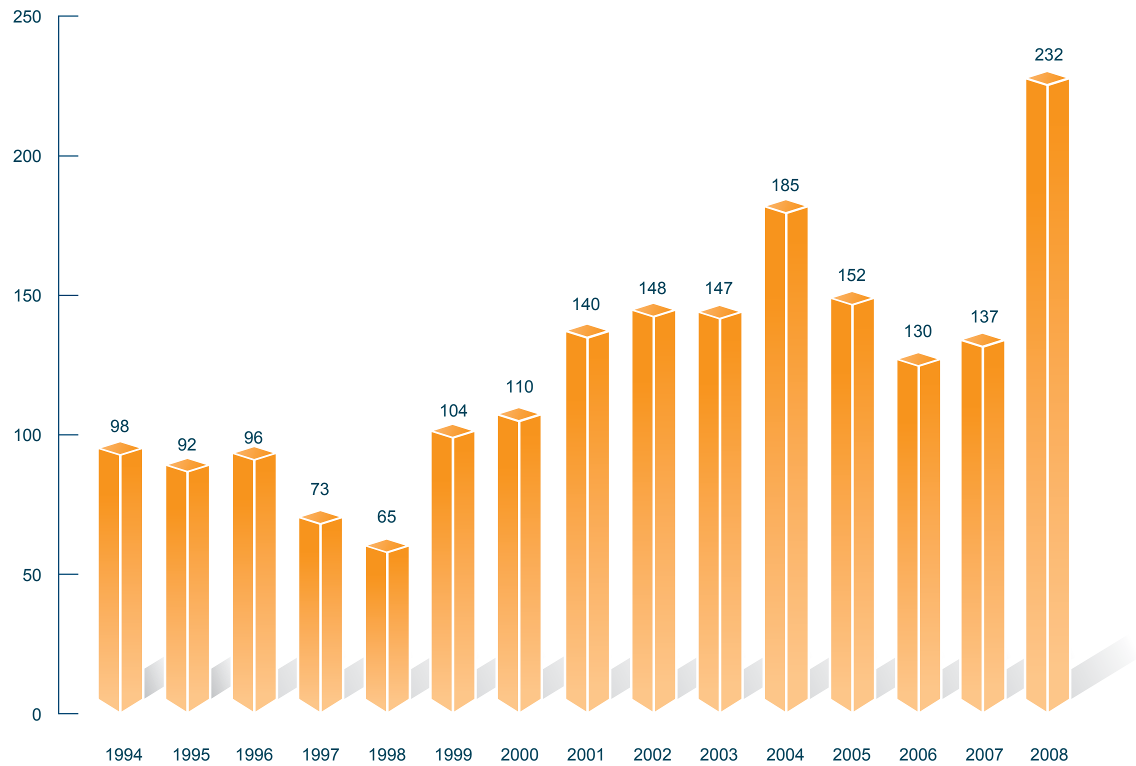
In order to put holders of units in UCIs on equal footing with clients of the professionals subject to the law of 5 April 1993, as amended, an identical provision was introduced into the law of 20 December 2002 relating to undertakings for collective investment. Article 97(3) thus provides that "the CSSF is authorised to receive complaints from holders of units in UCIs and to mediate with such UCIs in order to resolve such complaints amicably".

In order to avoid that the same people handle the complaints and perform the daily supervision of the professionals concerned, the CSSF entrusted the General Secretariat with this task in accordance with the principle of segregation of duties.

2.1. General data

In 2008, the number of complaints substantially increased as compared to the previous year, rising from 137 in 2007 to 232 in 2008.

Development in the number of complaints



It is important to note in this context that apart from the complaints that are formally submitted to the General Secretariat, the latter also receives a large number of phone calls from customers who, on the one hand, are not always aware of the existence of the CSSF's procedure and who, on the other hand, wish to hear the CSSF's opinion on a specific issue they have with a professional. Many telephone enquiries thus concerned the regulations in force, the conformity of the fees applied or the consequences of the enhancement of certain anti-money laundering and terrorist financing measures (control of accounts, ID, etc.).

Among the 232 complaints received in 2008, 223 were lodged by natural and nine by legal persons. Five complainants contacted the CSSF through a lawyer. Of those 232 complaints, 204 concerned credit institutions, 7 concerned PFS and 21 concerned UCIs.

Taking into account the 48 files from 2007 in addition to the 232 complaints received in 2008, a total of 280 files were dealt with in 2008.

Among the 280 files handled in 2008, 184 have been closed, with the following outcome or reason for closing:

Files closed in 2008		184
Unjustified complaints[1]	91	
Amicable settlement[2]	43	
Amicable settlement following the CSSF's opinion	16	
Contradictory positions	2	
Withdrawal by client	32	
Open files carried forward into 2009[3]		**96**
Total files handled in 2008		**280**

In 91 of the 184 files closed in 2008, the CSSF did not find misconduct by the professional. In 16 cases, the CSSF considered the reproaches against the professionals justified and sent a reasoned opinion to the latter. This opinion was accepted in all the cases. In 43 other cases, the CSSF did not have to state its view, as the professional submitted a spontaneous proposal for an amicable settlement to the client. In two cases, the CSSF concluded that the positions of the parties were contradictory so that it could not decide in favour of any party. In conclusion, it can be said that the CSSF's intervention contributes to working out an acceptable solution for the parties concerned. Even if its positions are not binding on the professionals, the CSSF's advice is nevertheless largely followed. Where professionals refuse to follow its advice, the CSSF terminates its intervention as its means of intervention under Article 58 are exhausted.

The CSSF also receives many requests from persons residing abroad who are seeking out accounts in Luxembourg that belonged to a deceased close relative. In such case, the CSSF only provides general indications as to how to proceed in their search and provides them with a list of the professionals of the financial sector authorised in the financial sector that they can contact. In addition, the CSSF advises the persons concerned of the documents they need to append in order to prove that they are the heirs, and to obtain an answer from the professionals. The figures presented in this chapter do not include these requests for assistance, but only those cases where concrete problems arose between heirs and a professional in the context of the settlement of a succession.

Moreover, it must be noted that the CSSF's intervention under Article 58 of the law of 5 April 1993 on the financial sector, as amended, only covers disputes in relation with the financial activities of the supervised entities. This notably covers the Luxembourg credit institution PayPal (Europe) S.à r.l. & Cie, S.C.A., which runs a platform specialised in electronic payments between professionals and individuals. The CSSF is thus not competent to deal with complaints regarding the commercial activities between sellers and buyers at the origin of the payment made through PayPal.

It should also be noted that the CSSF does not answer questions concerning the quality or performance of a professional, its solvency or soundness, and does not pass judgment on the quality of the products offered. Its mission is limited to complaints between clients and professionals, and it aims to work out concrete solutions.

[1] Unjustified complaints are those for which the CSSF did not find misconduct of the professional.

[2] Spontaneous proposal for an amicable settlement by the professional, before any reasoned opinion issued by the CSSF.

[3] 45 out of the 96 files carried forward into 2009 have been settled by 1 March 2009.

Breakdown of complaints closed in 2008 according to the complainants' country of residence

Country	Number
Germany	52
Luxembourg	39
Belgium	25
United Kingdom	18
France	12
Spain	4
Italy	4
Netherlands	4
Austria	2
Ireland	1
Portugal	1
Others (non EU)[4]	22

Breakdown of complaints closed in 2008 according to their subject

	Number	
Transferable securities		**81**
Discretionary management	7	
Advisory management	13	
UCI	23	
Various securities transactions	38	
Banking accounts and investments		**16**
Current account	15	
Savings account	1	
Various banking transactions		**34**
Account blocking[5]	15	
Counter transactions	8	
Unauthorised transactions	8	
Inheritance	2	
Value date	1	
Payments		**42**
Transfers	30	
Bank cards	11	
Cheques	1	
Credits		**11**
Mortgage loans	7	
Consumer credits	2	
Collateral	2	
Total		**184**

[4] Switzerland, South Africa, Canada, Pakistan, Norway, India, Lebanon, Malaysia, Tunisia, Monaco, United States.

[5] Mainly complaints linked to accounts opened remotely for which the credit institution considered that the know your customer documents were incomplete.

2.2. Analysis of the complaints handled in 2008

2.2.1. Unilateral modification of terms and conditions

The CSSF dealt with several complaints blaming certain banks to have unilaterally modified their terms and conditions, resulting generally in an increase in the fees levied.

Regarding the charges, it should be noted that it is a common banking practice, and an accepted practice of the financial centre, to include a clause in the terms and conditions authorising the bank to modify the fees and commissions during the business relation with the client. Where the bank decides to increase its fees pursuant to its terms and conditions, it must give the client advance notice before the implementation of its decision in order to allow the client, where applicable, to terminate the business relation under the previous terms. The CSSF considers that information provided to clients, either *via* separate post or *via* an indication on the bank statements sent to the clients, constitute compliance with the information requirements provided the client can find out the details of the new charges.

2.2.2. Theft of a bank card

In the case of the theft of a bank card, a client sought the CSSF's intermediary services because the bank refused to cover the transactions resulting from a fraudulent use of the bank card. The bank argued that the client was guilty of gross negligence since he did not immediately report this theft to the bank.

Article 68(1) of the law of 14 August 2000 relating to electronic commerce provides that indeed, the holder of an instrument for electronic payment must notify the issuer - or the entity appointed by the latter - as soon as the holder discovers the loss or the theft of this instrument. The analysis of the file showed that the client complied with the legal requirements by reporting the theft of his bank card within a few hours. The CSSF informed the bank that according to Article 68(2) of the above-mentioned law, the consequences of a fraudulent use of an electronic payment instrument following the loss or theft of the latter must be borne by the bank if the client complied with the notification requirement. Until this notification, the client bears the loss up to an amount not exceeding EUR 150. The bank reimbursed the client in the end.

2.2.3. Termination of business relations by the bank

Several clients complained that the professionals of the financial sector unilaterally terminated their business relation.

The fact that a bank provides in its terms and conditions that, in the context of agreements for which no terms were formulated, each of the parties can terminate the reciprocal relation at any time, without indicating a reason and with immediate effect, is a practice accepted in the financial sector. If the bank terminates the business relation with its client according to its terms and conditions, it must nevertheless give reasonable prior notice in order to avoid any prejudice to the client due to an ill-timed termination. The CSSF noted that professionals generally set a deadline of 30 days from the date of the termination of business relation. This deadline complies with the requirement of a reasonable notice period insofar as the cases submitted to the CSSF consisted in business relations limited to the existence of current accounts and did not involve securities deposits.

2.2.4. Fees

The CSSF often receives complaints regarding all sorts of fees charged by professionals. It should be noted that most of these complaints cannot be dealt with under Article 58 of the law of 5 April 1993 on the financial sector, as amended, because the CSSF is not competent to interfere in the setting of fees billed by professionals for which the latter have sole competence and responsibility. The CSSF only intervenes in pricing matters if a professional is in breach with the prices communicated to the client or with a legal provision, or if there is a lack of transparency in the communicated prices.

In one case dealt with in 2008, the client complained about the high fees of his bank regarding delivery and availability of his securities. According to the bank, the amounts billed for the availability of securities complied with the prices in force. However, the CSSF concluded that the wording of the pricing provisions in force could mislead the client as to the real cost of the contemplated transaction. Thus, it is uncertain whether the client clearly understood that other fees, such as correspondent charges, would be added to the fixed rate for the delivery of the securities in question.

The bank conceded that its price regarding the fees for delivery and availability as described in the terms and conditions could have been confusing. The bank therefore reimbursed the client's additional correspondent charges regarding the availability of the client's securities. Moreover, the bank amended the provisions in the terms and conditions in question for greater clarity.

2.2.5. Mortgage credits

One complaint was based on the fact that the monthly instalments for a loan varied from one month to the other and that the bank did not observe the agreed waiting period for the repayment.

The client submitted a request for a mortgage credit in order to redeem an existing mortgage credit granted by another professional and to finish the works in the flat, which is the property for which the initial mortgage was granted. The bank also agreed to the client's request to benefit from a waiting period for the repayment of the capital for the first six monthly instalments. This request was included in the signed mortgage agreement which indicates that "the borrower benefits from a waiting period for the repayment of the capital which will not exceed the [...], the interests on the amounts used must be borne by the borrower and will be debited monthly from the account". The bank argued that given that the flat was under construction and that part of the credit had been released as works proceeded and as the bills arrived, the interests were owed monthly and varied according to the amount owed, which explains the interests charged during the waiting period for the repayment of the capital.

After the waiting period, the client had to pay the instalments based on the repayment plan contractually provided. However, he complained that the instalments did not correspond to the ones agreed. According to the bank, two elements contributed to the change in the instalments pursuant to the mortgage agreement, namely the extension of the waiting period for the repayment of the capital and the development of variable interest rates. The interest rate applicable to the agreement was, like for all mortgage agreements, compounded semi-annually and adapted if necessary. The applicable rate increased compared to the rate initially agreed.

Even if complaints regarding credit agreements are rare, the CSSF is often confronted with requests concerning the interest rate applicable in the context of a mortgage credit. The clients complain that the banks do not apply the decisions of the European Central Bank regarding the interest rate but apply different rates to the one set by the ECB. In this matter, it should be noted that the banks do not have to immediately apply the decrease in the basic rate to all existing mortgage credits. The level of interest rates is not imposed by the law; similarly to the determination of fees and commissions, the banks' commercial policy determines the level of interest rates resulting in the application of different rates by different actors of the financial centre.

2.2.6. Execution of orders

A client considered that he was prejudiced by the fact that the bank executed his sell and buy orders on a stock exchange which did not offer the best execution.

The CSSF informed the client that professionals which provide services of management or reception and transmission of orders must act in the best interest of the clients. This obligation is fulfilled when the professionals observe the provisions of Article 37-5 of the law of 5 April 1993 on the financial sector, as amended. In particular, the professionals must develop and implement an order execution policy and provide the clients with appropriate information in this matter. This information must include, among others, information on the execution venues. Article 53 of Grand-ducal regulation of 13 July 2007 (MiFID regulation) specifies the duties of professionals in this matter and provides that the execution policy implemented shall identify the entities with which orders are placed for execution or to which orders are transmitted for execution.

Since the information regarding the execution policy of the bank was included in the general terms and conditions and therefore available to the clients, the CSSF considered that in the concrete case presented to it, the bank had fulfilled its obligations in this matter.

2.2.7. Investments in guaranteed-capital products

The CSSF received some complaints regarding investments in structured guaranteed-capital products. The clients blamed the professionals not to have taken account of the guarantee during the sale of the shares and to have applied the market price, resulting in a loss of the amount invested.

It should be borne in mind that the capital is, in principle, guaranteed only at the maturity fixed for the guaranteed-capital product. In the concrete cases submitted to the CSSF for assessment, the documents given to the clients at the time of the subscription of the guaranteed-capital product indicated that the risk of price variation in case of an early sale of shares was to be borne by the client. For structured guaranteed-capital products, the investor may in principle sell the product at any time but if the sale takes place before maturity, it will take place at market price. During a certain period determined beforehand, the product is, thus, exposed to market variation and the investor may claim the repayment of the invested capital only at the end of this period, if, at that moment, the prices are below the purchase price.

2.2.8. Investment funds

It should be noted that the number of complaints regarding investment funds is constantly rising. The majority of the complaints are linked to difficulties encountered with redemption orders which, for some reason, were not executed according to the will of the investor.

Several clients complained that the funds changed their net asset value (NAV) calculation method for a certain period so that the redemption price was lower than expected. The conditions allowing a UCI to use a new NAV calculation method are usually defined in the prospectus. However, the investor is sometimes of the opinion that the UCI has other means to deal with difficult situations and disputes the choice made by the UCI.

The CSSF dealt with a complaint about a UCI which adopted a new calculation method due to the fact that it faced more redemption requests than usual, following the departure of a manager. In its conclusion, the CSSF decided that the UCI observed the principle of fair and equal treatment of unitholders. Furthermore, the return to the traditional NAV calculation method did not result in variations in the evaluation of securities held by the UCI. The CSSF verified that the UCI acted according to the provisions of the prospectus. Consequently, no misconduct of the UCI was held.

It should be noted that many disputes between investors and UCIs result from the intervention of intermediaries. Thus, the CSSF dealt with a certain number of complaints concerning communication problems due to a poor transmission to the registrar agent of the details of a unitholder living far away in another country.

Moreover, sometimes the income of the repurchased units is not paid to the bank designated by the originator or the redemption order does not reach the final addressee. Generally, UCIs acknowledge these dysfunctions and sort out the situation as far as possible.

The CSSF also received a complaint about several shareholders of a SICAV who did not receive the letter convening them to the annual general meeting, due to a technical problem attributable to the registrar and transfer agent. The management company informed the CSSF that it took appropriate measures in order to prevent that such situation happens again.

Several complaints regarding monetary funds were sent to the CSSF. Some banks recommended these products as being investments having as little risks as fixed-rate deposits. In one case, a client invested in a monetary fund, following the advice from his bank which presented this fund as a rather safe option similarly to a fixed-rate deposit. In addition, unlike fixed-rate deposits, the monetary fund presented a tax advantage of not being subject to tax on the generated gains. However, when the complainant observed a significant decrease in the value of his shares, he requested explanations from the bank which refuted any liability in this matter. The bank's position was that it mentioned the provisions of the prospectus regarding the investment policy of the sub-fund in question, i.e.:

"This sub-fund invests at least 2/3 of its assets in money market instruments and USD-denominated bonds as well as in derivative financial instruments on this type of assets.

It can invest up to 1/3 of its assets in any other money market instruments, derivative financial instruments or liquidities. It can also invest a maximum of 10% of its assets in other UCITS or UCIs. The average duration of the portfolio is less than 12 months and the residual maturity of each investment does not exceed 12 months. Investments in variable capital of a residual maturity exceeding 12 months are authorised provided that the rate is adjusted to the market conditions at least yearly. In this case, the next adjustment of the rate substitutes the criteria of maturity.

The invested assets in a currency other than USD will be subject to USD foreign exchange risk hedging."

The bank also explained that the auditors did not set out any comments in their management letter regarding the investment policy of the sub-fund. It added that the complainant took the decision to subscribe the shares of the sub-fund alone and that it was not responsible for the poor performance.

The CSSF concluded that in accordance with the provisions laid down in the prospectus, the investments of the sub-fund, notably mortgage bonds and assimilated debt on the American market complied with the defined investment policy.

2.2.9. Warrants

The complaints regarding transferable securities include a wide range of different problems like difficulties experienced during the trading or transfer of securities, as well as problems resulting from the technical nature of the products concerned (derivatives, etc.).

In the context of a capital increase with preferential subscription rights through free allocation of warrants by a company, a client blamed the bank to have sold his warrants during the trading period without having been instructed to do so.

The bank stated that it sent a letter to inform the client of the possibility for him to subscribe new shares or to request a repurchase by the issuing company. This letter expressly drew the client's attention to the fact that in case there was no reply from him, the bank would, if possible, sell the warrants. The client asserted that he did not receive this letter and declared that he would have been interested in the automatic repurchase proposed by the company.

In such circumstances, the general terms and conditions provide that the communications from the bank are deemed to have been delivered as soon as dispatched to the last address notified by the client and that the date shown on the bank's copy or the dispatch list shall be presumed to be the date of dispatch. The copy being considered as proof of dispatch, the bank could not be held liable for the non-receipt of the letter.

In the absence of specific instructions from the client, the bank thus proceeded to the sale of the warrants at the end of the subscription period as announced in its notification and in accordance with the general terms and conditions which allowed the bank, unless otherwise instructed, to automatically carry out the usual administrative tasks and corporate actions. Indeed, the client is responsible for taking all necessary measures notably for the exercise or purchase/sale of subscription rights. In the absence of instructions from the customer within the indicated time, the bank may act according to its own judgment, provided the client's account contains sufficient funds.

The fact that the issuing company repurchased at the end of the subscription period the rights which had not been exercised at a higher price than the one applied during the trading period was not, according to the bank, predictable and constitutes an exception to the rule. Generally, the best sale price for option or conversion rights regarding capital transactions concerning securities is reached at the end of the rights' trading period. Based on these explanations, the CSSF could not decide on any misconduct by the bank in the sale of the warrants.

2.3. FIN-NET network, the cross-border out-of-court complaints network for financial services

The FIN-NET network set up by the European Commission in 2001, gathers all bodies responsible for the out-of-court settlement of cross-border disputes between consumers and financial services providers of the European Economic Area. The CSSF and the *Commissariat aux Assurances* are members representing Luxembourg. The FIN-NET members met twice in 2008: once on the premises of the European Commission in Brussels and once in Banco de España in Madrid. The meetings dealt, among others, with sharing experiences in the area of network operation and with recent developments in the field of extra-judicial dispute settlement, as well as in the more general field of financial services at the level of the European Union.

3. FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

3.1. Legislation regarding the fight against money laundering and terrorist financing

The legislation regarding the fight against money laundering and terrorist financing was subject to a major development in 2008. Directive 2005/60/EC of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and Directive 2006/70/EC of 1 August 2006 regarding "politically exposed persons", technical criteria for simplified customer due diligence procedures and for exemption on grounds of a financial activity conducted on an occasional or very limited basis, were transposed into Luxembourg law by the law of 17 July 2008 amending the law of 12 November 2004 on the fight against money laundering and terrorist financing. These directives are mostly based on the 40 + 9 Recommendations published by the Financial Action Task Force on money laundering (FATF).

A second law of 17 July 2008, concerning mainly the criminal issues in the fight against money laundering and terrorist financing, amended Article 506-1 of the Penal Code in order for the Luxembourg provisions to comply with the international requirements as regards the definition of money laundering and underlying infringements.

The regulatory provisions were completed by the Grand-Ducal regulation of 29 July 2008 establishing the list of "third countries which impose equivalent requirements" within the meaning of the law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended.

Following the introduction of the above-mentioned texts, the CSSF adopted Circular CSSF 08/387 on combating money laundering and terrorist financing and prevention of the use of the financial sector for the purpose of money laundering and terrorist financing which replaces Circular CSSF 05/211.

The application and the observation of the legislation regarding the fight against money laundering and terrorist financing are crucial for the professionals of the financial sector considering that they contribute to ensure the good repute of the financial centre. The major points of the new regulation in this matter are summarised as follows:

- Introduction of a general risk-based approach.

  Money laundering or terrorist financing risks are not the same for all customers and for all activities. Thus, the professionals should mainly focus on the customers and situations presenting a real risk of money laundering or terrorist financing. The new legislation introduces standard customer due diligence which professionals must systematically apply, but the range of which may be adjusted on a risk-sensitive basis. The justification of such an adjustment must be outlined in the internal procedures of each professional. The law of 12 November 2004, as amended by the law of 17 July 2008 provides a limited number of specific cases where simplified customer due diligence is sufficient. However, there are situations in which professionals of the financial sector must, in addition to the standard customer due diligence, apply enhanced customer due diligence since the situations include a particularly high risk of money laundering or terrorist financing. Among these situations, those cases expressly defined in the above-mentioned law should be noted. Moreover, the legislation includes details regarding certain specific concepts such as "beneficial owner" and "politically exposed person", as well as a detailed description of the customer identification procedure and the verification procedure of the customer's identity. The new legislation also specifies the conditions under which professionals of the financial sector are authorised to appoint specific third parties for the customer identification procedure.

- The new manner of determining third countries recognised as having a framework as regards the fight against money laundering and terrorist financing equivalent to the one laid down by the law of 12 November 2004.

  A list common to the Member States of the European Union and the European Economic Area concerning equivalent third countries was drawn up. This list, which is prone to amendments, was imposed in Luxembourg by the Grand-Ducal regulation of 29 July 2008 establishing the list of "third countries which impose equivalent requirements" within the meaning of the law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended.

- Obligations of different participants during the fund transfer process.

  Concerning Regulation (EC) No 1781/2006 of 15 November 2006 on information on the payer accompanying transfers of funds, reference should be made to a document drawn up by the European committees CEBS, CESR and CEIOPS entitled "Common understanding of the obligations imposed by European Regulation 1781/2006 on the information on the payer accompanying fund transfers to payment service providers of payees". This document appended to Circular CSSF 08/387 specifies the respective requirements of the different participants during the fund transfer process.

3.2. Participation of the CSSF in meetings regarding the fight against money laundering and terrorist financing

In 2008, the CSSF participated, among others, in the meetings and works of the following groups at international level:

- the Financial Action Task Force on money laundering (FATF) and its various working groups including the working group concerning risks in the transferable securities sector;
- the Committee on the Prevention of Money Laundering and Terrorist Financing (CPMLTF) chaired by the European Commission;
- the European Anti-Money Laundering Task Force (AMLTF) set up by CESR, CEBS and CEIOPS;
- the AML/CFT Expert Group (AMLEG) of the Basel Committee on Banking Supervision;
- the Wolfsberg Group.

At national level, it should be noted that the consultative Anti-Money Laundering committee met several times in 2008 at the CSSF and that the CSSF is represented in the *ad hoc* "money laundering" committee of the *Commissariat aux Assurances*.

3.3. Reports regarding the fight against money laundering and terrorist financing

In 2008, the CSSF received 765 reports regarding the fight against money laundering and terrorist financing, including reports in the context of restrictive financial measures. This number is on the rise as compared to the previous years (546 reports in 2007 and 481 in 2006). Nevertheless, it should be pointed out that one professional alone transmitted 277 reports in 2008 explaining this substantial rise in the number of reports compared to the previous years.

Overall, 103 professionals of the financial sector transmitted a report to the CSSF in 2008 (against 89 in 2007), namely:

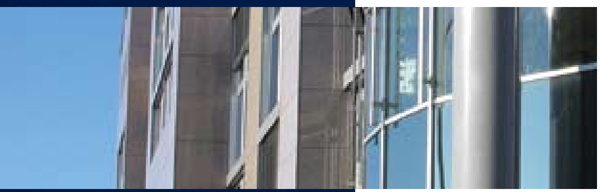
- 77 credit institutions (152 credit institutions being registered on the official list as at 31 December 2008);
- 22 other professionals of the financial sector (PFS) (257 PFS being registered on the official list as at 31 December 2008);
- 4 management companies governed by Chapter 13 of the law of 2002 (189 management companies being registered on the official list as at 31 December 2008).

11 banks and one PFS each sent over 10 reports, representing 72% of the total number of reports received in 2008.

The CSSF noted that 12% of the reports referred to persons whose request to enter into a business relationship did not lead to a favourable response due to a suspicion of money laundering or terrorist financing. This number represents a slight decrease compared to the previous years.

Concerning the reasons which led the professionals to forward a report to the competent authorities, the CSSF noted that 74% of the reports were made spontaneously based on concrete suspicion pursuant to Article 5(1)a) of the law of 12 November 2004, as amended. The other reports were made owing to the fact that information had been obtained:

- through circulars issued by the Financial Intelligence Unit (FIU) of the State Prosecutor's Office or following a request by the FIU for information specific to a business relationship;
- through circulars issued by the CSSF in relation to restrictive measures;
- following a notification of seizure and search warrant in the context of an either national or international investigation (international letters rogatory).



CHAPTER XI

GENERAL SUPERVISION AND CSSF INVOLVEMENT IN INTERNATIONAL GROUPS

1. GENERAL SUPERVISION

The transversal function "General Supervision" (SGE) deals, on a horizontal basis, with prudential supervisory, accounting and reporting issues common to the CSSF's departments. In particular, it is in charge of the international groups and the development and interpretation of national and international regulations.

The objective of this "think tank", which proposes approaches, instruments for analysis and assessment, is thus to develop the competence fields that require specific knowledge and experience, to provide methodological support for the day-to-day performance of prudential supervision, to transmit the knowledge acquired at internal training sessions and to join in on-site inspections that deal with more complex subjects, such as the validation of risk management models.

- ***Activities in 2008***

An additional strain compared to previous years was put on the human resources of the SGE function during the year 2008 which was marked by the financial crisis, due to an increased international co-operation (telephone conferences, exchanges of information on a bilateral and multilateral level, assessment of crisis situations) and to crisis management at national and European level (resolution and restructuring plans).

In 2008, the SGE, which comprises 26 agents, sent 485 letters outlining the CSSF's position with respect to prudential and accounting supervision. Moreover, SGE agents attended 42 meetings held in Luxembourg with representatives of the banking industry and international bodies.

SGE agents attended 235 meetings of international groups (cf. points 2. and 3. below) in 2008, in addition to the meetings relating to reviews of internal rating systems, of models relating to the internal ratings-based approach (IRB approach) and advanced measurement approaches (AMA). Besides coordinating the applications for authorisation of the internal ratings-based approaches for credit risk and advanced measurement approaches for operational risk in accordance with the provisions of Circular CSSF 06/260, SGE agents reviewed, together with agents of the department "Supervision of banks", internal rating systems and models of credit institutions. In this context, the SGE paid 64 visits to credit institutions in Luxembourg and abroad.

Moreover, during the course of 2008, the SGE, together with the department "Supervision of banks" and representatives from the Luxembourg Central Bank, undertook on-site inspections at a sample of banks in the financial sector in order to get an overview of the practises applied as regards liquidity risk management. The Basel Committee's principles for sound management[1] were used as reference for the banking supervision and it was particularly important to highlight discrepancies between common practice by credit institutions and these principles. The CSSF can thus direct its attention to existing weaknesses and focus on them during the local implementation of these principles and similar recommendations issued by the Committee of European Banking Supervisors (CEBS). This applies particularly in the context of the co-operation with the Luxembourg Central Bank which is in charge of the supervision of the general liquidity situation on the markets and at the level of its operators since November 2008.

Between the end of 2008 and early 2009, the SGE function also carried out inspections relating to the implementation of the provisions of the Directive on markets in financial instruments (MiFID Directive) as regards inducements with a sample of banks and investment firms. This initiative, launched by the Committee of European Securities Regulators (CESR), will provide an overview on how investment firms and credit institutions have applied the new rules relating to inducements introduced by MiFID. CESR invited each national regulator to sample around ten entities in order

[1] Principles for Sound Liquidity Risk Management and Supervision, June 2008.

to conduct this exercise. The data gathered by the national regulators will be sent to CESR in an aggregate form, without indicating the exact manner in which a specific investment firm or credit institution applied the MiFID provisions regarding inducements. A document containing best practices and points to be improved will be published at the end of 2009 by CESR.

The first lesson learnt from this exercise is that the credit institutions and investment firms sampled largely opted only for disclosure in summary form of inducements received/paid while committing to provide detailed information upon request by the client. This summary information is included in the general terms and conditions governing the business relationship between an institution and its client.

In practice, it turns out that neither credit institutions nor investment firms have registered any requests by clients for detailed information. This equally applies to institutions which have produced in-house tailored information leaflets for the public at large and those not having produced any such documents.

The sampled institutions have set in place procedures to provide detailed information in a reasonable time frame regarding in particular the proportion of management fees levied by third party investment funds and retroceded to the institution in touch with the end client. In the context of management mandates for open-ended SICAVs, it turns out that in-house products are not favoured to the detriment of third party investment funds. Furthermore, the investment fund selection policy is generally set by firms specialised in financial analysis without a direct link to the commercial entities. The result is that, in principle, the investment fund selection policy is not compromised by the receipt of trailer fees.

As regards business providers which only refer clients to specific institutions without providing investment services, the practice to remunerate such services in a recurring manner throughout the term of the business relationship seems to have become obsolete. Henceforth, these business providers receive a finder fee which is paid on a one-shot basis or in instalments.

Lastly, as in the previous years, a sizeable amount of the SGE function's resources were dedicated to the drawing-up of CSSF circulars.

2. CO-OPERATION WITHIN EUROPEAN INSTITUTIONS

Article 3 of the law of 23 December 1998 creating a *Commission de Surveillance du Secteur Financier* as amended, appoints the CSSF, *inter alia*, to deal with and participate in the negotiations concerning the financial sector issues, at both EU and international level. In accordance therewith, the CSSF participates in the work of the following forums.

2.1. Committee of European Banking Supervisors (CEBS)

The Committee of European Banking Supervisors (CEBS) was established by Commission Decision 2004/5/EC of 5 November 2003. Its duties encompass reflecting, discussing and giving advice to the European Commission in the fields of banking regulation and supervision. The Committee also co-operates with the other competent committees in banking matters, notably with the European Banking Committee established by Commission Decision 2004/10/EC.

Mrs Kerstin af Jochnik (Finansinspektionen, Sweden) has held the chair of CEBS since January 2008. She is supported by Vice-Chairman Mr Giovanni Carosio (Banca d'Italia, Italy). Mr Arnoud Vossen (De Nederlandsche Bank, Netherlands) is General Secretary. The Chair is supported by the Bureau comprising Mr Thomas Huertas (Financial Services Authority, United Kingdom), Mr Andrzej Reich (National Bank of Poland, Poland), Mr Rudi Bonte (Commission bancaire, financière et des assurances, Belgium) and Mr Jukka Vesala (Financial Supervision Authority, Finland). The Committee's Secretariat is based in London.

CEBS' aim is to fulfil the Level 3 functions for the banking sector under the Lamfalussy procedure, its mission being the following:

- to advise the European Commission either at the Commission's request, within the time limit that the Commission may lay down according to the urgency of the matter, or on the Committee's own initiative, in particular as regards the preparation of draft implementing measures in the field of banking activities;
- to contribute to the consistent application of European Directives and to the convergence of Member States' supervisory practices throughout the European Community;
- to enhance supervisory co-operation, in particular through the exchange of information.

Given the financial crisis, the co-operation between CEBS members has been tightened in particular by making available to them technical means to exchange information on a multilateral basis. Moreover, in addition to the documents drawn up by the different working groups (see notably EGFI below), CEBS has developed guidelines on transparency to be applied by banks as regards activities and products affected by the financial crisis and has followed up their implementation. In 2008, CEBS also set in place a procedure to submit to the political persons responsible, on a half-yearly basis, an assessment of the risks and vulnerabilities which the European banking sector is possibly confronted with.

Furthermore, in August 2008, CEBS amended its Public Statement of Consultation Practices.

In response to calls for advice from the European Commission, CEBS published a series of surveys and advice:

- 3 April 2008: proposal for a common European definition of hybrids tier 1;
- 3 April 2008: advice on the review of the large exposures regime;
- 7 April 2008: joint recommendations by CEBS and CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) on the definition of capital instruments for financial conglomerates;
- 18 September 2008: technical advice on liquidity risk management (second part);
- 15 October 2008: joint technical advice by CESR (Committee of European Securities Regulators) on the review of commodities business;
- 17 October 2008: technical advice to the European Commission on options and national discretions.

CEBS published the following documents together with CESR and CEIOPS:

- 30 April 2008: revised impact assessment guidelines;
- 18 December 2008: joint guidelines for the assessment of mergers and acquisitions in the financial sector.

2.1.1. CEBS - Groupe de contact

Since its inception in 1972, the *Groupe de Contact* has been used as forum for informal co-operation between banking supervisory authorities at EU level. Following the enlargement of the European Union, it now also comprises the representatives of the new Member States' authorities. The *Groupe* is chaired by Mr Jukka Vesala (Financial Supervisory Authority, Finland).

Within the new European banking supervisory structure, the *Groupe* henceforth acts as general working group of the Committee of European Banking Supervisors. In that capacity, it assists CEBS in order to achieve convergence of the prudential supervisory practices in the European Union. The *Groupe* also continues to be a platform appreciated for informal exchanges concerning the situation of individual credit institutions, particularly in the event of problems. It follows the development of national regulations, discusses practical aspects of prudential supervision of credit institutions and conducts general comparative studies.

The *Groupe* continues to focus on the implementation of the supervisory review process, Pillar 2 of the new capital adequacy framework, on the convergence and on the co-operation between supervisory authorities. In this context, it must be pointed out that a great deal of efforts has been made by its subgroup Supervisory Operational Network (SON) to achieve closer co-operation between supervisory authorities for the major banking groups.

Another important part of the *Groupe*'s responsibilities concerns the exchange of information regarding specific problems encountered by one or several authorities on topical issues. This exchange of information between members, as well as between the *Groupe* and CEBS, continued in 2008.

- ***Groupe de contact - Task Force on Internal Governance***

The working group's mission is to set out in detail, among the recommendations on internal governance, the rules relating to the policies, structures and types of remuneration within credit institutions. The mandate explicitly refers to the practices of the sector and to the concern by the authorities responsible for prudential supervision that inducements in the form of variable remuneration, given the turbulences in the financial sector, should be seen as one element at the basis of excessive risk-taking and poor internal control. Any type of bonus should take different criteria into consideration for its valuation. Generally, additional compensation or bonuses should reflect long-term rather than short-term profitability. Other factors such as risk, the attaining of targets, client satisfaction and balanced growth of the bank's business should figure in such assessment.

It is foreseen to submit proposed guidelines relating to remuneration for public consultation in spring 2009.

- ***Groupe de contact - Task Force on Liquidity Risk Management***

On 5 March 2007, CEBS received a call for advice from the European Commission on liquidity risk management, covering two areas, namely a survey of the regulatory frameworks adopted and an in-depth analysis of selected topics related to liquidity risk management.

Having delivered the report of the survey of regulatory frameworks adopted by EU Member States, the group concentrated in 2008 on the second aspect of the request for advice. The work was done in close collaboration with its counterpart from the Basel Committee on Banking Supervision. After submission to the European Commission, the report was published in September 2008 together with the revised principles of the Basel Committee in this matter.

The report which deals with four aspects issues recommendations, underlines points of interest and identifies the key lessons learnt in the matter. The first part describes the nature and definitions of liquidity and liquidity risk as being a *conditio sine qua non* to a common understanding between supervisors and to possible later convergence. The second part examines the recent changes in the liquidity risk environment. Part 3 describes common liquidity risk management practices within financial institutions and the main challenges which the supervision of liquidity risk management is confronted with is included in the last part. The report contains thirty recommendations in total which are addressed both to financial institutions and supervisors in order to improve the management and supervision of liquidity risk.

- ***Groupe de contact - Crisis Management Task Force (CMTF)***

In light of the follow-up to the crisis simulation exercise conducted in April 2006 at European level, the Economic and Financial Committee (EFC) commissioned the Banking Supervision Committee of the European Central Bank to develop a common analytical approach together with CEBS capable of assessing the systemic implications of a financial crisis. This common approach developed during 2007 was fine-tuned in 2008. Common work sessions between ministries of finance, central banks and supervisors were organised to facilitate the implementation of this approach. A user guide was drawn up and distributed to the relevant authorities.

2.1.2. CEBS - Expert Group on Prudential Regulations (EGPR)

In 2008, the Expert Group on Capital Requirements (EGCR) was renamed Expert Group on Prudential Regulation (EGPR) in order to reflect the extension of its mandate to questions not directly linked to capital requirements.

At the beginning of the year, the EGPR, one of the three permanent CEBS sub-working groups, finalised the technical advice presented by CEBS to the European Commission on large exposures and own funds drafted by its two sub-working groups, the Working Group on Large Exposures and the Working Group on Own Funds.

Through its Working Group on Options and National Discretions, the EGPR also gave advice on certain national discretions under Directives 2006/48/EC and 2006/49/EC.

The expert group furthermore discussed issues concerning depositary banks performing settlement/delivery operations and firms offering investment services in relation with commodities.

The EGPR also published several guidelines aiming to resolve problems of implementation of the advanced measurement approaches (AMA) used to estimate operational risk.

2.1.3. CEBS - Review Panel

The Review Panel which first met on 22 January 2008 is responsible for assisting CEBS in its task to ensure consistent and harmonised implementation of EU legislation in the Member States. The Review Panel published its protocol and methodology, namely the peer review, on 15 October 2007.

The main role of the Review Panel is to analyse the degree of convergence reached by the supervisory authorities in their implementation of the provisions laid down in Community legislation and CEBS documents, with the purpose of promoting a day-to-day consistent application and of enhancing supervisory convergence within the European Economic Area. To this end, the peer review exercises are conducted on the basis of a self-assessment over specific topics.

The first exercise dealt with application by the supervisory authorities of the CEBS guidelines relating to the validation of advanced approaches (internal ratings-based approaches for credit risk and advanced measurement approaches for operational risk) within cross-border groups, focusing on collaboration between competent authorities of the Member States concerned.

2.1.4. CEBS - Expert Group on Financial Information (EGFI)

The working group assists CEBS in achieving its work programme as regards financial information, including the fields of accounting, prudential reporting and auditing.

The main activities of EGFI's three subgroups are set forth below.

- ***CEBS - EGFI Subgroup on Accounting***

The objective of this subgroup is to monitor, assess and comment on the developments at European and international level of international accounting standards. The subgroup also monitors the developments as regards prudential filters for regulatory own funds to be applied by banks having adopted IAS/IFRS standards.

The subgroup prepared comment letters which were submitted to the International Accounting Standards Board (IASB) regarding the discussion papers "Financial Instruments with Characteristics of Equity", "Reducing Complexity in Reporting Financial Instruments", "Preliminary views on Amendments to IAS 19 Employee Benefits" and "Preliminary views on an improved Conceptual Framework for Financial Reporting - The Reporting Entity". The subgroup also drafted comment letters on three projects, namely the "Exposure draft on an improvement Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information", the "Exposure draft ED 9 Joint Agreements" and the "Exposure draft: Improving Disclosures about Financial Instruments (proposed amendments to IFRS 7)". These comment letters are available for consultation on CEBS' website (http://www.c-ebs.org/Publications/Other-Publications.aspx).

Moreover, on 18 June 2008, CEBS published a report on issues regarding the valuation of complex and illiquid financial instruments. The report puts forward a set of issues that should be addressed by institutions and accounting and auditing standard setters in order to improve the reliability of the values ascribed to these instruments. The report is available on CEBS' website (http://www.c-ebs.org/News--Communications/Latest-news/CEBS-publishes-report-on-issues-regarding-the-valu.aspx). It is worth noting that CEIOPS and CESR have also issued reports in relation to the valuation of financial instruments.

- ***CEBS - EGFI Subgroup on Reporting***

The subgroup sees to the proper transposition of the guidelines and standards published by CEBS on the common European reporting frameworks FINREP and COREP, including the development of XBRL taxonomies (eXtensible Business Reporting Language). The subgroup also answers questions on the practical application regarding the implementation of the FINREP and COREP frameworks. In response to the industry's expectations following the harmonisation of financial reporting requirements in order to reduce the administrative burden, the subgroup is working on a reduced and harmonised version of the FINREP and COREP schemes, applicable from 2012. The revised FINREP version will be submitted for public consultation from March to June 2009.

- ***CEBS - EGFI Subgroup on Auditing***

The subgroup assists CEBS by monitoring the developments at Community and international level in the area of audit and statutory audit in order to assess the consequences thereof from a banking supervisory standpoint.

In 2008, the subgroup followed the developments as regards international accounting standards and prepared comment letters for the International Auditing and Assurance Standards Board (IAASB) concerning the proposed amendments to ISA 620 (Using the Work of an Auditor's Expert), ISA 505 (External Confirmations), ISA 402 (Audit Considerations Relating to an Entity Using a Third Party Service Organisation), the project for a new ISA 265 (Communicating Deficiencies in Internal Control and Related Conforming Amendments to Other ISAs) and the proposed amendments to the Code of Ethics for Professional Accountants. These comment letters are available for consultation on CEBS' website (http:www.c-ebs.org/comment_letters/intro.htm).

2.1.5. CEBS - BSC Joint Task Force on the Impact of the new Capital Framework (TFICF)

The task force's mission tallies with that of the Capital Monitoring Group (CMG) established at the level of the Basel Committee on Banking Supervision, although the circle of countries that participate in the regular analysis of the development of own funds and regulatory capital requirements is limited to EU Member States as far as the task force is concerned.

In 2008, the TFICF drafted a report on the cyclicality of capital requirements, the influence of such requirements on the amount of capital actually held by banks and the impact of capital on the procyclicality of credit markets. The TFICF also took stock of the different tools at its disposal in order to put in place indicators based on empirical evidence.

The TFICF, just like the CMG, undertook its first empirical study relating to the impact of the transition from the Basel I regulation to Basel II regulation.

2.1.6. CEBS - CESR - CEIOPS Cross-Border Mergers and Acquisitions Task Force

In 2007, CEBS mandated a new working group to perform certain works to ensure consistent implementation of the prudential provisions introduced by Directive 2007/44/EC. The working group was converted in January 2008 into a joint 3L3 group.

Based on the studies of the joint working group, CEBS, CESR and CEIOPS published guidelines dated 18 December 2008 which are to be read in conjunction with Directive 2007/44/EC amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and valuation criteria for the prudential assessment of acquisitions and increases in holdings in the financial sector.

These guidelines specify five assessment criteria to be used in order to reach a common interpretation within the European Union. Annex II of the guidelines groups all the information which the potential acquirer has to submit to the competent authorities within the context of a notification of a proposed acquisition in a professional of the financial sector.

2.1.7. CEBS - CESR - CEIOPS Delegation Task Force

Upon request of ECOFIN on 4 December 2007, the 3L3 committees mandated a working group in 2008 to examine the delegation of tasks and competencies between supervisory authorities. Moreover the working group is mandated to assist the European Commission in its review of financial services directives in order to introduce provisions which allow a voluntary delegation of tasks. Furthermore, the 3L3 committees were invited to analyse conceivable solutions for the voluntary delegation of competencies relating to supervision.

The group drafted a document dealing with the key principles regarding the delegation of tasks between supervisory authorities. The document relating to the analysis of practical and legal obstacles to the delegation of responsibilities/competencies between supervisors is currently being finalised.

2.2. Committee of European Securities Regulators (CESR)

Established under the terms of the European Commission Decision of 6 June 2001, CESR (Committee of European Securities Regulators) took over from FESCO (Forum of European Securities Commissions) in September 2001. CESR is one of the two committees envisaged in the Committee of Wise Men's Report, which was endorsed by the Stockholm resolution of 23 March 2001. Composed of representatives of 29 supervisory authorities of securities markets in the European Economic Area (Member States of the European Union, Norway and Iceland), CESR is an independent body, which assists the European Commission in preparing implementing measures relating to Community legislation on transferable securities, and is entrusted with ensuring the timely implementation of Community legislation in the Member States. CESR also works towards improving coordination among supervisory authorities. Since January 2007, Mr Eddy Wymeersch (Commission bancaire, financière et des assurances, Belgium) chairs CESR. Mr Carlos Tavares (Comissão do Mercado de Valores Mobiliários, Portugal) is CESR's Vice Chairman.

CESR continued its Level 3 works by drawing up recommendations, standards, common interpretations and procedures for the co-operation in different areas in order to enhance regulatory convergence within the EU.

On 17 March 2008, CESR organised a Wholesale Day in order to identify major trends in the non-equity wholesale markets and their regulatory and supervisory implications. CESR also kept up its contacts with CEBS and CEIOPS according to the joint protocol signed on 24 November 2005 in order to take into account the sectoral market integration and the interrelationship of financial activities within the European Union. This protocol was amended on 8 December 2008 in light of the increasing importance of the coordination work between the three committees and in order to introduce, at that level, a formal procedure aiming to ease the coordination of their common activities.

Given the impact of the market turmoil, CESR decided at its meeting of 30 September 2008 to address the fields of short sales, investment funds, accounting, clearing and settlement as well as to examine the impact of the default of Lehman Brothers (CESR press release dated 1 October 2008, ref.: 08-791).

The Market Consultative Panel, a committee comprising 17 market participants appointed in a personal capacity, established in 2002 following a suggestion of the European Parliament and the Committee of Wise Men, is charged with assisting CESR. The panel's three 2008 meetings addressed in particular the effects of the ongoing market turmoil and the lessons to be learnt, the role of the rating agencies, the transatlantic dialogue between CESR/US SEC, CESR's 2008 work programme, developments in trading and post-trading, organisation, infrastructure and transparency of OTC markets (over-the-counter markets) as well as the future framework for EU financial supervision.

2.2.1. Groups established within CESR

- ***CESR MiFID Level 3 Expert Group***

In order to guarantee an efficient and convergent implementation of the framework Directive and its implementing measures in accordance with the Lamfalussy procedure, CESR set up a MiFID Level 3 expert group in 2006.

The expert group deals with technical and operational Level 1 and 2 issues for which it is necessary to develop a consistent and equivalent interpretation and application, in order to provide European operators with greater certainty.

The MiFID Directive requires the European Commission to provide, among others, a certain number of analyses and reports on financial instruments and financial markets. At the request of the European Commission, the expert group notably discussed the possible extension of the transparency regime to transactions in classes of financial instruments other than shares.

The expert group is assisted by two working groups for the preparation of guidelines, namely the Intermediaries group and the Markets group.

As regards **"Intermediaries"**, the following documents were finalised for their approval by CESR's Chairmen:

- A consumer's guide to MiFID - Investing in financial products, (ref.: 08-003) sets out, in an educational manner, the main elements of the MiFID Directive and its scope for the investor dealing with undertakings which provide investment services in Europe. An English version of the document is available on the CSSF website under the heading "Investor Protection" (www.cssf.lu).

- In order to promote convergence between the approaches of the different supervisory authorities in the exercise of their supervisory mission, CESR published three supervisory briefings on conflicts of interest, inducements and best execution (MiFID Supervisory Briefings on Conflicts of Interest - ref.: 08-733, Inducements - ref.: 08-734, Best Execution - ref.: 08-735).

Two meetings took place with representatives of the financial sector and private players, one focusing on the MiFID wholesale approach, the other on the MiFID retail approach. The concrete developments relating to best execution, conflicts of interest and inducements were introduced during the first meeting. During the second meeting, these same subjects were discussed as well as investment advice.

In November 2008, an exercise was launched, aiming to draw up, on hand of a sample of credit institutions providing investment services and of investment firms, best practices and to set out those aspects still requiring improvements in relation to inducements. A report on this review, undertaken by all CESR members, will be published at the end of 2009.

The group **"Markets"** produced the following documents:

- The protocol on the technical environment of the database containing information on shares admitted to trading on a regulated market of the European Union, as well as the lists of systematic internalisers, regulated markets, multilateral trading facilities (MTF) and central counterparties (ref.: 08-144). This document describes the duties and responsibilities of the CESR members and secretariat with regard to the calculation and publication of shares admitted to trading. It also includes practical advice on the calculation method as well as the necessary technical instructions. It is worth noting that changes were made to the database in question in order to improve its functioning and its content (ref.: 08-141).
- The protocol on the operation of notifications of MiFID Article 41 suspensions and removals of financial instruments from trading (ref.: 08-363). The protocol was drafted to ensure an effective co-operation between competent authorities regarding their obligations laid down in the above-mentioned article.
- A call for evidence (ref.: 08-873), published on 3 November 2008, requests market participants' view on matters to be taken into consideration by CESR during the review of the scope of the MiFID transaction reporting obligations.
- A call for evidence (ref.: 08-872), published on 3 November 2008, requests the public's view on the impact of MiFID on equity secondary markets functioning.
- A consultation paper on transparency of corporate bond, structured finance products and credit derivatives markets (ref.: 08-1014) was published on 19 December 2008.

Further to the European Commission's mandate of December 2007 requesting advice from CESR and ERGEG (Energy Regulators' Group for Electricity and Gas) in the context of the Third Energy Package regarding the internal market on energy, the group focused on questions of record-keeping, transparency and exchange of information regarding transactions in gas and electricity supply contracts as well as electricity and gas derivatives. CESR and ERGEG submitted their advice to the European Commission on 30 July 2008 (ref.: 08-527) and 12 January 2009 (ref.: 08-998).

- ***CESR Expert Group on Investment Management***

In 2008, this expert group, chaired by the Chairman of the Italian *Commissione Nazionale per le Società e la Borsa* (Consob), worked in particular on the following areas:

- interaction between the MiFID and the UCITS Directives,
- the UCITS IV Directive,
- procedures on risk management and measurement,
- changes to the regime applying to simplified prospectuses (Key Information Document); and
- operational prudential supervision (Operational Task Force).

Four working groups have been created to specifically treat these subjects. Discussions on the UCITS IV Directive also took place at the meetings of the European Council.

The CSSF took part in the work of the expert group as well as in that of the four working groups. In total these groups met 22 times during 2008. The CSSF also participated in six meetings with the EU Council on the UCITS IV Directive and in two workshops organised by the European Commission on subjects worked on by the expert group.

The expert group is assisted by a consultative group consisting of 16 industry experts, including one representative of the Luxembourg investment fund sector. In 2008, one meeting was held between the expert group and the consultative group.

Working group on the interaction between the MiFID and the UCITS Directives

The working group coordinated by the *Commission bancaire, financière et des assurances* (CBFA, Belgium) completed its work in 2008. Following the work already done in 2007, it sought a consensus between CESR members and the European Commission on the way in which the MiFID and UCITS Directives ought to be applied where there is an interaction between both Directives.

The European Commission's take on some of the points addressed by the working group are to be found in a question and answer document regarding MiFID on the European Commission's website (http://ec.europa.eu/internal_market/securities/docs/isd/questions/questions_en.pdf). The European Commission also plans to publish a *vade mecum* on the interaction between the MiFID and the UCITS Directives.

The opinions of the European Commission and those of certain CESR members differ on some topics regarding the application of the MiFID and UCITS Directives.

For instance, the CSSF considers that where a management company delegates certain tasks to another management company, the latter (i.e. management company to which tasks have been delegated) is not subject to the MiFID rules, given that according to its Article 2(1)h), the MiFID Directive is not applicable to UCIs, whether or not they are coordinated at a European level, nor to depositaries or managers of such undertakings. The European Commission does not agree with this interpretation and maintains that the delegated management company no longer undertakes any collective management but individual management (for the management company and not the UCI). Consequently, so the European Commission, the delegated management company falls under the MiFID rules.

The working group also looked into the amendments made to the new proposed UCITS IV Directive, revising the UCITS Directive. It is also in this context that the European Commission asked for CESR's advice on the form and content of the Key Investor Information (KII) document and that a working group of the Expert Group on Investment Management is examining this subject (see below). Detailed information on the UCITS IV Directive can be found in Chapter XII "Banking and financial legislation and regulations".

Working group on the risk management and measurement procedures

The working group has completed a first section of its work and CESR published guidelines on risk management principles for UCITS on 27 February 2009. This document contains level 3 principles applicable to risk management matters for UCIs and can be downloaded from CESR's website (www.cesr.eu, ref.: 09-178). In addition, CESR will publish a document on the technical and quantitative aspects for measuring global risk linked to derivative financial instruments, leverage and counterparty risk relating to derivative financial instruments.

Working group concerning the Key Investor Information (KII)

This working group, coordinated by the UK Financial Services Authority (FSA) and the French *Autorité des Marchés Financiers* (AMF), continued its work aimed at improving the UCITS investor information.

In its first advice on the content and form of the KII (ref.: 08-087) published on 15 February 2008, CESR recommends that the KII should be presented in a single document, no more than two pages (one sheet) in length, and that the presentation should follow a standardised format of subjects in a given order. CESR also recommended that the KII be referred to as Key Information Document (KID).

In its advice dated 15 February 2008, CESR identified three technical areas for which additional work needs to be undertaken, namely presentation of charges and commissions, of performance and of risk. CESR considers introducing a synthetic risk indicator. CESR intends to publish a consultation document regarding these three technical aspects very soon. In parallel, the European Commission will undertake the second test phase with a sample of investors from the following countries: Germany, Spain, Hungary, Ireland, Italy, Poland and Sweden. Based on the responses to the consultation documents and on the test results, CESR will draft a general advice on the form and content of the KID which will be subject to a consultation period during the summer of 2009, followed by an open hearing. It is planned that CESR will complete its general advice on the form and content of the KID by the end of October 2009.

Working group "Operational Task Force"

This group, which is coordinated by the Italian *Commissione Nazionale per le Società e la Borsa* (Consob) and meets frequently, works towards a strengthened co-operation between financial supervisory authorities with respect to the practical and operational aspects of prudential supervision, aiming to achieve convergence of prudential supervision of CESR members' investment funds.

Over the past months, the group laid down for instance that physical short selling supported by stock borrowing is not acceptable for UCITS. In order to highlight this matter, CESR's guidelines concerning eligible assets for UCITS published in March 2007 (ref.: 07-044) were amended and updated and document ref.: 07-044 was replaced by document ref.: 08-044b.

The working group also discussed the suspension of issues and redemptions of units or shares of investment funds, subsidiaries of UCITS and liquidity criteria concerning eligible assets for UCITS. The groups also intends to finalise a common definition applicable to money market UCITS in the coming months.

The group further looked into the Madoff case and its impact and repercussions on the field of investment funds. In this context, CESR members were invited to reply to a questionnaire prepared by CESR and the European Commission regarding the role, functions and responsibilities of depositaries in order to determine if there are notable differences in the way in which Member States apply the principles of the UCITS Directive.

- ***CESR Expert Group on Transparency***

In the context of the new mandate conferred to it at the end of 2007, the expert group turned towards its level 3 work in 2008. In a first stage, it undertook a mapping exercise of the transposition of the Transparency Directive 2004/109/EC[2]. The results of this study, which afforded market players a comparative view on the way the different options and national discretions under the Transparency Directive were transposed across the European Union, were published on CESR's website (www.cesr.eu).

The expert group has also started discussions on questions linked to the practical implementation of the Transparency Directive and the level 2 Directive (2007/14/EC). The results of these discussions will be published by CESR as Q&As. The publication of a first series of questions and answers is expected at the beginning of 2009.

The third aspect of the expert group's work concerns officially appointed mechanisms for the central storage of regulated information (OAM). The majority of jurisdictions have already appointed an OAM pursuant to Article 21 of the Transparency Directive. In Luxembourg, the *Société de la Bourse de Luxembourg S.A.* was designated OAM by way of Grand-Ducal regulation[3]. The expert group set the milestones to organise a first joint meeting with the OAMs in January 2009 in order to discuss the next steps of the implementation of a European network of OAMs pursuant to the Transparency Directive. An interim solution of an electronic network is already operational for issuers of shares. Hyperlinks to the OAM containing regulated information on a given issuer have been inserted in the MiFID database held by CESR (http://mifiddatabase.cesr.eu/).

- ***CESR Expert Group on Credit Rating Agencies***

In the context of the international financial crisis, the European Commission asked CESR to review the role of the rating agencies in September 2007. In February 2008, CESR published a consultation document prepared by the Expert Group on Credit Rating Agencies. The result of this study was integrated into the second CESR report on the compliance of credit rating agencies with the IOSCO Code of Conduct (ref.: 08-277) published in May 2008.

Following the presentation of a draft regulation on credit rating agencies by the European Commission in November 2007, the expert group is waiting for guidance by the European Commission on the continuation of the work relating to the compliance with the IOSCO Code of Conduct. The expert group will also be responsible for drawing up level 3 guidelines which are necessary for the coherent implementation of the future regulation on credit rating agencies across Europe. As a matter of fact, the draft regulation explicitly puts CESR in charge of drawing up such guidelines in a number of areas.

- ***CESR-Tech***

The purpose of CESR-Tech is to strengthen CESR's information technology governance structure. This group enables CESR to work on IT-related issues more quickly and efficiently and to manage IT projects that CESR undertakes in conjunction with its members. CESR-Tech has thus been established to deal with any form of pan-EU IT projects stemming from EU legislation (either current or future) and any other area where CESR members consider it necessary or useful to work together on IT issues.

CESR-Tech is composed of senior CESR representatives who have experience, knowledge and expertise in IT project management, financial markets and supervisory related issues.

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[2] Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (Transparency Directive).

[3] Grand-ducal regulation of 3 July 2008 on the official appointment of mechanisms for the central storage of regulated information within the meaning of the law of 11 January 2008 on transparency requirements for issuers of securities.

The main tasks of CESR-Tech are:

- allocation and use of the IT budget on a project-by-project basis;
- operational issues related to the management and running of IT projects;
- technical issues that arise during the course of specific projects;
- setting-up of operational working methods necessary to achieve its objectives.

The major CESR-Tech project that started in June 2006 and concerned the exchange of transaction reporting between CESR members in accordance with Article 25 of the MiFID Directive, led to the setting-up of the Transaction Reporting Exchange Mechanism (TREM).

The hub, operated by CESR's secretariat and operational since 1 November 2007, has already been functioning for over 1 year. Some authorities still have not joined the system because of the complexity of the modifications needed to their national reporting framework. The CSSF, which operated exchanges from the first day, exchanged a total of 20,955,487 declarations, divided into 20,596,857 declarations received and 358,630 declarations sent.

The TREM project has evolved and two new projects have been set up, notably:

- the project anticipated in 2007 which consists in allowing exchanges of transactions on derivative instruments, for which consensus was reached with the industry in order to determine a single identifier for every instrument, called Alternative Instrument Identifier (AII). This project became operational at the end of 2008 but it is important to note that a vast disparity exists between countries or regions as regards the capability of consistently labelling declared derivative instruments.
- the Instrument Reference Data (IRD) project, set up at the end of 2007, consists of constructing an identification reference database for instruments exchanged *via* TREM, for each authority and fed by each authority. The reference database consists in collecting data from every authority, knowing the securities it supervises. Such information should in principle be available from stock exchanges or MTF responsible for admissions to trading. The framework shall also enable the application of routing rules laid down in the legal texts which are not always currently available. The project is justified by the diversity of instruments and their characteristics which do not allow, *a priori*, finding a unique reference database with a provider at reasonable costs.

In this context, the TREM User Group, a permanent working group set up during 2008, has the following main missions:

- to analyse and assess the quality of information relating to transactions on financial instruments exchanged between CESR members *via* the Transaction Reporting Exchange Mechanism (TREM), pursuant to Article 25 of the MiFID Directive;
- to exchange views on the practical application by the competent authorities of the European provisions regarding the obligation to report transactions in financial instruments and to propose, in this context, action points favouring a convergent and coherent application of the European provisions and an improvement of the quality of the exchanged information so as to enable the competent authorities to use the information relating to transactions in financial instruments exchanged *via* TREM effectively, within the context of their supervisory mandate.

• ***CESR-European System of Central Banks Joint Working Group on Compensation and Securities Settlement Systems***

In October 2005, CESR and the Governing Council of the ECB decided to suspend the work of the working group given the political issues it had been confronted with.

In June 2008, ECOFIN decided on the continuation of the work and the adjustment and finalisation of the draft report by autumn 2008. The group thus took up its work again in June 2008 in order to adjust and finalise the draft report, in accordance with ECOFIN's decision. The draft report, which was subject to a CESR consultation between 23 October 2008 and 23 January 2009, contains 19 recommendations addressed to central securities depositaries and 15 recommendations addressed to central counterparts. A hearing took place in December 2008. The comments received during the consultation period will be considered by the working group which will continue with its work during 2009.

- ***Prospectus contact group***

In 2008, the contact group continued its main mission which is to ensure a consistent and convergent implementation of the European provisions relating to prospectuses for securities. To this effect, the group met three times to discuss the practical application of the Prospectus Directive and its implementing Regulation. The CSSF also actively took part in the preparatory meetings of the Agenda group, a sub-working group which is in charge of preparing the topics to address in the contact group's plenary meetings and the work of which facilitated and sped up discussions within the contact group.

The works and various consultations, among the authorities or of the public, initiated by the contact group in 2008 led to the following publications, which are available on CESR's website (www.cesr.eu):

- common positions on issues regarding the implementation of the Prospectus Directive, *via* three updates of the CESR FAQs on 20 May, 7 August and 17 December 2008, followed by a first update in 2009 published on 10 February 2009,
- statistics regarding approved and passported prospectuses;
- common position regarding the assessment of equivalence of prospectuses from third countries.

At the European Commission's request, the contact group has, since the end of 2007, worked on several aspects of employee share schemes which fall within the scope of the Prospectus Directive. This has resulted in the publication of a common position with the 8th update of the CESR FAQs in February 2009. Thus issuers who have securities admitted to trading on a market can benefit from a short-disclosure regime regarding the drawing-up of a prospectus applicable to share offers to current or former directors or employees.

The intensification of the financial crisis at the end of 2008 led several States to provide guarantees to those banks which were most affected. The description of States in their capacity as guarantor under the Prospectus Directive for issues of the concerned banks marked a topical issue which gave rise to numerous discussions within the contact group, in particular as regards unconditional and irrevocable guarantees by Member States which need to comply with the provisions of the Prospectus Directive in order to benefit from a European passport. In its updated FAQs dated 17 December 2008, CESR considers that from the moment in which such an issue falls within the scope of the Prospectus Directive, all the information required by the Directive and its Regulation need to be provided but that each authority can authorise the omission of certain information on a case-by-case basis pursuant to the provisions of Article 8 of the Prospectus Directive and/or Article 23.4 of the related Regulation.

Finally, one might mention that the CSSF ranks in first place among the authorities of Member States in terms of the number of prospectuses approved with 1,393 approved prospectuses.

- ***Takeover bids network***

Three meetings regarding the practical application of Directive 2004/25/EC of 21 April 2004 on takeover bids were organised in Paris on 23 January, 5 June and 20 November 2008. CESR had invited representatives of the authorities responsible for takeover bids in their Member State, whether CESR members or not, in order to discuss any practical issues arising from the application of this Directive. Thus, the authorities of the Member States set up a European network of experts in this field which allows the exchange of experiences and discussions in the areas that require the most co-operation.

- ***CESR Review Panel***

Established following the decision of CESR's Chairmen in December 2002, the Review Panel is responsible for assisting CESR in its task to ensure consistent and harmonised implementation of EU legislation in the Member States.

In April 2008, the Review Panel published a report on the self-assessment by Member States on the implementation (transposition and application) of CESR's guidelines to simplify the UCITS notification procedure. The report on the peer review will be published in 2009.

On 5 May 2008, the Review Panel published a methodology for mapping exercises of the supervisory authorities' powers of supervision and sanction. The reports on the mapping exercises describe the supervisory powers, practices as well as divergences of the competent authorities in relation to the different European Directives and CESR documents (standards, guidelines).

Furthermore the Review Panel, in accordance with the mandate conferred to it by CESR's Chairmen, continued its revision of the existing CESR standards, guidelines and recommendations (CESR standards) in the light of the legislative texts of the Financial Services Action Plan (FSAP). The work concerned the analysis of CESR standards in order to identify whether they are fully covered by a FSAP legislative text and can thus be abolished, or whether the standards must be kept as they are, updated or repealed as they have become obsolete. CESR has decided to repeal the CESR standards given the fact that they have been replaced by European FSAP Directives. Nevertheless, they remain in force for those Member States which have not yet entirely transposed the MiFID Directive provided they do not contradict the MiFID Directive and its related level 2 European measures.

In carrying out the mandate given to it by CESR's Chairmen, the Review Panel started working on the review of the peer review carried out in 2006 regarding the implementation of the CESR standards concerning the financial information to be provided by issuers and the competencies and powers of the authorities in this respect (Standard no. 1). The Review Panel also started its peer review of the implementation and application of the competent authorities' enforcement powers as regards financial information to be provided by issuers (Standard no. 2).

The Review Panel, in its main role of monitoring the consistent and timely implementation of Community legislation and CESR standards with the purpose of fostering a common and uniform day-to-day application and enhancing supervisory convergence within the European Economic Area, started mapping the powers of the supervisory authorities under the MiFID Directive and the Transparency Directive. The report and conclusions on the mapping of supervisory powers under MiFID was published on 16 February 2009. CESR is using this report as a means to progress negotiations with the US Securities and Exchange Commission for a mutual recognition between professionals of the financial sector and financial markets acting both on European and American markets. The report on the mapping of supervisory powers under the Transparency Directive will be published shortly.

These reports are available on CESR's website (www.cesr.eu).

2.2.2. Operational groups established within CESR

- ***CESR-Fin***

As CESR member, the CSSF takes part in the meetings of CESR-Fin, the permanent operational committee that coordinates CESR's work in all financial reporting areas in Europe.

In 2008, CESR-Fin met four times and its activities can be summarised as follows.

Following the subprime crisis and problems of fair value measurement of financial instruments with underlying mortgages/real estate loans, CESR-Fin, upon request of ECOFIN and of the European Commission, drafted a report on the fair value measurement of financial instruments in illiquid markets. CESR published two press releases, the "Fair value measurement and related disclosures of financial instruments in illiquid markets" and the related "Feedback Statement" on 3 October and 19 November 2008 respectively.

Following the banking liquidity crisis after the bankruptcy of the US bank Lehman Brothers and following pressure by numerous players in the economic and political spheres, the international regulator for financial information IASB issued changes to the ISA 39 and IFRS 7 standards regarding the re-classification of financial instruments out of the category valued "at fair value through profit and loss". These changes were published by the IASB and adopted by the European Union in an urgent move without resorting to the consultation period which the usual procedure requires. In order to remedy problems of interpretation and application which appeared thereafter, a press release was published requiring the IASB to clarify this re-classification of financial instruments, in particular as regards transitional provisions.

CESR-Fin regularly organised joint meetings with members of the IASB/IFRIC, either directly or *via* its working group IFRS and/or EECS (European Enforcers Coordination Sessions). The aim of these meetings is to informally discuss all aspects related to international financial reporting standards, be these new projects or problems encountered with the application or other, such as the equivalence of third country reporting standards.

Joint CESR-SEC sessions

CESR-Fin's activities include regular meetings with the SEC, the financial reporting supervisory authority of the United States. As many European companies have their securities traded in the United States, co-operation and discussion with the SEC are essential in order to avoid diverging interpretations of the IAS/IFRS standards.

In the context of the crisis, one of the topics on the agenda of the 2008 meetings was precisely the option of re-classification of financial instruments as well as the question of integrated derivative instruments. The following subjects were also dealt with:

- the SEC itinerary allowing US issuers to use IFRS;
- the developments within the European Union regarding the equivalence of third countries GAAP;
- the FASB/IASB convergence programme,
- the exchange of information between the SEC and CESR members concerning specific issuers.

Equivalence and convergence of accounting standards

The assessment of equivalence of certain third country financial reporting standards with IAS/IFRS standards, as required by the Transparency Directive and the Prospectus Directive, is a lengthy project which continued throughout 2008.

In 2008 CESR delivered a technical advice to the European Commission on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries. On 12 December 2008, the European Commission adopted a decision regarding the equivalence or acceptance of six third country GAAP (Canada, China, South Korea, United States, India and Japan) applicable in the European Union with effect from January 2009. Third country issuers having securities traded on a regulated market in the European Union can thus continue to prepare their financial statements according to the accounting standards of one of these countries. Regarding Canada, China, South Korea and India, the European Commission will review between now and the end of 2011, their adoption or convergence programmes of/with IFRS standards. American and Japanese financial reporting standards have been accepted as equivalent.

European Enforcers Coordination Sessions (EECS)

EECS, which met seven times in 2008, continued to discuss the practical and technical issues that arise from decisions taken at national level and the practical application of accounting standards in certain jurisdictions.

As in the previous years, the competent authorities for the enforcement of the correct application of the IFRS standards within Member States continued in 2008 to feed the database with decisions taken at a national level and/or accounting topics that gave rise to discussions. As at 31 December 2008, 164 decisions from 16 jurisdictions were listed in the EECS database. In December 2008, CESR published a fourth extract from the EECS database.

CESR-Fin activities at EU level

CESR-Fin is in regular contact with EFRAG (European Financial Reporting Advisory Group) and takes part as observer. Equally, the Chairman and/or EFRAG members are invited regularly to CESR-Fin meetings.

CESR-Fin took part in the discussions of the European Commission at ARC level (Accounting Regulatory Committee) on the adoption of standards and new draft standards, as well as at AuRC (Audit Regulatory Committee) and EGAOB (European Group of Auditors' Oversight Bodies) level as regards audit matters.

Auditing

CESR-Fin closely follows the developments of the legislation relating to the auditing of companies listed in the European Union and in the other main jurisdictions, notably by taking part in the Task Force on accounting standards for prospectuses which has recently been set up by the international regulator IAASB.

The different working groups created in the wake of the eighth Directive on audit continued their work on the assessment of the equivalence of auditor supervision in third countries as well as on the transparency of the work of the auditors.

Project Group on IFRS

The working group met twice during 2008. Its aim is to improve CESR's visibility in matters relating to accounting standards.

Among the topics dealt with in 2008 are the discussion documents entitled "Financial Instruments with the Characteristics of Equity (Equity-Liability)", "Reducing Complexity in Reporting Financial Instruments", "IAS 19 Employee Benefits", "Pensions", "The Conceptual Framework: phases A and D", the IASB/FASB Memorandum of understanding, IFRS 3 and IAS 27 (combination and consolidation), improvements to IFRS 2008, IASCF Constitutional review and IFRS 8 (Operating segments), IFRIC 15 (Real estate sales), IAS 33 (Simplifying Earnings per Share), IAS 39 (Financial Instruments) and IFRIC 16 (Hedges of a net investment in a foreign operation).

- ***CESR-Pol***

CESR-Pol's purpose is to enhance sharing of information, co-operation and coordination of supervision and enforcement activities between CESR members. A major priority of CESR-Pol is to ensure the effective day-to-day implementation of the Market Abuse Directive at Level 3 of the Lamfalussy process.

As a result of the mandate received by CESR's Chairmen, CESR-Pol continued the works started in 2007 and published, on 20 May 2008, a public consultation document containing detailed guidance on the insiders' lists and suspicious transaction reporting. On 3 October 2008, CESR-Pol published with a view for consultation a second document on stabilisation and buy-back regimes as provided for in Regulation (EC) No 2273/2003 and the two-fold notion of inside information contained in Directive 2003/6/EC on insider dealing and market manipulation. An open hearing took place on 18 November 2008. The group will finalise its drafts of level 3 measures on the four above-mentioned subjects in 2009.

On 28 February 2008, CESR-Pol published an executive summary on the administrative measures and sanctions, as well as criminal sanctions available in CESR's Member States under the Market Abuse Directive (Directive 2003/6/EC and its implementing measures).

Given the turbulences on financial markets, a working group, backed by CESR-Pol, was set up in October 2008 in order to coordinate measures taken by competent authorities as regards short selling. On 19 December 2008, CESR-Pol launched a call for evidence in order to collect each interested person's opinion on the measures to be taken by CESR in the short, medium and long term as regards short selling.

The permanent work group **Surveillance and Intelligence Group** (S & I Group), set up in 2005, allowed to exchange practical experience in co-operation, daily supervision of investment firms and financial markets and unauthorised offers of financial services by persons or investment firms that have not been granted adequate authorisation. CESR-Pol has also continued to establish **Urgent Issues Groups** every time several authorities of different Member States are involved in an investigation and it became necessary to ensure swift co-operation and to take prompt measures in cases of threats to one or several securities markets.

Furthermore, CESR-Pol continued to develop its 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.

CESR-Pol has also continued to enhance its dialogue with the International Organisation of Securities Commissions (IOSCO) in order to improve co-operation and exchange of information with non-co-operative countries and to coordinate the measures to be taken in this respect.

All the documents are available on CESR's website (www.cesr.eu).

2.3. Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) comprises high level representatives from the insurance and occupational pensions supervisory authorities from EU Member States. The Committee's objectives are to advise the European Commission, either at the European Commission's request or on the Committee's own initiative, as regards the preparation of implementing measures in the fields of insurance, reinsurance and occupational pensions, to contribute to the consistent implementation of EU Directives and to the convergence of Member States' supervisory practices and to constitute a forum for supervisory co-operation, including the exchange of information on supervised institutions.

Additional explanations on the works performed in 2008 by CEIOPS are given in Chapter III "Supervision of pension funds".

2.4. Joint Committee on Financial Conglomerates (JCFC)

Following the European Commission decisions of 23 January 2009 regarding the 3L3 committees (CEBS, CEIOPS and CESR), the co-operation between CEBS and CEIOPS as regards supervision of financial conglomerates was entrusted to the Joint Committee on Financial Conglomerates (JCFC). The JCFC thus succeeds the informal and interim structure of the Interim Working Committee on Financial Conglomerates (IWCFC) operated under the aegis of CEBS and CEIOPS and in charge of reviewing issues relating to financial conglomerates. JCFC members are high-level representatives of the banking and insurance supervisory authorities of Member States of the European Union and the European Economic Area. The European Commission and the European Central Bank shall be invited to the meetings of the JCFC as observers whereas CESR can participate in the JCFC. The Committee has the following functions:

- to assess results of the transposition of Directive 2002/87/EC on financial conglomerates and to contribute to its coherent application;
- to advise the European Commission, either on its request or on the Committee's own initiative;
- to contribute to the review of the Directive on financial conglomerates;
- to contribute to the convergence of practices employed by national supervisors, particularly with regard to capital requirements, intra-group transactions and concentration risk;
- to facilitate the co-operation and coordination between supervisory authorities.

The Committee met five times in 2008.

In February 2008, the Committee and CEBS published the results of their joint study of the extent of equivalence in regulation and supervision of banking groups and financial conglomerates in certain third countries (i.e. Switzerland and United States). The Committee, basing itself on the two reports published in 2007 which describe the differences in banking regulation and insurance regulation as regards the recognition of own funds items and their impact on the calculation of own funds for financial conglomerates, formulated in April 2008 its recommendations to the European Commission to address the consequences of the differences noted in the sectoral regulations. The reports are available on the CEBS and CEIOPS websites.

On 11 April 2008, the Committee received a third call for advice from the European Commission with regard to the review of the Financial Conglomerates Directive. The Financial Conglomerates Review Working Group (FRWG) was set up in order to produce a stocktake of Member States' implementation practices in the areas of language (definitions), scope and internal control requirements. On 9 February 2009, the European Commission extended the Committee's initial mandate by asking it to come forward with possible solutions to the four key issues it had identified. The European Commission intends to submit a draft amendment of the Directive based on the final report which is due by September 2009.

The Committee further co-drafted the 10 Common Principles for the operation of the Colleges of supervisors together with CEBS and CEIOPS.

2.5. Capital Requirements Directive Transposition Group (CRDTG)

Established in December 2005, the group aims at providing all interested parties with responses as regards the implementation and interpretation of Directives 2006/48/EC and 2006/49/EC that transpose Basel II into European legislation. To this end, the European Commission and its working group co-operate closely with CEBS.

The answers prepared by the group have been published on the website of the European Commission (http://ec.europa.eu/internal_market/bank/regcapital/transposition_en.htm).

2.6. Capital Requirements Directive Working Group (CRDWG)

The European Commission set up the Working Group on the Capital Requirements Directives 2006/48/EC and 2006/49/EC in order to discuss with the Member States the amendments it wishes to make to those Directives. The group finalised its work during the first half of 2008. The discussions within the group provided the basis for a document which was submitted for public consultation by the European Commission in April 2008 and which gave rise to the draft Directive amending the CRD Directives which is described in more detail in Chapter XII "Banking and financial legislation and regulations".

2.7. Payment Services Directive Transposition Group

This working group is headed by the European Commission and includes representatives from the Member States in charge of transposing into national law Directive 2007/64/EC of 13 November 2007 on payment services in the internal market and aims to support Member States during the implementation phase of said Directive. The group is tasked with comparing approaches adopted by the Member States in order to identify any discrepancies at an early stage and to provide a clear and detailed interpretation of the provisions of the Directive.

2.8. Working Group on Early Intervention

On 14 May 2008, ECOFIN asked the European Commission to examine the possible link between early intervention by supervisory authorities and reorganisation of a financial group, as well as issues related to financial burden sharing.

The European Commission will publish a White book aiming to assess if the current prevention, resolution and crisis stabilisation tools should be complemented by additional tools and whether there is a case for further convergence of such tools. The European Commission will also consider the appropriateness of tools for dealing with both cross-border and domestic institutions. In this context, the European Commission asked CEBS to undertake a stocktake of supervisory powers and of the trigger events or conditions which govern the use of crisis management tools.

2.9. Committee on the prevention of money laundering and terrorist financing

The Committee on the prevention of money laundering and terrorist financing was established by Directive 2005/60/EC of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The Committee assists the European Commission in relation with the implementing measures for Directive 2005/60/EC.

The Committee met five times during 2008. Its works referred, among others, to the practical implementation of Directive 2005/60/EC and the follow-up of the works of the Financial Action Task Force (FATF).

2.10. CEBS-CEIOPS-CESR Task Force on Anti-Money Laundering Issues

The working group on anti-money laundering issues was set up in September 2006 and met five times during 2008. This task force is an inter-sectoral working group that gathers the representatives of the Member States' supervisory authorities and assists the 3L3 committees (CEBS, CEIOPS and CESR) on issues relating to the implementation of Directive 2005/60/EC of 26 October 2005. The task force continued to work on issues relating to the practical implementation of the risk-based approach in the field of Know Your Customer and Customer Due Diligence and worked on issues concerning the implementation of Regulation (EC) No 1781/2006 of 15 November 2006 relating to the information on the payer accompanying transfers of funds.

2.11. Accounting Regulatory Committee / Contact Committee on Accounting Directives

The objective of the Accounting Regulatory Committee (ARC), established by the European Commission in accordance with Article 6 of the IAS Regulation, is to provide advice on the proposals of the European Commission in order to adopt one or several IAS/IFRS international accounting standards of the International Accounting Standards Board (IASB).

In 2008, the Accounting Regulatory Committee met eight times, together with the Contact Committee on Accounting Directives, established under Article 52 of the fourth Company Law Directive (Directive 78/660/EEC). These meetings mainly addressed the adoption of the IASB standards, the draft IASB standards in progress and IASB governance.

The current situation of the approval process of the international accounting standards in the European Union, as well as the works of the Accounting Regulatory Committee are available on the website of the European Commission (http://europa.eu.int/comm/internal_market/accounting/ias_en.htm).

On 3 November 2008, the European Commission adopted the consolidated text on IFRS standards in place in the European Union. This new consolidated version contains all the IFRS standards applicable to date, including the amendments to IAS 39 adopted on 15 October 2008 in the context of the financial crisis. This consolidated version allows all relevant parties to refer to a single unique legal text.

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

The European Group of Auditors' Oversight Bodies (EGAOB) was established by Decision 2005/909/EC of 14 December 2005 of the European Commission. The expert group advises the European Commission on any issue relating to the preparation of measures implementing Directive 2006/43/EC. It also provides technical assistance for the setting-up of comitology measures, in particular with respect to issues relating to the assessment and approval of international audit standards with a view of their adoption at Community level, to the assessment of third country public oversight systems, as well as to the international co-operation between Member States and third countries in this area. In addition, the group is also an exchange platform for representatives of auditors and supervisory authorities of third countries.

The expert group has set up sub-working groups whose main activities are set forth below.

2.12.1. EGAOB - Subgroup on Co-operation on Third countries

The objective of this subgroup is to facilitate co-operation between public auditors' oversight bodies at Community level and third country oversight bodies.

In 2008, the subgroup continued analysing the equivalence of public oversight systems for third country auditors of companies established outside the European Union and whose securities are admitted to trading on European regulated markets. This exercise was conducted pursuant to Article 46 of Directive 2006/43/EC which provides, under certain conditions, the option to exempt third country auditors from public oversight on the basis of reciprocity.

The Decision 2008/627/EC of the European Commission of 29 July 2008 granted a transition period to 34 third countries. This decision allows audit firms from these countries to pursue their audit activity and to delay their registration until 1 July 2010, in accordance with the transition period.

In this context, the subgroup also developed standard registration forms in order to allow audit firms from third countries whether or not benefitting from a transition period to register with the competent European authorities on a uniform basis. These standard documents are available on the European Commission's website together with "Frequently Asked Questions" answering the main issues in respect of these forms (http://ec.europa.eu/internal_market/auditing/relations/index_en.htm).

It ought to be stressed that auditors from third countries which do not benefit from a transitional regime are subject to supervision by the competent authority of the relevant Member State.

2.12.2. EGAOB - Subgroup on International Standards on Auditing (ISA)

As the Directive 2006/43/EC (modernised eighth Directive) requires the application of international audit standards within the scope of statutory audit, this subgroup analyses the international audit standards and the developments in this field, with a view to their adoption at Community level.

2.12.3. EGAOB - Fair Value auditing in the context of banks (financial turmoil)

Several working groups met in order to analyse the impact of the financial crisis on the review of the next banking audits and attached particular importance to the issues relating to fair value. These matters were taken up with audit professionals during a meeting.

2.13. Banking Supervision Committee

The Banking Supervision Committee of the European Central Bank is a committee comprising high level representatives of the banking supervisory authorities and the central banks of Member States. The committee is chaired by Mr Praet, Executive Director of the National Bank of Belgium since June 2007. The missions concerning prudential supervision conferred by the Treaty and the statutes of the European Central Bank on the ESCB (European System of Central Banks) are carried out by the Banking Supervision Committee on behalf of the ESCB. The Committee is a forum for the exchange of opinions on the supervisory policies and practices in Member States and should be consulted on proposals for Directives and bills tabled by Member States on matters within its competence.

The Banking Supervision Committee was mainly assisted in carrying out its mandate in 2008 by two working groups comprising members of the central banks and national supervisory authorities, i.e. the Working Group on Macro-Prudential Analysis (WGMA) and the Working Group on Developments in Banking (WGDB).

In order to systematise the analysis of macro-economic data with a view to identifying, as far as possible, in time the factors likely to weaken the financial institutions as a whole and thereby the financial system, the Working Group on Macro-Prudential Analysis monitors the macro-economic environment and reports to the Committee on trends and facts likely to be relevant to the prudential supervision of the financial sector.

The WGMA contributed to the reports on the stability of the financial sector, published in June 2008 and December 2008 respectively. These reports are discussed within the ECB's Executive board and published under the aegis of the Banking Supervision Committee.

In 2008, the group's discussions mainly dealt with the impact of US subprimes on the stability of the European financial sector. The WGMA is the author of several studies including those on the European commercial real estate sector and on the role of covered bonds in the EU Financial System. The WGMA equally co-drafted the report on financial conglomerates.

As in the previous years, the Working Group on Developments in Banking focused on drawing up its structural report on the European banking sector during the first half of 2008. This report entitled "EU Banking Structures" aims at identifying and monitoring the structural trends marking the European banking sector as a whole. The 2008 version of the report contains two further analyses undertaken by the group, notably a study of the "originate and distribute" model and the results of the periodic inquiry by the WGDB on the major risks which the banking sector is expected to face during the next year.

3. MULTILATERAL CO-OPERATION

3.1. Basel Committee on Banking Supervision

During 2008, the Basel Committee's activities mainly related to providing an adequate reaction to the financial crisis. Thus the Basel Committee worked on improving and strengthening the rules on capital adequacy (mainly as regards trading book and securitisation), liquidity management, internal risk management and transparency.

In 2008, the Basel Committee published the following documents:

- 21 February 2008: "Liquidity risk : management and supervisory challenges";
- 22 July 2008: the consultative document "Computing capital for incremental risk in the trading book";
- 22 July 2008: the consultative document "Revisions to the Basel II market risk framework";
- 29 August 2008: the consultative paper "Range of practices and issues in economic capital modelling";
- 25 September 2008: "Principles for Sound Liquidity Risk Management and Supervision";
- 28 November 2008: the consultative paper "Supervisory guidance for assessing banks' financial instrument fair value practices";
- 2 December 2008: "External audit quality and banking supervision".

Moreover, the Basel Committee released the following consultation documents on 16 January 2009:

- "Revisions to the Basel II market risk framework";
- "Guidelines for computing capital for incremental risk in the trading book";
- "Proposed enhancements to the Basel II framework".

The proposals are part of a general effort by the Committee to strengthen regulation and supervision of banks given the weaknesses which have transpired during the financial crisis.

The proposed amendments relate to minimum capital requirements and cover trading book positions and exposures in the context of securitisations. The Basel Committee specifically proposes to complement the existing rules relating to the calculation of minimum capital requirements for trading book market risk as regards complex and illiquid products, to add specific higher risk weights for re-securitisation products such as CDOs of ABS, to clarify the prudential treatment of liquidity lines granted to off-balance sheet vehicles such as asset-backed commercial paper conduits.

Contrary to previous consultative documents regarding the calculation of capital requirements for market risk in the trading book, banks will from now on have to calculate a "stressed" value-at-risk, taking into account a period of significant losses. The Basel Committee further proposes to abolish the preferential weighting of four percent for the specific equity risk which is currently applied to liquid and diversified portfolios.

The Basel Committee also suggests improvements to the supervisory review process of prudential supervision, in particular as regards integrated risk management and stress testing and rules relating to information on exposures to be notified in the context of a securitisation.

The Basel Committee has organised its work under four main permanent subgroups, namely the Accord Implementation Group (AIG), whose mandate has been extended in January 2009 and whose name has been changed in Standards Implementation Group (SIG), the Policy Development Group (PDG), the Accounting Task Force (ATF) and the International Liaison Group (ILG).

3.1.1. Policy Development Group (PDG)

The Policy Development Group coordinates the Basel Committee's works on supervisory policies. It is the highest technical group under the Basel Committee. Besides its role as coordinator of the subgroups, the PDG is invited to start, on its own initiative, works on supervisory policies and to exchange information on developments in the financial markets and risk management.

One of the group's priorities during its four meetings in 2008 was to work out the lessons to be learnt from the current crisis. The PDG and its subgroups' work resulted in the publication on 16 January 2009 of a series of consultative documents aiming at strengthening the Basel II regulatory framework (see point 3.1. below).

- ***Capital Monitoring Group (CMG)***

The mission of the Capital Monitoring Group consists in analysing the impact of the transition from Basel I to Basel II rules on regulatory capital, as well as on the capital requirements for credit institutions.

In 2008, the CMG undertook its first empirical study relating to the impact of the transition from the Basel I regulation to Basel II regulation. The study is based on figures taken from national reporting tables in June 2008 and will result in a report which will be presented to the Basel Committee in 2009. The extraction of half-yearly information from national reportings will allow for a regular update of the study.

- ***Definition of Capital Subgroup***

The subgroup completed its first mission by submitting its report on the current composition of regulatory capital in the 16 jurisdictions which are members of the group to the Basel Committee in March 2008. Based on this report and given the more and more tangible impact of the financial crisis on the structure of capital of credit institutions, mainly through the State interventions around the globe, the subgroup was tasked with reflecting on the future structure of regulatory capital. The notion of core Tier 1, on which the market places an ever-important focus, as well as hybrid capital instruments, will be at the forefront of its considerations.

- ***Working Group on Liquidity (WGL)***

In February 2008, the Basel Committee published the results of the group's work from 2007 in a document entitled "Liquidity Risk Management and Supervisory Challenges."

In order to take into account the developments on the financial markets and the lessons learnt from the financial crisis, the Basel Committee radically revised its 2000 version of "Sound Practices for Managing Liquidity in Banking Organisations" by publishing an updated version in September 2008. Detailed guidance is provided in particular in the following areas:

- the importance of establishing a liquidity risk tolerance;
- the maintenance of an adequate level of liquidity, including through a cushion of liquid assets;
- the necessity of allocating liquidity costs, benefits and risks to all significant business activities of a bank;
- the identification and measurement of the full range of liquidity risks, including contingent liquidity risks;
- the design and use of severe stress test scenarios;
- the need for a robust and operational contingency funding plan;
- the management of intraday liquidity risk and collateral; and
- the promotion of market discipline through the public disclosure of data relating to liquidity risk management.

Guidance for supervisors also has been augmented substantially. The guidance emphasises the importance for supervisors to assess the adequacy of a bank's liquidity risk management framework and its level of liquidity, and suggests steps that supervisors should take if these are deemed inadequate. The principles also stress the importance of effective co-operation between supervisors and other key stakeholders, such as central banks, especially in crisis times. In 2009, the group will continue to work on implementing these sound principles.

• ***Risk Management and Modelling Group (RMMG)***

The Risk Management and Modelling Group's mandate is to monitor the progress made in internal risk management within credit institutions. It informs the Basel Committee of these advances and, where applicable, submits proposals to maintain the consistency of prudential requirements and internal risk management practices. In 2007, the group studied the stress testing and the economic capital frameworks of large international banks. The results were published by the Basel Committee under "Range of practices and issues in economic capital modelling" (August 2008) and "Principles for sound stress testing practices and supervision" (January 2009).

• ***Cross-Border Bank Resolution Group (CBRG)***

In October 2007, the Basel Committee decided to set up a Cross-Border Bank Resolution Group with the aim to analyse and review the models relating to resolution for banks with a cross-border impact. The creation of this group reflects the growing importance of cross-border banking activity in the past years as a result of the globalisation of financial systems.

3.1.2. Accord Implementation Group (AIG)

The Accord Implementation Group was created to promote a consistent implementation of the new capital adequacy rules at international level.

In 2008, the AIG's main focus was on the ongoing compliance with the conditions for use of the advanced approaches under Basel II and the nature of the first estimations resulting from these approaches. The group also concentrated on the coordination of the implementation of internal processes for the assessment of internal capital adequacy (Pillar II) and market discipline (Pillar III). As far as Pillar II is concerned, the AIG focused in particular on the recent performance of economic capital frameworks, stress tests as well as risk management of concentration risk in the face of the financial crisis.

- ***AIG - Validation Subgroup (AIGV)***

The Validation Subgroup is a discussion forum for technical aspects related to the setting-up of advanced approaches to credit risk in order to promote a convergence of supervisory practices between its members.

In 2008, the AIGV continued to observe the implementation of internal rating systems and the estimates of the PD, LGD and EAD parameters. The group was particularly interested in calculation methods for counterparty risk.

The AIGV also analysed differences in capital requirements calculated according to the prudential rules of Pillar I and those calculated for the bank's internal management (Pillar II).

Given the enormous problems faced by securitisation markets since 2007, the AIGV has also dedicated some of its resources to the identification of risks by banks taking part in this type of operation as well as to the analysis of the approaches and methodologies adopted by the authorities in view of supervising those risks.

- ***AIG - Operational Risk Subgroup (AIGOR)***

AIGOR focuses on the challenges associated with the development, implementation and maintenance of the operational risk management framework meeting the requirements of Basel II, and in particular as regards the advanced measurement approaches (AMA). Three meetings took place in 2008 gathering experts of Member States.

In 2008, AIGOR undertook a Loss Data Collection Exercise (LDCE). This exercise constitutes a first international effort in gathering information on the four elements of data relating to operational risk, namely the internal data, the external data, the analysis of scenarios and the Business Environment and Internal Control Factors (BEICF) used in advanced measurement approaches (AMA) for the calculation of minimum capital requirements for operational risk.

Participation in the collection exercise LDCE was voluntary and open to both credit institutions which are in the process of adopting an AMA in order to measure and manage operational risk and those which envisage moving on to an AMA at a later stage but which still use the basic indicator approach or the standard approach. More than 100 institutions worldwide took part in this exercise.

A report summarising the results of the exercise shall be distributed during 2009. Thereafter, the national supervisory authorities will provide personalised reports to the participating institutions enabling them to compare their data to industry data at international level and, where possible, at regional or even national level. Furthermore, the participating institutions will receive up-to-date information on the practices relating to analysis of scenarios, external data and BEICF. This practical information can be used by participating institutions in order to assess and compare their practices with industry practice.

3.1.3. Accounting Task Force (ATF)

As regards accounting standards, the Accounting Task Force prepared comment letters for the attention of the International Accounting Standards Board (IASB) regarding the discussion papers "Financial Instruments with Characteristics of Equity", "Reducing Complexity in Reporting Financial Instruments" and "Preliminary views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity". The ATF also drafted comment letters on the exposure draft entitled "An improvement Conceptual Framework for Financial Reporting: Chapter 1 and 2" and on the draft amendments to IFRS 7: "Improving disclosures about Financial Instruments".

During June 2008, the Basel Committee published the document "Fair value measurement and modelling: An assessment of challenges and lessons learned from the market stress" based on information from an investigation undertaken by the ATF and the Risk Management and Modelling Group (RMMG). The document reviews the challenges relating to the valuation of complex and illiquid instruments during unfavourable market conditions and is available on the Basel Committee's website (http://www.bis.org/publ/bcbs137.htm).

The ATF further contributed to a consultative document containing guidance on the valuation of financial instruments entitled: "Supervisory guidance for assessing banks' financial instrument fair value practices". This document was published on the website of the Basel Committee in November 2008 (http://www.bis.org/publ/bcbs145.htm).

As regards audit, the ATF continued its work with respect to international accounting standards and prepared comment letters on exposure drafts for the International Auditing and Assurance Standards Board (IAASB) relating, *inter alia*, to international audit standards which have been revised. At the same time, in an effort to constantly improve audit quality, the group issued comment letters on the exposure drafts of the International Ethics Standards Board for Accountants (IESBA), more particularly in the context of the consultation on section 290 of the Code of Ethics on the independence of the accountant "Independence - Audit and Review Engagements" and on the proposed changes to the Code of Ethics for Professional Accountants.

The current turbulences in the financial markets and the request for increased transparency suggest that clear and reliable financial information, supported by quality audits are key elements in improving confidence in the markets. From the perspective of continuing improvement of the quality of audit, the ATF has drafted a document entitled "External audit quality and banking supervision" dedicated to the quality of audit. This document was published on the website of the Basel Committee in December 2008 (http://www.bis.org/publ/bcbs146.htm).

The ATF members furthermore took part in an enquiry led by the International Liaison Group (ILG) under the heading "Questionnaire on loan loss provisioning". The enquiry intends to identify difficulties which supervisors are confronted with as regards provisioning.

Finally, the AFT set up the *ad hoc* Law Accounting Workteam (LAW) in November 2008 in order to review and analyse discussions relating to provisioning and pro-cyclical effects.

3.2. International Organisation of Securities Commissions (IOSCO)

3.2.1. XXXIIIrd Annual Conference of IOSCO

The securities and futures regulators and other members of the international financial community met in Paris from 25 to 29 May 2008, on the occasion of the XXXIIIrd Annual Conference of IOSCO.

The implementation of the objectives and principles of securities regulation (IOSCO Principles) is an important priority for IOSCO. The objective of the IOSCO principles is to encourage countries to improve the quality of their securities regulation. They represent the principal international benchmark on prudential supervision of securities markets. In 2005, IOSCO created the Principles Assessment and Implementation Program in order to help jurisdictions implement these principles. During the conference, IOSCO had to realise that the level of demand from members for assisted assessments as part of the Program is still far superior to IOSCO's resources. The working group on implementation and the General Secretariat are thus looking for assessors. It was decided that the working group on implementation shall organise, with the support of the General Secretariat, a workshop dedicated to assessors. This workshop was hosted by the Securities and Exchange Board of India (SEBI) and took place in Mumbai from 2 to 4 December 2008. The training session provided the opportunity to exchange ideas and experiences between experienced assessors and future assessors on the process of assessing the implementation of the IOSCO principles.

As regards the Multilateral Memorandum of Understanding[4], IOSCO set itself the ambitious target of making all its members which are supervisory authorities sign up before 2010. After the XXXIII[rd] Annual Conference, the number of signatories to the MMoU is 48. Fifteen other members have committed to signing the MMoU in accordance with its Appendix B. IOSCO has repeated its resolve to reach the objective it set itself, that is to say that all its members sign up by 2010 to the Multilateral Memorandum of Understanding, either as signatories to the MMoU itself or to appendix B. IOSCO's emerging markets committee is highly involved in the work relating to the MMoU and a regional seminar was organised on the co-operation and exchange of information between supervisory authorities of securities markets in Eastern and Southern Europe. This seminar was hosted by the Polish financial supervisory authority.

The confidential dialogue between IOSCO and under-regulated or non-co-operative countries has continued to figure as a priority and progress was achieved with a number of countries previously inclined very little towards co-operation. The objective is to assist each of the identified jurisdictions to make genuine improvements to co-operation they are able to offer their international counterparts in relation to information sharing. A number of countries are expected to apply for membership with IOSCO shortly. IOSCO estimates that a certain number of countries still require ongoing attention.

IOSCO has reiterated the importance it places on a dialogue with stakeholders from financial services and financial markets in order to learn about their views on areas for IOSCO to possibly focus on.

The working group of the Technical Committee on rating agencies published its final report amending the Code of Conduct Fundamentals for Credit Rating Agencies on 28 May 2008. These amendments were introduced following a public consultation which was open to supervisory authorities, rating agencies and stakeholders of financial markets. They aim to respond to concerns which have arisen in relation to the rating agencies' conduct as regards the development of markets for structured products and the recent subprime crisis. The amended Code of conduct will help rating agencies to reinforce their processes and procedures in view of protecting the integrity of the rating process. The Technical Committee's working group will continue to assess in what way the supervisory authorities should verify compliance with the IOSCO Code of conduct and will report on their conclusions at the next meeting of the Technical Committee.

The Technical Committee's Task Force on the Subprime Crisis also published its report on 28 May 2008. This report examines the causes of the crisis and the consequences for international capital markets and makes recommendations that address the issues facing securities regulators. The report focuses on the market for structured finance products. The Technical Committee recommends that IOSCO continues with its work in order to deal with the problems identified in the following three areas: (i) issuer and market transparency and investor diligence, (ii) risk management and prudential supervision, (iii) valuation and accounting issues.

Mrs Jane Diplock, Chairperson of the Securities Commission of New Zealand was re-elected President of the Executive Committee at the XXXIII[rd] Annual Conference and Mr Shang Fulin, Chairman of the China Securities Regulatory Commission (CSRC), was re-elected Vice-President. Mr Christopher Cox, Chairman of the Securities and Exchange Commission (SEC) of the United States was elected President of the Technical Committee and Mr Hans Hoogervoorst, Chairman of the Netherland's *Autoriteit Financiële Markten* (AFM) is Vice-President.

[4] Multilateral Memorandum of Understanding (MMoU) concerning consultation and co-operation and the exchange of information.

In 2008, IOSCO published a report on private equity and a report on funds of hedge funds. The documents are available on IOSCO's website (www.iosco.org) under the heading IOSCO Library, Policy Documents, Public Documents.

3.2.2. IOSCO groups

The CSSF is a member of two IOSCO groups, i.e. the Standing Committee n°1, dealing, among others, with subjects concerning accounting, and the Standing Committee n°5 concerning UCIs and collective management.

- ***Standing Committee n°1 (SC1)***

As member of the permanent committee SC1, the CSSF attends the meetings of the subcommittees on disclosure, accounting, auditing, as well as the implementation of IAS/IFRS. The year 2008 was mainly marked by market turmoil due to the subprime crisis and the liquidity crisis in the banking sector.

In the context of these turbulences, IOSCO's Technical Committee (TC) published a press release in October 2008 supporting the regulatory process of the accounting standards as it is currently structured.

In the same matter, the IASB envisages to set up an Advisory Group which will act as guide during the current credit crisis. The SC1 intends to participate in this group.

The SC1 opined on the changes which the IASB decided to make to the IAS 39 and IFRS 7 standards which would allow the re-classification of certain financial instruments. This would affect the way in which the financial instrument is valued, at fair value or amortised cost and would, at the same time, eliminate certain differences in interpretation between the IFRS standards and the US GAAP standards.

Disclosure Subcommittee

The Technical Committee (TC) asked the subgroup to prepare two documents on asset-backed securities (ABS) by September 2008. The first report analyses recent initiatives in the private sector regarding the improvements of disclosure of private placements of ABS. The second report analyses the applicability of public offerings of ABS in previous IOSCO projects, notably the International Disclosure Principles for Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers. However, the unique nature of ABS securities and of their issuers means that a separate project is required to develop disclosure principles for public offerings of ABS. The target date for completion of this project is June 2009.

The subcommittee will make certain amendments to the periodic disclosure principles by issuers and will submit a final draft in this matter to SC1 by March 2009. The fears and tensions provoked by the subprime crisis led the subcommittee to add another heading to that project, namely the exposure of issuers to market risk associated with their derivative instruments activities.

Auditing

In the field of auditing, the Auditing subcommittee (AuSC) continued its review of the standard-setting activities of the International Auditing and Assurance Standards Board (IAASB) on auditing, including notably the completion of the Clarity project and the amendment of ISA 700.

The subcommittee prepared seven comment letters on the seven last exposure drafts of the IAASB on International Auditing Standards (ISA) using the Clarity format. Similarly to the IAASB, the IESBA (International Ethics Standards Board for Accountants) also undertook a Clarity project aiming to clarify above all the language of the IFAC Code (Ethics and Independence Code of the International Federation of Accountants).

The SC1 members agreed to wait until after completion of the Clarity project for a possible endorsement of the revised ISAs by IOSCO, which would then allow SC1 to comment on the revised standards before submitting the project to the Technical Committee (TC) in February 2009. In order to gather information to use for the preparation of a possible endorsement press release, the SC1 decided to launch a non-public investigation into the use of the ISAs or amended ISAs in IOSCO Member States.

Moreover, the AuSC gave detailed comments on those three documents the Technical Committee (TC) intends to hold a public consultation on during the first half of 2009. The first report is on the expansion of permitted organisational structures for audit firms and the implications on the quality of the audit and the choice of auditor, the second one is on the transparency of those firms which audit public companies and the third report is on communication by auditors.

Accounting

The Accounting subcommittee (ASC) continued to follow the work of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standard Advisory Committee (SAC). Moreover, the ASC observed the work of six working groups of the International Accounting Standards Board (IASB), namely the Financial Instruments Working Group, the Insurance Working Group, the Joint International Group on Performance Reporting, the Extractive Activities, the Lease Accounting and the Employee Benefits.

IFRIC's two main projects are D23 (Distributions of Non-cash Assets to Owners) and D24 (Customer Contributions). Between June 2007 and July 2008, IFRIC examined 22 calls for an official IFRIC interpretation. One call led to an official interpretation. 19 calls were rejected and two are currently still in progress (D21 "Real Estate" and D22 "Hedges in a net investment in a foreign operation").

One SC1 representative participates in the XBRL Advisory Council of the IASB. One of the questions raised in this forum is on how to treat national XBRL versions given the countries' different taxonomies.

One SC1 member also takes part in the IASB Expert Advisory Panel on fair value, particularly when the markets are not or no longer active.

Finally, the ASC has issued comment letters on the following documents:

- exposure draft on proposed annual improvements of IFRS;
- exposure draft on IAS 33 simplifying the basis for the calculation of per-share profit;
- exposure draft amending IFRS 5 on discontinued transactions;
- exposure draft making additional exemptions to first time applications (FTA);
- exposure draft on joint arrangements,
- proposed amendments to IAS 39, regarding in particular underlying derivatives and re-classification of financial instruments;
- proposed amendment to IFRS 1 and IAS 27;
- proposed amendment to IFRS 2 and IFRIC 11;
- discussion paper on financial instruments with characteristics of equity aiming to reduce the complexity in accounting of financial instruments;
- preliminary views on amendments to IAS 19 (Employee Benefits);
- discussions on the first and second part of the review of the IASC Foundation's constitution.

Lastly, with ASC's help, the SC1 drew up a document on which IOSCO's public statement should be based on urging publicly traded companies to provide investors with clear and accurate information on the accounting standards used in the preparation of their accounts, even more so where those differ from IFRS as issued by the IASB.

- ***Standing Committee n°5 (SC5)***

The CSSF is a member of the permanent committee SC5 Investment Management which dealt with the following topics in 2008: Point of Sale Disclosure to Retail Investors, Funds of Hedge Funds, CIS Investment Managers' Due Diligence, Sovereign Wealth Funds, Private Equity Conflicts of Interest, Exchange Traded Funds, Real Estate Funds, Soft Commission Arrangements for CIS, Valuation of CIS Portfolio Securities and SC5 Strategic Priorities.

IOSCO published the following documents in 2008:

- the Subprime Crisis report in May 2008;
- the final report on Private Equity in June 2008;
- Review of the Regulatory Issues Relating to Real Estate Funds in June 2008;
- the Report on Funds of Hedge Funds in June 2008;
- the final report "An Experiment within the Technical Committee Standing Committee on Investment Management to establish a Framework for Identifying Strategic Priorities" in June 2008;
- the report "An Overview of the Work of the IOSCO Technical Committee" in July 2008;
- the report "Proposed Elements of International Regulatory Standards on Funds of Hedge Funds Related Issues Based on Best Market Practices" in October 2008.

The documents are available on IOSCO's website (www.iosco.org) under the heading IOSCO Library, Policy Documents, Public Documents.

In addition, the CSSF attended the following IOSCO public hearings: "Hearing with experts of the ETF industry" in Madrid in March 2008 and "Hearing with representatives of the Asian asset management industry with regard to the SC5 priorities in the short term (in particular Point of Sale Disclosure to Retail Investors and Investment Managers' Due Diligence)" in Shanghai in November 2008.

3.3. The Financial Action Task Force (FATF) in the fight against money laundering and terrorist financing

The CSSF participates in the FATF's plenary meetings together with the other Luxembourg authorities competent for the fight against money laundering and terrorist financing. The CSSF is also represented in the working group in charge of dealing with specific matters in the fight against money laundering and terrorist financing.

The FATF is an inter-governmental body whose purpose is the setting-up of international standards and the development and promotion of international policies to combat money laundering (AML) and terrorist financing (TF), both at national and international level. It was set up in July 1989 at the Paris summit of the Group of Seven (G7) in order to analyse and develop measures to combat money laundering. In October 2001, its mandate was widened to add the fight against terrorist financing to the fight against money laundering. Since its establishment, the FATF has operated on mandate limited in time as it requires a specific decision by the working group to proceed. The FATF's current mandate (2004-2012) was revised at half-term in 2007-2008. The revised version was confirmed during a meeting of Ministers in April 2008.

The FATF's priority is to universally guarantee, on the one hand, measures to combat money laundering and terrorist financing and, on the other, the practical application of its 40+9 Recommendations. Thus, the FATF checks countries' progress, starting with its members, in the implementation of AML/TF standards, it reviews techniques of money laundering and terrorist financing as well as measures used in the fight against these phenomena and encourages the universal application of the 40+9 Recommendations.

3.4. AML/CFT Expert Group

The CSSF is represented within the AML/CFT Expert Group, a working group on anti-money laundering, created within the Bank for International Settlements (B.I.S.). The group is responsible for monitoring AML/CFT issues that have a bearing on banking supervision.

3.5. Enlarged contact group "Undertakings for collective investment"

The CSSF participated in the annual meeting of the group, which was held from 1 to 3 October 2008 in Vienna. The subjects discussed were the following: questions relating to prudential supervision, conflicts of interest/code of conduct, legal issues, financial issues, reporting and disclosure, management and administration of investment funds, UCITS and special investment funds.

3.6. *Institut Francophone de la Régulation Financière* (IFREFI)

The *Institut Francophone de la Régulation Financière* (IFREFI, Francophone institute for financial regulation), gathering the financial markets regulatory authorities of 16 French-speaking countries (Algeria, Belgium, Bulgaria, Cameroon, France, Guinea, Luxembourg, Moldavia, Monaco, Morocco, Quebec, Rumania, Switzerland, Tunisia, the West African Monetary Union, the Economic and Monetary Community of Central Africa) was created in 2002 by a charter. IFREFI is a flexible structure of co-operation and dialogue and aims at furthering the exchange of knowledge and experience, drawing up studies and exchanging essential information relating to the financial markets between the Member States of the Institute. According to the charter, IFREFI also aims at promoting professional training by organising training seminars on specific topics.

The annual meeting of IFREFI chairmen, which took place in Monaco on 4 April 2008, dealt with the means which supervisory authorities have in terms of personnel and financial resources. A progress report was made on recruitment and status of personnel, remuneration systems and financing of activities. The subprime crisis was also touched upon. It can be pointed out that the meeting was preceded by a seminar on information linked to collective savings products.

During this annual meeting, the Belgian *Commission bancaire, financière et des assurances* (CBFA) was elected to preside IFREFI and the *Conseil régional de l'épargne publique et des marchés financiers* (CREPMF) of the West African Monetary Union has taken on the vice-presidency.

Agents hired in 2008 and 2009 - Departments “General Supervision”, “Supervision of banks” and “Supervision of UCIs”

First row, left to right: Alain CLEMENS, Blandine CAEIRO ANTUNES, Annick DENNEWALD, Rudy STRANEN, Yves FISCHBACH

Second row, left to right: Paul-Marie MAJERUS, Thomas WEBER, Gilles KARELS, Claude LEY, Anne DIEDERICH, Tom UNGEHEUER

Absent: Mireille REISEN



CHAPTER XII

BANKING AND FINANCIAL LEGISLATION AND REGULATIONS

1. Directives under discussion at Council level

2. Directives adopted by the Council and the European Parliament but not yet implemented under national law

3. Laws passed in 2008

1. DIRECTIVES UNDER DISCUSSION AT COUNCIL LEVEL

The CSSF participates in the groups examining the following proposals for Directives.

1.1. Proposal for amendment of Commission Directives 2006/48/EC and 2006/49/EC according to the comitology procedure

The proposals for amendment dated September 2008 of Directives 2006/48/EC and 2006/49/EC according to the comitology procedure cover a series of technical provisions of the two Directives in question.

The proposals for amendment of Directive 2006/48/EC include in particular:

- a widening of the principles of prudent management as regards the granting of loans over exposures in a securitisation in the context of the second pillar;
- a widening of the application of preferential weighting for short term exposures in the standard credit risk approach with reference, henceforth, to residual maturity as opposed to original maturity;
- technical details relating to exposures in the form of leasing;
- application of the threshold relating to capital requirements for credit risk of a credit institution using a value-at-risk model as internal rating approach for equity exposures at portfolio level and no longer security by security;
- technical detail in relation to credit risk mitigation techniques and in particular as regards the partial recognition of UCIs partly investing in non-eligible securities;
- details regarding the definition of transfer of significant risk exposure in the context of a securitisation.

The following detail is envisaged to be laid down as regards Directive 2006/49/EC:

- treatment of credit derivatives held in the trading book;
- weighting of specific risk of the trading book positions.

Member States shall transpose the Directives by 31 October 2010 and the relevant provisions shall be applicable from 31 December 2010.

1.2. Proposal for amendment of Commission Directives 2006/48/EC and 2006/49/EC according to the co-decision procedure

The aim of Directive 2006/48/EC and Directive 2006/49/EC on capital adequacy is to guarantee financial soundness of banks and investment firms. They set the minimal amount of owns funds that credit institutions and investment firms are required to hold in order to cover their risks. The current proposal for a Directive seeks to readjust several provisions following the lessons learnt from the subprime crisis and to update other provisions depending on the needs of the financial system as a whole.

The main proposed changes are:

- amendment of the regulation on large exposures as regards the interbank market: the new regulation on large exposures will further limit banks in their loans and their investments with other banks;
- change to the own funds regime: the draft Directive seeks to determine clear criteria, at Community level, which allow to assess to what extent "hybrid" instruments, which include characteristics of both equity and debt, are eligible as own capital;
- improvement of liquidity risk management: for those banking groups which have a presence in several countries of the European Union, liquidity risk management will be subject to control and

coordination within "colleges of supervisors"; these provisions are a result of the works of the Basel Committee on Banking Supervision and the Committee of European Banking Supervisors as regards liquidity risk management;

- drawing up of stricter rules as regards risk management of securitised instruments: those institutions which securitise or re-securitise loans in order to offer them as negotiable instruments (the "initiators") shall maintain a part of the risk which results from the exposure to such instruments whereas those institutions which invest in such instruments can only take such decision following proof of all required diligence.

Member States shall transpose the Directive by 31 October 2010 and the relevant provisions shall be applicable from 1 January 2011.

1.3. Proposal of Directive regarding the taking up, pursuit of and prudential supervision of the business of electronic money institutions, amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2006/46/EC

The proposal updates the provisions of the Directive on electronic money, in particular as regards the prudential supervision of electronic money institutions, in order to harmonise it with that of payment institutions pursuant to Directive 2007/64/EC on payment services in the internal market. The aim of this proposal is to allow the setting-up of new innovative and secure services of electronic payment, to open the market to new players and to favour a real and efficient competition between all players in the market. Given the wish to achieve harmonisation with the Directive on payment services in the internal market, the current Directive on electronic money shall be repealed and replaced by the new Directive which shall be drawn from this proposal.

1.4. Proposal of Regulation on credit rating agencies

In November 2008, the European Commission presented a draft Regulation on credit rating agencies which is currently under discussion in the Council by the Member States. Those rating agencies which, until today, had the choice whether or not to comply with the code of conduct of the International Organisation of Securities Commissions (IOSCO), have a strong influence on the price of credit through papers they issue and have been exposed to severe criticism in the context of the international financial crisis.

It is for this reason that, in October 2007, at the occasion of the adoption of a series of conclusions on crisis management, the Finance Ministers of the European Union proposed to assess in particular what role rating agencies play and to remedy potential failings. The proposal of Regulation which stems from this analysis aims to restore confidence in credit rating agencies. To this end, these agencies shall:

- register with the competent authorities in the Member States and subject themselves to the supervision by such authorities;
- adapt their internal governance models in accordance with the provisions of the Regulation in order to better manage and, as far as possible, to avoid conflicts of interest; and
- disclose their risk assessment methods in order to allow banks and other sophisticated investors to assess the soundness of the methods used by the rating agencies and to thus strengthen market discipline. The rating agencies shall keep their methods used up-to-date and review them regularly.

The directly applicable text is expected to come into force in the Member States in 2010.

1.5. Proposal of Directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

On 16 July 2008, the European Commission presented a revised UCITS Directive which will lead to the adoption of what is commonly referred to as the "UCITS IV Directive". The UCITS IV text was adopted by the European Parliament on 13 January 2009 and will be adopted by the Council of the European Union in April/May 2009. The Directive will come into force no later than 1 July 2011.

The main amendments introduced by the UCITS IV Directive apply to the following six areas:

a) Passport for management companies

The UCITS IV Directive offers the possibility for a management company set up in one Member State to remotely manage a UCITS established in another Member State.

b) Notification procedure

The UCITS IV Directive modernises and improves the rules relating to the notification procedure for UCITS. The new notification procedure will be in the form of an electronic notification between authorities. Thus a UCITS has to submit a file to its home state authority which verifies if the file is complete and then sends it on to the host state authority within maximum ten business days after reception. The home state authority will inform the UCITS that the file has been forwarded and the UCITS can, from that moment on, commence distribution in the host Member State.

c) Merger of UCITS

The UCITS IV Directive intends to simplify merger procedures for UCITS, both at national and international level. Thus, where the merger requires an investor vote, the threshold for approval of the merger should not exceed 75% of the votes of investors present or represented.

d) Master/Feeder funds

Pursuant to the UCITS IV Directive, both feeder funds and master funds will, in future, benefit from the UCITS status as laid down in the Directive. A UCITS feeder fund has to invest at least 85% of its assets in a master fund. A UCITS master fund has to have at least one feeder fund and cannot itself be a feeder fund. Both the master and the feeder funds can be managed by the same management company.

e) Key Investor Information

The simplified prospectus, which was introduced by the UCITS III Directive, will be replaced by the Key Investor Information (KII) containing significant information on the UCITS. The document is to be brief and written in non-technical language. It may be translated and used without amendment or supplement in all Member States in which the UCITS is distributed. The UCITS IV Directive expects the European Commission to adopt the level 2 implementation measures.

f) Co-operation between supervisory authorities

The UCITS IV Directive intends to strengthen cooperation between prudential supervisory authorities. It also lays down that agents of the supervisory authorities in one Member State can, in certain conditions, undertake or participate in on-site inspections at the premises of entities in another Member State.

2. DIRECTIVES ADOPTED BY THE COUNCIL AND THE EUROPEAN PARLIAMENT BUT NOT YET IMPLEMENTED UNDER NATIONAL LAW

This section summarises those Directives adopted by the Council and the European Parliament but not yet implemented under national law and which are of interest to the CSSF's supervisory missions.

2.1. Directive 2006/43/EC of 17 May 2006 on statutory audit of annual accounts and consolidated accounts and amending Council Directives 78/660/EEC and 83/349/EEC (modernised eighth Directive)

Directive 2006/43/EC establishes rules for Member States concerning the statutory audit of annual and consolidated accounts. In this context, the Member States shall set in place effective public oversight systems of statutory auditors and audit firms.

A draft law proposing to transpose the Directive into Luxembourg law was submitted to the *Chambre des Députés*. It designates the CSSF as authority for public oversight of the audit profession. In accordance with Article 57 of the draft law, the public oversight system in place shall take final responsibility in relation to:

- the attribution of the professional qualification of *réviseur d'entreprises* (statutory auditor) and *cabinet de révision* (audit firm);
- the approval and registration of statutory auditors and audit firms;
- the registration and oversight of third country auditors and audit entities;
- maintaining and publishing the public register;
- the co-operation with the competent authorities of EU and non-EU Member States;
- the adoption of standards on professional ethics, internal quality control of audit firms and auditing;
- continuing education, quality assurance, investigative systems and disciplinary instructions.

Although the *Conseil d'Etat* has not yet published its advice on this draft law, the CSSF has, in advance, set up a new department responsible for public oversight of the audit profession, in order to be operational when the law comes into force.

The transitional period was used to:

- undertake preparatory work on the setting-up of a public register, the idea being to acquire adequate software allowing to keep the data up-to-date and communicate it to third parties;
- list the supervisors of issuers in third countries;
- update quality control work programmes originally drawn up by the *Institut des Réviseurs d'Entreprises* (institute of auditors): as a matter of fact, given that a large number of international audit standards have been amended and new standards published by IFAC, it was deemed useful to integrate these provisions into existing procedures, knowing that some of these changes will not come into force until 15 December 2009;
- participate in and collaborate with international groups.

2.2. Directive 2006/46/EC of 14 June 2006 amending Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings

This Directive was discussed in detail in the CSSF's Annual Report 2006.

2.3. Directive 2007/64/EC of 13 November 2007 on payment services in the internal market

This Directive was discussed in detail in the CSSF's Annual Report 2007.

A draft law aiming to transpose the Directive into Luxembourg law has been submitted to the *Chambre des Députés*.

2.4. Directive 2009/14/EC of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay

The Directive raises the minimum coverage level for deposits from EUR 20,000 to at least EUR 50,000. The minimum coverage level for deposits shall be fixed at least at EUR 100,000 no later than 31 December 2010, unless a European Commission impact assessment, to be submitted to the European Parliament and the Council by 31 December 2009, concludes that such a raise and such harmonisation are inappropriate and are not financially viable for all Member States in order to ensure consumer protection and financial stability within the European Union. The European Commission shall then submit a proposal for amendment of the Directive to the European Parliament and to the Council.

The Directive further reduces the time frame for deposit-guarantee schemes to reimburse depositors in case of bankruptcy of a bank within 20 working days with the option to apply for an exceptional extension of ten working days (previously it was three months with a possible extension of up to nine months).

In Luxembourg, the law of 19 December 2008 on the budget for State expenditure and receipts for the financial year 2009 already raised the minimum coverage level for deposits to EUR 100,000.

3. LAWS PASSED IN 2008

3.1. Law of 11 January 2008 on transparency requirements for issuers of securities

Grand-ducal regulation of 11 January 2008 on transparency requirements for issuers of securities, transposing Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of 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

The law as well as the Grand-ducal regulation which complements it were discussed in detail in the CSSF's Annual Report 2007.

3.2. Law of 17 July 2008 relating to acquisitions in the financial sector

This law transposes into Luxembourg law the provisions relating to Directive 2007/44/EC of 5 September 2007 amending Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. The law lays down a detailed procedure which the CSSF has to apply in its prudential assessment of acquisitions and increase of holdings in entities in the financial sector and fixes five different evaluation criteria that have to be respected, i.e. professional reputation of the proposed acquirer, reputation and professional experience of those who will direct the business after the acquisition, financial soundness of the proposed acquirer, ongoing compliance with the sectoral prudential requirements, suspicion of money laundering or terrorist financing.

The law of 17 July 2008 not only establishes the time limits for the prudential assessment but also the interim dates to be observed by the potential acquirers and the CSSF. The law provides a maximum assessment period of 60 working days. The law entered into force on 21 March 2009.

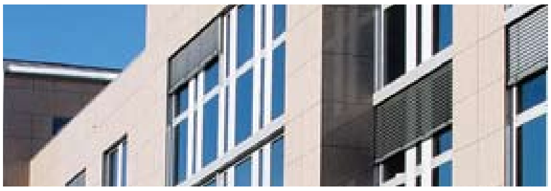
3.3. Law of 17 July 2008 on the fight against money laundering and terrorist financing

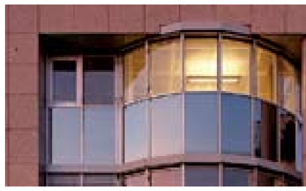
The law is described in more detail under point 3. of Chapter X "General Secretariat" as well as in Circular CSSF 08/387 on combating money laundering and terrorist financing and the prevention of the use of the financial sector for the purpose of money laundering and terrorist financing.

3.4. Law of 24 October 2008 improving the legislative framework of the Luxembourg financial centre

The law of 24 October 2008 amends in particular certain provisions which apply to mortgage bonds as well as the law on investment companies in risk capital (SICAR) in order to reflect acquired experience and to take into account the needs of the industry.

A detailed description of the changes relating to mortgage bonds is available under point 1.12. of Chapter I "Supervision of the banking sector". The changes made to the legal framework applicable to SICARs have been set out in detail under point 2.1. of Chapter IV "Prudential supervision of SICARs".





CHAPTER XIII

INTERNAL ORGANISATION OF THE CSSF

1. FUNCTIONING OF THE CSSF

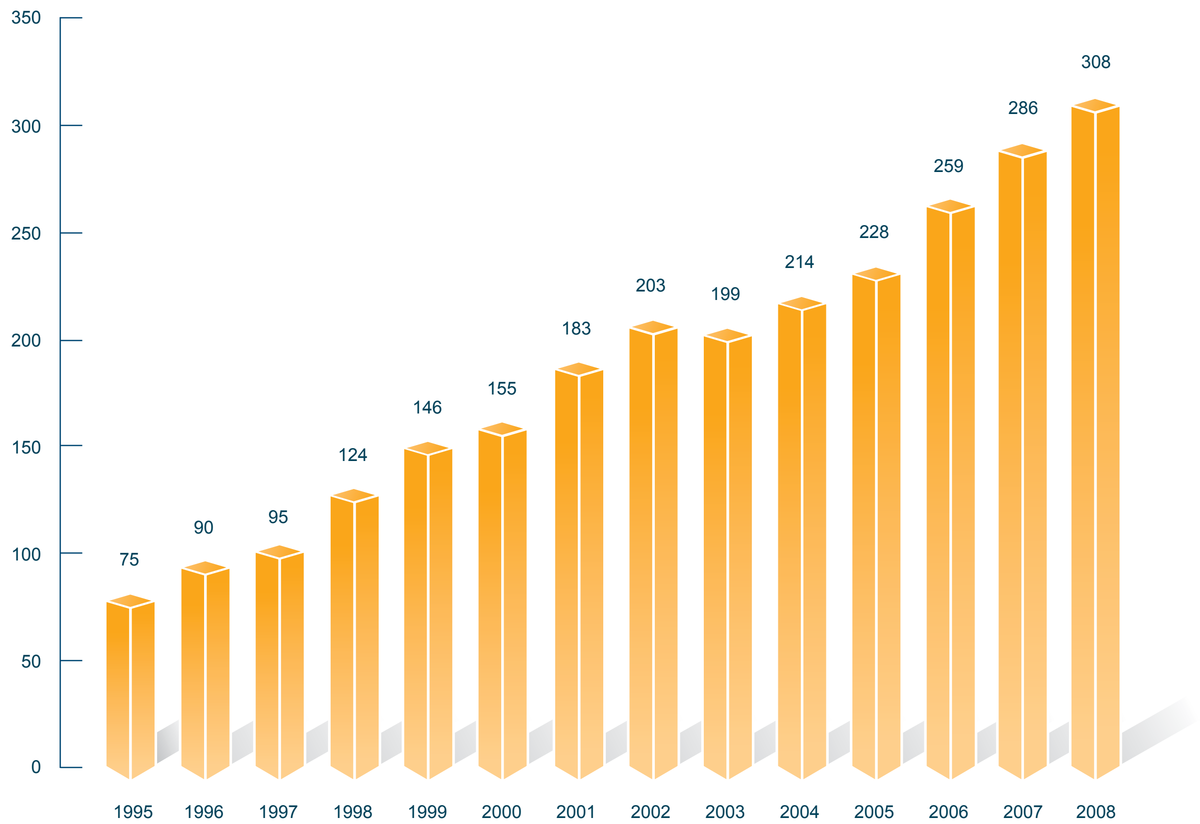
The CSSF's administrative and management organisation is described in detail in the sub-section "Corporate governance and functioning" of the CSSF website (www.cssf.lu, section "About the CSSF").

2. HUMAN RESOURCES

In order to increase its staff the CSSF held two competitive examinations for the *carrière supérieure* in 2008. Following the first competitive examinations held on 15 March 2008, 14 agents were hired in the summer 2008 and the competitive examinations of 25 October 2008 allowed hiring 5 agents at the beginning of 2009.

Moreover, the CSSF hired 12 agents as *employé de l'Etat*. Following the departure of 4 agents during 2008, the CSSF had 308 staff members as at 31 December 2008, representing 277.85 full-time positions.

Movements in staff numbers (at the end of the year)



In addition to the training programme offered to the new trainee agents, the CSSF staff attended 154 different seminars for continuous training. 43% of these training sessions focused on economic and financial matters, 30% on IT and office automation, 9% on personal development and 18% concerned management, languages and security.

899 participations in training sessions were recorded in 2008. The CSSF staff counted a total of 858 training days, representing an average of three days of training per agent.

3. IT SYSTEMS

The CSSF's IT department is in charge of installing, maintaining and developing the CSSF's internal IT infrastructure as well as managing the electronic reporting of supervised entities.

Following the preparation works in 2007 for the implementation of the new COREP and FINREP reporting schemes, the banks started transmitting the files in XBRL format to the CSSF from February 2008. The number of faulty files (wrong format or other mistakes) greatly decreased during the year; nevertheless, the team in charge of the reception of the reporting continues to be vigilant.

Since September 2008, the PFS reporting is also transmitted in electronic format *via* electronic transmission channels authorised by the CSSF. All the files are encrypted and signed with a Luxtrust certificate. As from January 2009, SICARs must also use these channels for their reporting. Since the beginning of 2008, 550 entities had to change their method for the transmission of data by using a new encryption technology. Needless to say, this change generated significant work even before the first file was received.

The development teams dealt with the adaptations to be made to the CSSF internal systems in order to include the new reporting schemes for PFS and SICARs. A common interface allows independence from the format used for the various reportings, which are currently XBRL, XML or XLS depending on the complexity of the data to be received.

The reporting of the financial transactions according to the MiFID Directive, implemented in November 2007, has been changed in order to take into account the introduction of an alternative identification code of the instruments (AII).

Regarding UCIs, the exchange of prospectuses submitted to the CSSF for approval is now performed electronically. The CSSF electronically stamps and signs the documents. This process was integrated in the document management tools used at CSSF level.

The IT operating team is in charge of the IT installations for all CSSF agents, some of whom have moved a few months ago to a second building located in *rue des Aubépines*. Consequently, the IT installation and the switchboard were extended, since the new building is equipped with IP phones.

Updates of the storage and archiving systems are in progress in order to prepare the CSSF's infrastructure to the significant growth in data volume which is expected for the years to come.

4. STAFF MEMBERS (AS AT 1 MARCH 2009)

MANAGEMENT

Director General	Jean-Nicolas Schaus
Directors	Arthur Philippe, Simone Delcourt
Executive secretaries	Joëlle Deloos, Karin Frantz, Marcelle Michels, Monique Reisdorffer
Employee	Francis Fridrici
Internal audit	Marie-Anne Voltaire
Director General's advisors	Jean-Marc Goy, Geneviève Pescatore, Marc Weitzel
IT coordination	Emile Bartolé
Systems security	Constant Backes, Marco Valente

GENERAL SUPERVISION

Head of function	Claude Simon
Deputy head	Romain Strock

Division 1 - International and policy department

Head of division	Romain Strock
	Ngoc Dinh Luu, Nadia Manzari, Vincent Thurmes, Pierre van de Berg, Karin Weirich

Division 2 - Accounting, reporting and audit

Head of division	Danièle Goedert
	Ana Bela Ferreira, Marguy Mehling, Christina Pinto, Diane Seil, Stéphanie Weber

Division 3 - Special functions

	Didier Bergamo, Alain Hoscheid, Gilles Jank, Ronald Kirsch, Nicole Lahire, Marco Lichtfous, Paul-Marie Majerus, Joëlle Martiny, Pierrot Rasqué, Edouard Reimen, Davy Reinard, Joé Schumacher, Claude Wampach
Secretary	Micheline de Oliveira

DEPARTMENT SUPERVISION OF BANKS

Head of department	Frank Bisdorff
Deputy head of department	Ed. Englaro

Division 1 - Supervision of credit institutions 1

Head of division	Ed. Englaro
	Anouk Dondelinger, Françoise Jaminet, Isabelle Lahr, Claude Ley, Jean Ley, Jacques Streweler

Division 2 - Supervision of credit institutions 2

Head of division	Jean-Paul Steffen
	Alain Clemens, Joan De Ron, Annick Dennewald, Jean-Louis Duarte, Jean Mersch, Michèle Trierweiler, Alain Weis

Division 3 - Supervision of credit institutions 3

Head of division	Nico Gaspard
	Marco Bausch, Jean-Louis Beckers, Blandine Caeiro Antunes, Françoise Daleiden, Gilles Karels, Claude Moes, Stéphanie Nothum

Division 4 - Supervision of credit institutions 4

Head of division	Patrick Wagner
	Carlos Azevedo Pereira, Monica Ceccarelli, Steve Polfer, Marina Sarmento, Yves Simon, Claudine Tock, Thomas Weber
General studies and issues	Marc Wilhelmus
Statistics and IT issues	Claude Reiser
Secretaries	Michèle Delagardelle, Steve Humbert, Claudine Wanderscheid

DEPARTMENT SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

Head of department	Irmine Greischer
Deputy heads of department	Claude Steinbach, André Schroeder, Jean-Paul Heger
IT systems	Nico Barthels, Danièle Christophory

General organisation - Practical studies and specific aspects - Management and operation of databases

Claude Steinbach

Practical studies and specific aspects

Alain Bressaglia, Mireille Reisen, Christiane Streef

Management and operation of databases

Head of division	Jolanda Bos
	Adrienne André-Zimmer, Marie-Louise Baritussio, Patrick Bariviera, Stéphanie Bonifas, Christiane Cazzaro, Nicole Grosbusch, Claude Krier, Danielle Neumann, Géraldine Olivera, Evelyne Pierrard-Holzem, Sabine Schiavo, Marc Schwalen, Claudine Thielen, Nadja Trausch, Suzanne Wagner

Instruction and supervision of UCIs and management companies

Coordination of Divisions 1 to 6 Jean-Paul Heger

Division 1 - UCIs

Head of division	Anica Giel-Markovinovic
	Yves Fischbach, Paul Hansen, Patricia Jost, Marc Siebenaler, Alain Strock, Daniel Wadlé, Claude Wagner, Nathalie Wald, Alex Weber

Division 2 - UCIs

Head of division	Charles Thilges
	Yolanda Alonso, Nathalie de Brabandere, Claude Detampel, Joël Goffinet, Dominique Herr, Sophie Leboulanger, Francis Lippert, Nathalie Reisdorff, Diane Reuter, Christel Tana

Division 3 - UCIs

Head of division	Ralph Gillen
	Isabelle Dosbourg, Michel Friob, Martin Mannes, Carine Peller, David Phillips, Laurent Reuter, Daniel Schmitz, Roberta Tumiotto, Michèle Wilhelm, Florence Winandy

Division 4 - UCIs

Head of division	Francis Gasché
	Leonardo Brachtenbach, Marie-Rose Colombo, Anne Diederich, Serge Eicher, Nicole Gengler, Martine Kerger, Robert Köller, Thierry Quaring, Marc Racké, Pascale Schmit, Rudy Stranen

Division 5 - UCIs

Head of division	Guy Morlak
	Géraldine Appenzeller, Nathalie Cubric, Marc Decker, Jean-Claude Fraiture, Damien Houel, Jean-Marc Lehnert, Gilles Oth, Pierre Reding

Division 6 - Authorisation and supervision of management companies

Head of division	Pascal Berchem
	Anne Conrath, Pascale Felten-Enders, Anne-Marie Hoffeld, Roberto Montebrusco, Eric Tanson

Legal and economic aspects	André Schroeder
	Jacqueline Arend, Angela De Cillia, François Hentgen, Joëlle Hertges, Laurent Mayer, Fabio Ontano, Christian Schaack, Tom Ungeheuer
Secretaries	Sandy Bettinelli, Sandra Ghirelli, Carole Hessler, Simone Kuehler, Sandra Preis

DEPARTMENT SUPERVISION OF THE OTHER PROFESSIONALS OF THE FINANCIAL SECTOR

Head of department	Sonny Bisdorff-Letsch
Deputy head of department	Denise Losch
	Gérard Brimeyer, Carlo Felicetti, Céline Gamot, Simone Gloesener, Michel Kohn, Sylvie Mamer, Anne Marson, Claudia Miotto, Carole Ney, Luc Pletschette, Christian Schroeder, Mariette Thilges
Secretary	Emilie Lauterbour

GENERAL SECRETARIAT

Head of department	Danièle Berna-Ost
Deputy head of department	Danielle Mander
	Carmela Anobile, Carine Conté, Natasha Deloge, Jean-François Hein, Nadine Holtzmer, Patrick Hommel, Benoît Juncker, Iwona Mastalska, Catherine Phillips, Danijela Stojkovic, Christiane Trausch, Anne Wagener
Secretary	Steve Humbert

DEPARTMENT SUPERVISION OF SECURITIES MARKETS

Head of department	Françoise Kauthen
Deputy head of department	Annick Zimmer
Legal issues and takeover bids	Marc Limpach

Division 1 - Approval of prospectuses

Head of division	Jean-Christian Meyer
Group 1	Fanny Breuskin, Frédéric Dehalu, Patrick Fricke, Yves Hansen, Paul Lepage, Jim Neven, Jerry Oswald
Group 2	Carine Merkes, Joëlle Paulus, David Schmitz

Division 2 - Approval of prospectuses

Head of division	Gilles Hauben
Group 1	Olivier Ferry, Stéphanie Jamotte, Daniel Jeitz, Julien May, Marc Reuter, Cyrille Uwukuli, Olivier Weins
Group 2	Michèle Debouché, Estelle Gütlein-Bottemer

Supervision of listed companies David Deltgen, Christine Jung, Manuel Roda, Maureen Wiwinius

Inquiries and other functions of supervision of securities transactions

Laurent Charnaut, Giang Dang, Eric Fritz, Andrea Haris, Sylvie Nicolay-Hoffmann, Mendaly Ries, Maggy Wampach

Supervision of persons performing stock exchange activities

Mylène Hengen

Secretaries Sarah Morosi, Marie-Josée Pulcini

DEPARTMENT SUPERVISION OF PENSION FUNDS, SICARS AND SECURITISATION UNDERTAKINGS

Head of department	Christiane Campill
Deputy head of department	Marc Pauly

Authorisation and supervision of pension funds and securitisation undertakings

Arthur Backes, Tom Becker, Cliff Buchholtz, Marc Pauly, Isabelle Maryline Schmit

Authorisation and supervision of SICARs

Daniel Ciccarelli, Josiane Laux, Carole Lis, René Schott, Martine Weber

Secretary Carla Dos Santos

DEPARTMENT SUPERVISION OF IT AND SUPPORT PFS

Head of department	David Hagen
Deputy head of department	Claude Bernard

Division 1

Head of division	Claude Bernard
	Paul Angel, Marc Bordet

Division 2

Head of division	Pascal Ducarn
	Laurent Dohn, Martine Simon

Administration and secretariat Elisabeth Demuth

DEPARTMENT PUBLIC OVERSIGHT FOR THE AUDIT PROFESSION

Head of department	Frédéric Tabak
Deputy head of department	Martine Wagner
	Isabelle Michalak, Agathe Pignon
Secretary	Claude Fridrici

DEPARTMENT ADMINISTRATION AND FINANCE

Head of department	Edmond Jungers
Deputy head of department	Georges Bechtold

Division 1 – Human resources and day-to-day management

Head of division	Georges Bechtold
	Paul Clement, Sergio De Almeida, Raul Domingues, Alain Kirsch, Patrick Klein, Vic Marbach, Ricardo Oliveira

Division 2 – Financial management

Head of division	Jean-Paul Weber
	Tom Ewen, Carlo Pletschette

Secretary	Milena Calzettoni
Switchboard	Yves Bartringer, Nicole Thinnes

DEPARTMENT INFORMATION TECHNOLOGY

Head of department	Jean-Luc Franck
Deputy head of department	Sandra Wagner

Division 1 – Analysis and development

Head of division	Marc Kohl
	Cédric Brandenbourger, Romain De Bortoli, Luc Prommenschenkel, Guy Wagener

Division 2 – Management of databases

Sandra Wagner

Division 3 – Operating systems

Head of division	Guy Frantzen
	Frank Brickler, Jean-Jacques Duhr, Nadine Eschette, Steve Kettmann, Edouard Lauer, Thierry Stoffel

Division 4 – Dataflow management

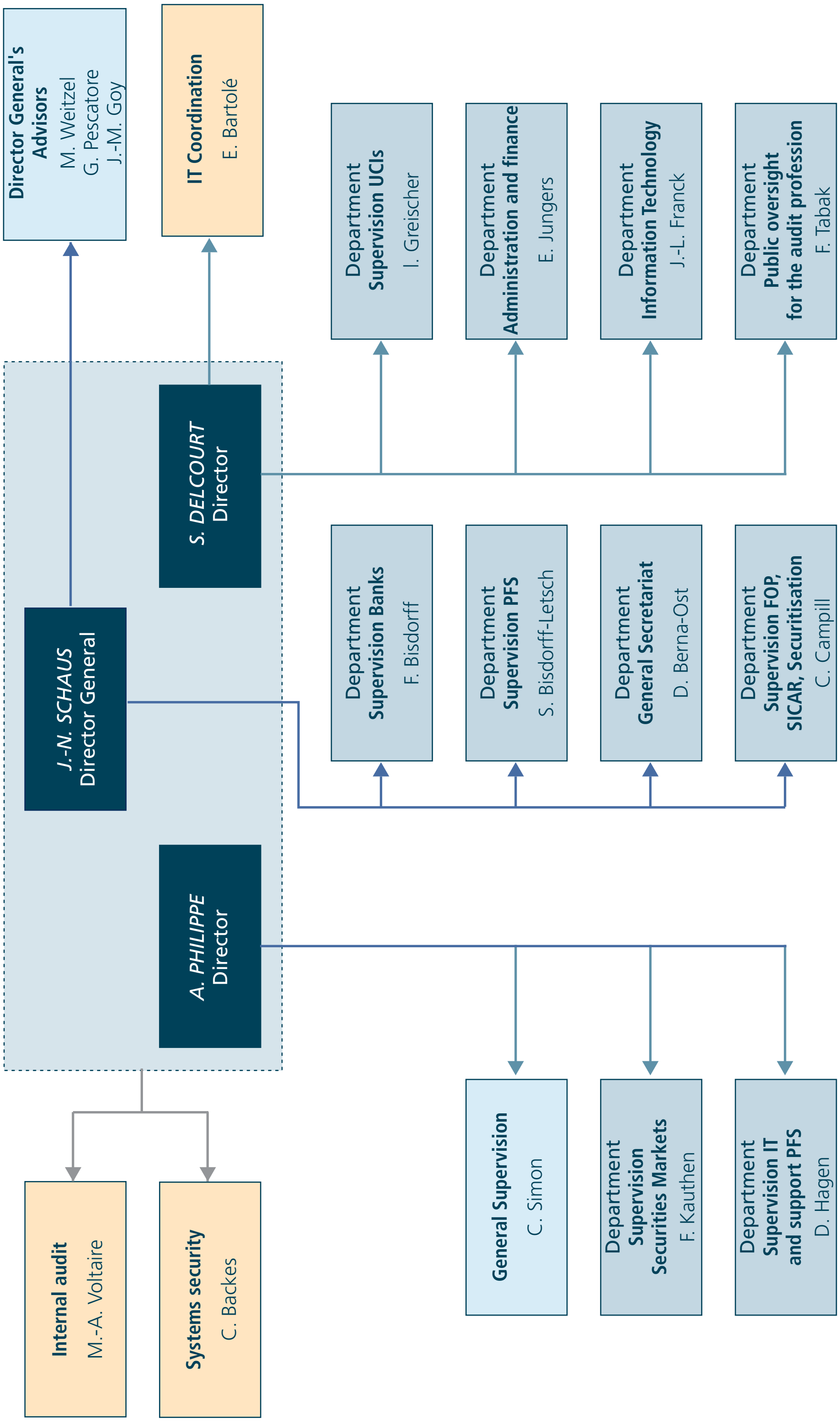
Head of division	Joao Pedro Almeida
	Jean-François Burnotte, Christelle Hutmacher, Karin Proth, Carine Schiltz

Secretary	Christelle Hutmacher

FINANCIAL CONTROLLER

KPMG

ORGANISATION CHART



5. INTERNAL COMMITTEES

Consultative committee for prudential regulation

Chairman	Jean-Nicolas SCHAUS
Members	Simone DELCOURT, Alain FEIS, Rafik FISCHER, Jean GUILL, Michel MAQUIL, Jean MEYER, Jean-Jacques ROMMES, Camille THOMMES
Secretary	Danielle MANDER

Consultative committee Anti-Money Laundering

Chairman	Jean-Nicolas SCHAUS
Members	Claude BIRNBAUM, Pia HAAS, Charles HAMER, Roger HARTMANN, Jean-François HEIN, Jean-Luc KAMPHAUS, Pierre KRIER, Jean-Marie LEGENDRE, François PAULY, Marc PECQUET, Arthur PHILIPPE, Jean-Jacques ROMMES, Thomas SEALE, Claude SIMON, Romain STROCK, Lucien THIEL, Marc WEITZEL, André WILWERT
Secretary	Geneviève PESCATORE

Committee Other Professionals of the Financial Sector

Chairman	Jean-Nicolas SCHAUS
Members	Pierre-Yves AUGSBURGER, Sonny BISDORFF-LETSCH, Freddy BRAUSCH, Jean BRUCHER, Henri DE CROUY-CHANEL, Alain FEIS, Jean FUCHS, Irmine GREISCHER, Didier MOUGET, Jean-Michel PACAUD, Geneviève PESCATORE, Arthur PHILIPPE
Secretary	Denise LOSCH

Committee Banks

Chairman	Arthur PHILIPPE
Members	Stéphane BOSI, Ernest CRAVATTE, Serge DE CILLIA, Jean-Claude FINCK, Charles HAMER, Roger H. HARTMANN, Pierre KRIER, André MARC, Paul MOUSEL, Frédéric OTTO, Philippe PAQUAY, Jean-Nicolas SCHAUS, Claude SIMON, Romain STROCK, Carlo THILL, Klaus-Michael VOGEL, Ernst-Dieter WIESNER
Secretary	Martine WAGNER

Committee Compliance

Chairman	Arthur PHILIPPE
Members	Patrick CHILLET, Alain HONDEQUIN, Jean-Marie LEGENDRE, Jean-Noël LEQUEUE, Thierry LOPEZ, Vafa MOAYED, Didier MOUGET, Marc OLINGER, Jean-Jacques ROMMES, Jean-Nicolas SCHAUS, Claude SIMON, Jean STEFFEN, Romain STROCK, Marie-Anne VOLTAIRE, Marco ZWICK
Secretary	Ronald KIRSCH

Committee Banking Accounting

Chairman	Arthur PHILIPPE
Members	Volkert BEHR, Frank BISDORFF, André-Marie CRELOT, Serge DE CILLIA, Emmanuel DOLLÉ, Doris ENGEL, Carlo LESSEL, Bernard LHOEST, Vafa MOAYED, Carole ROEDER, Daniel RUPPERT, Jean-Nicolas SCHAUS, Thomas SCHIFFLER, Claude SIMON, Romain STROCK, Sylvie TESTA, Alain WEBER
Secretary	Danièle GOEDERT

Committee Company domiciliation

Chairman	Jean-Nicolas SCHAUS
Members	Gérard BECQUER, Carlo DAMGE, Johan DEJANS, Lucy DUPONG, Victor ELVINGER, Guy HARLES, Rüdiger JUNG, Jean LAMBERT, Carlo SCHLESSER, Christiane SCHMIT, André WILWERT, François WINANDY
Secretary	Luc PLETSCHETTE

Committee Pension funds

Chairman	Jean-Nicolas SCHAUS
Members	Freddy BRAUSCH, Christiane CAMPILL, Simone DELCOURT, Jacques ELVINGER, Rafik FISCHER, Fernand GRULMS, Robert HOFFMANN, Claude KREMER, Anne-Christine LUSSIE, Jacques MAHAUX, Olivier MORTELMANS, Geneviève PESCATORE, Arthur PHILIPPE, Jean-Paul WICTOR, Claude WIRION
Secretary	Marc PAULY

Committee Information Technology

Chairman	Simone DELCOURT
Members	Nico BARTHELS, Jean-Luc FRANCK, Damien GHIELMINI, David HAGEN, Marc HEMMERLING, Jean-Luc MARTINO, Claude MELDE, Renaud OURY, Dominique NEMERY, Alain PICQUET, François SCHWARTZ, Bernard SIMON, Dominique VALSCHAERTS, Serge WEBER
Secretary	Emile BARTOLE

Committee Legal experts

Chairman	Jean-Nicolas SCHAUS
Members	Philippe BOURIN, Maria DENNEWALD, Philippe DUPONT, Irmine GREISCHER, André HOFFMANN, Rüdiger JUNG, Jean-Luc KAMPHAUS, Christian KREMER, Jacques LOESCH, André LUTGEN, Yves PRUSSEN, Jean STEFFEN, Romain STROCK, Marc WEITZEL
Secretary	Geneviève PESCATORE

Committee Covered Bonds

Chairman	Arthur PHILIPPE
Members	Janine BIVER, Serge DE CILLIA, Reinolf DIBUS, Thomas FELD, Christophe HAAS, Roby HAAS, Jean-François HEIN, Marc HENRY, Hans-Dieter KEMLER, Hartmut RAHNER, Raymond SCHADECK, Jean-Nicolas SCHAUS, Thomas SCHIFFLER, Hagen SCHMIDT, Claude SIMON, Romain STROCK, Markus THESEN
Secretary	Michèle TRIERWEILER

Committee Securities Markets

Chairman	Arthur PHILIPPE
Members	Danièle BERNA-OST, André BIRGET, Daniel DAX, Serge DE CILLIA, Vincent DECALF, Axel FORSTER, Patrick GEORTAY, Robert HOFFMANN, Philippe HOSS, Françoise KAUTHEN, Claude KREMER, François LENERT, Jean-Nicolas SCHAUS, Richard SCHNEIDER, Jean-Marie SCHOLLER, Christiane SCHON, Claude SIMON, Henri WAGNER, Marco ZWICK
Secretary	Annick ZIMMER

Committee Undertakings for Collective Investment

Chairman	Jean-Nicolas SCHAUS
Members	Freddy BRAUSCH, Simone DELCOURT, Jacques DELVAUX, Jacques ELVINGER, Rafik FISCHER, Jean-Michel GELHAY, Irmine GREISCHER, Joëlle HAUSER, Robert HOFFMANN, Rüdiger JUNG, Georges KOHR, Claude KREMER, Bernard LHOEST, Julian PRESBER, Marc SALUZZI, Gilbert SCHINTGEN, Alex SCHMITT, Thomas SEALE, Claude SIMON, Bernard TANCRE, Camille THOMMES, Dominique VALSCHAERTS, Eric VAN DE KERKHOVE, Paolo VINCIARELLI, Julien ZIMMER, Patrick ZURSTRASSEN
Secretary	Jean-Marc GOY

Committee Support PFS

Chairman	Arthur PHILIPPE
Members	Sonny BISDORFF-LETSCH, Marc BREDEN, Alain DE FRENNE, Jean-Marc FANDEL, David HAGEN, Pierre HENIN, Gérard HOFFMANN, Renaud JAMAR DE BOLSEE, Patrick JOST, Marc LAMESCH, Charles MANDICA, Marcel ORIGER, Geneviève PESCATORE, Yves REDING, Gérard B. RIVOLLIER, Jean-Nicolas SCHAUS
Secretary	Claude BERNARD

Committee SICAR

Chairman	Jean-Nicolas SCHAUS
Members	Freddy BRAUSCH, Christiane CAMPILL, Daniel DAX, Simone DELCOURT, Jacques ELVINGER, Amaury EVRARD, Alain KINSCH, Claude KREMER, Arthur PHILIPPE, Mark TLUSZCZ
Secretary	Daniel CICCARELLI

Committee Securitisation

Chairman	Jean-Nicolas SCHAUS
Members	Christiane CAMPILL, Philippe DUPONT, Philippe HOSS, Christian KREMER, Isabelle LEBBE, Marc LIMPACH, Tom LOESCH, André PRÜM, Alex SCHMITT, Günter SIMON, Tom VERHEYDEN, Henri WAGNER
Secretary	Cliff BUCHHOLTZ

APPENDICES

APPENDICES

1. THE CSSF IN FIGURES

		Prudential supervision						Support departments		Matters of general interest			
	General supervision	Supervision of banks	Supervision of UCIs	Supervision of PFS	Supervision of securities markets	Supervision of pension funds, SICARs and securitisation undertakings	Supervision of IT and support PFS	Administration and Finance	IT systems	Management	Director General's advisors	General Secretariat	**TOTAL**
Letters	485	2,770	15,599	1,071	6,699	1,169	301	807	15	78	265	4,158	**33,417**
Meetings	73	237	201	137*	44	28	138	42	52		148*	4	**1,104**
On-site inspections	64	66	7	4		4	1						**146**
Internal committee meetings													
> Committee Banking Accounting	5												
> Committee SICAR						1							
> Committee Securitisation						2							
> Committee Support PFS							2						
> Committee Information Technology									1				
> Consultative committee Anti-Money Laundering											2		
> Committee Legal experts											4		
> Committee UCIs											2		
> Consultative committee for prudential regulation												4	
National meetings	20		5		14	11	31		6			8	**95**
International meetings	235		7	1	29	7	12		11	7	32	21	**362**
Meetings with homologous authorities		23	6		2						9		**40**
Speeches	11						19			3	4		**37**
Articles published									1			5	**6**

* Including the joint meetings of the departments and functions concerned.

2. THE FINANCIAL CENTRE IN FIGURES

Situation as at 31 December 2008

BANKS

Number	152
Balance sheet total	EUR 930.857 billion
Net profit	EUR 564 million
Employment	27,205 people

UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)

Number	3,371
Number of entities	12,325
Total assets	EUR 1,559.653 billion

MANAGEMENT COMPANIES

Number	189
Employment	2,386 people

PENSION FUNDS

Number	13

INVESTMENT COMPANIES IN RISK CAPITAL (SICAR)

Number	221
Balance sheet total	EUR 19.7 billion

SECURITISATION UNDERTAKINGS

Number	20

OTHER PROFESSIONALS OF THE FINANCIAL SECTOR (PFS)

Number	257
Balance sheet total	EUR 62.676 billion
Net profit	EUR 890.67 million
Employment	13,605 people

Total employment in supervised entities	43,196 people

3. CONTACT TELEPHONE NUMBERS

Commission de Surveillance du Secteur Financier

Address	110, route d'Arlon
	L-1150 LUXEMBOURG
Postal address	L-2991 Luxembourg
Switchboard	26 25 1 - 1
Fax	26 25 1 - 601 (executive board)
	- 603 (general supervision / banks)
	- 604 (UCI)
	- 601 (pension funds, SICAR and securitisation)
	- 606 (securities markets)
	- 607 (PFS)
	- 602 (support PFS / supervision audit profession)
	- 608 (administration)
	- 614 (IT)

The full directory of the CSSF is available on the Internet website under the heading "Contact".

COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

110, route d'Arlon L-2991 LUXEMBOURG

luxembourg.