ANNUAL REPORT 2013

BANQUE CENTRALE DU LUXEMBOURG

EUROSYSTEM

MISSION STATEMENT OF THE BCL

The *Banque centrale du Luxembourg* (BCL) is a public institution created by Luxembourg law. The BCL's independance is based on its organic law, the Treaty on the European Union and the Treaty on the Functioning of the European Union. The BCL is a member of the European System of Central Banks (ESCB) composed of the National Central Banks of all 28 EU Member States and the European Central Bank (ECB).

THE MISSION

The BCL is in charge of managing all the monetary and financial responsibilities granted to it as one of the National Central Banks of the ESCB.

It is also a member of the Eurosystem that gathers the European Central Bank and the National Central Banks of the Member States that have adopted the euro.

At the national level, the Bank has to carry out the tasks imposed on it by the national laws and conventions.

It is developing the following fields of competence:

- Research and studies and their communication thereof, which aim to prepare, on the one hand, monetary policy decisions and, on the other hand, the development of wider knowledge concerning monetary, financial and economic issues;
- Collection and analysis of statistics in the monetary, financial and balance of payments fields;
- Implementation of monetary policy instruments;
- Organisation and supervision of payment and securities settlement systems;
- Issuance and circulation of banknotes and coins;
- Financial asset management, both on own account and for third parties;
- Participation in the prudential supervision of the financial system and the exercise of the oversight of payment and securities settlement systems, in order to ensure the stability of the financial system in Luxembourg;
- Advisory services to legislative and regulatory authorities in financial and monetary areas.

THE VISION

The BCL intends to become a centre of competence, excellence even, whose performance will generate public confidence in the Central Bank.

Among Luxembourg institutions, the BCL takes every care that it is capable of fulfilling all its national, European and international obligations.

In view of the wide variety of its duties and activities, both in the public sector and in a competitive environment, the BCL must generate an income guaranteeing its institutional, functional and financial independence.

CORPORATE VALUES

Consequently, the values associated with its action are:

- Professionalism, guaranteed by highly specialised employees, high-performance tools and a high-level infrastructure;

- Quality in all its services;

- Stability provided by its long term vision of all its activities;

- Objectivity resulting from the establishment of precise rules that are equally applied;

- Integrity, guaranteed by the transparency of its internal operations and with respect to professional ethics.

TABLE OF CONTENTS

THE GOVERNOR'S MESSAGE[1]

1 Finalised mid-April 2014.

In 2013 the euro area experienced a fragile economic recovery, which started in the second quarter, and inflationary pressures were substantially lower compared to the year before. The transmission of the Eurosystem's monetary policy has, to a certain extent, improved due to a receding financial fragmentation.

Against this backdrop, the Governing Council decided to reduce the interest rate on the main refinancing operations twice to the historically low level of 0.25% and to extend the fixed rate tender procedures with full allotment for the main refinancing operations at least until mid-2015.

In July the Governing Council, for the first time, provided forward guidance on the direction of the key interest rates of the European Central Bank (ECB), indicating that these rates would remain at their current or lower levels for an extended period of time. This decision aimed to reinforce the message that the ECB would continue its accommodative stance with regard to its monetary policy in the euro area and, hence, to help anchor market expectations in this respect. The guidance provided by the Governing Council is in line with the overall subdued outlook for inflation over the medium term.

The year 2013 also witnessed major advances in the area of banking supervision and economic governance. On 15 October, the Council of the European Union adopted the Regulation establishing the Single Supervisory Mechanism (SSM). This mechanism, which will place the monitoring of credit institutions in the euro area and other EU countries that wish to join under the aegis of the ECB, will enter into force on 4 November 2014.

Before assuming its new role as supervisor, the ECB initiated a comprehensive assessment of 128 banks considered to be important from a systemic risk point of view. These banks, six of which are located in Luxembourg, represent about 85% of the banking system of the euro area. This exercise aims to increase the transparency of banks' balance sheets, to strengthen banks that would prove to be undercapitalised and, thus, to reinforce confidence in the banking system.

A new series of euro banknotes, the «Europa» series, also was launched in 2013. This series, whose first note, that of 5 euro, started to be circulated throughout the euro area on 2 May 2013, has new features which ensure improved security. Other denominations will be announced and introduced over time, in principle annually.

At the national level, 2013 has been marked by a cyclical upturn. While economic growth in the euro area continued to contract in 2013, the national accounts published in early April 2014 indicate that the Gross Domestic Product (GDP) in volume terms grew by 2.1 % in Luxembourg (compared to -0.2 % in 2012). However, while the Luxembourg economy continued to generate jobs at an annual rate of around 2%, the unemployment rate continued to increase, reaching a little over 7 % at the end of the year. The national inflation rate, as measured by the National Consumer Price Index (NCPI), reached an annual average of 1.7 % in 2013, well below the average annual rate of 2.7% the year before. The average annual inflation rate measured by the Harmonised Index of Consumer Prices (HICP) also reached 1.7% in 2013 against 2.9% in 2012. By way of comparison, the average annual inflation rate measured by the HICP for the euro area stood at 1.4% in 2013 compared to 2.5% in 2012.

Regarding public finances, the Luxembourg public administrations presented a very small surplus in 2013 according to the latest data published. A large surplus of 1.5% of GDP, which is generated by social security, continued to compensate for the large deficit of the central government (the latter reaching 1.6% of GDP in 2013). The updated data should not fundamentally change this assessment. Hence, fiscal consolidation efforts are needed, especially in light of the loss of tax revenue linked to electronic commerce from 2015 onward and the expected deterioration of the pension system accounts over the medium term. In addition, given the decline of the Luxembourg economy's potential growth and the strong increase in unit labour costs over the last decade, the implementation of reforms to improve the competitiveness of the Luxembourg economy is needed. Such reforms must be performed with equity and solidarity in mind.

As part of the implementation of the "Fiscal compact" in Luxembourg, which had to be transposed into national law by 1 January 2014, the ECB issued a negative opinion on the Government's proposal to entrust fiscal surveillance to the BCL. In its opinion on the draft law on the coordination and governance of public finances, the ECB considers that entrusting such a task to a national central bank could undermine the independence of the latter. Therefore, the Government amended the draft law, recommending the establishment of a separate body. However, the recommendation by the ECB to grant the BCL unconditional, timely and automatic access to all public finance statistics to enable it to ensure the monitoring of fiscal policy for monetary policy purposes has not yet been implemented by the Government.

The establishment of a framework for an authority institutionally responsible for macro-prudential supervision is also underway. A draft law passed by the Government provides for the establishment of a Systemic Risk Committee, which would consist of the Member of the Government responsible for the financial centre (Chairman), the Governor of the BCL, the Director General of the *Commission de surveillance du secteur financier* (CSSF), and the Director of the *Commissariat aux assurances*. In the absence of the Minister responsible for the financial centre, the Governor of the BCL would chair the committee. The secretariat would be provided by the BCL, under the authority of its Governor. The establishment of such a committee is the result of a recommendation of the European Systemic Risk Board (ESRB) to appoint an authority responsible for the conduct of macro-prudential policy in each country starting in July 2013.

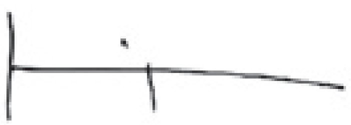
In Luxembourg, the implementation of the Single Supervisory Mechanism has led to an enhanced cooperation between the BCL and the CSSF. While the ECB will be responsible for the direct supervision of the most important credit institutions, it will work closely with the national competent authorities to monitor other credit institutions. In Luxembourg, the competent authorities are the CSSF and the BCL, the latter being responsible for liquidity surveillance. A representative of the BCL is a non-voting member of the ECB's Supervisory Board.

The implementation of the Single Supervisory Mechanism will entail new functions for the BCL, which raises the issue of the adequacy of the available resources with regard to the required tasks. It should be noted that the BCL, unlike the CSSF, does not receive mandatory contributions from banks to cover costs in this area.

More generally, it is clear that, particularly in response to the financial crisis, the BCL's existing missions have intensified and have become more complex. In addition, new missions were and will still be added. The human resources of the Bank are quantitatively insufficient to be able to ensure the full and effective execution of all these missions, which also require significant investments. This assessment is corroborated by the external auditor of the BCL, who – already on several occasions – recommended to the Bank to quantitatively increase its human resources to address the new challenges.

This issue falls within the broader context of the largely insufficient capital base of the Bank[2] given the size of its balance sheet, the volume and value of its operations, and the costs related to human resources and to the required technological resources. A significant strengthening of the Bank's capital is imperative for it to be able to fulfill its current and future missions in full, including financial, independence. This is also the conclusion of the external auditor of the Bank, who noted that the Bank's extremely low capital base relative to its overall volume of operations constitutes a great vulnerability for the Bank.

To conclude, I would like to thank my two colleagues in the Executive Board and all the BCL staff for their strong commitment. They all contribute to the goal of excellence that the BCL has endeavoured to achieve.



Gaston Reinesch

2 Cf. p. 78.

01 THE BCL'S ACTIVITIES

1 THE BCL'S ACTIVITIES

1.1 MONETARY POLICY OPERATIONS

In the Grand-Duchy of Luxembourg, the BCL is responsible for conducting the monetary policy as defined by the Governing Council of the European Central Bank (ECB) for the entire euro area.

The objective of monetary policy is to steer interest rates and to manage the liquidity of money markets. In order to achieve these objectives, the Governing Council decides on conventional and – since the start of the financial crisis in 2007 – non-conventional monetary policy measures.

Conventional monetary policy instruments are:

Open-market operations

The refinancing operations implemented by the BCL (open market operations), consist in an allotment of funds against eligible collateral to be submitted by its counterparties, the financial institutions in Luxembourg.

Open market operations include:

- Main refinancing operations (MRO), carried out through weekly tenders with a one-week maturity.

These operations play a leading role in the steering of interest rates (via the minimum bid rate or since October 2008 the fixed rate), in the management of banks' liquidity, and for the signalling of the orientation of monetary policy.

- Long-term refinancing operations (LTRO), normally carried out through monthly tenders with a three-month maturity.

These operations aim at providing additional long-term funding to the financial sector. They do not aim at giving indications on the orientation of monetary policy.

- Fine-tuning operations, carried out by the Eurosystem on an ad hoc basis in order to address temporary liquidity imbalances.

Standing Facilities

These instruments allow for the injection and withdrawal of liquidities on a day-to-day basis.

Two types of standing facilities are available:

- The marginal lending facility: counterparties benefit from the marginal lending facility of the BCL, which they can use in the form of a current account overdraft (guaranteed by collateral) until the following working day.
- The deposit facility: counterparties benefit from the possibility to make overnight deposits with the BCL.

Minimum reserves

Euro area financial institutions are subject to a system of mandatory minimum reserves to be held on accounts with their national central bank.

These reserves aim at stabilising money market interest rates and contribute to a structural liquidity deficit.

The amount of reserves to be held by each financial institution is calculated by applying the minimum reserves coefficient to certain elements of its balance sheet.

Besides the regular monetary policy operations, the Governing Council of the ECB has implemented a number of non-conventional operations:

- EUR refinancing operations with a maturity of one maintenance period
- Temporary currency auction facilities
- Extension of operation maturities
- The covered bonds purchase programmes (CBPP1 and CBPP2)
- The securities markets programme (SMP)
- The outright monetary transactions programme (OMT)

The operations are described in detail below.

1.1.1 Conventional Operations

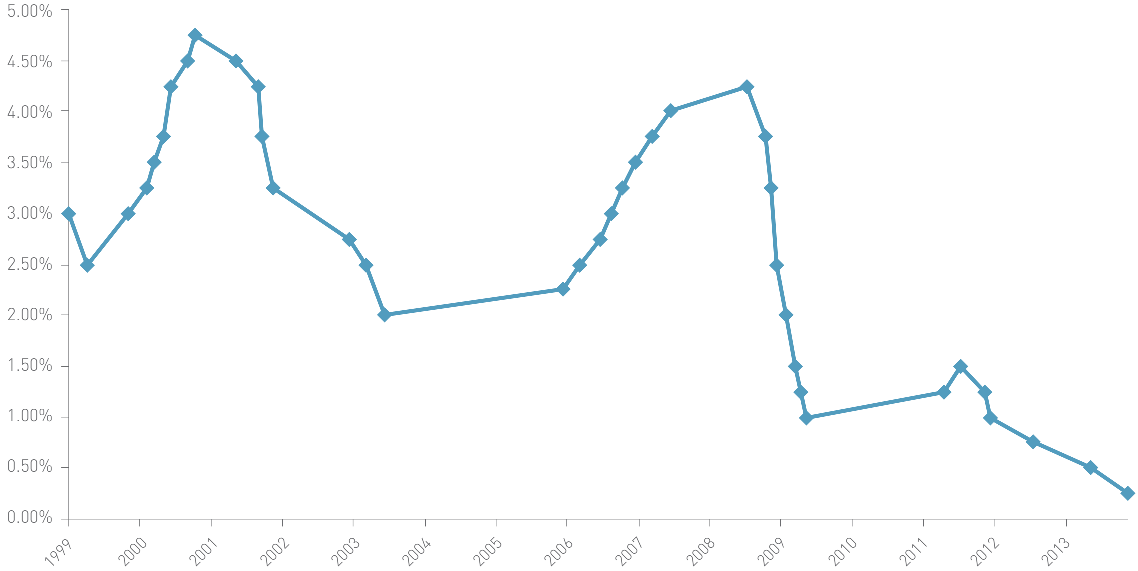
1.1.1.1 Open market operations

1.1.1.1.1 Main refinancing operations (MRO)

Since October 2008, the main refinancing operations (MRO) were conducted by the ECB at a fixed rate and with full allotment. These modalities continued to be applicable throughout 2013 and are to be maintained as long as necessary, but at least until July 2015.

The Governing Council decreased the interest rate on the main refinancing operations on two occasions, to 0.50 % in May 2013 and to 0.25% in November 2013.

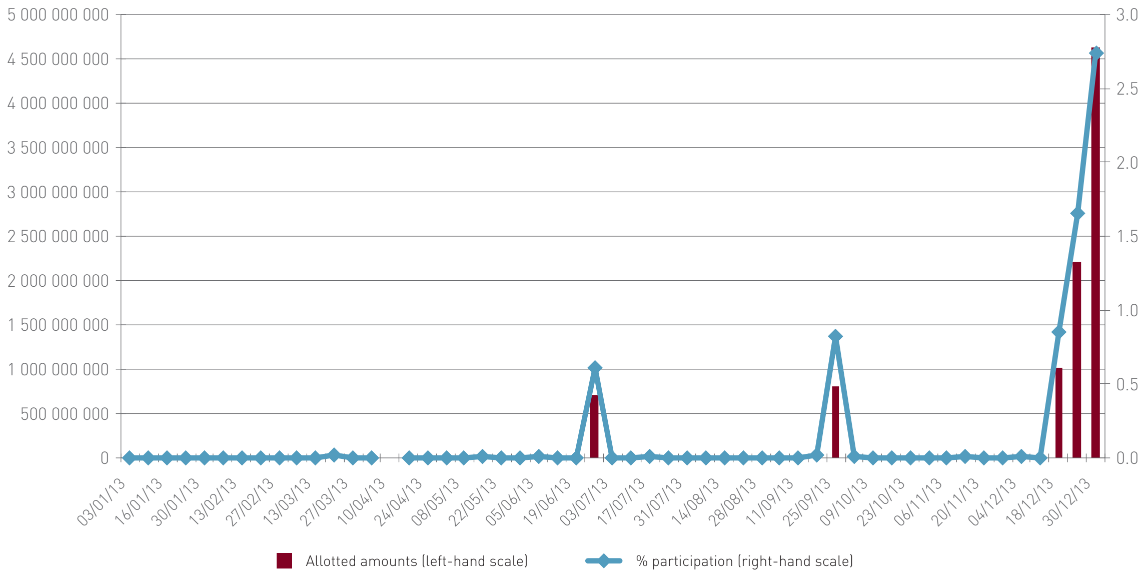
Graph 1:
MRO – Interest rate evolution since 1999



Source: BCL

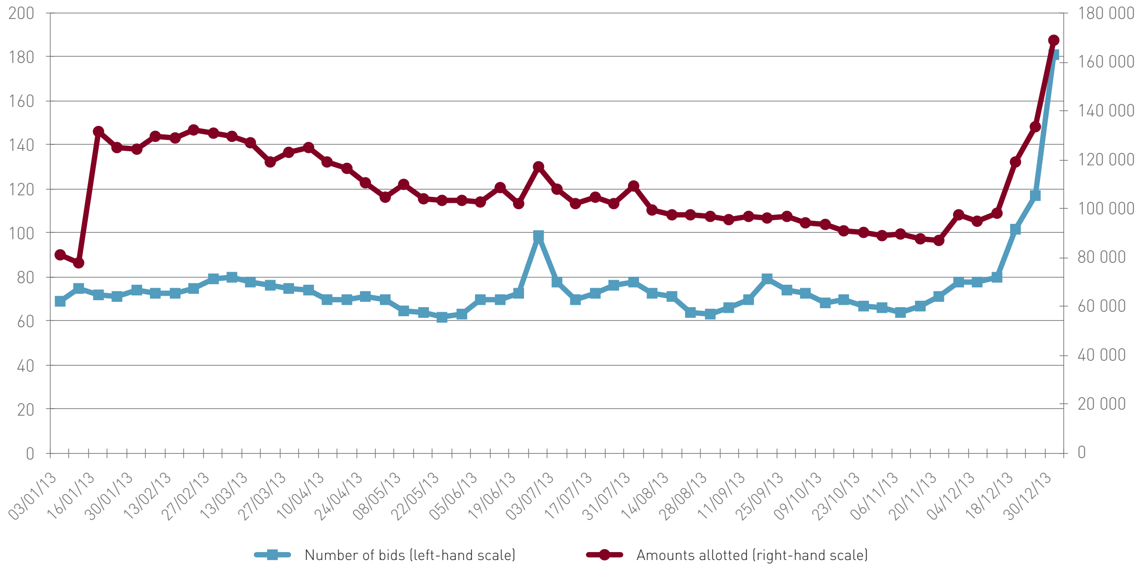
The participation of Luxembourg banks in the MRO remained below 1% throughout 2013 but rose to close to 3% in December due to the usual increase in interest for such operations around year-end.

Graph 2:
MRO - Allotted amounts in Luxembourg and participation ratio of Luxembourg compared to the euro area in 2013



Source: BCL

Graph 3 :
MRO – Bids and amounts allotted in 2013 in the euro area (in € million)

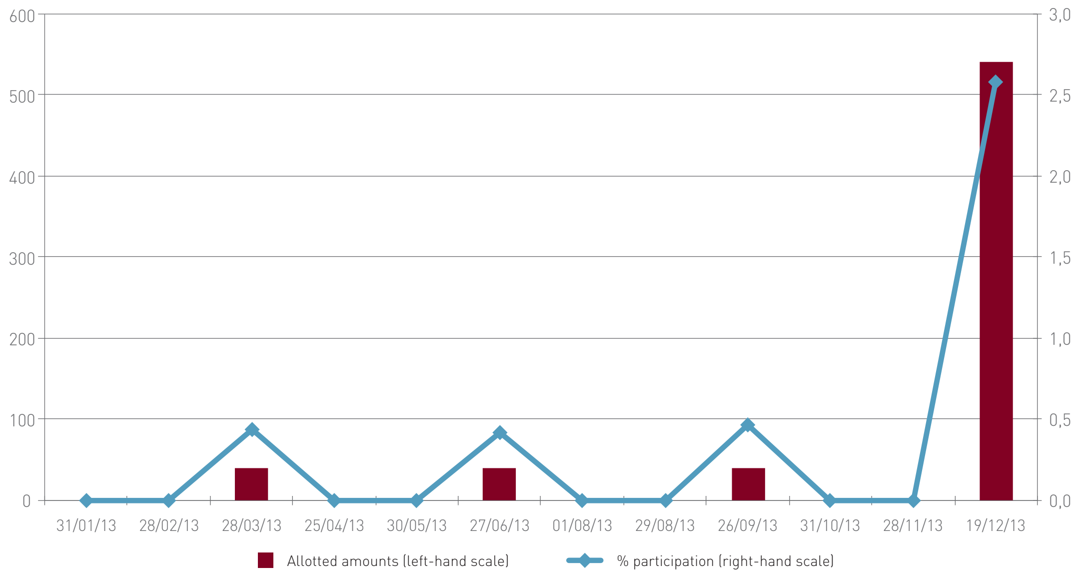


Source : BCL

1.1.1.1.2 Longer-term refinancing operations (LTRO)

Luxemburgish counterparties participated in the three-month LTRO operations in the last month of each quarter and, more significantly, in the last operation of the year.

Graph 4 :
LTRO 3 months - Allotted amounts in Luxembourg and participation ratio of Luxembourg compared to the euro area in 2013 (in € million)



Source : BCL

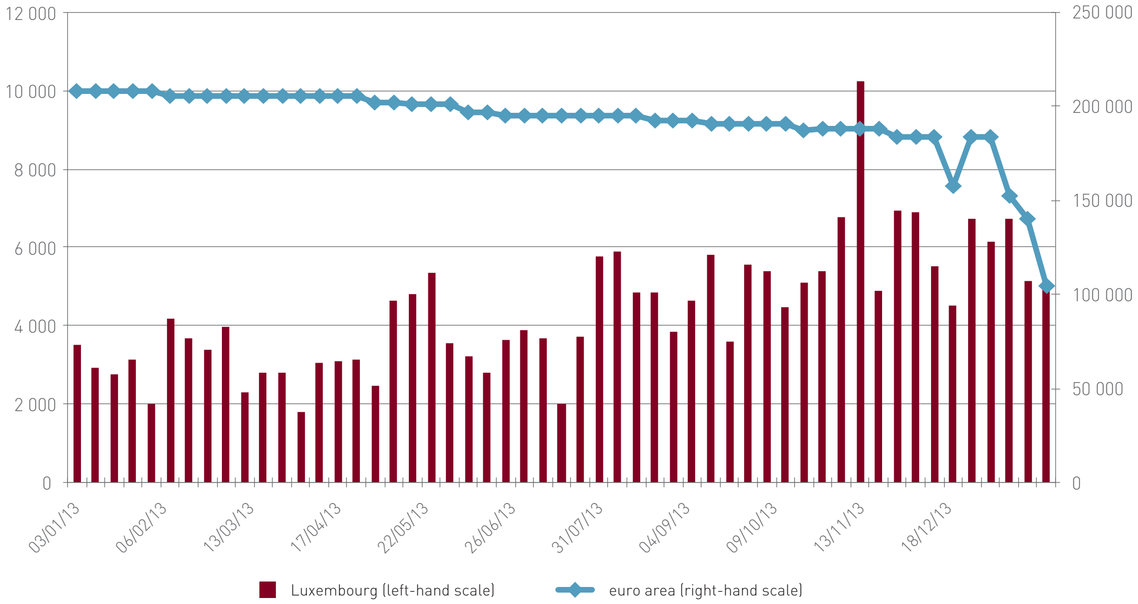
1.1.1.1.3 Fine-tuning operations

Liquidity-absorbing operations

In May 2010, the Governing Council of the ECB implemented one-week operations aiming at absorbing the liquidities injected through the Securities Markets Programme (see points 1.1.2.5 and 1.1.2.6).

Overall, 53 operations of this type were conducted in 2013, absorbing on average € 4 400 million in Luxembourg and € 192 684 million in the euro area.

Graph 5:
One-week deposits in 2013 - Luxembourg and euro area (in € million)



Source : BCL

Liquidity-providing operations

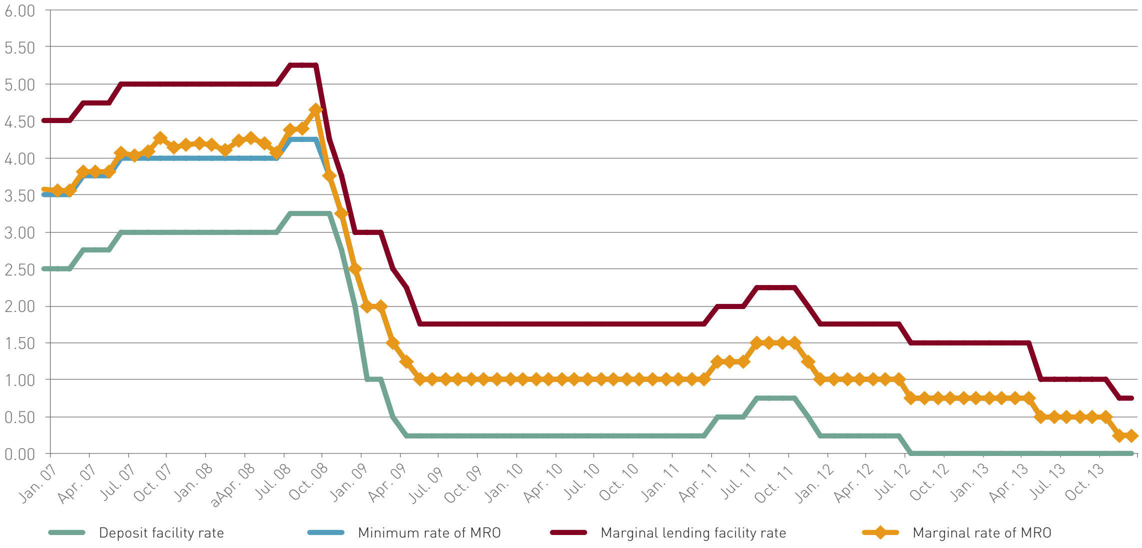
No fine-tuning liquidity-providing operations were conducted in 2013.

1.1.1.2 Standing facilities

Luxemburgish counterparties may have recourse to the standing facilities offered by the BCL, i.e. the deposit or marginal lending facilities, at rates fixed in advance. These rates are defined relative to the reference rate of the Eurosystem (the MRO rate).

The Governing Council lowered the interest rate on the marginal lending rate by 50 basis points to 1% in May 2013 and by another 25 basis points to 0.75% in November 2013. The interest rate on the deposit facility remained unchanged at 0% throughout 2013.

Graph 6 :
Evolution of the ECB reference rates since 2007



Source : BCL

Marginal lending facility

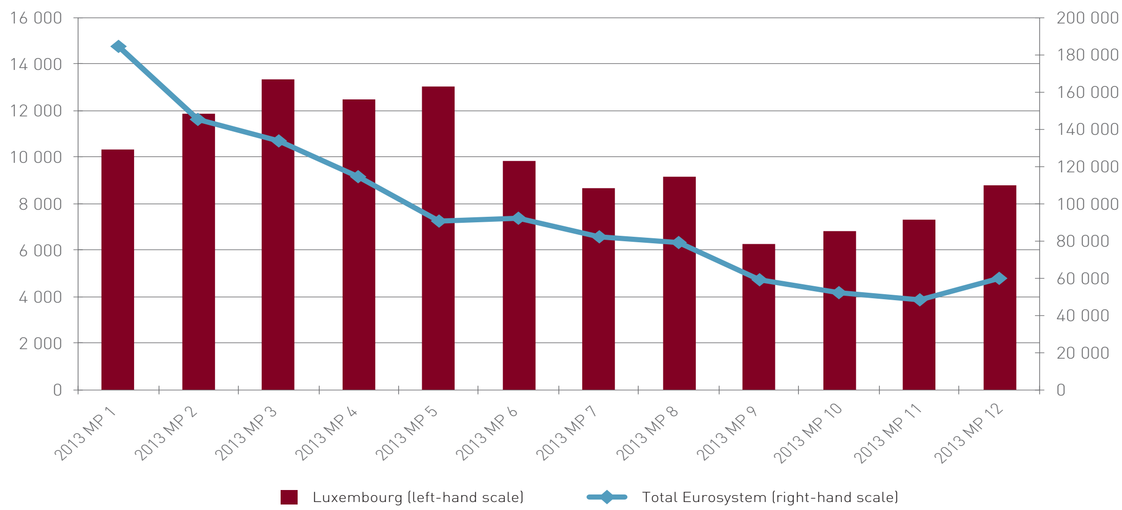
Luxemburgish counterparties barely used the marginal lending facility in 2013 and their eventual recourse was occasional and for very limited amounts.

Deposit facility

Following the reduction of the deposit facility rate to 0% in July 2012, counterparties in Luxembourg have limited their use of the deposit facility. This trend has continued in 2013.

This reduction in the deposit facility rate also explains why the amounts left by counterparties on their current accounts remained very high. Due to the absence of an opportunity cost, the counterparties can be indifferent between leaving their liquidities on a non-remunerated current account and using the deposit facility at 0%.

Graph 7 :
Evolution of the deposit facility in 2013 – Luxembourg and euro area (average daily amount) (in € million)



Source : BCL

1.1.1.3 Minimum reserves

Since January 2012, the reserve ratio has been set at 1%.

The lowering of the deposit facility rate to 0% in July 2012 has modified the behaviour of Luxemburgish counterparties. The amounts which have to be regarded as (unremunerated) excess reserves increased significantly in 2012 and stayed at a very high level in 2013. Indeed, the counterparties can now be indifferent between leaving their excess liquidities on the current account and using the deposit facility.

1.1.2 Non-conventional operations

1.1.2.1 Special-term refinancing operations in euro

The ECB decided that special-term refinancing operations (STROs) with a maturity of one maintenance period will be conducted with a fixed rate and with full allotment at least until 7 July 2015.

There was no participant to these operations in Luxembourg in 2013.

1.1.2.2 Temporary currency auction facilities

In October 2013, the Bank of Canada, the Bank of England, the Bank of Japan, the ECB, the US Federal Reserve System and the National Bank of Switzerland transformed their previous bilateral and temporary currency agreements into a permanent arrangement that shall be valid until further notice.

The Eurosystem, in cooperation with the US Federal Reserve System, carried on supplying dollar liquidities to the banks of the euro area in 2013. These operations were conducted as reverse transactions against collateral securities with a maturity of 7 or 84 days. All bids were satisfied at a fixed interest rate specified in advance.

In 2013, these operations attracted limited interest in Luxembourg and in the remainder of the euro area. Luxembourgish counterparties have not participated in these operations since May 2012.

As financing conditions in USD improved significantly, the ECB announced that it will cease to conduct three-month US dollar liquidity-providing operations as of April 2014.

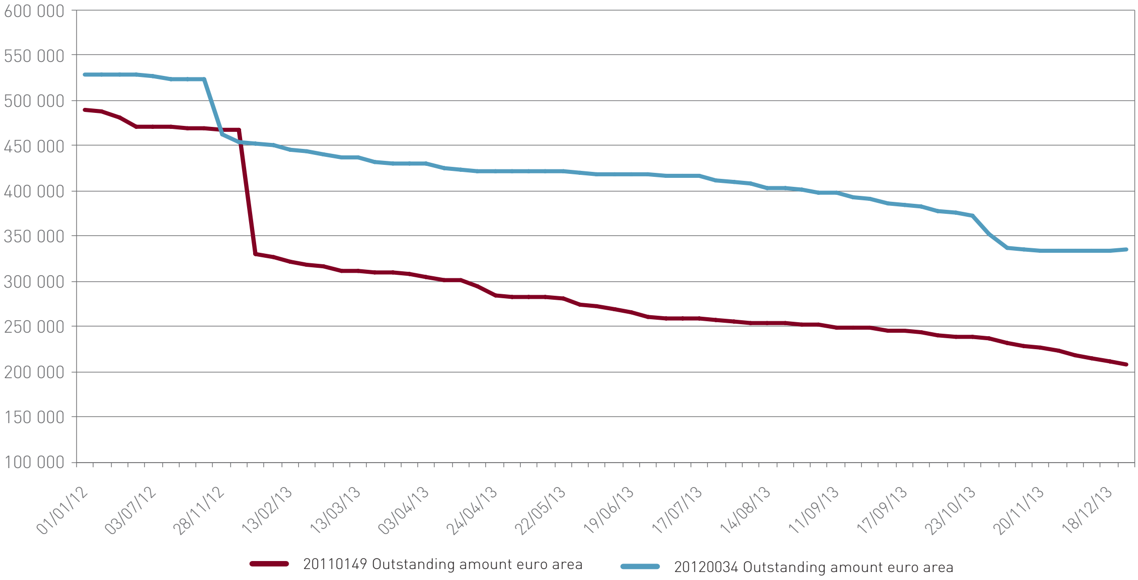
1.1.2.3 Extension of operations maturities

The maturity of some operations was exceptionally extended to 36 months.

End of 2011 and in the beginning of 2012, two refinancing operations were conducted by the ECB with a maturity of 36 months. The objective of these operations was to support bank lending and to improve the liquidity situation in the euro area money markets. These operations were conducted with a floating rate and with full allotment, the floating rate is calculated at maturity and is fixed at the average minimum bid rate of the main refinancing operations over the life of the operation. After one year and until the maturity of the operations, the counterparties have the opportunity to repay part or the whole of the amount borrowed at any date that coincides with the settlement day of an MRO.

No new operation of this type was conducted in 2013.

Graph 8 :
Evolution of the outstanding amount of the 3-year operations in the euro area as of 12/31/2013 (in € million)



Source : BCL

As of 31 December 2013, the total of early repayments in the euro area for the operation maturing on 29 January 2015 amounted to 57% of the initial allotment (i.e. € 281 billion out of a total initial borrowing of € 489 billion). The total of early repayments in the euro area for the operation maturing on 26 February 2015 amounted to 36% (i.e. € 193 billion out of a total initial borrowing of € 529 billion).

1.1.2.4 Covered bonds purchase programmes

The covered bonds that are guaranteed by mortgage bonds or by local authorities are a key instrument for the funding of credit institutions. This market segment was particularly affected by the financial crisis.

To reactivate this market segment, the Eurosystem decided to launch two covered bonds purchase programmes on the primary and secondary markets.

The first, comprising an amount of € 60 billion, started in July 2009 and finished on 30 June 2010. The second, comprising initially an amount of € 40 billion, started in November 2011 and ended on 31 October 2012. In the second programme, only an amount of € 16.418 billion was finally purchased, following a stabilisation of supply and demand conditions for covered bonds in the euro area.

National central banks of the Eurosystem expressed their intention to hold the purchased bonds until maturity.

1.1.2.5 Securities market programme

In May 2010, the Governing Council of the ECB decided to launch an exceptional securities market programme.

The objective of this programme was to address the malfunctioning of specific segments of the euro area debt securities markets and to restore an appropriate monetary policy transmission mechanism.

In order to sterilise the impact of those bond purchases, the Eurosystem conducted specific operations aiming to re-absorb the liquidities injected through the programme.

The Securities Market Programme ended in September 2012, following the decision of the Eurosystem on outright monetary transactions (see below). As of 31 December 2013, the total residual outstanding value of the purchases conducted under the securities market programme amounted to € 178.5 billion.

1.1.2.6 Outright Monetary transactions

In 2012 the Eurosystem announced the programme for outright monetary transactions. This programme aims at safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy.

Outright monetary transactions may only be activated to purchase securities of countries that strictly adhere to the conditions foreseen in a programme of the European Stability Mechanism (ESM) or which are under a macroeconomic adjustment programme and about to regain market access.

When applied, such transactions focus on the short end of the yield curve, particularly on government bonds with a time to maturity between one and three years.

As for the securities markets programme, the liquidity created through outright monetary transactions would be fully sterilised.

1.2 FOREIGN EXCHANGE RESERVE MANAGEMENT BY THE BCL

The ECB's foreign exchange reserves have been managed in a decentralised way by the national central banks since January 1999. In accordance with the Statutes of the Eurosystem and in line with its share in the ECB's capital key, the BCL transferred € 74.6 million in foreign exchange assets to the ECB.

As a result of the EU's enlargement and the relative growth of GDP and population in Luxembourg, the BCL's share in the ECB's capital key has been 0.1739% since 1 July 2013, revised on 1 January 2014 to 0,2030%.

As of 31 December 2013, the total market value of the ECB's reserves (including accrued interest) managed by the BCL corresponded to € 299.4 million[2]. One goal of the foreign exchange reserve management of the ECB is to ensure that the ECB has sufficient available liquidity to intervene in the foreign exchange markets if need be. Security and liquidity are, therefore, basic requirements in managing reserves.

The tactical benchmark is established for each currency in line with the strategic benchmark. This tactical benchmark reflects the ECB's risk/return medium term preference in regards to market conditions.

A change in the tactical benchmark may affect different risk categories (for example, modified duration or liquidity risk). The Value at Risk of the tactical benchmark may differ from that of the strategic benchmark in the context of fluctuation margins announced, in advance, by the ECB.

Regarding the management of this portfolio, the prime task of the BCL is to invest foreign exchange reserves on behalf of the ECB within prescribed fluctuation bands and fixed risk limits, the objective being to maximise return. The amount of passively managed assets in gold is determined by the ECB, taking into account strategic considerations and market conditions.

1.3 MANAGEMENT OF THE BCL'S ASSETS

1.3.1 Institutional Structure

Asset management is based on a five level intervention structure, in addition to risk control:

2 This amount includes the reserves of the Bank of Slovenia (BS) which are pooled with the reserves of the BCL and are managed by the latter pursuant to a pooling agreement.

Level 1: The Council

The Council approves the guidelines of the asset management framework. Thus, the Council has allowed the BCL to provide asset management services to third parties and to hold own fund asset portfolios in order to diversify the Bank's income. The guidelines also include a risk mitigation framework applied to asset management.

Level 2: The Executive Board

The Executive Board defines the risk management framework. Thus, it determines the maximum risk allowance (MRA) in the management of the Bank's own assets. It also specifies the risk management measures, like the Value at Risk (VaR) method and the application of stress-testing scenarios. The Executive Board also sets warning thresholds, which can lead to the calling of emergency meetings for assessment and arbitrage purposes. The Executive Board sets the limits of the framework annually.

Level 3: The Asset and Liability Management Committee ALCO

ALCO determines the strategic benchmark according to the framework fixed annually by the Executive Board by examining the impact of each risk profile (market, credit and liquidity risk) which would result from the proposed investment policies, in regards to both the overall balance sheet and the profit and loss account of the BCL. In the course of the year, ALCO regularly assessed the results of the investment policy.

Level 4: The tactical committees

The tactical committees monitor the evolution of the portfolios on a short-term basis and work out proposals for tactical benchmarks that comply with the limits laid down by the strategic benchmark.

The tactical committees consist of the following:

- The *Comité de gestion*, for the BCL's own funds,
- The *Comité réserves de change* for the pooled reserves of the ECB,
- The *Comité de référence tactique du fonds de pension f*or the pension fund of the BCL.

Level 5: The portfolio managers

The transactions are executed by the portfolio managers, in strict compliance with the limits set, covering both the overall and specific investment limits.

1.3.2 Risk Control

The Risk Management Unit monitors the positions of all the portfolios in order to assess risks and to check compliance with the pre-defined limits. This monitoring is carried out daily and independently from the Front Office. This monitoring structure is reinforced by specific missions allocated at different levels of the organisation and by the monitoring carried out by the Middle and Back Offices.

1.3.3 Conceptual Framework

The investment policy objectives

The main objectives are to generate a high income on a regular basis and to ensure a total return over the long term by taking into account considerations concerning matters such as capital safety, stability of securities and liquidity. In order to achieve these goals and in accordance with the principle of risk diversification, the BCL implements a coordinated, progressive and pro-active investment policy based on modern portfolio theory.

The investment approach takes the following into account:

- the analysis of international economies and financial markets;
- the asset allocation decisions through the assessment of the returns on different international markets;
- the drawing up of a clearly defined strategy;
- the capital value preservation of the assets under management by a policy of risk diversification and the application of specific qualitative requirements with regard to investments;
- the application of strict risk control measures.

Investment decisions are based on:

- market risks (interest rates, exchange rates, equity prices, commodity prices);
- credit risks (minimum credit ratings criteria by international rating agencies);
- liquidity risks (concentration limits by sector, by issuer, by issue and by geographical diversification).

Performance Measurement

The quality of the investment decisions is measured by comparing the performance with the external benchmarks of leading investment banks. This allows a given performance to be assigned to a decision level (strategic, tactical) as well as to daily management.

1.3.4 Portfolio Structure

The bulk of the BCL's own funds are invested in fixed income securities denominated in euro. The strategic orientation enables diversification in other asset categories.

The BCL manages eight kinds of portfolios.

a) Investment Portfolio

This portfolio consists of assets (equity and bonds), which can be deemed to represent its own funds (with a long-term investment profile). The main goal of the portfolio is to maximise return by taking the above-mentioned risk constraints into account (see section 1.3.2). As of 31 December 2013 the total market value (including accrued interest) amounted to € 2 439 million.

In 2013, the share of this portfolio invested in fixed income securities with a maturity above three years has decreased from 56% to 52%, whereas the percentage of bonds with a one to three-year maturity increased from 26% to 40%. Moreover, by the end of 2013, variable rate and fixed rate bonds with a maturity under one year represented 8% of the investment portfolio.

The securities included in this portfolio are widely diversified, not only geographically but also in terms of sectors and issuers.

b) Liquidity Portfolio

This portfolio comprises the other assets that are largely attributable to a Eurosystem arrangement and mirrors TARGET accounts and other liabilities.

This portfolio, whose liability profile covers certain liquidity needs, also aims at maximising income. The instruments used are mainly fixed-income short-term bonds, variable rate bonds and certificates of deposits (Euro commercial paper (ECP), provided that they comply with strict and predefined rating criteria). As of 31 December 2013, the total market value (including accrued interest) amounted to € 1 120 million. Since 2011 a part of the portfolio has been outsourced to an external portfolio manager.

Table 1
Breakdown of reserves as of 31 December 2013

Maturity	Investment Portfolio	Liquidity Portfolio
0-1 year	8%	26%
1-3 years	40%	64%
› 3 years	52%	10%

c) Domestic Foreign Reserves Portfolio

This portfolio aims to maintain an intervention portfolio in addition to the pooled foreign exchange reserves transferred to the ECB. Thus, the main requirements for this portfolio are security and liquidity. As of 31 December 2013, the total market value (including accrued interest) of this portfolio in foreign currencies amounted to € 127.6 million.

d) Pension Fund Portfolio

The management of this Fund is described further in section 2.2.2 of this report.

e) Foreign Reserves Portfolio of the European Central Bank

The management of this portfolio is described further in section 1.2 of this report.

f) Covered Bond Purchase Programme

After participating in the first CBPP, the BCL also took part in the second programme. This programme expired in November 2012.

g) Securities Market Programme

The Securities Market Programme, which was initiated in May 2010, ended in September 2012 following a decision of the Eurosystem.

h) Third Party Portfolios

The BCL provides non-standardised discretionary management services to institutional clients (central banks and international organisations). Furthermore, the Bank acts as one of the Eurosystem's service providers (ESP). Six central banks within the Eurosystem offer institutional clients (central banks, public authorities and international organisations) a comprehensive range of services for managing EURO denominated reserves under a harmonised framework as defined by the ECB, last updated in 2013.

1.4 BANKNOTES AND COINS

1.4.1 Production of banknotes and coins

Within the Eurosystem, the euro banknote production is assigned on the basis of a decentralised pooling scenario adopted in 2002, in which each NCB of the euro area is responsible for providing a part of the total requirements. Euro banknotes are produced in accordance with the needs expressed by the participating NCBs and aggregated by the ECB. In this context, in 2013 the BCL was responsible for the production of 8.15 million of € 20 banknotes for the Eurosystem's needs (compared to 21.11 million € 20 banknotes in 2012). Furthermore, the BCL contributed to the production of the new series of banknotes, referred to as "Europa" series (12.61 million € 10 banknotes). The BCL allocated these banknotes via a tender, which was carried out by "Oberthur Fiduciaire". In addition, for its own needs, the BCL received 78.5 million banknotes from other NCBs (compared to 39.8 million in 2012).

Under an agreement with the State of Luxembourg, the BCL is also in charge of Luxembourg's euro coin production and puts these coins into circulation. Following a tender, the BCL commissioned the production of 43 million coins of the 2013 series (compared to 38.6 million coins in 2012), to cover the needs of economic agents and numismatists.

1.4.2 Circulation of banknotes and coins

1.4.2.1 Euro banknotes and coins

1.4.2.1.1 Banknotes

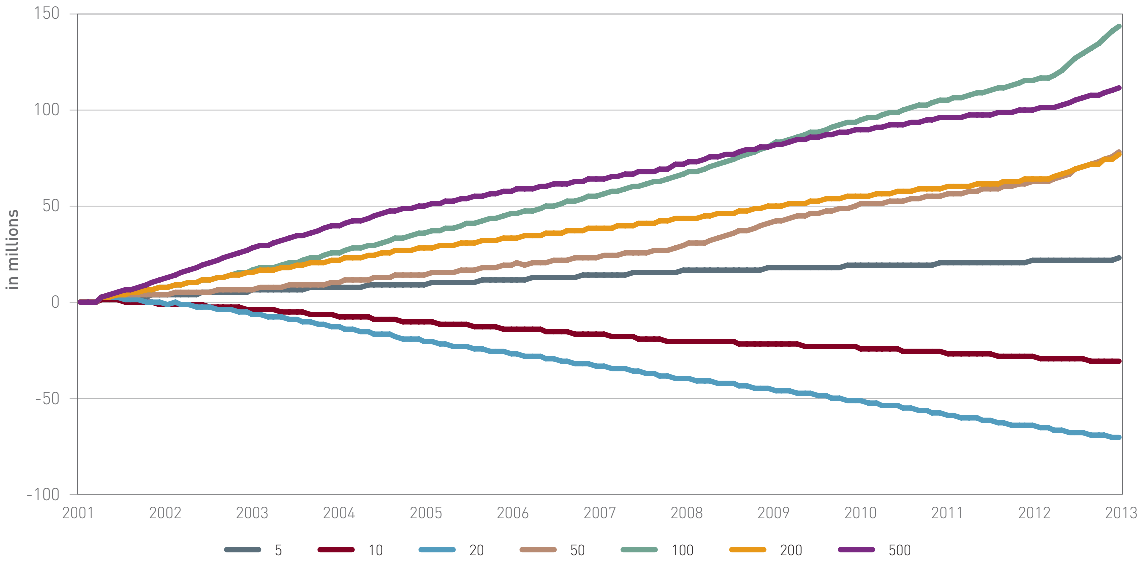
The total net volume of notes issued by the BCL during the year 2013 amounts to 59.7 million banknotes against 18 million in 2012.

A closer look at the distribution of banknotes by denomination reveals that the number of € 10 and € 20 banknotes deposited at the BCL exceeds the number of banknotes issued. This is explained by the fact that financial institutions have indeed lodged more of these banknotes at the BCL than they withdrew, demonstrating the contribution to these denominations of tourists and especially cross-border workers from countries where they are more widely used.

As to the high denominations, banknotes of € 100 and € 200 were marked by a sustained demand, both in Luxembourg and in the euro area. Regarding banknotes of € 500, the number of banknotes put into circulation in Luxembourg increased, continuing the trend observed in previous years, whereas at the European level demand for this denomination decreased slightly.

The graph below illustrates the different trends in the evolution of the circulation of the different denominations.

Graph 9 :
Denominational breakdown of the number of euro banknotes put into circulation by the BCL

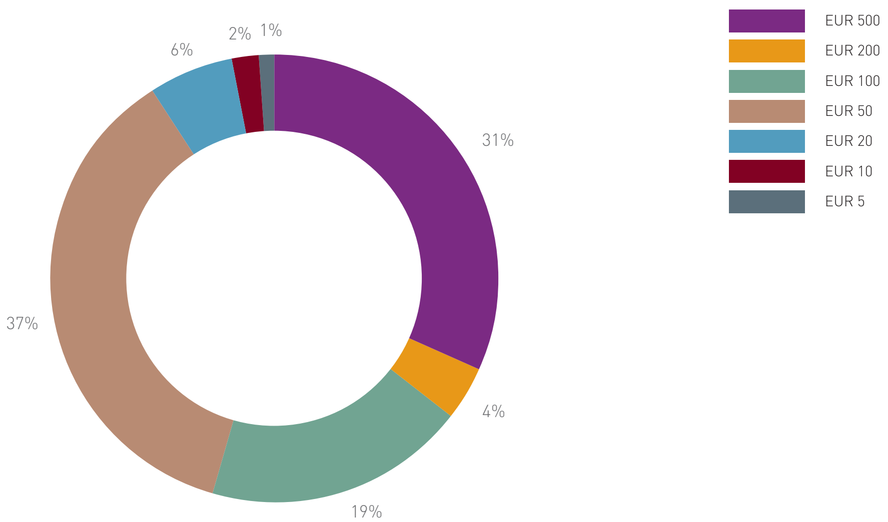


Source : BCL

In value terms, the net issuance of banknotes in Luxembourg grew significantly in 2013 (+€ 11.2 billion, or +14.6 %) and reached € 87.5 billion by end-December 2013. This increase is stronger than that recorded in 2012 which was +6% (+7.7% in 2011 and +10.5% in 2010). However it remained lower than that recorded in 2009, which was +15.1%.

Moreover, in terms of net issuance between 2002 and 2013 Luxembourg ranked fourth in the Eurosystem, behind Germany (€ 461.5 billion), Italy (€ 144.7 billion) and France (€ 102 billion). Luxembourg's annual net issuance grew at a rate of +4.8% (+2.7% in 2012), which was stronger than the one observed for the euro area as a whole. It reached a value of € 956.2 billion at the end of 2013 (compared to € 912.6 billion at end-December 2012), with the following breakdown by denomination:

Graph 10:
Distribution of the value of euro banknotes put into circulation by the Eurosystem by denomination on 31 December 2013



Source : ECB

1.4.2.1.2 Coins

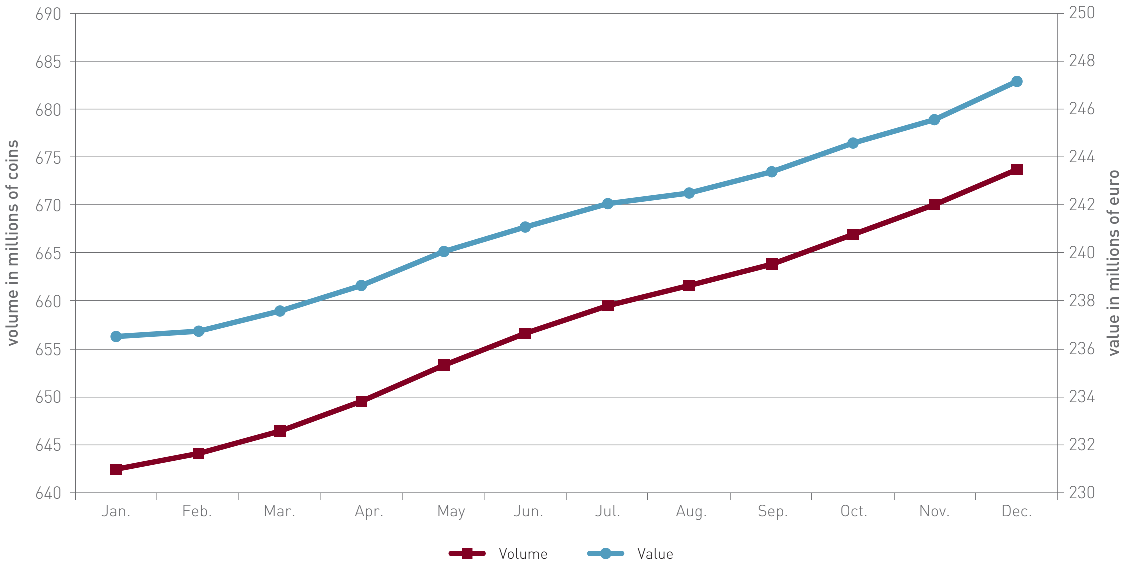
Luxembourg coins continue to be the object of strong demand from the public.

The total value of coins put into circulation increased by 7.5% in 2013 (against 7.1% in 2012). It grew from € 235 million to € 252.8 million.

The volume of coins put into circulation in the course of the year 2013 increased by 60.7 million units, equalling a growth of 9.5% to a total of 701.3 million of Luxembourg coins in circulation at the end of the year.

The graph below shows the evolution both in terms of the volume and value of Luxembourg euro coins in circulation in 2013. The demand for Luxembourg coins grew steadily throughout the year.

Graph 11 :
Volume and value of Luxembourg euro coins put into circulation in 2013



Source : BCL

Within the euro area, Luxembourg contributes 1% to the total value issued by all issuing authorities and 0.6% of the total volume. The average value of the Luxembourg coins in circulation slightly decreased from 37 cent to 36 cent and in the euro area the average decreased from 24 cent to 23 cent.

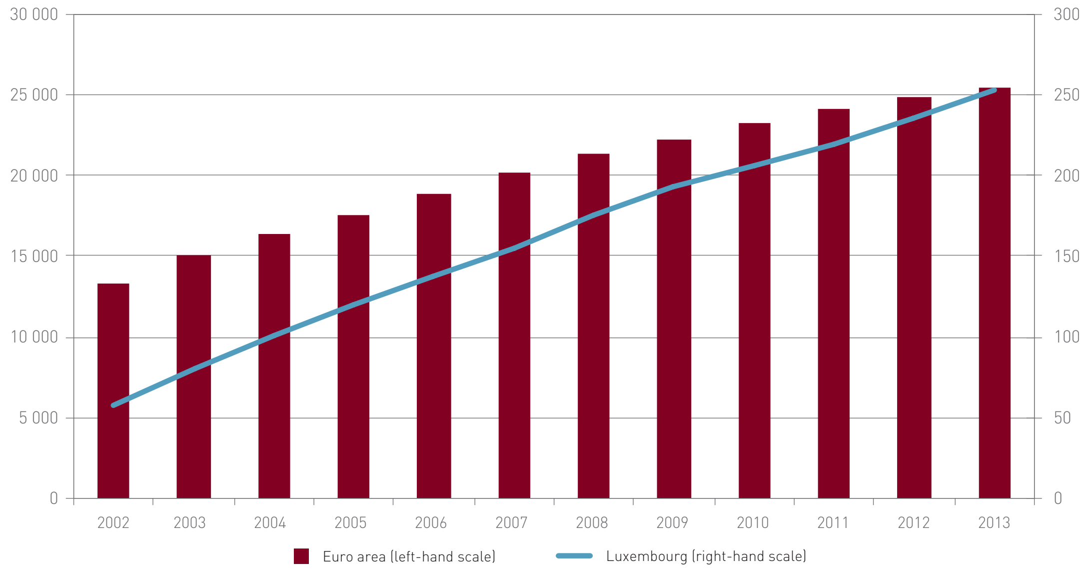
The graph below shows a visual comparison of the volume of coins put into circulation in Luxembourg with the corresponding volume of the euro area.

The total value of the coins put in circulation by the issuing authorities has increased from € 24.8 billion in 2012 to € 25.4 billion in 2013, whereas the total number of coins increased from 104.8 billion to 108.8 billion.

Graph 13 shows the breakdown of this volume by denomination.

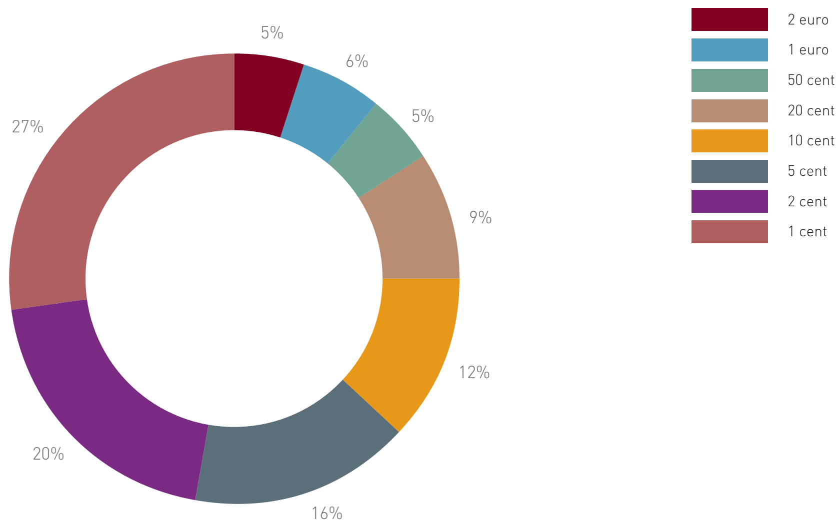
It is noted that in the euro area the 1 and 2 cent coins represent almost half (46%) the number of coins put in circulation, while at national level these two denominations represent around one third (34,9%) of the coins put in circulation.

Graph 12 :
Comparison of the euro coin circulation volume in Luxembourg and in the euro area (in € million)



Source: ECB and BCL

Graph 13 :
Breakdown of the volume of coins of the euro area in circulation by denomination on 31 December 2013



Source: ECB

1.4.2.2 Luxembourg franc banknotes

During the year under review, the total value of Luxembourg franc banknotes issued by the *Institut Monétaire Luxembourgeois* and not yet presented for exchange, fell from LUF 206.3 million to LUF 205.0 million, equalling a decrease of 0.6%. The total value expressed in euro equals 5.1 million.

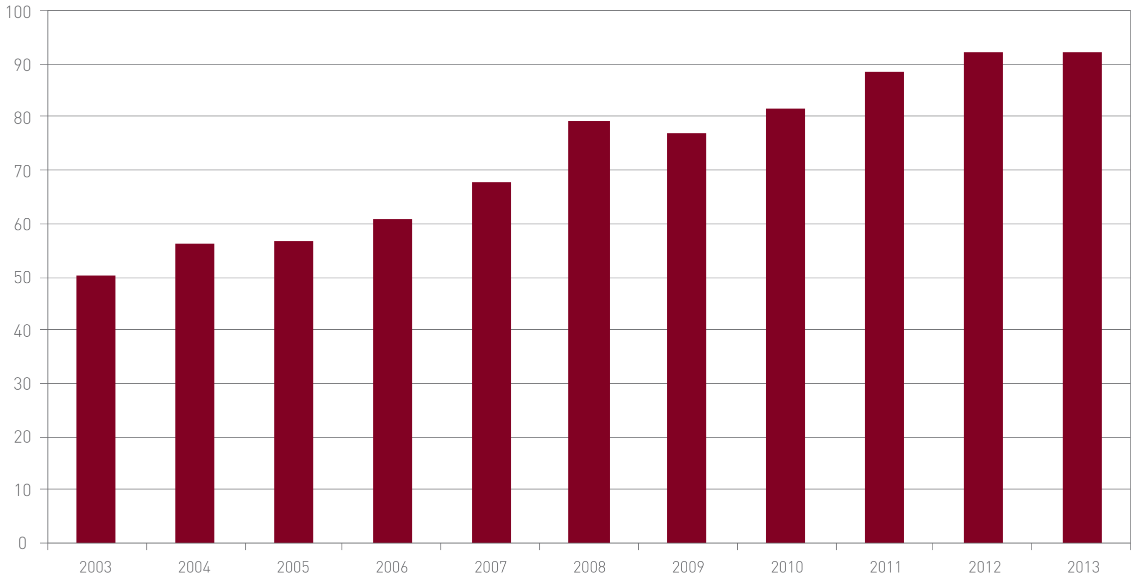
In 2013, holdings of the 5 000 LUF banknote continued to decline more sharply by 1.1%, while 1 000 LUF banknotes decreased by 0.7% and 100 LUF by 0.2%.

1.4.3 Handling of banknotes and coins

The volume of euro banknotes returned by financial institutions to the BCL increased by 0.1% compared to the previous year, from 92.1 to 92.2 million banknotes. Over the past ten years, banknote lodgements made at the BCL grew by 83.1%.

The following graph describes the evolution of these lodgements at the BCL since 2003.

Graph 14 :
Lodgements of euro banknotes by financial institutions at the BCL (in million of banknotes)



Source : BCL

The number of banknotes processed by sorting machines amounted to 73.3 million in 2013 compared to 77 million in 2012. These sorting machines perform checks on the banknotes' authenticity and cleanliness. 9.1 million banknotes of all denominations (8.3 million in 2012) were destroyed because they were unfit for circulation, which equals a destruction rate of 12.4% compared to 10.7% the previous year. This rate shows a wide variation between the denominations processed: it ranged from 5.3% for the € 500 banknote to 70.2% for the € 5 banknote, due to the introduction of the € 5 banknotes of the series "Europa" and the systematic destruction of the banknotes of the first series lodged at the BCL's counters.

1.4.4 National and international cooperation

In the fight against counterfeiting of euro banknotes and coins, the BCL closely cooperates with the ECB and the national authorities in charge. For the analysis of counterfeit and mutilated euro banknotes and coins, the BCL collaborates with the *Banque de France* and the *Deutsche Bundesbank* since 2002 in accordance with cooperation agreements.

In meetings organised by the ECB, the BCL's Currency and Numismatics Department participates in the preparation of the new series of euro banknotes. The design of this new series, which is also based on the theme of "Ages and styles in Europe", is slightly adapted. The dominant colour of each of the denominations is maintained. New or improved security features are incorporated to ensure maximum protection against counterfeiting and enable the public to quickly distinguish a genuine banknote from a counterfeit.

The issuance sequence of the second series will be at a pace of one denomination per year. The new series' first banknote, the € 5, was put into circulation on 2 May 2013. The issuance of the other banknotes of the "Europa" series will continue in 2014 and over the next years. The end of the legal tender status of the first series will be announced in due course. Banknotes of the first series will remain redeemable at the NCBs with no time limit.

The BCL has pooled its share of banknotes to be produced for the Eurosystem with seven other Eurosystem NCBs (the central banks of Cyprus, Estonia, Finland, Malta, the Netherlands, Slovakia and Slovenia) for several years. This pooling, whose goal is to share resources and experience necessary to follow a production of banknotes, foreshadows the future "Single European Tender Procedure".

The BCL also collaborates with eight other NCBs (the national central banks of Belgium, Cyprus, Estonia, Finland, Ireland, Latvia, Malta and the Netherlands) in the management and maintenance of the CashSSP application. This system allows the BCL's Cash and Numismatic Department not only to manage its banknote and coin stocks and to monitor its sorting activity of fiduciary money, but also to obtain in a secured manner the deposit and withdrawal announcements of commercial banks.

1.4.5 Numismatic issues

The BCL issues numismatic products on the theme of the history and culture of the Grand Duchy. More than 2 800 sales operations were performed in 2013 via its numismatic centre. More than 6 600 packages were sent out, corresponding to sales made through traditional mail or through the Internet shop with online sale of numismatic products.

During the year 2013, the BCL issued the following numismatic products:

- a €2 commemorative coin, dedicated to the wedding of the Hereditary Grand Duke, incorporating the date "2012" and minted in 500 000 units, was put into circulation in February 2013. This coin, representing the effigies of Their Royal Highnesses Grand Duke Henri, Hereditary Grand Duke Guillaume and Princess Stéphanie, was also issued in BU quality as a coin card limited to 10 000 units;

- a second €2 commemorative coin, minted in 500 000 units, was put into circulation in November 2013. This coin, representing the effigy of His Royal Highness Grand Duke Henri as well as the score of the national anthem "Ons Heemecht" was also issued in BU quality as a coin card limited to 10 000 units;

- the 2013 BU set, issued in 7 500 units, comprises Luxembourg's euro coins of the 2013 series (including the €2 2013 commemorative coin);

- the 2013 PROOF set, limited to 2 000 units, is composed of nine coins;

- a €5 silver-niobium coin, issued in June 2013 in an edition of 3 000 units, was dedicated to the Castle of Beaufort and is the fifth part of the series devoted to the castles of Luxembourg;

- a €10 gold coin, issued in August 2013 in an edition of 3 000 units, was dedicated to the "Gëlle Fra" (Golden Lady) and is the fifth part of the series devoted to the cultural history of Luxembourg;

- a €5 silver and Nordic gold coin, issued in December 2013 in an edition of 3 000 units was dedicated to the «European honey bee" and is the fifth part of the series devoted to the fauna and flora of Luxembourg;

- a €15 gold coin, issued in December 2013 in an edition of 2 000 units was dedicated to the 15th anniversary of the Banque centrale du Luxembourg.

1.5 STATISTICS

The BCL develops, collects, compiles and disseminates a wide range of statistics that allow it to fulfil its legal obligations within the European System of Central Banks, the European Systemic Risk Board as well as at the national level. This information is also used by other national institutions such as the *Institut National de la Statistique et des Etudes Economiques* (STATEC) and the *Commission de Surveillance du Secteur Financier* (CSSF) for the fulfilment of their respective missions.

In 2013, statistics were generally provided within the deadlines and significant efforts were made to improve the statistical series made available by the BCL. The major challenges of 2013 consisted in updating the statistical data collections from credit institutions, investment funds and securitization vehicles. In addition, in parallel to the work of recasting some existing statistical data collections, the BCL collected and compiled the data that is necessary to perform its duties in the areas of monetary policy and financial stability.

In the framework of the cooperation agreement between the BCL and STATEC, the BCL is in charge of producing the quarterly financial accounts statistics (with the exception of data on the public sector) since March 2013.

In the context of the cooperation between the BCL and the CSSF, a joint circular concerning the reporting of investment funds was published in March 2013. The objective is to use the collected data for statistical purposes in the areas of prudential supervision and financial stability analysis and to thereby limit the increase in the reporting burden. The existing data collection for a subset of investment funds has been extended to all investment funds.

In the context of a tripartite cooperation agreement between the ECB, the European Stability Mechanism (ESM) and the BCL, the BCL committed itself to use the accounting information provided by the ESM to compile macroeconomic aggregates. These statistics are necessary for the ECB to compile aggregates for the euro area since the ESM is considered to be a financial institution residing in the euro area.

1.5.1 New statistical data collections

The BCL implemented security by security reporting of securitization vehicles for which the first reports were submitted in early 2014.

In addition, the BCL also set up security by security reporting of credit institutions as far as the securities holdings on behalf of non-resident customers are concerned. The first reports were transmitted at the beginning of 2014.

1.5.2 Other statistical developments

The BCL publishes a wide range of statistics on the financial sector on its website and provides STATEC with some of the data that is required under the Special Data Dissemination Standard of the International Monetary Fund (IMF).

During 2013 several changes were implemented in order to meet the growing public demand and to improve the set of statistics made available to the general public. This includes a country breakdown for holdings of shares/units issued by Luxembourg investment funds.

1.6 PAYMENTS AND SECURITY SETTLEMENT SYSTEMS

1.6.1 TARGET2-LU

Since 19 November 2007, the real time gross settlement system TARGET2 runs on the Single Shared platform and is jointly operated by 24 central banks of the ESCB. Eighteen of these central banks have accepted the euro as their common currency.

The Luxembourgish component, TARGET2-LU, has 32 direct participants, 39 indirect participants and 3 ancillary systems.

Domestic payments

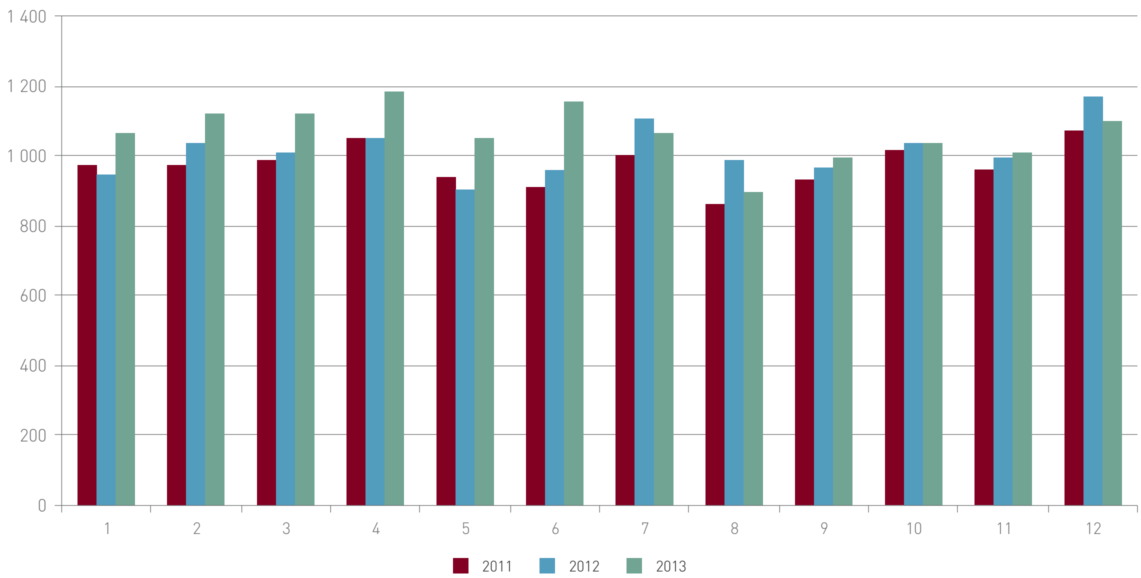
In 2013, participants in TARGET2-LU exchanged a monthly average of 22 633 payments (against 21 503 in 2012) for a value of € 145 billion (against € 111.4 billion in 2012). 14 500 or 64.1 % of these payments were retail payments. Their value represented a monthly average of € 6.5 billion or 4.5 % of the domestic value exchanged.

In TARGET2-LU, the decreases of domestic volumes triggered by the financial crisis of 2008 continued until 2010. Since 2011 volumes are increasing again. The 2013 increase in domestic volumes by 5.3 % was more important than the 2012 increase (+3.5%). It pushed domestic volumes above pre-crisis levels.

At 30.2 % the increase in the value exchanged between domestic participants was much higher than in 2012 (+7.9%).

The following chart illustrates the development of average daily volumes in domestic payments.

Graph 15:
Domestic payments: development of average daily volumes



Cross-border payments

In 2013, participants in TARGET2-LU sent a monthly average of 67 447 payments towards other countries of the EU (51 937 payments in 2012) for an average value of € 565.4 billion (€ 780.2 billion in 2012). The volume of retail payments increased by 14.5 % to reach 31 277 payments representing 46.4% of the total cross-border volume. Their relative part decreased by 6.2 %. The volume of interbank payments increased again by 47 % to reach a monthly average of 36 164 transactions in 2013.

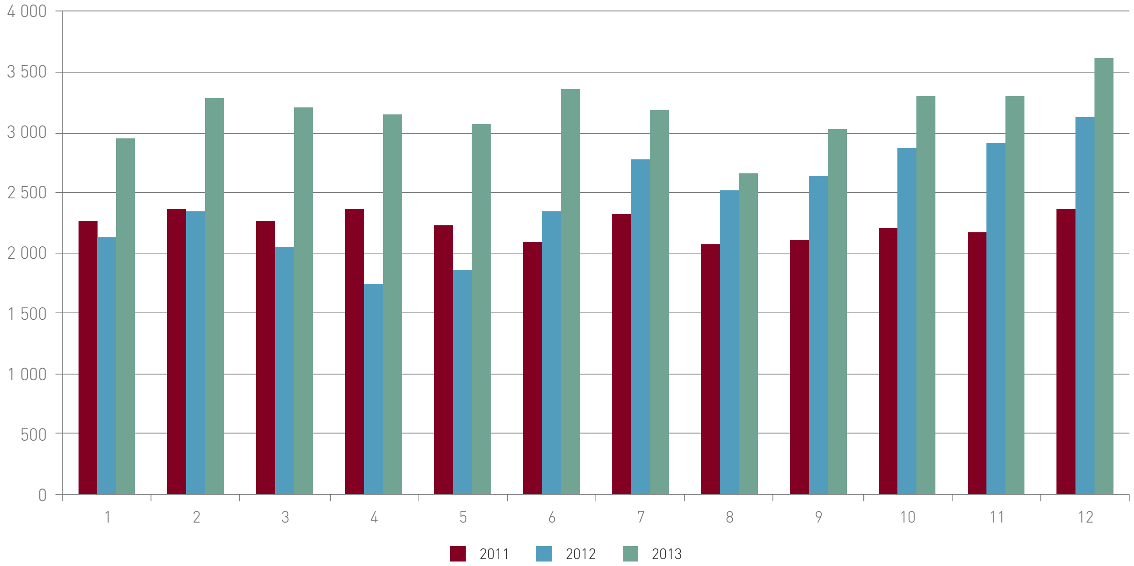
The value of customer payments increased by 4.1% in 2013. It amounted to a monthly average of € 25.5 billion representing 4.5% of the total value exchanged. In contrast, the monthly value of interbank cross-border payments decreased by 28.6 % to € 539.9 billion. The decrease was mostly a consequence of lower overnight deposits with the BCL since July 2012 leading to a reduction of related transfers.

Cross-border payments increased globally by 29.9 % in volume. This was mainly due to transactions brought to the system by new participants. In value, they decreased by 27.5 % within one year. The average value per transaction sent was € 8.4 million (against € 15 million in 2012). The average value of an interbank payment decreased from € 30.7 million in 2012 to € 14.9 million in 2013.

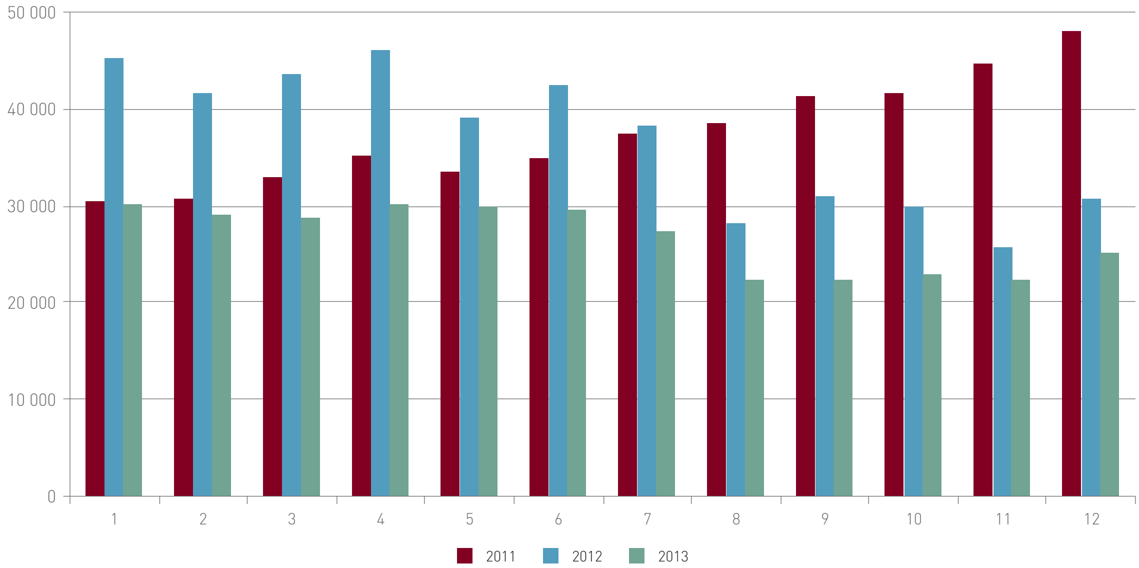
Participants in TARGET2-LU received 75 687 payments on a monthly average, 8 240 less than they had sent. The difference was of the same size as in 2012. The average value of the payments received was € 517.1 billion or 8.5% lower than the value sent.

The following charts display the development of average daily volumes and values in cross-border payments sent by Luxembourgish participants.

Graph 16 :
Cross-border payments sent: development of average daily volumes



Graph 17 :
Cross-border payments sent: development of average daily values (in € million)



Aggregated figures of domestic and cross-border payments

The total number of payments sent by participants in TARGET2-LU in 2013 amounted to 1 080 957 transactions (881 282 in 2012, an increase of 22.7 % in one year). 549 329 or 50.8 % of all payments were retail payments.

Table 2 provides a global overview of average daily volumes of payments per year since 2011. In 2013, all categories displayed show an increase in their figures.

Table 2 :
Volumes of payments in daily averages

	Domestic		Cross-border sent		Total sent	Cross-border received	
	Volume	(% volume sent)	Volume	(% volume sent)	Volume	Volume	(% volume sent and received)
2011	970	(30.3 %)	2 233	(69.1 %)	3 203	1 722	35.0 %
2012	1 014	(29.3%)	2 447	(70.7%)	3 461	1 965	36.2 %
2013	1 067	(25.1%)	3 179	(74.9%)	4 246	1 917	31.1%
Variation 2012-2013	+5.2 %		+29.9 %		+22.7 %	-2.4 %	

The average monthly value of all payments sent in 2013 was € 710.4 billion of which € 32 billion (4.5 %) represented retail payments. For 80% of these payments the value transferred was below € 250 000.

On average, 72.6% of the retail payments and 43.9% of the interbank payments were settled before noon. They represented 46% and 63.3% of the respective values.

TARGET2-LU compared to other systems participating in TARGET2

All national RTGS systems participating in TARGET2 transferred a monthly average of 7.71 million payments in 2013 representing an increase by 2.1% compared to 2012. The part of Luxembourg represented 1.2 % of this volume. The average monthly value exchanged totalled € 41 120 billion. The part of Luxembourg in the value exchanged was 1.7%.

62% of all payments in 2013 were domestic transactions and 36 % were interbank payments. In TARGET2-LU, domestic payments represented 25.1% and retail payments 50.8% of the volume.

The average value of a TARGET2 payment was € 5.3 million in 2013. In TARGET2-LU, this value was € 7.9 million.

The daily maximum of payments sent in TARGET2 was 604 412 transactions (2 April 2013). In 2012, the maximum was reached in June with 542 773 payments. For Luxembourg, the daily maximum was reached on 28 June 2013 with 6 332 payments. In 2012, the maximum was reached in December with 5 663 payments sent.

Availability and performance of TARGET2

The availability of the TARGET2 platform, and hence of TARGET2-LU, was 100% in 2013. This had also been the case in 2009, 2010 and 2012.

The SSP received a daily average of 370 934 payment instructions, all were settled within five minutes after reception.

1.6.2 Retail payments in Luxembourg

Except for notes and coins, the most used payment instruments in Luxembourg are payment cards, credit transfers and direct debits. The use of cheques continues to decrease. Network-based electronic money schemes, which are issued and operated by credit institutions or electronic money institutions, are mainly used for remote payments. As in 2012, new actors in the field of mobile and internet payments emerged.

Credit transfers and standing orders

Credit transfers can be processed internally in banks, on a bilateral basis between the involved banks or through a payment system (for instance TARGET2 or STEP2[3]). Banks in Luxembourg processed the majority of their non-internal credit transfer and standing order transactions (domestic[4] and cross-border) in STEP2.

In 2013, banks in Luxembourg issued 67.46 million credit transfers for a total value of € 1 452 billion. According to the data reported to the BCL in the collection on payment instruments and operations[5] 21 million of these transactions were processed in STEP2.

Direct debits

Until 2012, direct debits were domestic payments cleared by banks in the DOM-Electronic system, bilaterally or internally.

In 2013, creditors in Luxembourg started their migration to the SEPA Direct Debit (see below, 'The Single European Payments Area (SEPA)'). The volume of legacy direct debits was stable (15.38 million transactions against 15.46 million in 2012), but the value decreased (€ 7 242 million against € 8 591 million in 2012). By comparison, banks in Luxembourg processed more than half a million SEPA Direct Debits.

3 STEP2 is managed by the Euro Banking Association (EBA)

4 A credit transfer or a direct debit is considered as domestic when both the payer and the payee have their payment account with a Luxembourgish institution.

5 BCL Regulation 2011/N°9, 4 July 2011

Payment cards in Luxembourg

Banks and payment institutions in Luxembourg issue debit and credit cards in international schemes.

As of 2012, the BCL has been using a new methodology for the collection of payment cards activity data in Luxembourg[6]. The new methodology had a strong impact on the credit card data collected. Previously, data were collected only from the main cards processor whereas the new methodology includes all the stakeholders in Luxembourg.

At the end of 2013, there were close to 636 thousand (627 thousand at the end of 2012) debit cards in circulation. The issuance of credit cards was stable, with around 1.3 million cards.

In 2013, the number of transactions[7] with Luxembourg-issued[8] debit cards totaled 62.05 million (58.35 million in 2012) for a value of € 5.16 billion (€ 4.93 billion in 2012). The number of credit card transactions reached 47.03 million (43.68 million in 2012) worth € 4.65 billion (€ 4.51 billion in 2012).

As for the transactions in Luxembourg on cards issued in Luxembourg or abroad, the volume on debit cards was 50.78 million (50.60 million in 2012) for a value of € 4.26 billion (steady compared to 2012) and the volume on credit cards was 21.60 million (22.72 million in 2012) worth € 2.02 billion (€ 2.12 billion in 2012).

The Single European Payments Area (SEPA)

The SEPA (Single European Payments Area) project aims at achieving a single euro payment area in which all payments are considered as domestic, without any distinction between national and cross-border transactions.

With SEPA, a common set of payment instruments will be available and governed by a harmonised legal framework. The SEPA area encompasses 33 countries and territories[9], where users can make and receive payments in euro from a single account as easily and subject to the same conditions as domestic transactions.

The SEPA project is being implemented by the European banking industry through the European Payments Council (EPC)[10]. The Eurosystem and the European Commission are the catalysts of this project.

The set of SEPA payment instruments are already available to users:

- SEPA Credit Transfers (SCT), which were launched on 28 January 2008.
- SEPA Direct Debits (SDD), which were launched on 1 November 2009.
- SEPA Cards: according to the SEPA Cards Framework (SCF), every cardholder should be able to use its cards in the SEPA area and every merchant should be able to accept all SEPA compliant cards, as far as it is economically justified. Common processing and security standards are being elaborated at the European level.

The migration of credit transfers and direct debits was to be finalised by 1 February 2014 in the euro area countries, according to the migration end-dates set in the EU Regulation 260/2012[11]. The Council of the European Union adopted a Regulation on 18 February 2014 whereby payment service providers (banks) may accept processing credit transfer and direct debit transactions which are not compliant with the SEPA requirements until 1 August 2014.

6 BCL Regulation 2011/N°9, 4 July 2011

7 Payment transactions and cash withdrawals at ATMs.

8 Domestic (in Luxembourg) and international (abroad) transactions.

9 EU Countries, Iceland, Lichtenstein, Monaco, Norway and Switzerland

10 www.europeanpaymentscouncil.eu

11 Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009

Banks in Luxembourg have already widely adopted the European credit transfer for retail operations.

In its capacity as a catalyst for the harmonization in the payments area and hence for SEPA, the BCL continues to monitor the creditors' preparedness and migration to the SEPA Direct Debit. Although some creditors in Luxembourg have started, and even finished, their migration in 2013, the overall migration is not complete. The migration efforts need to be continued in 2014.

1.6.3 Collateralisation of Eurosystem credit operations

1.6.3.1 List of eligible assets

All credit operations of the ECB and national central banks are based on "adequate collateral"[12]. Consequently, each counterparty of the Eurosystem guarantees the credit received from a Eurosystem central bank by providing assets as collateral. These assets have to fulfil specific eligibility criteria specified by the Eurosystem in the General Documentation on Eurosystem monetary policy instruments and procedures.

The list of eligible assets is published on the website of the ECB. This list for Eurosystem credit operations comprises two different asset classes, marketable assets (securities) and non-marketable assets (in particular credit claims).

Eligible assets can be used throughout the whole euro area in order to collateralise credit operations with the Eurosystem. According to the nature of the assets and to the country in which they are settled, counterparties use different channels and procedures to mobilise collateral. The mobilisation of marketable assets requires the involvement of one or of several securities settlement systems (SSS).

Non-marketable assets are either mobilised via appropriate handling procedures developed by each NCB (domestic mobilisation) or via the intermediation of a correspondent central bank (cross-border mobilisation).

In the course of 2013, the Governing Council took the following measures relating to eligible assets:

On 28 November 2012, effective as of 3 January 2013, the Eurosystem published amendments to its General Documentation applicable to monetary policy operations. Details about the main changes are available on the website of the ECB.

On 22 March 2013, the Governing Council adopted Decision ECB/2013/6, which prevents, as of 1 March 2015, the use of uncovered government-guaranteed bank bonds that have been issued by the counterparty itself or an entity closely linked to that counterparty as collateral in Eurosystem monetary policy operations. As of that date, the Eurosystem will also no longer accept covered bonds issued by the counterparty where the asset pool contains uncovered government-guaranteed bank bonds also issued by that counterparty or an entity closely linked to that counterparty. Further details on this decision are available on the website of the ECB.

On 2 May 2013, effective as of 9 May 2013, the Governing Council suspended, until further notice, the application of minimum requirements for credit quality thresholds applicable to marketable debt instruments issued or fully guaranteed by the Cypriot government. Provided that they fulfil all other eligibility criteria, these instruments have regained eligibility status for the purposes of Eurosystem credit operations, subject to specific haircuts specified in the legal act. In this decision, the Governing Council took into consideration the Memorandum of Understanding concluded between the Republic of Cyprus and the European Commission and endorsed by the Member States reflecting the economic and financial adjustment programme for Cyprus.

12 Article 18 of the Statute of the ESCB and the ECB, article 22 of the founding law of the BCL.

Nevertheless, the Governing Council decided to temporarily suspend the eligibility of marketable debt instruments issued or fully guaranteed by the Cypriot government for use as collateral in Eurosystem monetary policy operations from 28 June 2013 until 5 July 2013 due to the decrease in the credit rating of the Republic of Cyprus. Further details on these decisions are available on the website of the ECB.

On 18 July 2013, the Governing Council of the ECB decided to review its risk control framework. It decided in particular to:

- update the haircuts for marketable and non-marketable instruments;
- adjust the risk control measures for retained covered bonds to take into account the additional risk which results from the use of such securities by the issuer itself and to ensure a level playing field between securities with comparable risks;
- replace the current requirement of two 'triple A' ratings with the requirement of two 'single A' ratings for the six classes of asset-backed securities (ABS) subject to loan level reporting requirements, reflecting their improved transparency and standardisation;
- reduce the haircuts applicable to ABS eligible under the permanent and temporary Eurosystem collateral framework.

These measures follow the biannual review of the Eurosystem's risk control framework. Additional measures to further strengthen this risk control framework were agreed by the Governing Council on 27 September 2013, effective as of 1 October 2013. The complete list of measures as well as additional details on these decisions are available on the website of the ECB.

On 9 September 2013, effective as of 26 September 2013, the Governing Council decided to strengthen the loan-level reporting requirements for residential mortgage-backed securities (RMBSs) and ABSs backed by loans to small and medium-sized enterprises (SME ABSs) that are used as collateral in Eurosystem monetary policy operations. Additional measures to further strengthen this reporting requirement was agreed by the Governing Council on 27 September 2013, effective as of 1 October 2013. The complete list of measures as well as additional details on these decicions are available on the website of the ECB.

On 19 September 2013, effective 1 April 2014 with a nine-month phasing-in period the Governing Council decided to introduce loan-level reporting requirements for asset-backed securities (ABSs) backed by credit-card receivables, when these are used as collateral in the Eurosystem's monetary policy operations. Loan-level data must be provided on the basis of the template available on the ECB's website, at least on a quarterly basis or within one month of the interest payment date of the instrument in question. Further details on this decision are available on the website of the ECB.

1.6.3.2 Securities settlement systems

Selection of eligible depositories

For the mobilisation of securities by its counterparties, the Eurosystem has selected securities settlement systems (SSS) operated by central securities depositories (CSDs). A securities settlement system is eligible if it obtains, after verification of its compliance with the evaluation criteria established by the Eurosystem (the User Standards), the formal approval of the Governing Council.

In Luxembourg, the systems operated by Clearstream Banking S.A. (CBL), VP Lux S.à r.l., and by LuxCSD S.A. are eligible for the mobilisation of securities by the Eurosystem's counterparties.

Cross-border use of securities

Besides using eligible domestic securities settled via the national depository, counterparties can receive credit from their national central bank by using collateral issued in a depository located elsewhere in the euro area. The Eurosystem sets two procedures for such cross-border use of collateral.

Counterparties may use:

- the CCBM[13]; and
- links established between securities settlement systems of CSDs.

Currently two types of links are eligible, direct links and relayed links:

- in a given securities settlement system located in a country of the euro area, direct links make securities issued in a system of another euro area country available, thanks to bilateral accounts that the two systems maintain with each other;
- relayed links enable the transfer of securities between two systems without bilateral accounts by using a third intermediary system.

Links have to be approved by the Governing Council before being used for collateralisation of central bank credit operations. In 2013, Luxembourg counterparties could use the direct links between CBL and Clearstream Banking A.G. Frankfurt (CBF), Euroclear Bank, the SSS operated by the National Bank of Belgium, Monte Titoli (Italy), OeKB (Austria), Euroclear Netherlands, Euroclear Finland, Euroclear France, KDD (Slovenia), BOGS (Greece), CDCP (Slovakia) and VP Lux, as well as the relayed link between CBL and Maltaclear via CBF. Moreover, the direct link between LuxCSD and CBL as well as eight relayed links of LuxCSD were considered eligible for Eurosystem credit operations.

New assessment framework

In September 2013, the Eurosystem published a new framework for the assessment of securities settlement systems and links between these systems. This framework relies on two evaluations, on the evaluation performed as "overseer of systems" and the one performed as "user of systems". These two evaluations are complementary, which means that the user evaluation does not reconsider aspects that were satisfactorily rated in the evaluation performed by overseers. The framework rationalises the assessment, and continues to ensure a high level of protection of the Eurosystem in its credit operations.

The new framework will be applied as of 2014. More detailed information as well as the questionnaires for securities settlement systems and their links are available on the website of the ECB.

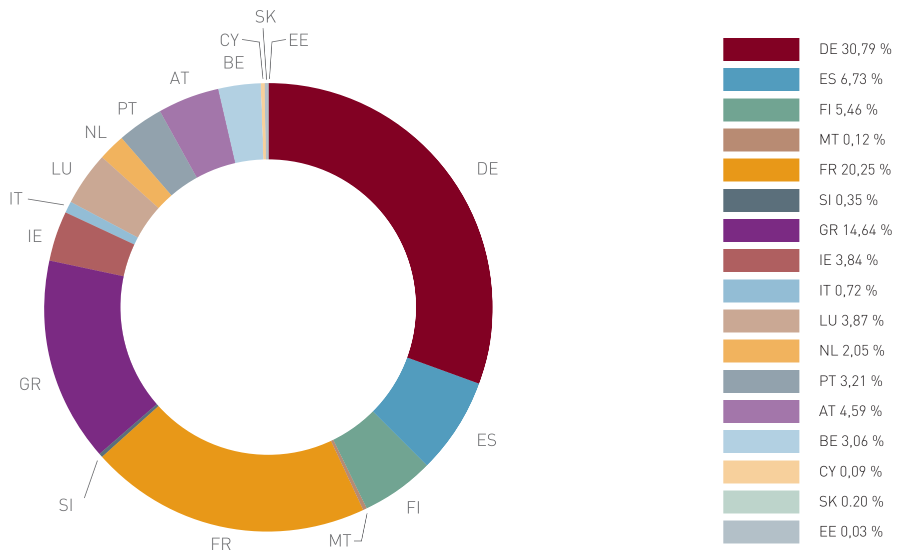
1.6.4 Correspondent Central Banking Model

The objective of the CCBM is to enable counterparties of the Eurosystem to use securities on a cross-border basis even if there is no eligible link between the national depository and the foreign depository in which the counterparty holds securities. In the CCBM each national central bank acts on behalf of the other central banks as a custodian for securities held at the national depository. This procedure involves first of all a central bank called a correspondent central bank (CCB), which differs from the central bank granting the credit to the counterparty. The CCB holds the account at the CSD in which the deposited securities are registered. Moreover, the home central bank (HCB) grants the credit to its counterparty based on the confirmations it receives from the CCB.

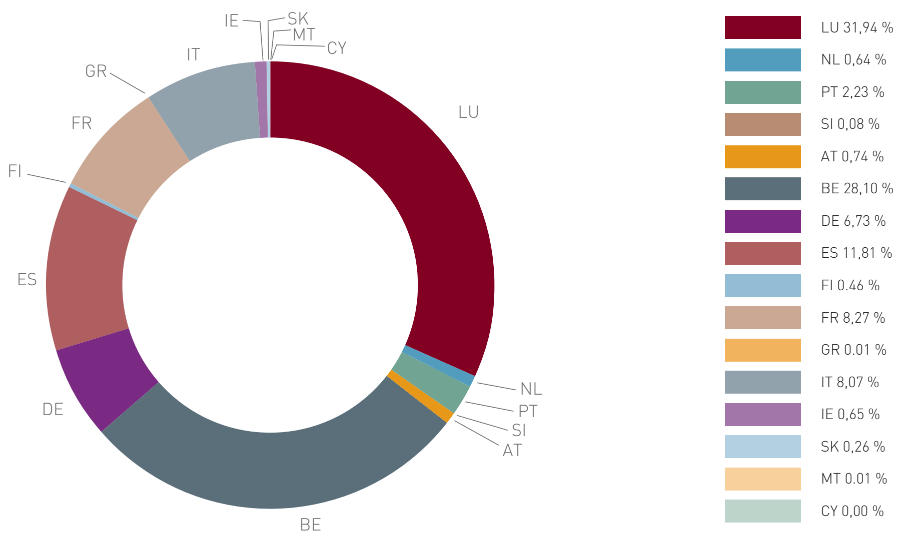
The CCBM remains the main channel for the cross-border mobilisation of collateral used in the Eurosystem's credit operations. In terms of value, the most active correspondent central banks in 2013 were those of Luxembourg (31.94%), Belgium (28.10 %), Spain (11.81 %), and Germany (6.73%). The most active home central banks were those of Germany (30.79%), France (20.25%), Greece (14.64%), and Spain (6.73 %).

13 Correspondent Central Banking Model, see section 1.6.4.

Graph 18 :
Home Central Bank – 2013



Graph 19 :
Correspondent Central Bank – 2013



1.6.5 Future collateral management of the Eurosystem

In 2013, the Eurosystem continued its work aimed at enhancing collateral management, both for the Eurosystem and for counterparties.

In particular, the need to repatriate eligible securities from the investor SSS to the issuer SSS in order to use them in the CCBM, will be abandoned as from May 2014. In addition, the cross-border use of triparty services for the mobilisation of collateral will be allowed as from the last quarter of 2014.

1.6.6 Target2-Securities

TARGET2-Securities (T2S) is a Eurosystem project aimed at developing a single pan-European securities settlement platform in order to organise settlement operations in and between all participating Central Securities Depositories (CSDs) in a centralised and harmonised way. The platform will accommodate the settlement in central bank money of the cash component of transactions. This initiative is part of a more general process of financial market integration in Europe, leading to a streamlining of procedures and to a substantial reduction of costs and risks.

In July 2012, the Governing Council appointed the members of the T2S Board, the executive body in charge of formulating proposals to the Governing Council on strategic matters related to T2S. One of the BCL Directors is Vice-Chairman of the T2S Board.

In March 2013 the Governing Council approved the plan for CSDs to migrate to T2S. CSDs will migrate in four waves between June 2015 and February 2017. The Luxembourg CSDs (LuxCSD and VP Lux) will migrate in the third migration wave, on 12 September 2016.

The year 2013 was marked by preparation in numerous areas:

- development of the T2S software was completed and the software was submitted to validation and testing.
- adaptation of the CSDs progressed considerably. This materialised in the alignment of CSDs' processes for the methods foreseen in T2S but also by the significant harmonisation efforts of the different CSDs' processes.
- CSDs and their communities prepared for tests and migration.
- SIA/Colt and SWIFT, the two companies selected for offering network connectivity services to T2S actors successfully passed their acceptance tests in 2013.
- in October 2013 the Eurosystem started the T2S user training programme based on a "train the trainer" approach.

By the end of 2013, 24 CSDs had committed to join the T2S platform.

1.6.7 LuxCSD

LuxCSD, Luxembourg's central securities depository was jointly created by the BCL and Clearstream International on the basis of an equal shareholding in 2010. It provides securities settlement services in central bank money. The Clearstream Group is the operator of LuxCSD, allowing it to benefit from operational synergies and a functional IT platform.

LuxCSD provides the following main services:

- the settlement of securities transactions in central bank money;
- the settlement of free of payment transactions;
- securities issuance services with settlement in central bank money or free of payment;
- securities custody services;
- the routing of orders in investment fund shares;
- direct settlement against Clearstream Banking counterparties or against counterparties in domestic markets;
- upon its availability, a national access point to T2S.

The LuxCSD Board is composed of three members, one of them mandated by the BCL while the two others are mandated by Clearstream Banking.

Securities eligible in LuxCSD are debt securities, equities or investment fund shares, whether they are domiciled in Luxembourg or not. In 2013, the first securities issuances within LuxCSD took place.

In 2013, LuxCSD was assessed compliant with the Eurosystem's User Standards and was accordingly qualified as eligible infrastructure for the use of collateral in Eurosystem credit operations. The links of LuxCSD with Clearstream Banking S.A., as well as with the CSDs of Austria, Belgium, France, Germany, Greece, Italy, the Netherlands, and Slovenia were likewise approved by the Eurosystem. Luxembourg counterparties can hence use LuxCSD and its approved links in order to collateralise credit operations with the Eurosystem.

1.7 FINANCIAL STABILITY AND PRUDENTIAL SUPERVISION

1.7.1 Macro-prudential supervision

The financial stability mandate attributed to the BCL is based on the Treaty on the Functioning of the European Union (TFEU) – through its participation in the Eurosystem – and on national legislation.

At the European level article 127(5) of the TFEU entrusts the Eurosystem, in addition to its central tasks, with the responsibility of contributing to 'the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system'. Moreover, the implementation of new prudential rules for the EU banking system[14] from 1 January 2014 provides a common legal basis for Member States including multiple macro-prudential instruments.

At the national level, article 2(6) of the organic law of the BCL stipulates that 'the Central Bank shall cooperate with the Government and with prudential supervision authorities at the national level, as well as with other central banks at the EU and international level, in order to safeguard financial stability, in particular within committees set up for this purpose'. In line with the European Systemic Risk Board (ESRB) recommendation regarding the macro-prudential mandate of national authorities, a Systemic Risk Committee *(Comité du Risque Systémique)* is foreseen to be created in Luxembourg in 2014. The BCL will play a leading role in this committee.[15]

14 See Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

15 See Recommendation of the ESRB of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3) to Member States (Recommendation B-3).

In addition to the financial stability mandate, the legislator has entrusted the BCL with the supervision of the payment systems and securities settlement systems.

1.7.1.1 Macro-prudential supervision in Luxembourg

Although the legislative framework establishing an authority in charge of macro-prudential supervision has not been formally adopted by the Parliament, the BCL has already been actively involved in the surveillance of systemic risks, i.e. the risks that could affect the stability of the national financial system as a whole. To this end, the BCL can draw on its expertise and competencies to identify and measure the accumulation of risks over time and their distribution within the financial system. Given the importance of the banking industry in Luxembourg, the analyses undertaken will focus on the assessment of the accumulation of risks within the banking sector over time. In view of the importance of the shadow banking system as a potential source of risks and the regulatory initiatives designed to mitigate such risks, the BCL has already conducted multiple analyses in order to understand the linkages between investment funds and the banking sector.

The analysis of the temporal dimension of risk focuses on the issue of pro-cyclicality in the banking sector. Pro-cyclicality can lead to an accumulation of risk over time due to the interaction between the financial and real sectors of the economy. The cyclical nature of banking activity can be analysed using indicators for the credit cycle, asset prices, leverage and maturity mismatches. Furthermore, the BCL has developed several complementary indicators.

The list of additional BCL indicators includes marginal probabilities of default of individual banks and their counterparties, conditional probability of default and risk of contagion, aggregate z-scores[16] and specific indicators to monitor liquidity.

The preliminary results of estimations made by the BCL concerning the probability of default of banks operating in Luxembourg in 2013 show a slight improvement in their dispersion compared to the levels assessed in 2012. The examination of individual results reveals the existence of vulnerabilities for some small banks. Nevertheless, these banks do not pose any risk of systemic nature to the financial system due to their lack of significant interbank linkages at the national level. This last observation is confirmed at the aggregate level by the results obtained from the z-score as well as those from the vulnerability index computed by the BCL.

The BCL is currently developing a systemic risk dashboard, which remains in a preliminary testing phase. This dashboard includes a set of quantitative and qualitative indicators designed to assess the importance of systemic risk and the information it contains will allow the macro-prudential authority to assess vulnerabilities in the context of the intermediate objectives of macro-prudential policy.

As regards the intersectoral dimension of systemic risk, the correlation of exposures between financial institutions can provide an indication of the importance of both the linkages between actors and the common contagion channels of risks. In addition, exposure data used in combination with other analytical tools can facilitate the evaluation of interconnections and the importance of linkages between financial institutions. For example, the use of a security by security database permits the BCL to analyse the importance of sovereign risk exposures of credit institutions and investment funds on a continual basis.

Given the international composition of the Luxembourg banking sector, the BCL employs network analyses techniques to assess both domestic and cross-border interlinkages. The domestic network of interbank linkages reveals the importance of certain institutions (as regards the size of their balance sheet, the volume of their interbank exposures and the number of interlinkages with other banks), thereby revealing potential contagion channels. Recently, the analysis was extended to other segments of the financial sector in order to take into account the systemic importance of certain market participants, including their connectedness with the banking sector. In this context, specific emphasis was placed on the linkages between the banking sector and investment funds. The results of this analysis suggest that the factors of vulnerability that could

16 The z-score remains an approximation of the index reflecting the distance to the default threshold of a bank or a firm. The fundamental difference between the z-score and the distance to default is statistical. This difference lies in the data used to assess the financial soundness of banks (balance sheet vs. market data).

have an impact on the stability of the financial system in Luxembourg arise from external financial conditions rather than from domestic ones.

The BCL regularly assesses the linkages between the financial sector and the real economy and routinely conducts liquidity stress-tests. In this context it may be noted that a number of indicators which were developed at the BCL take a forward-looking approach. In order to anticipate rising vulnerabilities in the banking sector, the BCL has put special emphasis on its synthetic financial vulnerability indicator as well as macro-prudential stress tests.

The vulnerability index is constructed using a set of quarterly variables from bank balance sheets and profit and loss accounts (overnight and inter-bank deposits, profitability, variability in own funds and provisions), macro-financial variables (stock market returns) and variables that reflect the structure of the Luxembourgish banking sector (e.g. variation in the number of banks). In order to keep track of medium term vulnerabilities in the banking sector, and taking Eurosystem macroeconomic projections and available information into account, the indicator is projected over a period of two years. Against the background of the fledgling economic recovery in Europe, recent projections suggest that the vulnerability index is converging towards a degree of risk in line with its long-term historical average level. In addition, over this time period, the index remains below the vulnerability threshold. With regard to the estimates, it is worth noting that confidence intervals still remain relatively large, thereby revealing some degree of uncertainty.

As a component of its macro-prudential assessment framework, the BCL conducts regular top-down stress tests with the aim of quantifying the impact of severe, but plausible, hypothetical shocks on the stability of individual components of the financial system. Additional risk indicators can be used to confirm the results of the stress tests. Given their complementarities, both the indicators and the outcome of the stress tests can subsequently help to guide policy and calibrate prudential actions.

It is worth noting that the BCL has carried out a number of specific studies aimed at identifying the emergence of new risks within the Luxembourg financial system. In the context of recent developments in banking and financial regulation, several quantitative studies were undertaken to assess the impact of the new Basel III liquidity requirements on Luxembourg's credit institutions.

Moreover, particular consideration has been given to the analysis of the debt ratio of Luxembourg banks as a possible indicator for banks' reliance on external funding. Subsequently, a common project between the BCL and the Luxembourg School of Finance (LSF) with financing from the *Fonds National de la Recherche* has been running since early 2011. This project focuses on the assessment of stability in the Luxembourg financial sector and on the development of possible macro-prudential instruments.

The BCL used the Basel Committee on Banking Supervision (BCBS) framework to determine systemically important institutions in Luxembourg. The BCBS framework is based on a series of indicators including the size of an institution, its interconnectedness and its substitutability in case of default. The development of the domestic systemically important banks (DSIB) assessment framework for Luxembourg is facilitated by the BCL's direct participation in the work of the BCBS Macro-Prudential Supervision Group that has been created with a mandate to address the full set of macro-prudential and systemically important bank policy issues that fall within the sphere of the Basel Committee.

In performing its macro-prudential supervision functions, the BCL actively contributes to a number of committees and working groups at the level of the ESCB, *inter alia* the Financial Stability Committee (FSC) and its substructures. The BCL is also involved in an ECB initiated research network focusing on macro-prudential issues (Macro-prudential Research and Supervision network-MaRS) which involves central banks of the EU countries. This initiative is centred around three main pillars:

- the development of macro-financial models linking financial stability concerns to the performance of the economy;
- the evaluation of contagion risks and their transmission channels;
- the elaboration of a set of systemic risk indicators.

The final report of this network is scheduled to be published in the first half of 2014. The numerous contributions of the BCL, in particular for the first two work streams of this project, have been recognised by the ECB and were subsequently published in top peer reviewed journals.[17]

1.7.1.2 The European Systemic Risk Board

The BCL has considerably increased its involvement in macro-prudential supervision following the creation of the European Systemic Risk Board (ESRB) under the Regulation on European Union macro-prudential oversight of the financial system and the establishment of the European Systemic Risk Board[18]. The BCL participates directly in the Advisory Technical Committee and its two substructures related to macro-prudential instruments and macro-prudential analysis. In addition, the BCL takes part in various subgroups operating under the auspices of the ESRB such as the task force on stress testing, the working group on systemic risk identification and categorisation, the expert group on guidance on setting countercyclical capital buffer and the expert group on securities financing transactions. The BCL also takes part in the standing committee on regulation and policy of the European Banking Authority (EBA) as well as in a subgroup on crisis management.

The ESRB is comprised of more than 70 institutions in total (central banks, national and European financial supervision authorities, the European Commission …) and is composed of both a General Board and a Steering Committee. The technical work is shared between the Advisory Technical Committee (ATC), which consists of experts from the member institutions, and the Advisory Scientific Committee which has academic experts amongst its membership.

The creation of the ESRB has given rise to the need for new responsibilities, in particular for central banks, which now play a major role in European macro-prudential supervision in view of their expertise and responsibility in preserving financial stability. The Governor of the BCL is a voting member of the ESRB General Board, which is the unique decision-making body of the ESRB. Furthermore, the national micro-prudential supervisory authorities are also members of the General Board, although they do not hold voting rights. The participation of the micro-prudential authorities facilitates the sharing of expertise and the exchange of information amongst the diverse membership base. In this regard, the BCL is also represented at the level of the General Board as a liquidity supervisor according to a rotation principle among the other national supervisory authorities.

The interaction between national authorities at the ESRB will lead to an improvement in the ability to identify macro-prudential risks at the level of the EU-wide financial system. Likewise, it also provides a mechanism for issuing clear warnings and recommendations to facilitate and trigger prompt action by the concerned national authorities under the 'comply-or-explain' principle.

After a short initial period aimed at implementing the institutional and organisational framework, the ESRB General Board started holding its regular plenary meetings at a minimum frequency of four times per year. The ESRB has been mainly working on the following six subjects:

- the identification and assessment of general systemic risk, as well as the actions needed to deal with vulnerabilities, which implies the quarterly publication of a systemic risk dashboard;
- the analysis and study of macro-prudential actions targeting specific risks which have materialized. Examples of the latter include the issuing of recommendations on loans in foreign currencies (ESRB/2011/1) and the foreign currency funding of financial institutions in Europe (ESRB/2011/2);
- the macro-prudential analysis of ongoing European legislative developments, namely those regarding the transposition into European law of the Basel III rules within the Capital Requirements Directive and the new Regulation for banks and other credit institutions (CRDIV/CRR), as well as the Central Counterparties legislation (EMIR);

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17 - Guarda, P., A. Rouabah and J. Theal, "A Mixture Vector Autoregressive Framework to Capture Extreme Events in Macro-prudential Stress Tests", Journal of Risk Model Validation, Vol. 7, No. 4, pp. 1-31, 2013.
- de Walque, G., O. Pierrard, and A. Rouabah, "Financial (In)stability, Supervision and Liquidity Injections: A Dynamic General Equilibrium Approach", Economic Journal, Vol. 120, No 549, pp. 1234-1261, 2010.

18 See Regulation n°1092/2010, issued by the European Parliament and the Council on 24 November 2010.

- the identification of common principles for the implementation of macro-prudential national mandates and tools for which the ESRB has issued a recommendation on national macro-prudential mandates (ESRB/2011/2). National authorities have been requested to establish a national authority entrusted with the conduct of macro-prudential policy and the evaluation of systemic risk accumulation;
- the operationalisation of macro-prudential policy with the publication of both a flagship report and a handbook on macro-prudential policy in the banking sector. In addition, the ESRB has approved a decision on a coordination framework for the notification of national macro-prudential policy measures by competent or designated authorities and the provision of opinions and the issuing of recommendations by the ESRB. Moreover, a recommendation of the ESRB on the intermediate objectives and instruments of macro-prudential policy[19] was issued on 4 April 2013;
- the identification of the analytical tools which, in the near future, the ESRB will further develop in order to assess systemic risk.

With the implementation of the CRD IV (Capital Requirement Directive) and the CRR (Capital Requirement Regulation) on 1 January 2014, the ESRB has been called upon to assume the following new responsibilities:

- the establishment of guidance regarding the setting of countercyclical capital buffer rates and the identification of relevant variables to guide both the build-up and release phases of this buffer;
- the issuance of opinions on certain macro-prudential measures.[20] To this end an assessment team was established as a substructure of the Advisory Technical Committee in order to assess the measures undertaken and to prepare ESRB opinions. This assessment team will include nine representatives from central banks among the permanent members and will be designated by the General Board;
- the contribution to the consultation regarding the CRD/CRR review.

1.7.2 Micro-prudential supervision

1.7.2.1 Liquidity surveillance

The liquidity supervision of market operators has been assigned to the BCL through a modification of its organic law on 24 October 2008. The liquidity supervision of market operators mainly aims at evaluating the liquidity situation and the management of the liquidity risk of individual operators. Since the flaws in liquidity risk management of certain operators were one of the main causes of financial turbulences in 2008, the management of liquidity and its related risks have received particular attention from supervisory authorities at an international level during the last years.

The regulation of liquidity is important for a central bank because, on the one hand, it acts as a supplier of liquidity to the financial system both in normal times and in times of stress, and, on the other hand, it can detect or, indeed, prevent a failure chain on the markets and, thus, limit the systemic risks.

Liquidity supervision also constitutes an important support function for analyses conducted in the field of financial stability and the analysis of systemic risks, which also analyses the interconnection between different market operators as well as risks of contagion. The market operators' monitoring function is thus a major source of data and information in the field of financial stability.

The BCL's framework of supervision is based essentially on two pillars, namely the permanent off-site monitoring carried out internally on the basis of data collected via regular statistical and prudential reporting and the on-site inspections of market operators. Particular importance is attached to the monitoring of the work at the international level, in relation with the definition and implementation of new liquidity standards under the framework of Basel III as well as in the context of their transposition at the European level. Since year-end 2012, the BCL is also fully involved in the preparatory work for the implementation of the Single Supervisory Mechanism (SSM).

19 See Recommendation of the ESRB of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1).

20 See Article 458 of the CRR and Article 133 of the CRD.

1.7.2.1.1 Tools for liquidity surveillance

The off-site monitoring of market operators is based on a regular analysis of qualitative and quantitative information on an individual as well as an aggregated level. In order to have a better monitoring of the liquidity position of the market operators, the BCL notably implemented daily reporting on the liquidity position of credit institutions. Introduced in 2010, this reporting applies to a sample of credit institutions and allows the BCL to assess the liquidity position of these entities on a day-to-day basis. Subject to this reporting are mainly credit institutions of significant size as well as credit institutions which are counterparties in monetary policy operations.

From a database containing historical data listed in this daily liquidity reporting, the BCL has, moreover, developed an analysis tool that allows the evaluation of the structural liquidity position of these credit institutions and the evolution of their liquidity position over time on an individual basis. In parallel, the BCL has developed an analysis tool that allows the assessment of the vulnerability of individual credit institutions in terms of liquidity as well as the identification of liquidity risks at an aggregate level. This tool was supplemented by the development of a watch list identifying all credit institutions that suffered a deterioration in their situation beyond a certain threshold in the previous quarter, while highlighting the parameters of the model that are at the origin of this development.

Moreover, all information available from the prudential and statistical reporting are fed into dashboards and allow direct access to significant information and ratios on each supervised entity. Following the recommendations of the European Systemic Risk Board on foreign currency loans and the financing of credit institutions in US dollars, the BCL also performs specific monitoring of these positions on a quarterly basis, at both the individual level and the aggregate level of the entities under surveillance. Finally, a daily report with financial market indicators has been developed. This set of tools allows its users to make the necessary analysis in the context of liquidity supervision.

In 2013, the BCL carried out eight on-site inspections, including follow-up inspections, with regard to liquidity supervision. These assessments served to evaluate the framework and the procedures the individual operators have in place, so as to assess the appropriateness of the framework for the liquidity risk management of the operators in question. The on-site inspections are usually coordinated and carried out in cooperation with the *Commission de surveillance du secteur financier* (CSSF). The on-site inspections revealed that the credit institutions have generally reinforced their liquidity risk management framework in order to comply with the recommendations in this matter.

Furthermore, the BCL is in regular contact with other institutions in the context of liquidity supervision, including the CSSF, to monitor and assess relevant developments for the assessment of liquidity risk.

1.7.2.1.2 Work for the implementation of the Basel III standards

As regards the implementation of the new liquidity standards, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the BCL is following and accompanying regulatory developments in this area. At the regulatory level, the European Banking Authority produced and published a draft called "Implementing Technical Standards" in July 2013 in order to establish regulatory reporting of the LCR and the NSFR on a monthly and quarterly basis respectively, as of 31 March 2014. Thus the first date of transmission for the LCR will be end of April 2014 while for the NSFR it will be end of May 2014. [21]

Regulatory reporting will be mandatory for all credit institutions on an individual and consolidated basis. The regulatory reporting requirements will remain in effect until the LCR becomes a binding standard in the course of 2015. In a second step and according to article 460 of the Regulation (EU) No. 575/2013 (CRR)[22], the European Commission must adopt a delegated act before 30 June 2014, which will stipulate the final specifications on the LCR as well as details on the period of the progressive introduction of this new liquidity standard.

21 The first remittance dates for the LCR and NSFR have been set to the end of June 2014 as communicated by the European Commission in April 2014 which deviates from the text that was originally published in French.

22 Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012.

This delegated act will enter into force no later than 31 December 2014, but will not apply before 1st January 2015. The minimum requirement will be set initially at 60%, and will increase each year until it reaches 100% on 1st January 2018. The stable funding requirement will remain a monitoring tool until a decision on its establishment will be taken by the end of 2016.

In the course of 2013, the BCL in cooperation with the CSSF continued to conduct four impact studies on a representative sample of credit institutions of the financial centre, in order to determine the current positions of these banks facing the new liquidity standards. While a number of credit institutions do not meet the ratios at this stage, it should be noted that this is mostly due to the fact that these credit institutions form part of banking groups which centralise liquidity at the level of the parent. On the other hand, institutions with a strong franchise in the Luxembourg economy generally meet the new standards already. The BCL will continue to attach great importance to the follow-up of the two liquidity ratios for all the institutions in 2014.

1.7.2.1.3 National and International Cooperation

As a supervisor in charge of liquidity, the BCL has contributed to the work of 14 supervisory colleges in 2013. The majority of the credit institutions being affiliates of groups having their head office abroad, the participation in these colleges allows assessing the activity and the risk profile of the Luxembourg entities in the context of their group.

As regards the follow-up of regulatory developments at the international level, the BCL participates in the working groups dedicated to liquidity issues at the level of the Basel Committee and the European Banking Authority. Beyond the working groups dedicated to liquidity aspects, the BCL is also a member of the Board of Supervisors of the European Banking Authority as well as of other committees and subgroups that are relevant in the context of its supervisory mission. As a general rule the implication in these committees and working groups is done jointly with the CSSF.

1.7.2.1.4 Single Supervisory mechanism

During 2013, the BCL was involved in preparatory work regarding the establishment of the Single Supervisory Mechanism (SSM). The EU regulation on the Single Supervisory Mechanism (SSM Regulation)[23] was adopted on 15 October 2013 and entered into force on 3 November 2013. It entrusts the ECB with specific tasks regarding the prudential supervision of credit institutions and foresees that central banks and competent authorities at the national level will be closely associated with the exercise of this mission. Following a transitional period of one year, the SSM will be operational as of 4 November 2014. The SSM will profoundly change the organization of supervision in Europe and in the Member States. In Luxembourg, the BCL and the CSSF will cooperate closely in light of the representation of Luxembourg in the decision making bodies at the level of the ECB.

Under the SSM, the ECB will directly supervise the credit institutions considered "significant", including their subsidiaries and branches established in participating Member States. The criteria laid down in the SSM Regulation to define the significance of a bank at the highest level of consolidation are the following:

- the size (the total value of its assets exceeds € 30 billion)
- the importance for the economy of the Union or any participating Member State (the total value of its assets exceeds 20 % of GDP of the participating Member State of establishment, unless the total value of assets is below € 5 billion)
- the significance of cross-border activities

In addition, all credit institutions having requested and received financial assistance from the European Financial Stability Facility or the European Stability Mechanism will be directly supervised by the ECB. Finally, irrespective of the three criteria above, at least three credit institutions of each participating Member State shall be subject to direct supervision by the ECB.

23 COUNCIL REGULATION (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

The operational conduct of day-to-day supervision of significant credit institutions will be conducted under Joint Supervisory Teams (JSTs). A JST, composed of staff from both the ECB and national authorities, will be established for each significant credit institution. It needs to be underligned that the national authorities remain responsible for the prudential supervision of the "less significant" credit institutions. The latter will be conducted under the standards and proccesses established by the SSM. However, the ECB may decide at any time to take over the direct supervision of a less significant institution to ensure a consistent application of high supervisory standards across the different participating Member States.

The Supervisory Board is at the centre of the SSM governance structure. It will organise the planning and execution of the supervisory tasks of the ECB, conduct preparatory works regarding the supervisory tasks conferred on the ECB and propose to the Governing Council of the ECB complete draft decisions to be adopted by the latter. At the level of the Supervisory Board, Luxembourg is jointly represented by the CSSF and the BCL. The Governing Council of the ECB is the ultimate decision making body in the context of the SSM.

In 2013, the preparatory work in view of the establishment of the SSM continued. The BCL was closely associated with this preparatory work together with the CSSF. It should be noted that this preparatory work was led by a group of High Level Supervisory Representatives at the ECB. This group was assisted in its work by a task force and several other working groups in charge of specific subjects such as the mapping of the euro area banking system, the preparation of legal acts, the development of the supervisory model, the establishment of the supervisory reporting framework and the preparation for the comprehensive assessment of the significant credit institutions that the ECB needs to undertake during 2014. This comprehensive assessment is conducted by the ECB, in close cooperation with national authorities, with regard to significant credit institutions and will be finished in October 2014 at which point the ECB assumes its new supervisory missions. The comprehensive assessment has three complementary pillars:

- a supervisory risk assessment, addressing key risks in the banks' balance sheets,
- an asset quality review, examining the asset side of bank balance sheets as at 31 December 2013,
- a stress test, providing a forward-looking view of banks' shock-absorption capacity in a crisis situation.

In Luxembourg, six credit institutions are subject to this comprehensive assessment. The work related to the review of the asset quality was initiated at the end of 2013 and will continue throughout 2014 with a strong involvement of authorities at the national level.

1.7.2.2 Oversight

In accordance with its organic law, the BCL ensures the safety and the efficiency of payment systems and securities settlement systems as well as the safety of payment instruments. Promoting the smooth operation of payment and settlement infrastructures constitutes an essential mission of central banks. The objective consists in contributing to the preservation of financial stability, the implementation of monetary policy and the smooth functioning of the economy in general.

Pursuant to Regulation BCL 2010/N°6 of 8 September 2010 as amended, the addressees of the BCL's oversight of payment systems and instruments are the operators of systems as well as the issuers and governance authorities of payment instruments. The oversight is based on specific recommendations, principles and standards adopted by the Eurosystem and operators and issuers are required to implement them. The oversight targets in particular the operating rules and contracts related to the infrastructure and includes the services (notably operational and IT) provided by technical agents or third party entities. The operators and issuers are required to put in place an adequate organization and appropriate operating rules. Moreover it is their responsibility to adopt a management framework commensurate with the risks and complexity of their activity.

The BCL carries out its oversight activity based on information and statistical data collected on a regular or ad hoc basis from the respective entities. This information is completed by regular meetings and, as appropriate, by specific checks. The entities are required to proceed to regular self-assessments regarding the level of compliance of the system or payment instrument with respect to the applicable recommendations, principles and standards.

The activities of the BCL comprise two components. On the one hand, the BCL conducts the oversight of designated systems operating in Luxembourg as well as of payment instruments available to the public in Luxembourg. On the other hand, at the level of the Eurosystem, the BCL contributes to coordinated oversight activities targeting, among others, infrastructures that do not present a clear national anchorage.

1.7.2.2.1 Oversight of securities settlement systems

The oversight of securities settlement systems (SSS) focused on systems, which are operated by Clearstream Banking S.A. (CBL), LuxCSD S.A. (LuxCSD) and VP LUX S.à r.l. (VPLUX) in Luxembourg. These three systems have proven to be stable and resilient throughout 2013.

In addition to the monitoring of developments of activities and the assessment of monthly information obtained from operators, the BCL performed a comprehensive assessment of the securities settlement systems operated by LuxCSD as well as VP LUX against the ESCB-CESR recommendations. A number of recommendations and action points were issued to the operators.

In the same context, the BCL also closely observed the implementation of certain recommendations addressed to CBL. In this regard, the BCL paid particular attention to the development of a recovery plan for critical services by the operator. Furthermore, the various collateral management services offered by CBL to its participants as well as to other settlement infrastructures were subject to a specific examination.

In the context of its oversight functions, the BCL cooperated and coordinated its actions with the CSSF. In addition, the BCL continued its cooperation with other central banks. Cooperation and an exchange of information were organized with the Belgian authorities due to the interoperable link between the securities settlement systems operated by Clearstream Banking and Euroclear Bank.

The BCL also followed with particular attention the discussions related to the draft regulation of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories (CSD Regulation). In this context, the BCL actively contributed to the elaboration of technical standards with regard to this draft regulation through its participation in a joint task force between the ESMA (European Securities and Markets Authority) and the ESCB.

Finally, the BCL contributed to a CPSS working group (Committee on Payment and Settlement Systems) aimed at analyzing the different collateral management services offered by central securities depositories and banks as well as the risks inherent to these activities.

1.7.2.2.2 Oversight of payment systems

With regard to the oversight of payment systems, the BCL contributed, by means of its participation in Europeans committees and working groups, to the oversight activities of the TARGET2 system. The oversight of TARGET2, the centralized platform put in place by the Eurosystem, is conducted jointly by the Eurosystem members under the direction and coordination of the ECB. The oversight activities of the Eurosystem have, among others, covered aspects related to operational risk. Moreover, a preliminary evaluation of the system against the CPSS-IOSCO principles for financial market infrastructures and an analysis of the interdependencies between TARGET2 and other systems was carried out. In 2013, the operation of TARGET2 proved to be stable and resilient.

Similarly, the BCL showed particular interest in oversight activities related to EURO1 and STEP2, two payment systems operated by EBA Clearing and for which the ECB acts as lead overseer. Finally, the BCL was informed of developments linked to the multi-currency payment system CLS (Continuous linked settlement) operated by the CLS Bank International and overseen by a group of G10 central banks and central banks that issue currencies settled under the CLS.

1.7.2.2.3 Oversight of payment instruments

Concerning payment instruments, the BCL followed the developments related to the main instruments available in Luxembourg. The oversight of the BCL, conducted on the basis of information collected regularly from the payment instruments issuers, covers among others credit transfers, direct debits, payment cards as well as electronic money schemes.

In this context, certain e-money schemes and payment solutions made available to the public in 2013 were subject to particular attention by the BCL. Appropriate reporting frameworks were defined, where relevant, together with the respective entities for the purpose of the BCL oversight.

In addition, through its participation in the European Forum for the Security of Retail Payments (SecuRePay) which regroups European central banks and supervisory authorities, the BCL actively contributed to the elaboration of recommendations regarding the security of internet payments. The final recommendations were published in January 2013. A related assessment guide was developed and published in February 2014.

Furthermore, the BCL participated in the development of recommendations for the security of payments initiated by means of a mobile phone. These recommendations were published for consultation by the Forum in November 2013. Finally, the BCL contributed to the elaboration of recommendations for the security of payments leveraging the access to payment accounts by a third party service provider. The final recommendations were made to the EBA at the beginning of 2014.

Moreover, the BCL held discussions in collaboration with the CSSF with a number of payment instrument issuers in Luxembourg regarding the authentication methods currently deployed for electronic payments and the envisaged changes, if needed, in light of the recommendations mentioned above.

1.8 REGULATORY AND LEGISLATIVE DEVELOPMENTS

1.8.1 European legislation

The Eurosystem, to which the BCL belongs, follows with particular interest the European legislative developments related especially to economic governance and financial stability, both at the European and national level.

In 2013, progress was made in the deepening of the Economic and Monetary Union, as specified in the report "Towards a Genuine Economic and Monetary Union" presented by Mr. Herman Van Rompuy, President of the European Council, at the meeting of the European Council of 13 and 14 December 2012.

1.8.1.1 Banking Union

The Banking Union, which provides an integrated EU financial framework, is one of the building blocks of a "*genuine economic and monetary union*" as identified in the report by Herman van Rompuy in June 2012 as well as in the final report of 5 December 2012. The Banking Union involves a transfer to the European level of the regulatory and institutional framework responsible for safeguarding the robustness and stability of the banking sector.

The Banking Union consists of three main elements: a single supervisory mechanism (SSM), a single resolution mechanism (SRM), and a single deposit guarantee scheme (DGS).

The following legislative developments occurred in 2013 in relation to these elements:

- the EU Regulation establishing the SSM entered into force on 3 November 2013 and the ECB is expected to start its banking supervision from 4 November 2014;
- a compromise reached at Council level in December 2013 based on the legislative proposal for the SRM Regulation prepared by the European Commission and published on 10 July 2013, subject to negotiation with the European Parliament before May 2014;

- a proposal on the creation of a single DGS at EU level has not been presented yet, as the priority for the moment is to further harmonise national guarantee schemes by revising the current framework.

1.8.1.1.1 Prudential supervision[24]

On 12 September 2012 the European Commission published a proposal for a EU Regulation to establish a Single Supervisory Mechanism (SSM), based on Article 127 paragraph 6 of the TFEU, by entrusting the European Central Bank (ECB) with key responsibilities in the field of banking supervision (the SSM Regulation).

Unanimous agreement of all 27 Member States on the proposal was reached at the Council in the December 2012 meeting of the Finance Ministers (ECOFIN), followed by a political agreement with the European Parliament in March 2013. The latter, however, only delivered its opinion, following the special procedure according to Article 127, paragraph 6 of the TFEU, after voting in plenary session in September 2013. Thus, the SSM Regulation only entered into force on 3 November 2013, following adoption by the Council at the ECOFIN meeting of 15 October and publication in the Official Journal[25].

Scope of supervision

As the key piece of legislation laying the foundations of supervision in the Banking Union, the SSM Regulation introduces a radical change in the paradigm of supervision by elevating supervisory powers to the European level, which are traditionally held by national competent authorities under EU banking legislation.

The SSM Regulation provides that "significant" credit institutions within euro area Member States will be directly supervised by the ECB, whereas for the rest (the "less significant" banks) supervision will be delegated to national supervisors, subject to the ECB final supervisory authority[26]. Member States outside the euro area remain free to opt-in to the SSM by entering into a "close coordination" regime with the ECB[27].

It is currently expected that the ECB will directly supervise around 130 credit institutions, representing almost 85% of total banking assets in the euro area. This number reflects a consolidated perspective, i.e. banking groups which include a number of individual credit institutions are counted as one institution.

Objectives, tasks and powers

In its role as supervisor under the SSM, the ECB's objectives are to promote the safety and soundness of credit institutions and the stability of the financial system, with due regard for the unity and integrity of the internal market[28].

The ECB will have broad powers and responsibilities as it will be in charge of, *inter alia*:

- authorising and withdrawing authorisation to credit institutions[29];

- assessing credit institutions' qualifying holdings[30];

- where necessary, setting higher prudential requirements, counter-cyclical buffer rates and other macro-prudential tools (in cooperation with national authorities) [31];

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24 For a national perspective on the issue, see paragraph 1.7.2.1.4

25 Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

26 *Id.* art. 6(4).

27 *Id.* art. 7.

28 *Id.* art.1.

29 *Id.* artt. 4(1)(a), 14.

30 *Id.* artt. 4(1)(c), 15.

31 *Id.* art. 5(2) and (5).

- ensuring compliance with EU banking legislation, notably concerning capital requirements[32]: the CRD IV[33] and the CRR[34].

In addition, a number of investigatory and enforcement powers are assigned to the ECB[35], including the power to:

- issue requests for information to relevant credit institutions and persons involved in their activities,

- conduct all necessary investigations and onsite inspections,

- impose pecuniary penalties and periodic penalty payments.

Governance

In addition to independence[36], the SSM Regulation envisages a strict separation between the ECB's supervisory and monetary tasks[37] in accordance with the requirements of the TFEU and the Statute of the ESCB and of the ECB.

The SSM Regulation provides for the creation of a Supervisory Board within the ECB as an internal body responsible for preparing decisions on supervisory matters.

The Supervisory Board consists of a chair and a vice-chair designated by the ECB's Governing Council, based on the proposal of the ECB Governing Council after consulting the European Parliament, four representatives of the ECB and one representative of each national competent authority, and of the national central bank if the national central bank does not supervise banks[38]. There are therefore 31 members, following the structure of national banking supervision in the 18 Member States of the euro area.

The ECB's Governing Council will be ultimately responsible for taking supervisory decisions in respect to credit institutions, adopted on the basis of "drafts decisions" elaborated by the Supervisory Board following the non-objection procedure concerning micro-prudential supervision prerogatives. Regarding prerogatives of macro-prudential supervision, the Governing Council of the ECB will be able to modify the draft decisions proposed by Supervisory Board[39].

Accountability

Under the SSM Regulation, various mechanisms aim at ensuring that the ECB is accountable to the European Parliament and the EU Council and/or, where appropriate, the Eurogroup in the presence of representatives from non-euro Member States which, having entered into a close cooperation[40], participate in the SSM. These instruments which include procedures for appointing the Chair and Vice-Chair of the Supervisory Board, reporting on supervisory operations, regular hearings and ad hoc exchanges of views

32 *Id.* art. 4(1)(e) and (3).

33 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.06.2013, p.338)

34 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. (OJ L 176, 27.06.2013, p.1).

35 SSM Regulation, artt. 9-13, 18.

36 *Id*. art.19.

37 *Id*. art. 25.

38 *Id*. art. 26(1).

39 *Id*. art. 26(8).

40 *Id*. artt. 20, 26(3).

are detailed in the accountability arrangements with the European Parliament[41] and the EU Council[42]. To a lesser extent, the ECB is also accountable to the European Commission and national parliaments[43].

Phasing in and operational arrangements

The ECB will assume its supervisory tasks twelve months after the entry into force of the SSM Regulation (i.e. from 4 November 2014)[44]. In preparation of that, the ECB is strenuously working to ensure that all necessary operational arrangements are in place. The ECB will be required, in particular:

- to adopt a number of legal acts (the SSM Framework Regulation, the internal rules regarding the separation between monetary and supervisory functions, the SSM Supervisory Manual, etc.);

- to complete exercises such as the mapping of banks and the comprehensive assessment of those banks that are likely to be deemed significant, launched in October 2013.

Regular updates on the progress in the operational implementation of the SSM are available on the ECB website[45].

1.8.1.1.2 Resolution

On 10 July 2013, the European Commission published a legislative proposal for an EU Regulation concerning the establishment of a Single Resolution Mechanism (SRM), including a Single Resolution Fund (SRF or Fund), as the second pillar of the Banking Union (the proposed SRM Regulation) [46].

The Commission's proposal

The proposed SRM Regulation provides the EU institutional framework for the application of the substantive rules on recovery and resolution contained in the proposed Bank Recovery and Resolution Directive[47] (BRRD) in a centralised manner for banks in Member States participating in the SSM. As indicated above, SSM Member States consist of all euro area Member States and those non-euro area Member States who have voluntarily submitted to the ECB banking supervision.

Under the current proposal, the European Commission will have the ultimate responsibility to decide on bank resolutions in relation to all banks falling within the scope of the SRM. The SRM will consist of:

- a *Single Resolution Board*: composed of full-time appointed members (an Executive Director, his/her Deputy Executive Director appointed by the Council of the EU following approval by the European Parliament, one representative from the European Commission and the ECB) and the representatives of the resolution authorities of participating Member States[48].

41 Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the single supervisory mechanism (OJ L 320, 30.11.2013, p. 1).

42 Memorandum of Understanding between the Council of the European Union and the European Central Bank on the cooperation on procedures related to the single supervisory mechanism, which entered into force on 12 December 2013.

43 *Id*. artt. 20, 21.

44 *Id*. art. 33(2).

45 http://www.ecb.europa.eu/ssm/html/index.en.html

46 Proposal COM(2013) 520 of 10 July 2013 for a Regulation of the European Parliament and the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

47 Proposal COM(2012) 280 of 6 June 2012 for a Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No 1093/2010.

48 SRM Regulation, artt. 39, 52(5).

The Single Resolution Board will prepare the resolution of banks. It will have broad powers to analyse and define the approach to the resolution: which tools are to be applied and whether the Fund will be used[49].

- a *Single Resolution Fund*: to ensure adequate medium-term resolution financing and replacing the national resolution funds of the SSM participating Member States envisaged in the BRRD[50]. The SRF would be financed *ex ante* and (extraordinarily) *ex post* by bank contributions from banks of the SSM participating Member States[51]. The envisaged target size of the Fund after ten years would correspond to 1% of the amount of deposits covered by deposit guarantee schemes[52], which is estimated to be around EUR 55 billion[53]. The Fund will primarily be used for costs that cannot be financed by the bail-in, such as guarantees of assets and liabilities and the funding of a bad bank[54]. In exceptional circumstances, the Fund could be used to absorb losses by injecting capital or purchasing shares: such a contribution would be limited to 5% of the bank's total liabilities and would require a minimum bail-in of 8%[55].

- A *single resolution process*: the ECB, as the supervisor of the SSM, would indicate when a bank needs to be resolved. The Single Resolution Board, as explained above, will recommend the general approach for resolving the bank. The Commission will decide whether to place the bank into resolution (either on its own initiative or on the basis of a recommendation of the Single Resolution Board). The Single Resolution Board, within the framework set by the Commission's decision, will prepare a detailed resolution scheme and will oversee the resolution process, while national authorities will be in charge of the execution of the resolution plan[56].

ECB Opinion

On 8 November 2013 the ECB published its opinion on the SRM (CON/2013/76)[57]. While expressing its full support for the establishment of a Single Resolution Mechanism, the ECB observed, *inter alia*, that:

– the scope of the SRM should include all credit institutions in EU Member States participating in the Single Supervisory Mechanism;
– the institutions should become subject to resolution only after a supervisor has assessed them as "failing or likely to fail";
– the bail-in tool should be in place earlier than 2018.

ECOFIN compromise

On 18 December 2013, the EU Council in its ECOFIN composition agreed to a compromise, subject to negotiation with the European Parliament, its co-legislator.

The compromise follows negotiations on a number of key issues, which include:

- the scope of the SRM;

- financing arrangements of the SRM;

- decision-making on the SRM and governance of the Single Resolution Board;

- advancing the bail-in implementation date;

49 *Id.*, in particular artt. 16(5)(8), 20.

50 *Id.* art. 85.

51 *Id.* artt. 66, 67.

52 *Id.* art. 65.

53 *Id.*, para. 4.3.2 of the detailed explanation, p. 15.

54 *Id.* art. 71(1).

55 *Id.* artt. 71(3), 24(7).

56 See generally, *Id.* art. 16.

57 ECB opinion of 6 November 2013 on a proposal for a Regulation of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

The compromise text provides that the SRM will enter into force on 1 January 2015, and bail-in and resolution functions would apply from 1 January 2016. The SRM would apply throughout the euro area, and to other EU Member States deciding to join the SSM. It would cover all banks directly supervised by the ECB; i.e. those classified as significant and whose trading activities would exceed the threshold of EUR 70 billion. This reduces the scope to around thirty out of the 130 banks. National resolution authorities would be responsible for all other banks, including the remaining significant banks under the ECB's direct supervision.

In the same context, an inter-governmental agreement on the Single Resolution Fund is under negotiation, according to which the national contributions to the Fund would be progressively mutualised over a ten-year transitional period, financed by bank levies. A backstop to the Single Resolution Fund during the transitional phase would be established, with bridge financing from national sources, backed by bank levies, *ex ante* and if necessary *ex post,* or from the European Stability Mechanism. The proposed inter-governmental agreement among Member States participating in the SSM/SRM would enter into force once ratified by Member States representing 80% of contributions to the Single Resolution Fund.

A political agreement regarding the SRM was reached on 20 March 2014, which shall be finalised by the adoption of EU Regulation of the European Parliament and of the Council as well as by signing an inter-governmental agreement.

1.8.1.1.3 Protection of Deposits

Slower progress characterises the third element of the Banking Union, namely the creation of a single European Deposit Guarantee Scheme (DGS). In July 2010, the Commission published a proposal for a EU Directive intended to harmonize the rules on DGSs, beyond the minimum requirements provided under Directive 94/19/EC as amended by Directive 2009/14/EC (the proposed DGS Directive) [58]. The proposed DGS Directive, however, does not establish a common EU Deposit Guarantee Scheme.

The European Commission's proposal

Although the coverage level of € 100,000 will remain the same, the proposed DGS Directive strengthens the DGS especially with regard to national deposits by:

- requiring all credit institutions to be members of a DGS[59];
- introducing partial *ex ante* funding arrangements for all DGS[60];
- further harmonising the eligibility criteria for deposit guarantees[61];
- reducing the time DGS have to make payments from 20 days to 7[62];
- strengthening the information requirements imposed on credit institutions concerning the scope of deposit protection granted through relevant DGSs[63];
- allowing DGS in need to borrow from all other DGS in the EU.

Under the Deposit Guarantee Schemes Directive, on which political agreement was reached between the Presidency of the Council of the EU and the European Parliament on 17 December 2013, Member States will be required to transpose the recast Directive into national law within 12 months of its entry into force.

58 Proposal COM(2010)368 of 12 July 2010 for a Directive of the European Parliament and of the Council on Deposit Guarantee Schemes [recast] COM(2010)369 SEC(2010)835 SEC(2010)834

59 *Id*. art. 3(1).

60 *Id*. art. 9(1) third para.

61 *Id*. art. 4.

62 *Id*. art. 7(1)

63 *Id*. art. 14.

1.8.1.2 Economic governance

As regards the integrated budgetary framework, the priority was, according to the conclusions of the European Council of 13 and 14 December 2012, to complete and implement the framework for stronger economic governance, including the economic governance package (six-pack)[64], the Treaty on Stability, Coordination and Governance (TSCG) and the Budgetary surveillance package (two-pack)[65]. One of the main steps was the entry into force on 1 January 2013 of the Fiscal Compact, which forms an integral part of the TSCG (Title III).

This Treaty reinforces fiscal discipline, more particularly through the introduction of a balanced budget rule of binding force and permanent character, preferably constitutional, comprising an automatic correction mechanism whose compliance is monitored by independent bodies. This Treaty was signed by the Heads of State or Government of all the EU Member States (except the United Kingdom and the Czech Republic) on 2 March 2012 and entered into force on 1 January 2013. As Croatia only became a member of the EU on 1 July 2013, it has not yet signed said Treaty.

Moreover, the "two-pack", which was adopted by the European Parliament and the Council on 21 May 2013, entered into force on 30 May 2013. The ECB had been consulted and delivered its opinion on 7 March 2012[66].

The two-pack applies to Member States whose currency is the euro. These rules complement the existing rules of the Stability and Growth Pact, as revised in 2005 and 2011. The two-pack aims, in particular, at implementing some of the rules of the TSCG.

These regulations strengthen the surveillance of fiscal discipline by providing, *inter alia*, for the establishment of binding fiscal rules at national level, in line with the budgetary objectives defined at EU level. It also provides for a closer supervision of Member States that are subject to an excessive deficit procedure. Monitoring compliance with these fiscal rules and related public assessments, in particular relating to the correction mechanism to be set up as well as the production or endorsement of macroeconomic forecasts, are performed by independent bodies.

Member States should have complied with the rules related to independent bodies in charge of monitoring compliance with fiscal rules by 31 October 2013.

As regards the integrated economic policy framework, the European Commission presented two Communications on 20 March 2013 on the ex-ante coordination of plans for major economic policy reforms and on a Convergence and Competitiveness[67] instrument, outlining the next steps towards a Deep and Genuine Economic and Monetary Union (EMU). Their objective is to strengthen the coordination of economic policies and the economic integration in the euro area. These Communications occur as a result of the European Council of 13 and 14 December 2012, which requested its President to present, in close cooperation with the President of the European Commission and after a process of consultation with the Member States, the possible measures that could be adopted in this field and to set a time-bound roadmap.

64 It entered into force on 13 December 2011; (i) Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area (JO L 306 of 23.11.2011, p. 1); (ii) Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area (JO L 306 of 23.11.2011, p. 8); (iii) Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (JO L 306 of 23.11.2011, p. 12); (iv) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (JO L 306 of 23.11.2011, p. 25); (v) Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (JO L 306 of 23.11.2011, p. 33); (vi) Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (JO L 306 of 23.11.2011, p. 41).

65 It entered into force on 30 May 2013; (i) Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area; (ii) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability.

66 Opinion of the ECB of 7 March 2012 on strengthened economic governance of the euro area (CON/2012/18).

67 (i) Communication from the Commission on ex-ante coordination of plans for major economic policy reforms (COM(2013)166 final), (ii) Communication from the Commission on the introduction of a Convergence and Competitiveness Instrument (ICC) (COM(2013)165 final).

1.8.2 National legislation

1.8.2.1 BCL Regulations

In 2013, the BCL issued two regulations, both in the field of monetary policy, the former being abrogated and replaced by the latter:

- Regulation of the BCL 2013/ N°14 of 7 March 2013 implementing the Guideline of the European Central Bank of 23 January 2013 amending Guideline ECB/2012/18 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/2);

- Regulation of the BCL 2013/ N°15 of 3 May 2013 implementing the Guideline of the European Central Bank of 20 March 2013 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (recast) (ECB/2013/4).

Regulation BCL 2013/N° 15 repeals and replaces Regulations BCL N° 12, 13 and 14.

1.8.2.2 Interest rates

The legal interest rate for 2013 was set at 3.50% by the Grand-ducal Regulation of 26 December 2012 (Mémorial A – N°299 of 31 December 2012, p. 4723). For 2014, this rate is set at 3,25% by the Grand-ducal Regulation of 23 December 2013 (Mémorial A – N°228 of 27 December 2013, p. 4245). It should be noted that this rate does not correspond to a particular money market reference rate.

As regards late payment interest rate on overdue claims in commercial transactions, it is calculated, unless otherwise provided for by contract, on the basis of the ECB's reference rate plus a margin. This margin has increased from 7% to 8% since 15 April 2013. The late payment interest rate is published every six months in the Mémorial B (Official Gazette). For the first half of 2013, the late payment interest rate was 7,75% in accordance with the publication of the Mémorial B – N°13 of 28 January 2013, p. 374. Following the increase of the margin between 15 April 2013 and 30 June 2013, the late payment interest rate was 8,75%. For the second half of 2013, the late payment interest was 8,5% in accordance with the publication of the Mémorial B – N°72 of 22 July 2013, p. 1592. The above mentioned rates include the margin provided for by the amended law of 18 April 2004 on payment deadlines and late payment interests.

1.8.2.3 Enacted law

The law of 27 June 2013 on banks issuing mortgage bonds, which amends the law of 5 April 1993 on the financial sector (law of 27 June 2013), was drafted, as regards the liquidation regime, on the basis of the amendments made by the German legislator to the German law of 19 November 2010 on mortgage bonds (Pfandbriefgesetz).

As regards the liquidation regime, the law of 27 June 2013 introduces a separation of the assets and liabilities of the bank issuing mortgage bonds in two distinct parts.

In this context, when the full reimbursement of the mortgage bonds is not undermined, the latter together with the cover assets form "patrimonial compartments" of the bank issuing mortgage bonds continue to benefit from the license of the bank with limited activity issuing mortgage bonds. A judicially appointed administrator performs the management of the "patrimonial compartments"; the latter are separated from the insolvent part constituted in this case by the ancillary activities.

In case the full reimbursement of the mortgage bonds is jeopardized, the law of 27 June 2013 lays down in detail the procedure applicable to collateral or insolvent "patrimonial compartments" of the bank issuing mortgage bonds (in case of a bank with limited activity issuing mortgage bonds).

If the main activity of the bank issuing mortgage bonds generates the initiation of the insolvency proceedings, in accordance with the principle that the accessory follows the principal, the ancillary activity of the bank issuing mortgage bonds receives the same treatment as the "issuance of mortgage bonds" part.

At the same time, a new category of mortgage bonds is created, mutual mortgage bonds, whose quality is ensured under the condition that the issuing banks are members of a scheme of institutional protection. The mission and the operating procedures of the latter establish a mutual protection regime.

Other more specific modifications, such as the extension of the list of states which are likely to grant loans, the insertion in the law of the definition of "public undertakings" or the specification that credit claims, provided as collateral, have to be held in full "ownership", are introduced by the law of 27 June 2013.

The law of 27 June 2013 is not fully in line with the criteria set out in the Capital Requirement Directive (CRD). However, this does not prevent the issuers from undertaking issuances which are CRD compliant. CRD compliance does not only ensure the eligibility of mortgage bonds as collateral for Eurosystem credit operations, but also allows the instrument to benefit from a certain quality.

The Luxembourg Government omitted to consult the ECB on the law of 27 June 2013, which introduces a new category of mortgage bonds that may be issued by the banks issuing mortgage bonds and that are secured by loans granted to credit institutions taking part in a "system of institutional guarantee". The case is considered to be of general significance to the ESCB because a new consultative role is assigned to the BCL in the context of the institutional guarantee scheme. Moreover, the law of 27 June 2013 is likely to give rise to possible confusion with regard to the allocation of minimum reserves to "patrimonial compartments" issuing mortgage bonds, and also raises issues with regard to access to central bank funding through monetary policy operations or emergency liquidity assistance in case of a stay of payment or liquidation of an institution issuing such mortgage bonds.

The ECB sent to the Government a letter dated 13 January 2014 inviting the latter to comply in the future with the obligation to consult the ECB, as specified in Article 127, fourth paragraph, of TFEU and Article 2, first paragraph, of the Decision 98/415 of the Council of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions.

1.8.2.4 Draft laws

Draft law on the coordination and governance of public finances (n°6597)

A draft law on the coordination and governance of public finances has been introduced to Parliament on 22 July 2013.

The objective of the draft law is namely to transpose into Luxembourg law the provisions of the TSCG, in particular its Article 3, as well as some provisions of the six-pack. In Article 7(1) of said draft law, the BCL is designated as an "independent body[68]" in charge of specific tasks which are defined in the same article. It appears from the explanatory memorandum that said draft law aims at entrusting the BCL with the tasks incumbent upon the "independent institution" within the meaning of Article 3(2) of TSCG.

The Luxembourg Ministry of Finance consulted the ECB and the latter delivered its opinion on 18 December 2013[69]. In its opinion, the ECB recommended that the legislator reconsiders the assignment of these new tasks to the BCL.

In the said opinion, it is acknowledged that: "[…] *an NCB commonly monitors various types of information in order to properly assess current and prospective developments that are relevant for monetary policy. Monitoring fiscal developments is a task that an NCB carries out on a regular basis in order to properly assess the stance to be taken in monetary policy.*

Moreover, NCBs may present their views on relevant fiscal developments on the basis of their monitoring activity and the independence of their advice, with a view to also contributing to the proper functioning of European

68 The criteria for such "independent bodies" were specified by the Commission in its Communication of 20 June 2012 on common principles on national fiscal correction mechanisms (COM(2012)342 final) and in Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

69 Opinion of the ECB of 18 December 2013 on public finances (CON/2013/90).

Monetary Union. In this respect, the monitoring of fiscal developments by Eurosystem central banks for monetary policy purposes should be based on the full access to all relevant public finance data.

Accordingly, the BCL should be granted unconditional, timely and automatic access to all relevant public finance statistics. The BCL's current role in monitoring fiscal developments should be enhanced through obtaining unconditional, timely and automatic access to all relevant public finance statistics. In any event, the BCL should retain any role it may already have regarding the production and quality control of government finance statistics [...]"[70].

The ECB considers that *"[...] an NCB's role should not go beyond monitoring activities that result from or are linked - directly or indirectly - to the discharge of their monetary policy mandate"* and that *"[...] the monetary policy mandate as well as an NCB's independence run the risk of being undermined if the NCB takes up the monitoring activities set out in Article 5 of Regulation (EU) No 473/2013 and Article 4 of Directive 2011/85/EU."*[71]

It follows from the above that, based on the tasks that are normally assigned to a central bank in its capacity as member of the Eurosystem, the BCL could and should monitor and analyse fiscal data and information in order to properly assess current and prospective public finance developments under its responsibility. This monitoring and analysing activity must enable it to assess the outlook for the economy and the risks to price stability. The BCL could and should in particular produce fiscal projections as an indispensable support for macroeconomic projections and properly assess the stance to be taken with regard to monetary policy.

Moreover, the BCL could publicly communicate, at its own discretion, under its full responsibility and in full respect of the central bank's independence, and present its views on relevant fiscal developments as well as on the outcome of its analysis with a view to contributing directly, or indirectly, to the proper functioning of EMU.

In order to fulfill these tasks and to strenghten the BCL's current role in monitoring fiscal developments, the latter should obtain unconditional, timely and automatic access to all relevant public finance statistics.

The draft bill was amended by the Government on 11 March 2014. The amendments relate in particular to the designation of the BCL as an "independent body", which has been replaced by a new "National Council of Public Finance" (*Conseil national des finances publiques*) composed of seven members, two members appointed by Parliament from among personalities of the private sector by virtue of their competences in economic and financial matters, one member appointed by the Court of Auditors, one member appointed by the *Chambre de Commerce*, the *Chambre des Métiers* and the *Chambre d'Agriculture*, one member appointed by the *Chambre des Fonctionnaires et Employés publics* and by the *Chambre des Salariés* as well as two members appointed by the Government.

The National Council of Public Finance is assisted by a permanent secretariat consisting of civil servants and public employees. These persons can be seconded by their home administration[72]. It may proceed to hearings of representatives of competent administrations in the field of public finance, statistics and economic forecasts. The National Council of Public Finance may also have recourse to bodies or experts from among the private sector[73].

The amendments made by the Government did not accommodate the ECB's comment relating to the need of the BCL to obtain an unconditional, timely and automatic access to all public finance statistics in order to carry out its tasks and to strengthen the BCL's current role in monitoring fiscal developments.

The BCL cannot be considered as a "competent administration in the field of public finance". As specified in the opinion of the ECB of 18 December 2013, the BCL may be heard by the National Council of Public Finance and present its views on relevant fiscal developments on the basis of its monitoring activity and of the independence of its advice, without prejudice to its independence in accordance with Article 130 of TFEU, with a view to also contributing, directly or indirectly, to the proper functioning of EMU.

70 Point 5.4 of the Opinion of the ECB (CON/2013/90).

71 Point 5.5 of the Opinion of the ECB (CON/2013/90).

72 Article 7(4) of the draft law as amended by the Government.

73 Article 7(5) of the draft law as amended by the Government.

Draft law creating a Systemic Risk Committee (n°6653)

The objective of the draft law creating a Systemic Risk Committee is to implement the recommendation of the European Systemic Risk Board of 22 December 2011 that requires Member States to set up a national macro-prudential authority, as well as the recommendation of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy; the BCL is meant to play a leading role in the macro-prudential policy.[74]

Similarly to the approach taken in Germany and France, a committee called "Systemic Risk Committee" (*Comité du Risque Systémique*) shall be put in place in Luxembourg, composed of the authorities involved in the regulation and the supervision of the financial system and whose actions have a material impact on financial stability: the ministry responsible for the financial centre, the BCL, the CSSF and the *Commissariat aux assurances* (insurance commission).

The task of the committee is to contribute to the safeguarding of the stability of the Luxembourg financial system as a whole. This includes strengthening the resilience of the financial system. The committee shall express opinions and recommendations, which are adopted by unanimity of the votes cast and whose recipients are the authorities represented at the committee or all or part of the financial system.

It is foreseen that the committee will be chaired by the member of the Government responsible for the financial centre and, in his/her absence, by the Governor of the BCL. The Secretariat of the committee would be provided by the BCL under the hierarchical authority of its Governor. The Secretariat is responsible for the meetings of the committee.

Draft law on the implementation of the EU Directive on Capital Requirements (n°6660)

The draft law[75] aiming at transposing the Capital Requirements Directive and the related legislation (CRD IV/CRR) implements the provisions of certain directives into the Luxembourg legal framework, namely Directive 2013/36/EU, which is aimed at reinforcing the ability of the European banking sector to deal with financial crises, while ensuring that banks continue to finance the economic activity and foster growth. Thus, credit institutions and investment firms will now have to hold capital buffers which are grafted on minimum capital requirements.

The draft law also foresees a close and continuous cooperation between the CSSF and the BCL, as the BCL possesses broad expertise in the field of macroeconomics and financial stability and given the leading role assigned to central banks as regards macro-prudential supervision.

The text also provides for enhanced governance in financial sector, new requirements regarding remuneration policies and a system of administrative sanctions of pecuniary nature which is more deterrent than the existing legislation.

1.8.3 ECB legal acts

The two Decisions of the European Central Bank of 26 September 2013

On 26 September 2013, the Governing Council adopted two Decisions in the field of monetary policy, which amend both the conventional and non-conventional monetary policy regimes.

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74 Cf. Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3) addressed to members states (Recommendation B-3).

75 Draft law on:
Transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013;
Partial transposition of Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011;
Transposition of Article 6, paragraph 6 of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011;
amending:
- the Law of 5 April 1993 on the financial sector, as amended;
- the Law of 23 December 1998 creating a commission for the prudential supervision of the financial sector, as amended (*Commission de surveillance du secteur financier*) ;
- the Law of 12 July 2013 on alternative investment fund managers.

Firstly, the ECB Decision of 26 September 2013 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/35) amends the ECB Guideline ECB/2011/14 of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem and in particular Annex 1, which establishes the General documentation (Decision ECB/2013/35).

The main amendments made to the General documentation by Decision ECB/2013/35 relate to:

- the coupon structures,
- the haircuts and valuations,
- the grandfathering period for non-compliant covered bonds,
- the enhancement of the requirements for certain asset-backed securities (ABS)
- the rating priorities in the ECAF (Eurosystem Credit Assessment Framework),
- the eligibility of Croatian issuers, and
- the replacement of the "AAA" rating requirement by a "A" rating requirement for ABS subject to loan-level data reporting requirements.

Secondly, the ECB Decision of 26 September 2013 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/36) (Decision ECB/2013/36) amends the ECB Guideline ECB/2013/4 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (Guideline ECB/2013/4).

The main amendments made to Guideline ECB/2013/4 by Decision ECB/2013/36 relate to:

- the haircuts applicable to asset-backed securities pursuant to the temporary framework,
- the provisions on servicing continuity, and
- the rules applicable to the admission of additional credit claims.

The amendments introduced by these two Decisions entered into force on 1 October 2013. The adoption of decisions by the Governing Council with a view to modifying guidelines constitutes an exceptional measure since, in principle, a guideline should be amended by another guideline (legal instrument which requires an implementation at national level by the NCBs as addressees thereof).

The choice of this legal instrument is justified by the fact that a decision is directly binding in its entirety and thus does not require implementation measures whose adoption may take some time. In view of the urgency of the situation the use of such an instrument was preferred. The two Decisions should be incorporated into the respective guidelines and should only remain in force temporarily.

1.9 COMMUNICATION

1.9.1 Publications

As required by its statutes the BCL publishes a report on its activities each year. This annual report is available in English and French.

In 2013 the BCL published four Bulletins and one Financial Stability Review.

In its working papers, which are available on the BCL's website, the BCL publishes the research conducted by its staff. Each paper contains a non-technical summary. Three working papers were published in 2013.

1.9.2 Training at the BCL

1.9.2.1 Academic cooperation

The BCL continued its cooperation with the University of Luxembourg and its staff members gave lectures in economics and law. Staff members also gave lectures on European economic integration (at MUDEC – Miami University John E. Dolibois European Center), the European Monetary Union (at The Institute of International and Regional Studies at the University of Szeged), foreign exchange risk management (Strasbourg Institute of Political Studies) and econometrics and time series analysis (Metz University).

The BCL also organised one-off presentations for student groups (from ULB-Solvay, MUDEC, Syracuse University, Maastricht University, Trier University).

1.9.2.2 Technical cooperation

The BCL is a shareholder at the *Agence de Transfert de Technologie Financière* (ATTF). This agency, established in 1999 at the initiative of the Luxembourgish government, aims to make Luxembourg's know-how in financial matters accessible to other countries, in particular to emerging countries. At the request of the ATTF, presentations were organised for the benefit of delegations from Uzbekistan and from the People's Bank of China, the latter within the context of the annual ATTF-PBoC seminar.

1.9.2.3 Educational activities

The BCL continues to organise presentations on the BCL and the Eurosystem for students in their last two years of secondary school if their curriculum includes economics as a subject. Students along with their teachers are received at the auditorium of the Monterey building for an educational and interactive presentation of the organisation and the missions of the BCL and the Eurosystem. Other topics can also be addressed if so requested by teachers or students.

In addition, in October 2013, the BCL launched the first edition of the Eurosystem's school competition "Generation €uro Students' Award" in Luxembourg. Since 2011 this competition is organised in ten Euro area countries. It is meant for secondary school students between 16 to 19 years of age and more particularly for students of economics. Its aim is to establish a better understanding of the role and functions of the Eurosystem.

65 teams of four to five students from around a dozen secondary schools took part in the first edition of the competition, which closed in March 2014. Presentations were given to the participating students and their teachers to help them with the preparation of the different types of tests. On the occasion of the formal opening of the competition the BCL organised an information session for the teachers. The Governor of the BCL and the Minister of National Education were present at this event.

1.9.3 The BCL's website

The BCL's website, www.bcl.lu, provides information about the Bank's activities and services as well as statistics concerning Luxembourg and the Eurosystem. It also contains links to the ECB's website and to websites of other central banks of the ESCB. The site offers both professional and private visitors clearly structured information on the BCL. In addition, the site offers a search engine and visitors can inscribe themselves on its mailing list.

The site ensures the distribution of the BCL's publications, which can be viewed and downloaded from the section "publications". The publications can also be obtained in hard copy upon request, depending on availability.

The website is in French and English. Documents are published in their original language (French, English or German).

In 2013 the BCL continued the process of redesigning its website and the new version is expected to go online in 2014.

More than 114 000 people visited the BCL's website in 2013 (over 15.6 million clicks were registered on over 2.8 million consulted pages). The most frequently downloaded document continues to be the numismatic programme, which was downloaded around 31 200 times. The numismatic products' electronic shop (eshop.bcl.lu), which is directly accessible from the BCL's website, attracted more than 35 400 visitors in 2013.

1.9.4 The BCL's library

The library of the BCL, inaugurated in 2005, uses the ALEPH library management system, which is connected to the public libraries in Luxembourg.

The library mainly contains publications on the subjects of economics and law. The collection comprises works published by international organisations (such as the BIS, European Commission, IMF, OECD, World Bank, etc.) but also from National Central Banks. The great majority of the works focuses on monetary, economic, financial and legal issues in the euro area.

The library is open to the public by appointment, which can be made either by fax (+352 4774 4910) or by email (bibliotheque@bcl.lu).

1.9.5 Press relations

In early January 2013 the BCL organised a press conference on the new 5 Euro banknote in the context of the introduction of the Europa series.

Contact with the national and international press continued throughout 2013 and consisted mainly of responses to numerous requests made by journalists.

A total of 79 press releases were published.

1.9.6 BCL research programme

Research activities at the BCL are organised in three main themes:

- macro-financial linkages;
- public and private finance;
- competitiveness, labour market and growth.

1.9.6.1 Research activities

BCL research output is regularly disseminated through its working paper series as well as the BCL bulletin and Financial Stability Review. Several studies were published in peer-reviewed scientific journals (Review of Finance, Journal of Economic Dynamics and Control, Journal of Productivity Analysis, Economic Inquiry, Advances in Statistical Analysis, Empirica – Journal of European Economics).

BCL researchers also presented their work in seminars and workshops organised, among others, by the University of Luxembourg, STATEC, the *Réseau d'Etudes sur le marché du Travail et de l'Emploi Luxembourgeois*, the Eurosystem, the European University Institute, the Swedish Network for European Studies in Economics & Business, the International Network of Business and Management Journals, the European Economic Association, the European Regional Science Association and the European Association of Labour Economists.

Since December 2006 the BCL is a member of the Eurosystem network on Household Finance and Consumption (HFCN). This network designed and conducted a harmonised survey of the consumption and financial behaviour of households in the euro area. In Luxembourg the survey was carried out by the BCL along with CEPS/Instead. First results were published as working papers or text boxes in the BCL bulletin. The second wave of the survey will be conducted in 2014.

Since June 2010 the BCL has also participated in the ESCB network called MaRs (macro-prudential research network). In this context, BCL staff is involved in two workstreams: one on macro-financial models, with a focus on the link between financial stability and economic performance, and another on early warning systems and systemic risk measures.

Since March 2012, the BCL is also a member of the ESCB network called Compnet (Competitiveness research network). BCL staff have participated in meetings and followed workstreams on macroeconomic aspects of competitiveness (aggregate and sectoral measures and their link to national export performance).

In June 2013, the BCL organised a workshop on the subject « Household Finance and Consumption » with the participation of researchers in this domain that are active in Luxembourg or in the neighbouring regions.

1.9.6.2 The BCL Foundation

Created in 2011, the BCL Foundation aims to promote research and higher education in the BCL's fields of activity. In 2012-2013, its Board of Directors continued to see research on financial stability as remaining of primary importance. It is also a subject of current interest to both researchers and policymakers. The Foundation offered two grants of € 5000 in 2013 to finance visits to the BCL of researchers active in this domain.

The Foundation's statutes were approved by the *Règlement grand-ducal* of 12 March 2011. On 1 December 2013, the Board of Directors included the following members:

Serge Kolb, Member of the Council of the BCL and BCL Executive Director – Managing Director

Hans Helmut Kotz, Vice-President and interim President, Senior fellow at the Centre of Financial Studies, Goethe Universität, Frankfurt, Honorary Professor at Freiburg University (D) and former Member of the Deutsche Bundesbank Board of Directors – Director

Jaques Poos, Member of the Council of the BCL – Director

Patrice Pieretti, Professor at the University of Luxembourg and former Member of the Council of the BCL – Director

Romain Schintgen, Member of the Council of the BCL – Director

Henri Sneessens, Professor at the University of Luxembourg – Director

Christian Wolff, Professor at the University of Luxembourg, Director of the Luxembourg School of Finance – Director

Jean-Pierre Zigrand, Professor at the London School of Economics – Director

1.9.7 Conferences and events

The BCL was involved in the organisation of the following conferences and events:

- seminars by the European Supervisor Education Initiative (ESE), which were organised in Luxembourg on 25 and 26 April 2013 and from 23 to 25 October 2013. The ESE, of which the BCL has been a member since 2010, aims to train supervisors in Europe and to promote the convergence of micro-prudential supervisory practices at the European level.

- conference on the topic "The Future of Europe" by the association *The Bridge Forum Dialogue* on 24 April 2013 at the European Commission. Viviane Reding, the Vice-President of the European Commission, gave a speech. The conference was chaired by Martine Reicherts, Member of the Board of the Association *The Bridge Forum Dialogue*.

- seminar by the Luxembourg Workshop on Household Finance and Consumption on 26 June 2013 at the BCL. The objective of this seminar was to present and discuss the studies using microeconomic data and surveys on households and individuals.

- conference on the topic "The Future of European Defence" by the Association *The Bridge Forum Dialogue* on 24 September 2013 at the European Commission. The conference was presided over by Michael Palmer, Founding Member of *The Bridge Forum Dialogue*. Speeches were held by Arnaud Danjean, Member of the European Parliament and Chair of the Subcommittee on Security and Defence, and Ioan Mircea Pașcu, Member of the European Parliament and Vice-Chair of the Committee on Foreign Affairs.

- conference on the topic "Towards a European Banking Union" by the Association *The Bridge Forum Dialogue* and the European Investment Bank Institute on 30 September 2013 at the European Investment Bank. The conference was chaired by Werner Hoyer, President of the European Investment Bank and Vice-President of *The Bridge Forum Dialogue*, and the speaker was Yves Mersch, Member of the Executive Board of the European Central Bank and Founding Member and former President of *The Bridge Forum Dialogue*.

1.10 EUROPEAN ACTIVITIES

1.10.1 Activities at the level of the ECB

In 2013, the Governor of the BCL participated in 23 meetings of the Governing Council and in 5 meetings of the General Council. Members of the Governing Council act in their personal capacity and not as national representatives when taking decisions.

The Governing Council usually meets twice a month at the ECB's headquarters in Frankfurt. At its first meeting, the Governing Council assesses economic and monetary developments and takes its monthly monetary policy decisions, whilst at its second meeting the Council mainly discusses issues related to other tasks and responsibilities of the ECB and the Eurosystem. In 2013, more than 500 Executive Board proposals were adopted by the Governing Council by written procedure, including opinions relating to draft laws at the European or national level, according to article 127 paragraph 4 of the Lisbon Treaty.

The General Council comprises the ECB President and Vice-President as well as ESCB Governors and meets in Frankfurt four times a year.

The Eurosystem/ESCB Committees assist the decision-making bodies of the ECB in the fulfillment of their tasks. The Governing Council and the Executive Board may ask Committees to conduct analyses on specific topics. Committees were established under article 9.1 of the ECB's rules of procedure and report to the Governing Council through the ECB's Executive Board. Committees are mainly composed of members of the Eurosystem but may also include, for some issues, ESCB members. Each member is appointed by the Governor of his/her national central bank or, in some cases, by the ECB's Executive Board.

In view of their support of the decision-making bodies of the ECB regarding the execution of tasks conferred by Regulation 1024/2013/EU, the Committee composition includes one member from the national competent authority of each participating Member State, appointed by the respective Governor, after having consulted the national competent authority in case the latter is not a central bank.

Working groups or task forces have also been established with specific objectives in accordance with their related Committee's mandate. The Governing Council has further created High Level Groups to consider particular issues.

1.10.2 Economic and Financial Committee

The Economic and Financial Committee (EFC) is composed of representatives of the Ministries of Finance and the central banks of EU Member States as well as representatives of the European Commission and the ECB. In this Committee the BCL is represented by one of the members of its Executive Board.

According to Article 134 Paragraph 2 of the TFEU, one of the tasks of the EFC is to "review the economic and financial situation of the Member States of the EU and to regularly report to the Council and to the Commission" as well as to "contribute to the preparation of the work of the Council".

In 2013 the EFC continued to closely follow the evolution of financial stability in the EU, the development of the budgetary situation of the member states and the progress towards the banking union.

The EFC also deals with economic policy issues regarding the economic policy discussed in the informal meetings of the ECOFIN Council, to which the Governors of the national central banks of the EU are invited.

1.10.3 The European Statistical Forum and the Committee on Monetary, Financial and Balance of Payments Statistics

On 24 April 2013, the European Statistical System (ESS) and the ESCB signed Memorandum of Understanding regarding the cooperation between the two bodies. To further improve this cooperation the two bodies established the European Statistical Forum (EFS) where the central banks, the national statistical institutes as well as the European Commission and the ECB are represented.

This forum will establish an annual work programme, whose main objective is the improvement of the cooperation between the two bodies.

The Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) will continue to handle the issues which both statistical bodies have in common.

The CMFB also has the task of deciding on the development and coordination of statistical categories that are required under the policy implemented by the Council, the Commission and various committees assisting them. The central banks, the national statistical institutes as well as the Commission and the ECB are represented in the CMFB.

The BCL actively contributed to the work of these two committees in 2013. Progress has been made in particular with regard to financial accounts, balance of payments, financial services and public finance statistics as well as national accounts.

1.11 NATIONAL AND EXTERNAL ACTIVITIES

1.11.1 National activities

1.11.1.1 Relations with Parliament

In 2013 the BCL did not present its opinion on the government's draft budgetary plan on revenues and expenditures. The bill was only submitted to the Chamber of Deputies on 5 March 2014.

1.11.1.2 BCL committees

The Operational Crisis Prevention Group (OCPG)

The BCL established the Operational Crisis Prevention Group (OCPG) with the mandate of enhancing the financial sector's preparation with regards to large-scale operational disruptions. Members include the ABBL, the CSSF and systemically important market participants.

The Group is currently working to establish communication procedures for crisis situations and setting-up dedicated communication tools.

The Lawyers' Committee (Comité des Juristes)

The Lawyers' Committee of the BCL met six times in the course of the year. It discussed various draft laws and in particular the Luxembourg draft laws related to the Family Office, to over-indebtedness and to covered bonds issuing banks. In addition, it considered the legal framework applicable to mortgage loans, the action launched by the United Kingdom against the ECB at the Court of Justice of the European Union (CJEU) regarding the 'location policy' of critical infrastructures within the euro area and the ECB consultation procedure of Luxembourg draft laws and regulations concerning the BCL.

The Committee also examined the new rules concerning the Banking Union and the Proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms, as well as the rules concerning state aid granted to banks in the context of the financial crisis.

Statistics Committee

The Statistics Committee has been set up by the BCL to ensure a constant dialogue between representatives of entities collecting statistical data and the main users of such data. The Committee is regularly consulted on issues relating to the statistical reporting in the financial sector.

Monetary and banking statistics consultative commission

This consultative commission has been set up by the BCL in order to assure an efficient collection of monetary and banking statistics and to enhance the dialogue with reporting credit institutions. In 2013, the Commission was informed and consulted on various conceptual issues relating to the modification of the statistical data collection from credit institutions, the security by security reporting from credit institutions as well as the revision of the statistical data collection on interest rates charged by credit institutions. The draft revision of the statistical data collection from credit institutions enters into force on 1 January 2015.

Balance of payments statistics consultative commission

The balance of payments statistics consultative commission acts as an advisory group and assists the BCL in its mission to collect data in the areas of balance of payments and international investment position. The commission ensures an efficient organisation of data collection in order to avoid redundancies and to limit the workload for the entities requested to submit statistical data.

Due to the absence of new projects, the commission was not consulted in 2013.

Economic and financial statistics consultative commission

The economic and financial statistics consultative commission has been set up by the BCL to ensure an efficient organisation of data collection in the area of economic and financial statistics as well as to enhance the dialogue between financial intermediaries and the central bank. Due to the absence of new projects, the commision was not consulted in 2013.

Market Operations Committee

This Committee, which acts as a consultative body, assists the BCL in the preparatory work related to the rules and practical modalities of the monetary policy operations, foreign exchange operations and the management of foreign exchange reserves. Equally, this Committee has the objective of providing a discussion forum for questions related to financial market developments. The Committee held two meetings in 2013.

1.11.1.3 External committees

The Economic Committee (Comité de conjoncture)

The Economic Committee acts on the basis of the legislation which authorises the government to take measures to stabilise employment. The Committee, therefore, provides a framework for the examination of business cycle fluctuations in the country's economy and for the monitoring of economic policy issues when they arise.

The BCL's contribution to the Economic Committee is two-fold: firstly, the BCL collects information on Luxembourg's economic situation and, secondly, it contributes to the Committee's work by monitoring and commenting on the latest developments in monetary areas and in the financial sector.

The Consumer Price Index Commission (Commission de l'indice des prix a la consummation)

The BCL has an observer status at the meetings of the Consumer Price Index Commission (CPIC), which is in charge of advising and assisting STATEC in the preparation of consumer price indices. This Commission also issues technical opinions on the development of the monthly consumer price index and supervises the compliance of this index with national and European legislation. The BCL presents its inflation projections for Luxembourg to the CPIC and provides explanations on the BCL's work in the area of consumer prices.

Accounting Standards Board

The Accounting Standards Board (*Commission des normes comptables*, hereafter the "CNC") is an economic interest grouping (*groupement d'intérêt économique*) whose role is to:

- provide accounting advice to the Government,
- contribute to the development of an accounting doctrine
- participate in discussions relating to accounting matters within European and international bodies
- assume any missions entrusted to it by law.

Since October 2013, the BCL is a member of the CNC as a result of its responsibilities and expertise in those areas. The BCL contributes to its work depending on its involvement in such work at an international level. The BCL also participates in different working groups of the CNC.

Committee Comptabilité bancaire

The committee *Comptabilité bancaire* set up by the *Commission de surveillance du secteur financier* (CSSF), aims to ensure an exchange of views between the supervisory authority, the BCL and the stakeholders of the Luxembourg financial centre. The committee is consulted during the development of CSSF circulars concerning bank accounting issues.

Higher Council for Statistics of Luxembourg

The Higher Council for Statistics carries out advisory functions on behalf of the national statistical institute of Luxembourg (STATEC) and is mandated to assess STATEC's annual programme. To this end, STATEC submits a report on the work accomplished during the year to the Board at the end of each year. It also submits a programme of work to be done during the year ahead. The report and programme are then assessed by the Council.

The BCL contributes in two ways to the work of the Council; first, it provides its opinion on documents submitted during the meetings and, secondly, it provides STATEC with data collected on the financial sector in order to enable the latter to accomplish its work programme.

The Committee of Public Statistics for Luxembourg

The Committee of Public Statistics has a coordinating role in the field of public statistics. It compiles an inventory of all the surveys conducted by the Luxembourg statistical body, analyses the feasibility of satisfying requests using existing sources and ensures that the implementation of the statistical program is compliant with the best practices of the Luxembourg statistical system and international standards.

The BCL contributes to the work of the committee in its function of observer on a regular basis.

XBRL Luxembourg

XBRL (eXtensible Business Reporting Language) is a financial reporting standard based on XML, the main objective of which is to improve the accuracy, transparency and efficiency of internal and external reporting.

The non-profit association XBRL Luxembourg includes some twenty organisations using XBRL and / or providing services related to XBRL technology. The role of the association is to promote the XBRL standard within Luxembourg's economy.

As a founding member of XBRL Luxembourg the BCL analyses the potential to adopt the XBRL standard in the context of statistical reporting collected from companies of the Luxembourg financial sector.

1.11.2 External activities

Activities at the level of the IMF

Luxembourg is a founding member of the International Monetary Fund (IMF). The IMF's Executive Board is composed of 24 Executive Directors. In the context of the amendments to the IMF's Articles of Agreement, which aim to reduce the representation of advanced European countries by two seats, Belgium and Luxembourg joined the constituency chaired by the Dutch Executive Director on 1 November 2012. Henceforth, the Netherlands and Belgium will designate an Executive Director on a rotating basis, thereby reducing by one the number of Executive Directors of advanced European countries. Luxembourg, in turn, now holds the position of Senior Advisor. Apart from the Netherlands, Belgium and Luxembourg, the other 12 members of this constituency, in the decreasing order of their quotas, are: Ukraine, Israel, Romania, Bulgaria, Croatia, Cyprus, Bosnia-Herzegovina, Georgia, Moldova, Macedonia, Armenia and Montenegro.

The BCL handles Luxembourg's financial transactions with the IMF. It holds Luxembourg's assets and liabilities with regard to the IMF in both the General Resources Account and the Special Drawing Rights (SDR) account.

On 31 December 2013, Luxembourg's quota, recorded in full on the BCL's balance sheet, amounted to SDR 418.7 million. On the same date, Luxembourg's reserve position – i.e. the difference between Luxembourg's total quota in the IMF and the euro-denominated assets held by the IMF and the BCL – was of SDR 78.7 million, equivalent to 18.8% of Luxembourg's quota.

The IMF's financial transactions plan defines the currencies to be made available by its members and the distribution of reimbursements among its members on a quarterly basis. At the end of the year, the credits granted by Luxembourg under the New Arrangements to Borrow (NAB), reached SDR 126.2 million.

At the end of 2013, Luxembourg held SDR 244.25 millions, or 99.04% of its SDR allocation, in comparison with 98.98% at the end of 2012.

In the context of the 14th General Review of Quotas, the IMF's total quotas will double from SDR 238.4 billion to SDR 476.8 billion. Luxembourg's quota will increase from SDR 418.7 million to SDR 1 321.8 million, an increase of 216%. This increase of SDR 903.1 is regulated by the law of 10 October 2012, which authorises the government to participate in the general review of quotas of the IMF Member States, approved by Resolution n° 66-2 of the Board of Governors on 15 October 2010 and approving the amendment to the IMF's Articles of Agreement with regard to the same resolution.

The review of the quotas and the amendment to the IMF's Articles of Agreement are linked and will enter into force when Member States representing at least 85% of the voting rights have adopted them. At this stage, the coming into effect of the 14th General Review of Quotas of the IMF depends on the ratification by the Congress of the United States of America.

Following the doubling of the IMF's quotas, the NAB will be rolled back from around SDR 370 billion to about SDR 182 billion. Luxembourg's participation in the NAB will be reduced from SDR 970.59 million to SDR 493.1 million.

Activities at the level of the Bank for International Settlements (BIS)

Established in 1930, the BIS is the oldest international financial institution. It promotes the cooperation between central banks, notably by the regular organisation of high level meetings including the governors of central banks and experts. It also contributed to the establishment of international standards in banking areas. At present the BIS has sixty members from central banks of advanced and emerging countries.

The BCL is closely involved in the activities of the various committees and working groups of the BIS.[76] Besides its participation in the Committee on the Global Financial System (CGFS) and in the Annual General Meeting of the BIS, the BCL is also represented by its Governor at the Global Economy Meeting and at the All Governors' Meeting, which both take place once every two months in Basel.

In 2013, the discussions that took place in the context of the BIS meetings addressed recent economic developments, financial market conditions, the collateral policies of central banks and the implementation of monetary policy in a rapidly changing world.

Activities at the level of the Financial Stability Board (FSB)

The Financial Stability Board was established in 2009 in order to coordinate the work of national financial authorities and the organisations that elaborate standards in the field of financial stability. It consists of three committees which are dedicated respectively to the assessment of vulnerabilities, cooperation in supervisory and regulatory matters and the implementation of standards.

With regard to the FSB's work related to financial system vulnerabilities and measures aiming at enhancing financial stability, the FSB set up so-called "Regional Consultative Groups" (RCG) in 2011, which allow exchanges of views between financial sector authorities from FSB members and other jurisdictions, which are not members of the Board. The President of the BCL co-chaired the RCG meetings until the end of his mandate in June 2013. In his capacity of co-chairman he also attended the plenary meetings of the FSB that were held throughout 2013. These meetings covered particularly the vulnerabilities of the international financial system and the progress made in addressing the issues identified by the G20.

1.12 THE EUROSYSTEM PROCUREMENT COORDINATION OFFICE (EPCO)

In December 2007, the ECB Governing Council appointed the Banque centrale du Luxembourg to establish and host the Eurosystem Procurement Coordination Office (EPCO) for an initial period of five years (2008-2012). This period was extended until the end of December 2014, to allow further analysis for a future scope of EPCO.

The objective of EPCO is to coordinate and support the joint procurement of goods and services by those ESCB Central Banks that have agreed to participate in EPCO activities (the so-called 'EPCO Central Banks')[77], as well as to further improve best practices in the field of public procurement within the Eurosystem.

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76 The working groups of the BIS are: The Financial Stability Board, the Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Committee on Payment and Settlement Systems, the Markets Committee, the International Association of Insurance Supervisors and the International Association of Deposit Insurers.

77 In 2013, the EPCO Central Banks were, in addition to seventeen Eurosystem Central Banks, the Central Banks of Romania *(Banca Naţională a României)*, Hungary (*Magyar Nemzeti Bank*) and Croatia *(Hrvatska Narodna Banka)*. Discussions with other central banks that had expressed an interest in getting more information on EPCO procedures in view of their potential joining were held.

EPCO administers and facilitates the activities of the network of procurement managers and experts of the EPCO Central Banks. The network met six times in 2013 and continued to serve as an excellent platform to discuss and exchange views, for example, on the best procurement practices and to foster the joint procurement culture within the Eurosystem. Concerning this activity, EPCO prepared a handbook of best procurement practices in 2013, based on the contributions of the members of the network over the years, to provide support to the EPCO central banks in that area.

In 2013, the fifth EPCO joint procurement plan was implemented. Good progress was made in a number of areas: the joint procedures on air transport and global hotel agreements for ESCB meetings were renewed. EPCO actively supported the lead central banks in the monitoring of existing contracts, as well as in the preparation of future procedures in areas including market data providers, audit services, packaging products for transportation of euro banknotes, office copy paper and information technology. The contracts in force produced important benefits for the EPCO central banks.

In addition, EPCO made progress in the study of areas that have a potential for joint procurement in domains such as insurance and information technology products and services. The latter resulted in a new joint procurement led by EPCO/BCL.

Over the year 2013 and in particular during the first two quarters, EPCO contributed significantly to the work on the evaluation of EPCO's activities under the auspices of the Steering Committee of EPCO, developing, amongst other things, methodologies to capture the value added by EPCO to the central banks.

In April 2013, the ECB Governing Council approved the Annual Report for 2012. This report confirmed that the execution of the 2012 budget was € 309 000 below the initially budgeted amount. It also determined the distribution of EPCO's operating costs between the participating central banks in line with the mechanism for the sharing of the costs approved by the Governing Council.

In December 2013, the ECB Governing Council approved EPCO's procurement plan for 2014 ('EPCO Procurement Plan – Update 2014') as a multi-annual procurement plan. This procurement plan widened the scope of EPCO's activities for 2014 to include a total of eleven joint procurement procedures and seven areas of further study, and it strengthened the coordination of future joint procurements of EPCO Central Banks, without prejudging developments deriving from the duration of EPCO's current mandate.

Finally, in December 2013, the ECB Governing Council approved a € 898 000 budget for EPCO for the first half of 2014.

02 THE BCL AS AN ORGANISATION

2
THE BCL AS AN ORGANISATION

2.1 CORPORATE GOVERNANCE

2.1.1 The Council

Article 6 of the Founding Law of 23 December 1998 defines the powers of the Council of the Bank. The Council consisted of the following members:

President: Gaston Reinesch
Members: Pierre Beck
Betty Fontaine
Pit Hentgen
Serge Kolb
Jacques F. Poos
Romain Schintgen
Michel Wurth
Claude Zimmer

During 2013, the Council held seven meetings. The level of participation by the members was as follows: Pierre Beck (6 meetings), Betty Fontaine (4 meetings), Pit Hentgen (5 meetings), Serge Kolb (7 meetings), Jacques F. Poos (7 meetings), Romain Schintgen (7 meetings), Michel Wurth (5 meetings) and Claude Zimmer (7 meetings).

Within the framework of monitoring the financial situation of the Bank, the Council approved the financial accounts as at 31 December 2012, the budgetary trends and subsequently the budget for the 2014 financial exercise.

The Council also observed and commented on economic and financial developments on a national and international basis and was kept informed of the decisions taken by the Governing Council of the ECB.

From l. to r.: Mr. Claude Zimmer, Mr. Pit Hentgen, Mr. Pierre Beck, Mr. Gaston Reinesch (President), Mr. Serge Kolb, Mr. Jacques F. Poos, Mr. Michel Wurth, Mr. Romain Schintgen
Note: Ms. Betty Fontaine is missing on the picture.

The Audit Committee

Since 2001, the Audit Committee assists the Council in its choice of the statutory auditor to be proposed to the Government, in specifying the scope of the potential specific controls to be performed by the statutory auditor and in the approval of the financial accounts by the Council. It is kept informed on the internal audit plan.

It may invite the head of the internal audit unit and the statutory auditor of the Bank to participate in its work.

At its meeting on 6 December 2013, the Council nominated the non-executive members of the Audit Committee for 2014: Jacques F. Poos, Romain Schintgen and Claude Zimmer. As from 24 May 2013, the President of the Council, following his request, is no longer an *ex officio* member. In 2013, the Audit Committee was chaired by one of its non-executive members, Jacques F. Poos, and held nine meetings.

2.1.2 The President

His Royal Highness Grand-Duke Henri of Luxembourg, on a proposal by the Government in Cabinet, appointed Mr. Gaston Reinesch as the President of the BCL for a six-year period as of 1 January 2013.

2.1.3 The Executive Board

The Executive Board is the superior executive authority of the BCL. It makes the final decisions and draws up the measures necessary for the BCL to carry out its tasks. Without prejudice to the independence of the Director General, with regard to all instructions in his capacity as a member of the Governing Council of the ECB, the decisions of the Executive Board shall be taken collectively.

The Executive Board consists of the Director General and two Directors:

Director General: Gaston Reinesch

Directors: Serge Kolb and Pierre Beck

The members of the Executive Board receive a salary according to the wage scale in the public sector as well as various allowances. The remuneration components are subject to the current legal tax rates (i.e. the progressive tax rate) in Luxembourg.

From l. to r.: Mr. Serge Kolb, Mr. Gaston Reinesch, Mr. Pierre Beck

The annual salary paid to the Executive Board members according to the Law of 23 December 1998 is as follows:

	Salary
Gaston Reinesch (Director General)	174 076 €
Serge Kolb (Director)	161 840 €
Pierre Beck (Director)	161 840 €
Total	**497 756 €**

2.1.4 Organisation Chart as of 1 January 2013

EXECUTIVE BOARD

Heads of General Departments

Internal Audit and Risk Prevention

Internal Audit Section
Risk Prevention Section

General Secretariat

Governor's Office Section
Legal Services Section

International Relations and Communications Department

International Relations and Cooperation Section
Communications Section

Financial Risk and Collateral Management Division

Collateral Management Section
Financial Risk Management Section

Eurosystem Procurement Co-ordination Office

Payment Infrastructures and Systems Section

Economics and Research Department

Business Cycle Section
Research Section

Statistics Department

Banking and Monetary Statistics Section
External Statistics Section
Economical and Financial Statistics Section

Operations Department

Monetary Policy Implementation Section
Front Office - Asset Management Section
Back Office - Collateral Management Section
Payments Section

Currency and Numismatics Department

Currency Operations Section
Currency Handling Control Section
Numismatics Section

Financial Stability and Prudential Surveillance Department

Financial Stability Section
Prudential Policy and Regulation Section
Liquidity Surveillance Section
Oversight Section

Internal Finance and Strategy Department

Human Resources Department

Information Technology Department

Infrastructure Section
Software and Development Section
Planning and Support Section

Logistics Department

Procurement Section
Facilities Management Section
Security Section

2.1.5 Internal control and risk management

The BCL's internal control system is based on generally accepted principles in the financial sector and the ESCB, taking into consideration the BCL's specific needs as a central bank.

The Executive Board has defined the general framework and the principles of the internal control system. The management of the BCL and their staff are responsible for the proper functioning of the internal control system. Functional reviews are carried out by specific administrative units, ensuring an adequate segregation of duties. These units are the Financial Risk Management and Collateral Management sections, the Risk Prevention section as well as the Controlling function within the Internal Finance and Strategy department.

The Financial Risk Management section is, above all, in charge of the analysis of financial risks, of the surveillance of the implementation of decisions made by the internal committees and by the Executive Board, of the surveillance with respect to the established limits and of the production of regular reports on these issues. The Collateral Management section within the Financial Risk and Collateral Management division is entrusted with the risk management responsibility in the field of the management of collateral, in particular for ABS (asset-backed securities).

The Risk Prevention section is in charge of the surveillance of operational risks, of risks related to information systems and of non-compliance risks.

Whereas departments are responsible for identifying the risks linked to their fields of activities and for taking appropriate actions to mitigate these risks, the Risk Prevention section has the following responsibilities:

- establish a common methodology for risk analysis;
- provide assistance in the identification and evaluation of risks;
- ensure periodical reporting.

The Risk Prevention section is also in charge of coordinating the Business Continuity Plan and related testing.

The purpose of the compliance function is to identify, evaluate and monitor the Bank's risk of non-compliance. The risk of non-compliance is defined as the risk of judicial, administrative or disciplinary sanctioning, of financial losses or reputational damage which could harm the BCL in the event that it would not comply with the laws, regulations, professional and ethical standards or internal instructions.

The Executive Board of the BCL identified several areas of intervention for the compliance function, in particular:

- anti-money laundering (AML) and financing of terrorist activities,
- professional code of ethics,
- prevention of insider trading and market abuse,
- conflict of interests,
- professional secrecy and confidentiality,
- privacy and protection of personal data,
- regulation of public markets.

The Internal Audit unit is in charge of the independent and objective assessment of the internal control system and its functioning. Internal Audit is independent from the BCL's other administrative units and reports directly to the President of the Council.

When performing its tasks, the work of the Internal Audit unit complies with internationally accepted professional standards, as applied by the ESCB. The internal annual audit plan comprises audit engagements on a national level, as well as audit objects that are coordinated by the Internal Auditors Committee of the ESCB in compliance with the ESCB audit charter. The Internal Audit unit follows-up on the implementation of the recommendations issued during its audit activities.

Finally, the Audit Committee is informed about the internal control and the risk management framework and its functioning.

2.1.6 External control

In accordance with art. 15 of the BCL's organic law, the Bank's financial accounts are audited by an external auditor nominated for five years by the Government. Moreover, the external auditor is mandated by the Bank's Council to perform additional reviews and specific controls on an annual basis.

At the European level, the BCL's external auditor is approved by the Council of Ministers upon recommendation of the Governing Council of the ECB. In this context, the external auditor is also entrusted with the performance of a certain number of specific engagements at the Eurosystem level.

Considering that the mandate of the external auditor of the BCL, currently KPMG audit S.àr.l., expired at the end of 2013, the BCL launched a European public market tender for the mandate of the external auditor of the BCL for the years 2014 to 2018.

The statutes of the ESCB and of the ECB provide that National Central Banks act in accordance with ECB guidelines and instructions. Compliance with these provisions is monitored at the European level by the Governing Council of the ECB which may request any additional information.

2.1.7 Code of Conduct

A Code of Conduct defines the internal and external rules of conduct applicable to all staff members. The Code is valid without prejudice to the rules defined by the public services legislation, the social legislation as well as existing contractual commitments and it prescribes ethical standards of nondiscrimination, integrity, independence, and professional secrecy to which the BCL's staff has to strictly adhere.

At the request of the Director general, the Code of Conduct for the Director general was strenghtened at his own expense. Moreover, in order to avoid any suspicion of a potential conflict of interest with regard to his function as a member of the Governing Council of the ECB, the Director general does not participate in the investment committees of the BCL which are entrusted with the management of the BCL's own funds. In addition, as far as the Executive Board of the BCL is concerned, the Director general does not take part in the deliberations regarding the latter. His responsibilities are limited, as the President of the Council, to those of an administrator.

Moreover, the European Central Bank requires the Members of the Governing Council to strictly adhere to its Code of Conduct, which foresees particularly strict standards of professional and ethical conduct. The members of the Governing Council shall act with honesty, independence, impartiality, and discretion. The members shall not consider their personal interests and shall avoid any situation that may lead to a conflict of interests. These obligations extend one year after the termination of their function. The conditions for the acceptance of gifts and other benefits as well as for the participation in conferences, receptions or cultural events are also specified in the Code of Conduct.

The Governors are invited to be particularly careful regarding individual invitations. The same rules apply to their spouses or partners who are equally obliged to respect the generally accepted rules concerning international relations, as well as concerning events happening outside of the ESCB which the members of the Governing Council may attend. Finally, members of the Governing Council must neither disclose nor make use of confidential information when performing, either directly or indirectly via intermediaries, financial transactions on a private basis.

2.2 THE BCL'S STAFF

2.2.1 Quantitative evolution

In the course of 2013, the BCL staff increased by 1% to reach a total of 303 staff members on 31 December 2013. Currently 282,75 full-time positions are occupied which represents an increase of 1.06% compared to 2012. The staff members are of 17 different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On 31 December 2013, 33 staff members occupied a part-time position:

- Part-time work (50%): 13 staff members
- Part-time work (75%): 8 staff members
- Leave for half-time work: 12 staff members

Only 2 staff members were on parental leave and 3 staff members were on part-time parental leave.

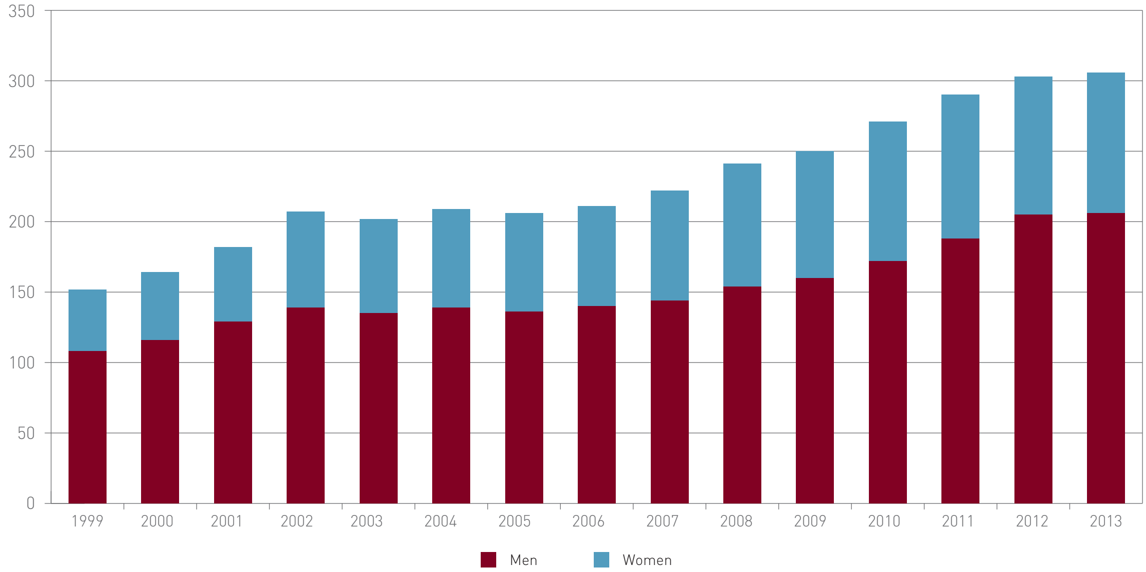
In addition, 6 staff members were on unpaid leave and 3 staff members were on special leave.

The average number of staff members working at the BCL in 2013 was 303.05 persons or 285.94 full-time equivalents (FTE).

The overall approved headcount cap for the year 2013 was 332.25 full-time equivalent positions.

During the year 2013, 9 staff members left the bank. On the other hand, 10 new staff members joined the bank during the same period.

Graph 20 :
Quantitative evolution



Source : BCL

2.2.2 The Pension Fund

Article 14 of the Organic Law of 23 December 1998 provides that legal pension entitlements of BCL agents are determined by their status: civil servant, state employee, private employee or worker.

Paragraph 4(b) of this article provides that: 'The pensions of the Bank's agents shall be paid by the Bank. These costs shall be financed by a pension fund of the Bank. The pension fund shall be financed on the one hand by statutory deductions from agents' salaries in accordance with the rules governing the pension scheme which is linked to an individual's status, and on the other hand by contributions made by the Bank itself.'

The BCL's pension fund, which started operating in 2001, is governed by a set of internal rules and two committees, one executive and one consultative.

The executive committee is the *Comité directeur* composed of the BCL's Executive Board, two elected representatives from the staff, two co-opted members acting as delegated managers and one member designated by the Staff Committee. The consultative committee is the Tactical Benchmark Committee.

2.3 INTERNAL FINANCE AND STRATEGY

2.3.1 Accounting and reporting

The BCL continued to update its accounting system and its procedures in order to meet the quality standards of the Eurosystem. The BCL continued to take part in the working group relating to the ESCB's financial framework and adopted the accounting revisions in the BCL's systems.

The Eurosystem requires the daily reporting of balance sheet data according to harmonised rules.

The controlling systems in place proved to be effective during the year.

The BCL regularly checks the development of balance sheet, off-balance-sheet and profit and loss items. Investments, revenues and expenses are in particular closely monitored with special attention paid to signing powers.

The monthly balance sheet of the BCL is published on its internet site.

The management information system meets the need to follow the Bank's activities. It is based on a set of indicators. These tables include all activities of the Bank. The BCL strictly controls the development of the interest margin and compares the profitability of its investments to benchmarks.

The BCL's decision-making bodies are regularly informed of the results in order to be in a position to determine future directions and actions to be taken.

In early 2013, a new software dedicated to asset management for own account and third parties was deployed.

2.3.2 Budget

Budget preparation, in accordance with the Organic Law of the BCL, is part of the multiannual planning process of the BCL, whose primary purpose is to ensure the Bank's long term financial equilibrium. In addition, the annual budget determines the upper limit of operating expenditure and investment the Bank may incur during a given financial year.

The 2013 budget of the BCL was established in accordance with the BCL's budgetary procedure and the guidelines set by the Bank's Council on 11 July 2012. The 2013 budget was approved by the Council of the BCL on 22 February 2013.

In particular, the budget includes the following elements:

- The number of tasks assigned to the BCL at both the national and European level continues to increase, particularly in the field of prudential supervision and statistics. The continuous assignment of new tasks and the persisting crises have required a reinforcement of the Bank's staff in both operational and support units.
- Taking into account the ongoing financial crisis, the low level of key interest rates and the fact that the BCL still lacks appropriate own funds, the decision-making bodies of the BCL have applied strict cost control since 2008. These efforts have permitted to contain the average increase of the operating budget (excluding staff costs) at +2.1% per year over the period 2008-2013 and this despite a significant simultaneous increase in employment.
- The BCL continues to implement internal and European projects, which have a measurable impact on the headcount and the overall budget size.

The Internal Finance and Strategy Department supervises the execution of the budget and prepares quarterly reports for the Executive Board of the Bank. At the end of each fiscal year, a detailed analysis of initial budget vs. actual expenditure is prepared. This analysis is submitted to the Executive Board and the Council of the Bank for information and approval. Finally, the conclusions drawn from this analysis are taken into account in the preparation of future budgets.

The expenditure for operating costs and investments as at 31 December 2013 stayed within the boundaries set by the Bank's annual budget.

2.3.3 Strategic planning and management control

Management control aims at enhancing efficiency and accountability within the BCL, allowing the Executive Board to concentrate its involvement on decision making at the strategic level. To this end, management control assists the Executive Board of the Bank by providing quantitative and qualitative analyses, thus facilitating and supporting an efficient decision-making process.

In addition, management control is entrusted with the coordination and monitoring of the Bank's internal projects. Based on the internal regulation on the management of projects, management control has issued regular project monitoring reports and rendered secretarial services to the BCL's project steering committee (BISC). The "Overall Project Monitoring Reports" (OPMR), prepared by the Internal Finance and Strategy Department, allows the BISC to better monitor and control the progress of the BCL's various projects.

BCL representatives have participated in a series of project controlling activities at the ESCB/Eurosystem level related to the preparation and monitoring of common IT projects. Since 2013 the head of the BCL's Internal Finance and Strategy Department represents the Bank as a member of the EISC (Eurosystem IT Steering Committee. Consequently, BCL representatives have been heavily involved in Eurosystem matters as well as in related working groups.

Cost accounting, as part of the BCL's management control function, serves as the basis for identifying, analysing and monitoring activity related costs (Activity Based Costing). Moreover, it establishes the financial figures for the invoicing of services. The applied cost accounting methodology follows the common rules adopted by the Eurosystem. It consists of allocating the BCL's operational expenses according to their category, i.e. according to the respective sections and units, allowing cost identification of each of the Bank's activities.

In order to facilitate planning and monitoring of staff resources, the BCL applies a specific analytic tool for measuring and evaluating the allocation of human resources and material with respect to the various functions of the central bank. Together with an enhanced cost accounting system this allows the Executive Board to better monitor the operational performance of the Bank. Furthermore, regular reports containing both financial and operational indicators facilitate the alignment of tasks and activities with strategic orientations and identified objectives of the Bank.

As the BCL continues to grow, a more comprehensive long term planning remains a core requirement. Consequently, the efforts in the field of strategic planning have been intensified in order to safeguard a smooth alignment of the BCL with the current economic, financial and institutional environment. Moreover, in order to monitor the capital adequacy with respect to its financial independence, the BCL performs assessments of its long-term financial situation. It carries out prospective analyses based on internal factors (e.g. costs and revenues) and external factors (e.g. interest rates, exchange rates and other variables of the Eurosystem and of the economic situation).

2.4 FINANCIAL STATEMENTS

Preamble

Only the French version of the present financial statements has been reviewed by the Independent Auditor. Consequently, the present financial statements only refer to the French version of the financial statements; other versions result from a conscientious translation made under the responsibility of the Executive Board. In case of differences between the French version and this translation, only the French version is legally binding.

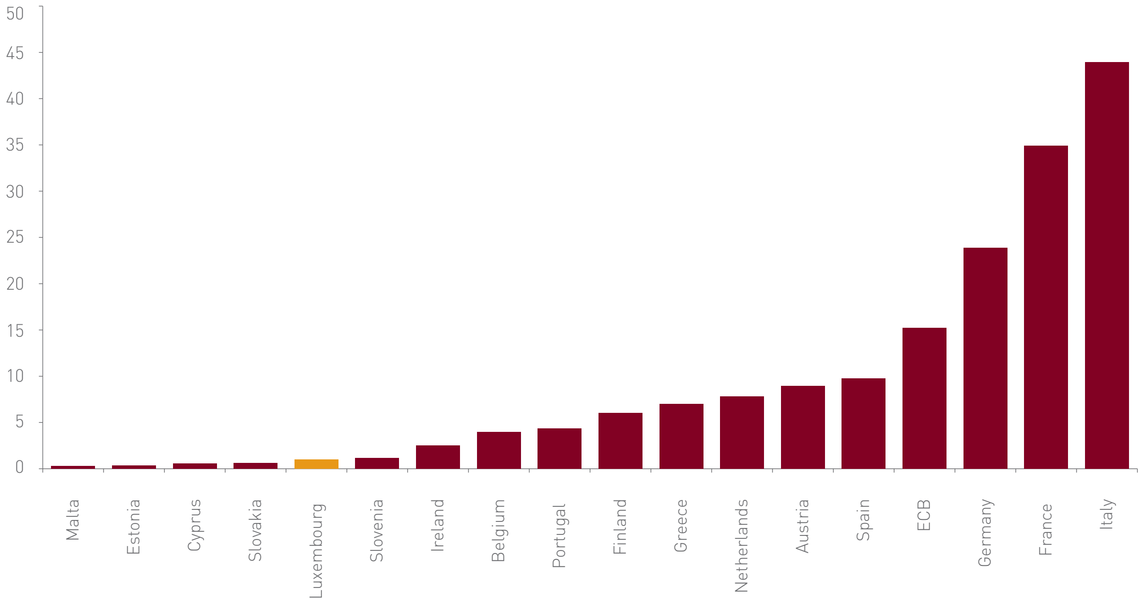
2.4.1 Key figures as of year-end (in euro)

	2013	2012	Change in % 2013/2012
Total assets	118 560 343 356	120 419 763 880	-2%
Liabilities to credit institutions	24 565 392 606	38 478 688 215	-36%
Lending to credit institutions	5 819 000 000	5 675 000 000	3%
Own funds (1), revaluation accounts, administrative provisions and specific banking risks provisions	1 180 157 100	1 131 271 692	4%
Net result from banking activities (2)	442 058 203	606 702 366	-27%
Total net income	94 987 233	55 304 679	72%
Administrative expenses	88 380 978	49 487 198	79%
Net profit	1 911 549	1 847 800	3%
Cash Flow (3)	246 130 093	217 304 422	13%
Staff	303	300	1%
BCL's weighting in the capital of the ECB	0.1739%	0.1747%	
BCL's weighting in the Eurosystem's monetary policy operations	0.774%	0.504%	

(1) Capital, reserves, provisions for general banking risks and net profit to be allocated to the reserves
(2) Net ajusted interest income, net result from fees and commissions, net result on financial operations
(3) Net profit plus depreciation of tangible / intangible assets and write-downs on financial assets, as well as net transfer to administrative provisions and provisions for banking risks

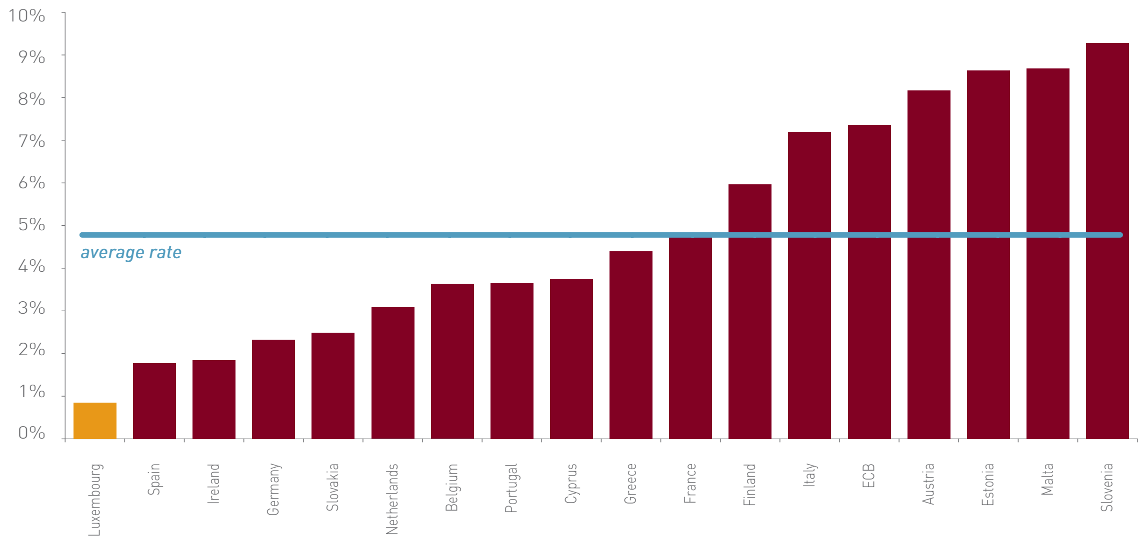
The capital base of the BCL is largely insufficient, both in absolute and relative terms, in comparison to other national central banks of the Eurosystem (see graphs below):

Graph 21 :
Capital, reserves and provisions in the Eurosystem (in € billion)



Source: Annual reports 2012; BCL figures 2013.

Graph 22 :
Ratio own funds / total assets (in %)



Source: Annual reports 2012; BCL figures 2013.

2.4.2 Report of the *Réviseur d'Entreprises agréé*

We have audited the accompanying financial statements ("les comptes financiers") of Banque centrale du Luxembourg, which comprise the balance sheet as at December 31, 2013 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the preparation and presentation of the financial statements

The financial statements are the responsibility of the Directors and are approved by the Council. The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles and those defined by the European System of central banks, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the *Réviseur d'Entreprises agréé*, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the *Réviseur d'Entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banque centrale du Luxembourg as of December 31, 2013, and of the results of its operations for the year then ended in accordance with generally accepted accounting principles and those defined by the European System of central banks.

Luxembourg, March 21, 2014 KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

S. Chambourdon

2.4.3 Balance sheet as at 31 December 2013

ASSETS	Note	2013 EUR	2012 EUR
Gold and gold receivables	3	63 070 482	90 841 235
Claims on non-euro area residents denominated in foreign currency	4	686 841 414	660 287 665
- Receivables from the IMF		502 202 535	546 056 782
- Balances with banks, security investments, external loans and other external		184 638 879	114 230 883
Claims on euro area residents denominated in foreign currency	5	1 311 147 611	1 563 658 740
Claims on non-euro area residents denominated in euro	6	1 025 997 742	1 298 712 955
- Balances with banks, security investments and loans		1 025 997 742	1 298 712 955
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	5 819 000 000	5 675 000 000
- Main refinancing operations	7.1	4 629 000 000	770 000 000
- Longer-term refinancing operations	7.2	1 190 000 000	4 905 000 000
Other claims on euro area credit institutions denominated in euro	8	2 599 902 128	1 326 635 883
Securities of euro area residents denominated in euro	9	2 954 104 966	3 436 692 374
- Securities held for monetary policy purposes	9.1	483 869 824	580 374 062
- Other securities	9.2	2 470 235 142	2 856 318 312
Intra-Eurosystem claims	10	103 670 039 952	105 882 564 666
- Participating interest in ECB	10.1	24 628 803	24 519 953
- Claims related to the transfer of foreign reserves	10.2	100 776 864	100 638 597
- Other claims within the Eurosystem	10.3	103 544 634 285	105 757 406 116
Items in course of settlement		182	211
Other assets	11	430 238 879	485 370 151
- Tangible and intangible assets	11.1	62 927 236	65 049 947
- Other financial assets	11.2	234 288 721	217 349 308
- Accruals and prepaid expenses	11.3	110 819 223	190 632 560
- Sundry	11.4	22 203 699	12 338 336
Total assets		**118 560 343 356**	**120 419 763 880**

The accompanying notes form an integral part of the financial statements.

LIABILITIES	Notes	2013 EUR	2012 EUR
Banknotes in circulation	12	2 199 225 500	2 094 398 640
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	24 565 392 606	38 478 688 214
- Current accounts (covering the minimum reserve system)	13.1	11 580 392 606	18 366 964 668
- Deposit facility	13.2	7 849 600 000	18 089 623 546
- Fixed-term deposit	13.3	5 135 400 000	2 022 100 000
Liabilities to other euro area residents denominated in euro	14	576 442 874	622 704 906
- General government	14.1	576 367 135	552 662 871
- Other liabilities	14.2	75 739	70 042 035
Liabilities to non-euro area residents denominated in euro	15	2 749 366 441	1 672 172 078
Liabilities to non-euro area residents denominated in foreign currency	16	1 366 345 288	1 546 248 826
Counterpart of special drawing rights allocated by the IMF	17	275 797 896	287 487 800
Intra-Eurosystem liabilities	18	85 326 850 130	74 257 491 195
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	85 326 850 130	74 257 491 195
Other liabilities	19	119 393 238	180 919 979
- Accruals and income collected in advance		82 374 535	145 825 697
- Sundry		37 018 703	35 094 282
Provisions	20	1 040 824 609	751 582 790
Revaluation accounts	21	152 235 079	341 511 307
Capital and reserves	22	186 558 146	184 710 345
- Capital	22.1	175 000 000	175 000 000
- Reserves	22.2	11 558 146	9 710 345
Profit for the year		**1 911 549**	**1 847 800**
Total liabilities		**118 560 343 356**	**120 419 763 880**

The accompanying notes form an integral part of the financial statements.

2.4.4 Off-balance sheet as at 31 December 2013

	Note	2013 EUR	2012 EUR
Securities received as collateral	23	146 851 686 663	140 206 472 952
Foreign currency reserve assets managed on behalf of the ECB	24	299 387 312	321 141 061
Forward transactions	25	-	32 600 000
Numismatic collection		206 247	207 906
		147 151 280 222	**140 560 421 919**

The accompanying notes form an integral part of the financial statements.

2.4.5 Profit and loss account for the year ending 31 December 2013

	Note	2013 EUR	2012 EUR
Interest income	26	851 981 760	1 267 581 069
Interest expense	26	(464 355 280)	(761 293 499)
Net interest income	**26**	**387 626 480**	**506 287 570**
Realised gains / (losses) arising from financial operations	27	58 065 957	107 300 137
Write-downs on financial assets and positions	28	(2 762 514)	(4 735 911)
Transfer to/from provisions for risks	29	(236 761 324)	(162 211 804)
Net result of financial operations, write-downs and risk provisions		**(181 457 881)**	**(59 647 578)**
Fees and commissions income	30	11 012 033	12 407 609
Fees and commissions expense	30	(11 883 754)	(13 197 857)
Net result from fees and commissions	**30**	**(871 721)**	**(790 248)**
Income from participating interest	31	4 646 498	3 503 490
Net result of pooling of monetary income	32	(125 857 340)	(403 075 958)
Other income	33	10 901 197	9 027 402
Total net income		**94 987 233**	**55 304 678**
Staff costs	34	(36 988 559)	(34 615 108)
Other administrative expenses	35	(11 311 493)	(9 543 040)
Depreciation of tangible and intangible assets	11.1, 36	(4 694 706)	(3 969 679)
Banknote production services	37	(1 107 630)	(665 820)
Other expenses	38	(38 973 296)	(4 663 231)
Profit for the year		**1 911 549**	**1 847 800**

The accompanying notes form an integral part of the financial statements.

2.4.6 Notes to the financial statements as at 31 December 2013

NOTE 1 – GENERAL INFORMATION

The Banque centrale du Luxembourg ("BCL" or "Central Bank") was founded in accordance with the law of 22 April 1998. The Founding Law of 23 December 1998 as modified, stipulates that the main task of the BCL shall be to contribute to the exercise of the tasks of the European System of Central Banks (ESCB) so as to achieve the objectives of the ESCB. The BCL is also responsible for the oversight of the general market liquidity situation and the evaluation of the market participants in this respect. The BCL is authorised to take and sell participations as well as, in exceptional circumstances, to make short-term lending to counterparties with appropriate guarantees. In addition, establishing the European banking union implies new tasks for the BCL. The BCL is a public institution, endowed with legal personality and financial independence.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below:

2.1 Layout of the financial statements

The financial statements of the BCL have been prepared and drawn up in accordance with the generally accepted accounting principles and those defined by the ESCB.

2.2 Accounting principles

The following accounting principles have been applied:

- economic reality and transparency;
- prudence;
- recognition of post-balance sheet events;

- continuity of methods and comparability;
- relative significance;
- going concern concept;
- recognition of charges and income in the accounting period they relate to.

2.3 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the valuation at market prices of securities (other than those classified as held-to-maturity), gold and of all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency.

Transactions in financial assets and liabilities are reflected in the accounts of the BCL on the basis of their settlement date.

2.4 Gold, assets and liabilities in foreign currencies

Assets and liabilities denominated in foreign currencies (including gold) are converted into euro at the exchange rate prevailing on the balance sheet closing date. Income and expenses are converted at the exchange rate prevailing on the dates of the transactions.

Foreign currencies are revalued on a currency by currency basis including on-balance sheet and off-balance sheet items.

Securities are revalued separately from the revaluation of foreign exchange for securities denominated in foreign currencies.

Gold is revalued on the basis of the euro price per fine ounce as derived from the quotation in US dollars established at the time of the London fixing on the last working day of the year.

2.5 Securities

Securities held for monetary policy purposes are classified as held-to-maturity. These securities are valued at amortised cost (purchase price adjusted by premiums and discounts) and write-downs are done in case of permanent impairment.

The other negotiable securities denominated in foreign currencies and in euro are valued at the market price prevailing on the balance sheet date. Securities held to maturity are valued at amortised cost (purchase or transfer price adjusted by premiums and discounts). Write-downs are applied to held-to-maturity securities in case of impairment.

The revaluation of securities takes place item-by-item on the basis of their ISIN code.

2.6 Recognition of gains and losses

Income and expenses are recognised in the period in which they are earned or incurred.

Realised gains and losses on foreign exchange transactions, securities and financial instruments linked to interest rates and market prices are taken to the profit and loss account.

At the end of the year, unrealised revaluation gains on foreign currencies, securities and financial instruments are not considered in the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet.

Unrealised losses are recognised in the profit and loss account when they exceed previous revaluation gains registered in the corresponding revaluation account. They may not be reversed against new unrealised gains in subsequent years. Unrealised losses regarding a specific security, financial instrument, currency or in gold holdings are not netted with unrealised gains in other securities, financial instruments, currencies or gold holdings.

In order to calculate the acquisition cost of securities or currencies that are sold, the average cost method is used on a daily basis. If any negative revaluation differences are taken to the profit and loss account, the average cost of the asset in question is adjusted downwards to the level of the current exchange rate or market price thereof.

For fixed-income securities, the premiums or discounts arising from the difference between the average acquisition cost and the redemption price are calculated and presented on a prorata basis as part of the interest positions and amortised over the remaining life of the securities.

2.7 Events after the reporting period

Assets and liabilities are adjusted to take account of events occurring between the balance sheet date and the date on which the BCL's Council approves the annual accounts if such events have a material effect on the assets and liabilities on the balance sheet date.

2.8 Banknotes in circulation

The ECB and the participating NCBs, which together comprise the Eurosystem, have issued euro banknotes since 1 January 2002. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation from 2002, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item "Banknotes in circulation".

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed under the sub-item "Intra-Eurosystem: Net liabilities related to the allocation of euro banknotes within the Eurosystem".

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under "Net interest income."

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, shall be partially distributed in 2013. The amount distributed is disclosed in the Profit and Loss account under "Income from participating interest".

2.9 Intra-Eurosystem claims and liabilities

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under "Net liabilities related to the allocation of euro banknotes within the Eurosystem".

Intra-Eurosystem claims and liabilities arising from TARGET2 balances and counterparties accounts are shown as a single net asset or liability on the balance sheet.

2.10 Treatment of tangible and intangible assets

The tangible and intangible assets, except for land and works of art, are stated at their acquisition cost less depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the fixed asset:

	Years
Buildings	25
Renovation of buildings	10
Furniture and equipment	3-5
Computer hardware and software	4

2.11 Pension fund

As of 1 January 1999, after the entry into force of the Founding Law of 23 December 1998, as modified, the pension claims of the BCL's staff members are fully borne by the BCL. The pension fund, which aims to cover the risks related to old age, disability and survival, was set up in 2000.

The actuarial method determines the pension fund's liability related to old age, disability or survival for each agent. The model is based on each agent's personal and career data, on the level of inflation for the next 60 years as well as on an average rate of return generated by the fund's assets.

The BCL's liabilities related to pensions are shown in the account "Provisions for pensions". The provision increases as a result of regular transfers by the agent and by the BCL as employer and decrease by pension payments to retirees. At the year end, the provision is adjusted by the actuarial value. In addition, if necessary, periodic transfers from the account "Booking reserve of the pension fund", equivalent to the revenues generated by the fund's assets, to adjust the account "Provision for pensions" to its actuarial value are booked. In cases where transfers are insufficient to cover the BCL's pension liabilities, the difference between the existing provision and the effective claim is covered by a special transfer to be borne by the BCL.

2.12 Provision for banking risks

In accordance with the prudence principle, the BCL's provision policy intends to cover specific and general risks resulting from the BCL's activities.

NOTE 3 – GOLD AND GOLD RECEIVABLES

As at 31 December 2013, the BCL holds 72 393.29 ounces of fine gold amounting to € 63.07 million (72 028.82 ounces of fine gold amounting to € 90.84 million on 31 December 2012).

On the balance sheet date, gold is valued on the basis of the euro price per fine ounce derived from the quotation in US dollars established at the London fixing on 31 December.

NOTE 4 - CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	2013 EUR	2012 EUR
Receivables from the IMF	502 202 535	546 056 782
Balances with banks, security investments, external loans and other external assets	184 638 879	114 230 883
	686 841 414	**660 287 665**

Under this item are recorded the BCL's foreign exchange reserve holdings with counterparties situated outside the euro area (including international and supranational institutions and non-Eurosystem central banks).

This item is broken down into two sub-items:

– receivables from the International Monetary Fund (IMF) are made up of reserve tranche position, SDR holdings and new arrangements to borrow. SDR are reserve assets created by the IMF and allocated by it to its members. A member's SDR holdings initially amount to the SDR allocated. Afterwards, SDR holdings are subject to fluctuations as a result of encashments and transactions with others SDR holders. The reserve tranche position corresponds to the net amount of the quota and the IMF's currency holding and takes into account the re-evaluation of the general account. The new arrangements to borrow are credit agreements between the IMF and the Government of Luxembourg.
– balances held on accounts with banks outside the euro area as well as securities, loans and other foreign currency assets issued by non-residents of the euro area. This sub-item includes in particular the US dollar securities portfolio which could be used, if needed, for monetary policy operations.

This portfolio, which amounts to € 114.3 million as at 31 December 2013 (€ 103.2 million on 31 December 2012), mainly consists of government bonds and bonds issued by international and supranational institutions denominated in US dollars. Securities are valued at market prices. As at 31 December 2013, their value at market prices included a negative net revaluation adjustment amounting to € 0.01 million (negative net revaluation adjustment amounting to € 1.1 million on 31 December 2012).

Balances with banks amounted to € 70.3 million as at 31 December 2013 (€ 11.1 million on 31 December 2012).

NOTE 5 – CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This item contains balances in foreign currency held by the BCL on accounts with euro area counterparties which amounts to € 1 311.1 million as at 31 December 2013 (€ 1 563.7 million on 31 December 2012).

NOTE 6 – CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

	2013 EUR	2012 EUR
Balances with banks	2 115 801	22 085 354
Marketable securities	1 023 881 941	1 276 627 601
	1 025 997 742	**1 298 712 955**

This item contains balances held on accounts with banks outside the euro area as well as securities, deposits, loans and other euro-denominated assets issued by non-residents of the euro area.

The marketable securities portfolio contains government bonds and bonds issued by companies outside the euro area denominated in euro. Securities are valued at market value. As at 31 December 2013, their market value included a positive net revaluation adjustment amounting to € 47.8 million (negative net revaluation adjustment amounting to € 68.0 million on 31 December 2012).

NOTE 7 - LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

This balance sheet item represents the liquidity-providing transactions executed by the BCL with Luxembourg credit institutions.

The item is divided into various sub-items depending on the type of instrument used to provide liquidity to the financial sector:

	2013 EUR	2012 EUR
Main refinancing operations	4 629 000 000	770 000 000
Longer-term refinancing operations	1 190 000 000	4 905 000 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	5 819 000 000	**5 675 000 000**

The total Eurosystem holding of monetary policy assets amounts to € 752 312 million of which the BCL holds € 5 819 million. In accordance with Article 32.4 of the Statute, any risks from monetary policy operations, if they were to materialise, should be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient.

It should be noted that for specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

7.1 Main refinancing operations

This sub-item includes the amount of liquidity provided to credit institutions by way of weekly one-week tenders.

Since October 2008, these operations were conducted as fixed rate tender procedures. These operations play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

7.2 Longer-term refinancing operations

This sub-item includes the amount of credit extended to credit institutions by way of tenders with three or thirty six month maturities.

7.3 Fine-tuning reverse operations

This sub-item includes open market operations carried out on a non-regular basis, intended primarily to meet unexpected fluctuations in market liquidity.

7.4 Structural reverse operations

These are open market operations carried out with the primary intention of bringing about a lasting change in the structural liquidity position of the financial sector vis-à-vis the Eurosystem.

7.5 Marginal lending facility

This sub-item includes a standing facility enabling counterparties to obtain overnight credit from the BCL at a pre-specified interest rate against eligible collateral.

7.6 Credits related to margin calls

This sub-item includes additional credit extended to credit institutions and resulting from the increase in the value of the securities pledged as collateral for other credits extended to these same institutions.

NOTE 8 – OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

This item includes the BCL's current accounts and fixed-term deposits not related to monetary policy operation with credit institutions inside the euro area.

NOTE 9 – SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

	2013 EUR	2012 EUR
Securities held for monetary policy purposes	483 869 824	580 374 062
Other securities	2 470 235 142	2 856 318 312
- marketable securities	1 925 039 595	2 019 294 067
- held-to-maturity securities	545 195 547	837 024 245
	2 954 104 966	**3 436 692 374**

9.1 Securities held for monetary policy purposes

This item contains securities acquired by the BCL within the scope of the purchase programme for covered bonds and the securities markets programme (SMP). These securities are classified as held-to-maturity. These securities are valued at amortised cost and are subject to impairment tests.

The securities acquired by the BCL within the scope of the purchase programme for covered bonds (first and second programme) amounts to € 61.4 million as at 31 December 2013 (€ 32.9 million for the first programme and € 28.5 million for the second programme). The first programme was completed in June 2010. The second programme was completed in October 2012.

The total Eurosystem holding of SMP securities amounts to € 178.8 billion as at 31 December 2013, of which the BCL holds € 422.5 million. This programme was completed in September 2012. In accordance with Article 32.4 of the Statute, any risks from holdings of SMP securities, if they were to materialise, should be shared in full by the Eurosystem, in proportion to the prevailing ECB capital key shares.

As at 31 December 2013 these securities held for monetary policy purposes amount to € 483.9 million (€ 580.4 million on 31 December 2012).

There was no impairment on these securities.

9.2 Other securities

The securities portfolio recorded under this item includes:

– the marketable securities portfolio in euro issued by residents of the euro area amount to € 1 925 million as at 31 December 2013 (€ 2 019.3 million on 31 December 2012). This portfolio contains government bonds in euro issued by Member States of the European Union and bonds issued by companies of the euro area. Securities are valued at market value. As at 31 December 2013, their market value included a positive net revaluation adjustment amounting to € 54.9 million (negative net revaluation adjustment amounting to € 19.2 million on 31 December 2012).

– the held-to-maturity portfolio which securities are intended to be held until maturity. This portfolio is valued at amortised cost, purchase or transfer price adjusted by premiums, discounts and impairment. As at 31 December 2013, these securities amount to € 545.2 million (€ 837.0 million on 31 December 2012).

9.3 Securities held within the scope of the purchase programme for covered bonds and the securities markets programme

Harmonised annual impairment tests on securities (for the purchase programme for covered bonds and the securities markets programme) are conducted in the Eurosystem on the basis of the information available and estimated recoverable amounts as at the reporting date.

On the basis of the results of an impairment test as at 31 December 2013, the Governing Council considered that all estimated future cash flows on the relevant securities are expected to be received and that, therefore, no impairment losses should be recorded at year end.

NOTE 10 – INTRA-EUROSYSTEM CLAIMS

10.1 Participating interest in ECB

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are subject to adjustment every five years.

On 1 July 2013, as Croatia joined the the European Union, Croatia's national central bank joined the ESCB.

As a result, the ECB's capital keys of the NCBs changed in 2013 as shown in the following table (in euro):

	Subscribed capital from 1 July 2013	Subscribed capital until 30 June 2013	Paid-up capital from 1 July 2013	Paid-up capital until 30 June 2013
Banque Nationale de Belgique	261 705 370.91	261 010 384.68	261 705 370.91	261 010 384.68
Deutsche Bundesbank	2 030 803 801.28	2 037 777 027.43	2 030 803 801.28	2 037 777 027.43
Eesti Pank	19 268 512.58	19 261 567.80	19 268 512.58	19 261 567.80
Central Bank of Ireland	120 276 653.55	119 518 566.24	120 276 653.55	119 518 566.24
Banque de Grèce	210 903 612.74	211 436 059.06	210 903 612.74	211 436 059.06
Banco de España	893 420 308.48	893 564 575.51	893 420 308.48	893 564 575.51
Banque de France	1 530 028 149.23	1 530 293 899.48	1 530 028 149.23	1 530 293 899.48
Banca d'Italia	1 348 471 130.66	1 344 715 688.14	1 348 471 130.66	1 344 715 688.14
Central Bank of Cyprus	14 429 734.42	14 731 333.14	14 429 734.42	14 731 333.14
Banque centrale du Luxembourg	18 824 687.29	18 798 859.75	18 824 687.29	18 798 859.75
Central Bank of Malta	6 873 879.49	6 800 732.32	6 873 879.49	6 800 732.32
De Nederlandsche Bank	429 352 255.40	429 156 339.12	429 352 255.40	429 156 339.12
Oesterreichische Nationalbank	209 680 386.94	208 939 587.70	209 680 386.94	208 939 587.70
Banco de Portugal	190 909 824.68	188 354 459.65	190 909 824.68	188 354 459.65
Banka Slovenije	35 397 773.12	35 381 025.10	35 397 773.12	35 381 025.10
Národná banka Slovenska	74 486 873.65	74 614 363.76	74 486 873.65	74 614 363.76
Suomen Pankki – Banque de Finlande	134 836 288.06	134 927 820.48	134 836 288.06	134 927 820.48
Subtotal for euro area NCBs	***7 529 669 242.48***	***7 529 282 289.36***	***7 529 669 242.48***	***7 529 282 289.36***
Българска народна банка (Bulgarian National Bank)	93 571 361.11	93 467 026.77	3 508 926.04	3 505 013.50
Česká národní banka	157 384 777.79	155 728 161.57	5 901 929.17	5 839 806.06
Danmarks Nationalbank	159 712 154.31	159 634 278.39	5 989 205.79	5 986 285.44
Latvijas Banka	29 682 169.38	30 527 970.87	1 113 081.35	1 144 798.91
Lietuvos bankas	44 306 753.94	45 797 336.63	1 661 503.27	1 717 400.12
Magyar Nemzeti Bank	148 735 597.14	149 099 599.69	5 577 584.89	5 591 234.99
Narodowy Bank Polski	525 889 668.45	526 776 977.72	19 720 862.57	19 754 136.66
Banca Națională a României	264 660 597.84	265 196 278.46	9 924 772.42	9 944 860.44
Sveriges Riksbank	244 775 059.86	242 997 052.56	9 179 064.74	9 112 389.47
Bank of England	1 562 265 020.29	1 562 145 430.59	58 584 938.26	58 580 453.65
Hrvatska narodna banka	64 354 667.03	-	2 413 300.01	-
Subtotal for non-euro area NCBs	***3 295 337 827.14***	***3 231 370 113.25***	***123 575 168.51***	***121 176 379.24***
Total	**10 825 007 069.62**	**10 760 652 402.61**	**7 653 244 410.99**	**7 650 458 668.60**

The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of € 5.8 million of ECB reserves (€ 5.7 million on 31 December 2012).

10.2 Claims equivalent to the transfer of foreign reserves

This sub-item represents the euro-denominated claims on the ECB with respect to the transfer of part of the BCL's foreign reserves. The claims are denominated in euro at a value fixed at the time of their transfer.

They are remunerated at the latest available marginal interest rate used by the Eurosystem in its tender for main refinancing operations, adjusted to reflect a zero return on the gold component.

As at 31 December 2013, the claim of the BCL amounts to € 100 776 864 (€ 100 638 597 on 31 December 2012).

10.3 Other claims within the Eurosystem

This sub-item represents the BCL's net claims towards the Eurosystem, mostly from transactions resulting from cross-border payments initiated for monetary or financial operations, made via the TARGET2 system, between the BCL and the other NCBs as well as the ECB. This claim amounts to € 103.5 billion as at 31 December 2013 (€ 105.8 billion on 31 December 2012).

The net position vis-à-vis the ECB bears interest at the marginal interest rate applying to the main refinancing operations.

NOTE 11 – OTHER ASSETS

11.1 Tangible and intangible assets

Tangible and intangible assets are as follows:

	Buildings EUR	Furniture and equipment EUR	Software EUR	Other EUR	Total EUR
Cost as at 1 January 2013	107 707 676	13 872 305	6 232 283	2 981 605	130 793 869
Disposals/Transfers	-	25 083	2 145 692	(2 211 378)	(40 603)
Acquisitions	623 454	815 220	162 816	970 505	2 571 995
Cost as at 31 December 2013	**108 331 130**	**14 712 608**	**8 540 791**	**1 740 732**	**133 325 261**
Accumulated depreciation as at 1 January 2013	46 870 919	12 947 332	5 925 671	-	65 743 922
Disposals	-	(40 603)	-	-	(40 603)
Depreciation	3 584 777	498 403	611 526	-	4 694 706
Accumulated depreciation as at 31 December 2013	**50 455 696**	**13 405 132**	**6 537 197**	**-**	**70 398 025**
Net book value as at 31 December 2013	**57 875 434**	**1 307 476**	**2 003 594**	**1 740 732**	**62 927 236**

The sub-item "Buildings" comprises:

- the acquisition cost of the two premises located on 2, boulevard Royal;
- the renovations made to the main building ("Siège Royal");
- the costs incurred in relation to the reconstruction and transformation of the "Pierre Werner" building;
- the costs incurred in relation to the reconstruction and transformation of the "Monterey" building;
- the acquisition cost of the building "7 boulevard Royal";
- the renovations made to the building "7 boulevard Royal".

11.2 Other financial assets

The components of this item are as follows:

	2013 EUR	2012 EUR
Other participating interests	80 357 237	83 586 031
Pension fund	153 931 484	133 763 277
	234 288 721	**217 349 308**

The other participating interests comprise the BCL's investments in Swift, ATTF, LuxCSD SA., BCL's Fondation, Islamic Liquidity Management Corporation and Bank for International Settlements.

The assets of the pension fund are recorded in the accounts under "Pension fund BCL". The balance of this account corresponds to the net asset value of the fund as calculated by the depositary bank as at 31 December 2013.

11.3 Accruals and prepaid expenses

Most of this item consists of the accrued interests on monetary policy operations, securities and receivables from the IMF. Also included under this item are the commissions receivables, prepaid expenses, including salaries paid for January 2014, and other income receivables.

11.4 Sundry

	2013 EUR	2012 EUR
Others	22 203 699	12 338 336
	22 203 699	**12 338 336**

This item also consists of the counterpart of the unrealised loss on SDR recorded in the financial statements of the BCL which is guaranteed by the Government according to the agreement signed in May 1999 establishing the financial relationship between the Government of Luxembourg and the BCL (€ 18 million as at 31 December 2013; € 8 million as at 31 December 2012).

NOTE 12 – BANKNOTES IN CIRCULATION

This item includes the BCL's share of the total euro banknotes put into circulation by the central banks of the Eurosystem according to their weightings in the capital of the ECB, which totalled € 2 199.2 million (€ 2 094.4 million on 31 December 2012).

NOTE 13 – LIABILITIES TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

	2013 EUR	2012 EUR
Current accounts (including the minimum reserves)	11 580 392 606	18 366 964 668
Deposit facility	7 849 600 000	18 089 623 546
Fixed-term deposits	5 135 400 000	2 022 100 000
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	24 565 392 606	**38 478 688 214**

This item primarily comprises credit institutions' accounts held within the framework of the requirements of the minimum reserve system, deposit facilities as well as fixed-term deposits.

13.1 Current accounts (including the minimum reserves)

This sub-item comprises accounts denominated in euro of credit institutions which mainly serve to meet minimum reserve requirements. These requirements have to be respected over a maintenance period starting the Wednesday following the Governing Council's meeting when the interest rate is set.

13.2 Deposit facility

This sub-item comprises the standing facility allowing credit institutions to make overnight deposits with the BCL at a pre-specified interest rate.

13.3 Fixed-term deposits

This sub-item comprises deposits made at the BCL for the purpose of absorbing market liquidity in connection with fine-tuning operations in the Eurosystem.

13.4 Fine-tuning reverse operations

This sub-item comprises other monetary policy operations aimed at tightening liquidity.

13.5 Deposits related to margin calls

This sub-item comprises deposits made by credit institutions to compensate for the decrease in the value of securities pledged as collateral for other credits granted to these same institutions.

NOTE 14 – LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

14.1 Liabilities to general government

This item records the amounts as follows:

	2013 EUR	2012 EUR
Current accounts	488 412	3 502 282
Account related to euro coins issued by the Treasury	248 753 723	236 565 589
Specific account	187 125 000	172 595 000
Fixed-term deposit	140 000 000	140 000 000
	576 367 135	**552 662 871**

The item current accounts records an amount of € 488 412 owed to the Luxembourg Treasury.

In accordance with the amendment of 10 April 2003 to the agreement between the Government of Luxembourg and the BCL establishing their financial relationship, the "Account related to euro coins issued by the Treasury" corresponds to the amount of coins issued by the BCL in the name and for the account of the Treasury.

The specific account was opened for the State of Luxembourg in 2011 in order to realise operations with the IMF.

The fixed-term deposit, unchanged since 2010, relates to the above-mentioned agreement.

14.2 Other liabilities

As at 31 December 2012, this item included mainly a remunerated current account held by a public enterprise offering financial services.

NOTE 15 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

This item includes current accounts held by central banks, international and supranational institutions and other account holders outside the euro area.

NOTE 16 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This item includes current accounts in foreign currency held by central banks outside the euro area.

NOTE 17 – COUNTERPART OF SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF

The amount shown under this item represents the countervalue of SDR, converted to euro at the same rate as applied to the SDR assets, which should be returned to the IMF in the event of the SDR being cancelled, the SDR Department established by the IMF being closed or if Luxembourg decides to withdraw from it. This liability, of unlimited duration, amounts to SDR 246.6 million, or € 275.8 million as at 31 December 2013 (SDR 246.6 million, or € 287.5 million on 31 December 2012).

NOTE 18 – INTRA-EUROSYSTEM LIABILITIES

18.1 Net liabilities related to the allocation of euro banknotes within the Eurosystem

This item consists of the liabilities of the BCL vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem. The net position bears interest at the marginal interest rate applying to the main refinancing operations.

NOTE 19 – OTHER LIABILITIES

This item comprises mainly the accrued interest, including accrued interest on intra-Eurosystem liabilities, as well as miscellaneous expenses payable, including suppliers, and the Luxembourg francs banknotes not yet returned.

The Luxembourg franc banknotes still circulating as at 31 December 2013 amount to € 5.1 million (€ 5.1 million on 31 December 2012).

NOTE 20 - PROVISIONS

Provisions developed as follows:

	2013 EUR	2012 EUR
Provision for banking risks	839 402 326	603 852 779
Provision for pensions	201 372 283	147 680 011
Other provisions	50 000	50 000
	1 040 824 609	**751 582 790**

20.1 Provision for banking risks

Provision for banking risks include the following items:

Provisions for specific banking risks	2013 EUR	2012 EUR
Provision covering credit and market risk	464 700 622	390 013 909
Buffer against counterparty risks in Eurosystem	-	700 538
Provision covering operational risk	29 370 000	17 850 000
Provision covering liquidity risk	16 489 922	16 302 115
Provision for doubtful debts	1 863 863	1 411 994
	512 424 407	**426 278 556**
Provisions for general banking risks	**2013 EUR**	**2012 EUR**
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	294 635 965	145 232 269
	326 977 919	**177 574 223**
	839 402 326	**603 852 779**

20.1.1 Provision covering credit and market risk

The provision of € 464.7 millions (€ 390.0 million on 31 December 2012) corresponds to:

- 7.69% of the BCL's own securities portfolio existing as at 31 December 2013 (4.00% on 31 December 2012) and participations other than the participating interest in the ECB;
- 7.69% (4.00% on 31 December 2012) of the amount lent by the Eurosystem (main and longer-term refinancing operations) as at year-end for monetary policy purposes multiplied by the BCL's capital key in Eurosystem including securities held in the framework of the Securities Markets Programme (excluding securities held by the ECB).

The BCL's guideline is to target a rate of 12% on all items above in the medium term.

20.1.2 Buffer against counterparty risks in Eurosystem

In accordance with Article 32.4 of the ESCB Statute, buffer was established in 2008 against counterparty risks in monetary policy operations. This buffer was funded among all national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing at the time of default. This provision amounted to € 310 million on 31 December 2012. In accordance with the general accounting principles and the principle of prudence, the Governing Council of the ECB decided to dissolve the provision as at 31 December 2013. The provision decrease is reflected in the BCL's profit and loss account. For the BCL, the buffer decreased from € 700 538 as at 31 December 2012 to zero as at 31 December 2013.

20.1.3 Provision covering operational risk

This provision is intended to cover the risk of losses resulting from the inadequacy or fault attributable to procedures, to the human factor or to the BCL's systems or to external causes. Because of a lack of relevant statistics on the dimension of risk, the transfer to the provision is based on the Basic Indicator Approach described in the consultative working paper of the Basel Committee as being 15% of the average for the last three years of the net banking product (including payments allocated on monetary income).

In 2013, the average has been based on previous years in accordance with these rules.

20.1.4 Provision for doubtful debts

The provision for doubtful debts covers non paid debts amounting to € 1.9 million as at 31 December 2013 (€ 1.4 million on 31 December 2012).

20.1.5 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties created in order to face any future monetary liabilities monetary liabilities was replenished after partial use in 2013.

20.1.6 Other provision for general banking risks

This provision is intended to cover non-specific risks of losses resulting from central bank's activities. Since the beginning of the financial crisis, financials risks incurred by the central banks have significantly increased due to the extraordinary measures taken to address the dysfunctional markets. Those risks cannot be quantified in advance.

The provision increased from € 145.2 million as at 31 December 2012 to € 294.6 million as at 31 December 2013.

20.2 Provisions for pensions

Provisions for pensions include the following items:

	2013 EUR	2012 EUR
Provision for pensions	201 372 283	147 680 011
	201 372 283	**147 680 011**

The pension claims of its agents are fully borne by the BCL. The corresponding liability is calculated on the basis of the actuarial method described in note 2.11 in consideration of current factors and amounted to € 201.4 million as at 31 December 2013 (€ 147.7 million as at 31 December 2012).

The variance of the provisions during the year results from:

- monthly deductions from the gross salaries of BCL agents (employee contribution) as well as the employer's contribution;
- pension payments to retirees
- periodic transfers from the account "Booking reserve of the pension fund" to adjust the account "Provision for pensions" to its actuarial value ;
- a transfer, if needed, to adjust the account "Provision for pensions" to its actuarial value.

NOTE 21 – REVALUATION ACCOUNTS

This item includes positive revaluation differences related to the spread between the exchange rate as at year-end and the average exchange rate of the BCL's currency and gold positions, as well as positive revaluation differences related to the spread between the market value as at year-end and the amortised cost for securities positions.

NOTE 22 - CAPITAL AND RESERVES

22.1 Capital

The State of Luxembourg is the sole shareholder of the BCL's capital for an amount of € 175 million (unchanged compared to 2012).

22.2 Reserves

The reserves amount to € 11.6 million (€ 9.7 million on 31 December 2012). In 2013 this amount was increased by € 1.8 million following the allocation of profit for 2012 according to the decision of the BCL's Council in application of its Founding Law (Article 31).

	Capital EUR	Reserves EUR
As at 1 January 2013	175 000 000	9 710 345
Allocation of profit for 2012 (art 31)	-	1 847 800
As at 31 December 2013	**175 000 000**	**11 558 145**

NOTE 23 – SECURITIES RECEIVED AS COLLATERAL

This item includes the securities received as collateral from Luxembourg credit institutions to cover their liabilities related to refinancing operations, marginal lending facilities and intra-day credits.

This item also includes the securities received as collateral in Luxembourg and used as a guarantee by commercial banks incorporated in other member states according to the Correspondent Central Banking Model (CCBM). This agreement allows commercial banks to obtain funding from their country of residence's central bank by using the securities held in another Member State as a guarantee.

As at 31 December 2013, the market value of these securities amounts to € 146.9 billion (€ 140.2 billion on 31 December 2012).

NOTE 24 - FOREIGN RESERVE ASSETS MANAGED ON BEHALF OF THE ECB

This item includes the foreign currency reserves at market value managed by the BCL on behalf of the ECB.

NOTE 25 – FORWARD CONTRACTS

The BCL can be engaged in bond and stock index futures. These instruments are mainly held for hedging purposes of interest rate risks related to the securities portfolio and for the purpose of adjusting the duration of the existing portfolio depending on market conditions.

As at 31 December 2012, the total liabilities related to these forward contracts amounted to € 32.6 million.

One security has been given as a guarantee in order to cover the initial margin deposit. This security remains on the BCL's balance sheet for an amount of € 10.0 million as at 31 December 2013, unchanged compared with 2012.

NOTE 26 – NET INTEREST INCOME

This item includes interest income, after deduction of interest expense, on assets and liabilities in foreign currency and in euro. Interest income and expense are as follows:

Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2013	2013	2013
IMF	413 983	-	413 983
Monetary policy	-	16 895 482	16 895 482
Intra-Eurosystem claims	-	577 943 845	577 943 845
Securities	596 086	250 361 047	250 957 133
Gold	-	-	-
Other	3 903 519	1 867 798	5 771 317
Total	**4 913 588**	**847 068 172**	**851 981 760**

Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2013	2013	2013
IMF	(226 175)	-	(226 175)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(25 942 352)	(25 942 352)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(435 705 930)	(435 705 930)
Other intra-Eurosystem liabilities	-	(225 386)	(225 386)
Interests on term deposits	-	-	-
Other liabilities	(2 083 630)	(171 807)	(2 255 437)
Interest on swap operation	-	-	-
Total	**(2 309 805)**	**(462 045 475)**	**(464 355 280)**

Composition of interest income	Amounts in foreign currency EUR	Montants en euros EUR	Total EUR
	2012	2012	2012
IMF	588 275	-	588 275
Monetary policy	-	45 307 196	45 307 196
Intra-Eurosystem claims	-	1 064 934 163	1 064 934 163
Securities	836 687	140 901 211	141 737 898
Gold	85 389	-	85 389
Other	8 997 280	5 930 868	14 928 148
Total	**10 507 631**	**1 257 073 438**	**1 267 581 069**

Composition of interest expense	Montants en devises EUR	Montants en euros EUR	Total EUR
	2012	2012	2012
IMF	(313 063)	-	(313 063)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(111 735 786)	(111 735 786)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(641 596 853)	(641 596 853)
Other intra-Eurosystem liabilities	-	(56 855)	(56 855)
Interests on term deposits	-	(208 056)	(208 056)
Other liabilities	(2 446 449)	(789 444)	(3 235 893)
Interest on swap operation	(4 146 993)	-	(4 146 993)
Total	**(6 906 505)**	**(754 386 994)**	**(761 293 499)**

NOTE 27 – REALISED GAINS / (LOSSES) ARISING FROM FINANCIAL OPERATIONS

This item includes the results from transactions in foreign currencies, from securities and from financial instruments linked to interest rates and market prices, i.e. realised gains minus realised losses on these transactions. In 2013, they amount to € 58.2 million (€ 110.0 million on 31 December 2012) and to € 0.2 million (€ 2.7 million on 31 December 2012) respectively, giving a net gain of € 58 million (a net gain of € 107.3 million on 31 December 2012).

NOTE 28 - WRITE-DOWNS ON FINANCIAL ASSETS AND FOREIGN CURRENCY POSITIONS

This item includes revaluation losses on securities for € 2.8 million (revaluation losses on securities for € 4.7 million in 2012).

NOTE 29 - TRANSFER TO/FROM PROVISIONS FOR RISKS

This item includes the transfers to and from provisions for banking risks excluding the buffer against counterparty risks in Eurosystem (see note 32).

NOTE 30 - NET RESULT FROM FEES AND COMMISSIONS

Fees and commissions income and expense are as follows:

	Fees and commissions income EUR		Fees and commissions expense EUR	
	2013	2012	2013	2012
Securities	9 796 265	11 242 000	(11 317 525)	(12 521 367)
Others	1 215 768	1 165 609	(566 229)	(676 490)
Total	**11 012 033**	**12 407 609**	**(11 883 754)**	**(13 197 857)**

NOTE 31 - INCOME FROM PARTICIPATING INTEREST

The ECB's income on euro banknotes in circulation and income arising from securities purchased under the Securities Markets Programme is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim profit distribution. It is distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and securities purchased under the Securities Markets Programme, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks.

In 2013, the BCL received € 3.5 million from the ECB.

In 2013, the BCL also received a dividend of 0.9 million SDR (€ 1.1 million) due to the participating interest held in the Bank for International Settlements (BIS).

In total, this item amounts to € 4.6 million as at 31 December 2013 (€ 3.5 million on 31 December 2012).

NOTE 32 - NET RESULT OF POOLING OF MONETARY INCOME

The monetary income of each Eurosystem NCB is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists of the following items:

- banknotes in circulation;
- liabilities to credit institutions related to monetary policy operations denominated in euro;
- net intra-Eurosystem liabilities resulting from TARGET2 transactions;
- net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem.

Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets consist of the following items:

- lending to euro area credit institutions related to monetary policy operations denominated in euro;
- intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB;
- securities held for monetary policy purposes
- net intra-Eurosystem claims resulting from TARGET2 transactions;
- net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem;
- a limited amount of each NCBs' gold holdings in proportion to its capital key.

Gold is considered as generating no income and securities held for monetary policy purposes, under decision of the Governing Council of 2 July 2009 and of 3 November 2011 on the implementation of covered bonds purchase programme, are considered to generate income at the latest available marginal rate for the Eurosystem's main refinancing operations.

Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to that difference the marginal rate on the main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key (0.25001% for the BCL as at 31 December 2013).

This item includes the net monetary income allocated to the BCL for 2013 representing an expense amounting to € 126 557 878 (expense of € 404 519 970 on 31 December 2012).

As at 31 December 2013, this item also includes the amount of € 700 538 due to the decrease of the buffer against counterparty risks in Eurosystem, as described in note 20.1.2. (decrease of this buffer amounting to € 1 444 012 as at 31 December 2012).

NOTE 33 – OTHER INCOME

Other income includes revenue for services rendered to third parties, transfers from administrative provisions, rental income from buildings "Monterey" and "7 Royal", income from numismatic activities and the recovered functioning costs of EPCO (Eurosystem procurement Co-ordination Office).

Other income includes also the BCL's revenue from financial agreements between the Government of Luxembourg and the BCL.

NOTE 34 – STAFF COSTS

This item includes the salaries and compensations as well as the employer's share of contributions to the pension and social security schemes. The compensations paid to the Board of Directors amounted to € 575 124 for the year 2013 (€ 566 668 for the year 2012).

As at 31 December 2013, the BCL employed 306 persons (303 on 31 December 2012). The average number of persons working for the BCL from 1 January to 31 December 2013 was 306 (294 for the year 2012).

NOTE 35 – ADMINISTRATIVE EXPENSES

This item includes all general and recurring expenses, meaning leasing, cleaning and repair of buildings and equipment, small goods and materials, fees paid and other services and supplies as well as training expenses. The compensations paid to the members of the Council amounted to € 83 241 in 2013 (€ 85 344 in 2012).

NOTE 36 – DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

This item shows the depreciation applied on buildings, renovations on buildings, furniture and office equipment, computer hardware and software.

NOTE 37 – BANKNOTE PRODUCTION SERVICES

This item shows mainly the costs related to the production and issue of banknotes denominated in euro.

NOTE 38 – OTHER EXPENSES

In 2013, this item contains an amount of € 33.1 million corresponding to the adjustments of parameters (mainly the discount rate) included in the actuarial calculation of the pension fund's Pension Benefit Obligation (PBO). This item includes also costs related to numismatic activities, to administrative provisions and to consultancy.

In 2012, this item includes mainly costs related to numismatic activities and to consultancy.

NOTE 39 – EVENTS AFTER THE REPORTING PERIOD

On 1 January 2014, following the five-yearly adjustment of the key for capital subscription based on GDP and population size and the entry of Latvia in the Eurosystem, the BCN's participations key in ESCB and in the Eurosystem changed as follows:

Country	Capital key in ESCB (in %)		Eurosystem key (in %)	
	from 1 January 2014	until 31 December 2013	from 1 January 2014	until 31 December 2013
Belgium	2.4778	2.4176	3.54081	3.47566
Denmark	1.4873	1.4754	-	-
Germany	17.9973	18.7603	25.71840	26.97069
Greece	2.0332	1.9483	2.90547	2.80097
Spain	8.8409	8.2533	12.63377	11.86533
France	14.1792	14.1342	20.26228	20.31999
Ireland	1.1607	1.1111	1.65866	1.59737
Italy	12.3108	12.4570	17.59231	17.90877
Luxembourg	0.2030	0.1739	0.29009	0.25001
Netherlands	4.0035	3.9663	5.72106	5.70214
Austria	1.9631	1.9370	2.80530	2.78472
Portugal	1.7434	1.7636	2.49134	2.53543
Finland	1.2564	1.2456	1.79541	1.79073
Sweden	2.2729	2.2612	-	-
United Kingdom	13.6743	14.4320	-	-
Czech Republic	1.6075	1.4539	-	-
Estonia	0.1928	0.1780	0.27551	0.25590
Cyprus	0.1513	0.1333	0.21621	0.19164
Latvia	0.2821	0.2742	0.40312	-
Lithuania	0.4132	0.4093	-	-
Hungary	1.3798	1.3740	-	-
Malta	0.0648	0.0635	0.09260	0.09129
Poland	5.1230	4.8581	-	-
Slovenia	0.3455	0.3270	0.49372	0.47011
Slovak Republic	0.7725	0.6881	1.10391	0.98924
Bulgaria	0.8590	0.8644	-	-
Romania	2.6024	2.4449	-	-
Croatia	0.6023	0.5945	-	-
Total	**100.0000**	**100.0000**	**100.00000**	**100.00000**

03 ANNEXES

3
ANNEXES

3.1 LIST OF BCL REGULATIONS PUBLISHED IN 2013

2013/N°15 of 3 May 2013

Regulation of the "Banque centrale du Luxembourg" 2013/ N°15 of 3 May 2013 implementing the Guideline of the European Central Bank of 20 March 2013 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (recast) (ECB/2013/4)

Domain: Monetary policy

2013/ N° 14 of 7 March 2013

Regulation of the "Banque centrale du Luxembourg" 2013/ N° 14 of 7 March 2013 implementing the Guideline of the European Central Bank of 23 January 2013 amending Guideline ECB/2012/18 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/2)

Domain: Monetary policy

For a complete list of regulations published by the Banque central du Luxembourg, please visit the BCL's website (www.bcl.lu)

3.2 LIST OF BCL CIRCULARS PUBLISHED IN 2013

Circular n°234 of 20 June 2013

Introducing a collection of daily information on deposits with credit institutions – to all credit institutions

Circular n°233 of 20 June 2013

Security by security reporting – Holdings of securities on behalf of non resident customers – to all credit institutions

Circular n°232 of 20 June 2013

Introduction of a security by security reporting – to all securitisation vehicles

Circular n°231 of 28 March 2013

Modification of the statistical data collection for money market funds and investment funds – to all undertakings for collective investment

For a complete list of circulars published by the Banque centrale du Luxembourg, please visit the BCL's website (www.bcl.lu)

3.3 LIST OF BCL PUBLICATIONS PUBLISHED IN 2013

3.3.1 BCL bulletins

- BCL Bulletin 2013/4, December 2013
- BCL Bulletin 2013/3, October 2013
- BCL Bulletin 2013/2, June 2013
- Financial Stability Review, May 2013
- BCL Bulletin 2013/1, March 2013

For a complete list of bulletins published by the BCL, please visit the BCL's website (www.bcl.lu).

3.3.2 BCL annual report

- Rapport annuel 2012, May 2013
- Annual Report 2012, August 2013

For a complete list of annual reports published by the BCL, please visit the BCL's website (www.bcl.lu)

3.3.3 BCL working papers

- Working paper n°83, July 2013
  News Shocks, Real Exchange Rates and International Co-Movements, by Kyriacos Lambrias

- Working paper n°82, January 2013
  Banking Systemic Vulnerabilities: A Tail-risk Dynamic CIMDO Approach, by Xisong Jin, Francisco Nadal De Simone

- Working paper n°81, January 2013
  Fluctuations économiques et dynamique de la constitution de provisions pour créances douteuses des banques luxembourgeoises, Sabbah Gueddoudj

For a complete list of Working Papers published by the BCL, please visit the BCL's website (www.bcl.lu).

3.3.4 BCL brochures

Brochure La Banque centrale du Luxembourg, 2013

Brochure The Banque centrale du Luxembourg (2013)

Brochure of the BCL's numismatic products (2013)

Historique du siège de la Banque centrale du Luxembourg : du jardin creux à l'euro ou de la Villa Gillard au bâtiment Pierre Werner, René Link (2013)

3.3.5 Information material about the security features of Euro banknotes and coins

For a complete list of the information material concerning the security features of banknotes and coins, please visit the BCL's website (www.bcl.lu).

3.3.6 Publications and external presentations of the BCL Staff

3.3.6.1. External publications of the BCL's staff members

- Bucher-Koenen, T. and M. Ziegelmeyer (2013): Once burned, twice shy? Financial literacy and wealth losses during the financial crisis, Review of Finance, forthcoming.

- De la Croix, D., O. Pierrard and H. Sneessens (2013): Ageing and Pensions in General Equilibrium: Labour Market Imperfections Matter, Journal of Economic Dynamics and Control 37(1): 104-124.

- Curi, C., P. Guarda, A. Lozano-Vivas et V. Zelenyuk (2013): Is foreign-bank efficiency in financial centers driven by home or host country characteristics? Journal of Productivity Analysis 40(3): 367-385.

- Guarda, P., A. Rouabah et M. Vardanyan (2013): Identifying bank outputs and inputs with a directional technology distance function Journal of Productivity Analysis 40(2): 185-195

- Guarda, P., A. Rouabah et J. Theal (2013): A mixture vector autoregressive framework to capture extreme events in macroprudential stress tests, Journal of Risk Model Validation, 7(4):1-31

- Marchiori, L., I.-L. Shen and F. Docquier (2013): Brain Drain in Globalization: A general equilibrium analysis from the source countries' perspective, Economic Inquiry, 51(2):1582-1602.

- Vassilopoulos C. and P. Caristi (2013): Eurosytem, Financial and Banking Law, European Review of Public Law, vol. 25, no 2, summer 2013.

- Ziegelmeyer, M. (2013): Illuminate the unknown: Evaluation of imputation procedures based on the SAVE Survey, Advances in Statistical Analysis 97(1): 49–76.

- Ziegelmeyer M. and J. Nick (2013): Backing out of private pension provision - Lessons from Germany, Empirica - Journal of European Economics 40(3): 505-539.

3.3.6.2 External presentations

- Monetary Policy Committee, European Central Bank, Frankfurt, Germany, January 2013

- 4th Economic Geography and International Trade (EGIT) workshop, Berlin, Germany, February 2013

- Eurosystem Household Finance and Consumption Network (HFCN) research seminar, Frankfurt, Germany, March 2013

- PHF – SAVE Conference on Household Finances, Saving and Inequality: An International Perspective, Eltville, Germany, March 2013

- *Séminaire économique du Statec*, Luxembourg, March 2013

- 4th Norface Migration Network Conference on "Migration: Global Development, New Frontiers", London, United Kingdom, April 2013

- EUI-nomics, European University Institute, Florence, Italy, April 2013

- Annual conference of the Swedish Network of European Research in Economics and Business (SNEE), Mölle, Sweden, May 2013
- Luxembourg Household Finance and Consumption Workshop, Luxembourg, June 2013
- *L'action de l'Eurosystème en temps de crise: et après? Société Française des Analystes Financiers*, Paris, France, June 2013
- 3rd annual conference of the International Network of Business and Management (INBAM) Journals, Lisbon, Portugal, June 2013
- Eurosystem Household Finance and Consumption Network (HFCN) research seminar, Vienna, Austria, June 2013
- Annual conference of the European Economic Association (EEA), Gothenburg, Sweden, August 2013
- Annual conference of the European Regional Science Association (ERSA), Palermo, Italy, August 2013
- 25th Annual Conference of the European Association of Labour Economists (EALE), Turin, Italy, September 2013
- Central Bank independence: some thoughts, The Institute for Global Financial Integrity (TIGFI), Luxembourg, September 2013
- European Conference on Household Finance, Rome, Italy, September 2013
- Eurosystem Household Finance and Consumption Network (HFCN) Conference, Frankfurt, Germany, October 2013
- The Eurosystem in perspective: a few challenges ahead, The International Bankers Club, Luxembourg, October 2013
- The monetary policy implementation of the Eurosystem in times of crisis, EFAMA-ICI Brussels, Belgium, November 2013
- *Conférence du Réseau d'Etudes sur le marché du Travail et de l'Emploi Luxembourgeois (RETEL) on Les jeunes et l'emploi*, Mondorf-les-Bains, Luxembourg, November 2013

Paper copies of publications can be obtained at the BCL's counters as long as stocks last and according to the BCL's conditions. The BCL's publications may be downloaded from the website www.bcl.lu

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3.4 EUROPEAN CENTRAL BANK PUBLICATIONS

For a complete list of documents published by the European Central Bank, as well as for the translated versions in all official languages of the European Union, please visit the ECB's website www.ecb.int

ORDER:

Postfach 160319
D-60066 Frankfurt am Main
http://www.ecb.int

3.5 MONETARY, ECONOMIC AND FINANCIAL STATISTICS PUBLISHED ON THE WEBSITE OF THE BCL (WWW.BCL.LU)

1. Monetary policy statistics

- 1.1 Financial statement of the BCL
- 1.2 Luxembourg minimum reserve statistics

2. Monetary and financial developments in the euro area and Luxembourg

- 2.1 Aggregated balance sheet of the Luxembourg MFIs (excluding the Banque centrale du Luxembourg)
- 2.2 Liabilities of Luxembourg's MFIs included in the euro area monetary aggregates

3. Capital markets and interest rates

- 3.1 Luxembourg bank interest rates on euro-denominated deposits and loans by euro area residents- new business
- 3.2 Luxembourg bank interest rates on euro-denominated deposits and loans by euro area residents- outstanding amounts
- 3.3 Money market interest rates
- 3.4 Government bond yields
- 3.5 Stock market indices
- 3.6 Exchange rates
- 3.7 Securities issues statistics - positions

4. Developments of prices and costs in Luxembourg

- 4.1 Developments in the Harmonised Index of Consumer Prices (HICP) and the National Index of Consumer Prices in Luxembourg (NCIP)
- 4.2 Industrial goods and commodity prices
- 4.3 Costs indicators and terms of trade

5. Luxembourg real economy indicators

- 5.1 GDP at market prices and its components (ESA95 version)
- 5.2 Selected other real economy indicators
- 5.3 Labour market indicators- Employment and unemployment
- 5.4 Labour market indicators- Employment breakdown
- 5.5 Monthly consumer confidence survey
- 5.6 Non-financial accounts by institutional sector - time series
- 5.7 Non-financial accounts by institutional sector - cross section presentation
- 5.8 Financial accounts by institutional sector – stocks - time series
- 5.9 Financial accounts by institutional sector – transactions – time series
- 5.10 Financial accounts by institutional sector – stocks - cross section presentation
- 5.11 Financial accounts by institutional sector – transactions - cross section presentation

3.6 LIST OF ABREVIATIONS

ABBL	Association des Banques et Banquiers, Luxembourg
ABS	Asset-Backed Securities
ALCO	Asset and Liability Management Committee
ATTF	Agence de transfert de technologie financière *(Luxembourg Agency for the Transfer of Financial Technology)*
BCL	Banque centrale du Luxembourg
BIS	Bank for International Settlement
CCB	Correspondent Central Bank
CCBM	Correspondent Central Banking Model
CETREL	Centre des transferts électroniques Luxembourg *(Center for Electronic Transfers Luxembourg)*
CLS	Continuous linked settlement
CPSS-IOSCO	Committee on Payment and Settlement Systems - International Organization of Securities Commissions
CSD	Central Securities Depositories

CSSF	Commission de surveillance du secteur financier
EBA	European Banking Authority
ECB	European Central Bank
EFC	Economic and Financial Committee
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMU	Economic and Monetary Union
ESA 1995	European System of Accounts
ESCB	European System of Central Banks
ESM	European Stability Mechanism
ESMA	European Securities and Market Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
EUROSTAT	Statistical office of the European communities
FSB	Financial Stability Board
GDP	Gross Domestic Product
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
LFF	Luxembourg for Finance
LSF	Luxembourg School of Finance
LTRO	Longer Term Refinancing Operations
LU	Luxembourg
MRO	Main Refinancing Operations
NCB	National Central Banks
NSFR	Net Stable Funding Ration
OECD	Organisation for Economic Cooperation and Development
SDR	Special Drawing Rights
SEPA	Single European Payment Area
SSM	Single Supervisory Mechanism
SSS	Securities settlement system
STATEC	Institut national de la statistique et des études économiques *(National Institute for Statistics and Economic Studies)*
TARGET system	Trans-European Automated Real-time Gross settlement Express Transfer system
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union
UCI	Undertaking for Collective Investments
UCITS	Undertaking for Collective Investments in Transferable Securities
USD	US Dollar

3.7 GLOSSARY

Balance of payments (b.o.p.): a statistical statement that summarises, for a specific period of time, the economic transactions of an economy with the rest of the world. The transactions considered are those involving goods, services and incomes; those involving financial claims on, and liabilities to, the rest of the world; and those (such as debt forgiveness) that are classified as transfers.

Central counterparty: an entity that interposes itself between the counterparties to the contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

Central securities depository (CSD): an entity that (i) enables securities transactions to be processed and settled by book entry, and (ii) provides custodial services (e.g. the administration of corporate actions and redemptions), and (iii) plays an active role in ensuring the integrity of securities issues. Securities can be held in physical (but immobilised) form or in dematerialized form (whereby they exist only as electronic records).

Collateral: assets pledged or otherwise transferred (e.g. by credit institutions to central banks) as a guarantee for the repayment of loans, as well as assets sold (e.g. by credit institutions to central banks) under repurchase agreements.

Consolidated balance sheet of the MFI sector: a balance sheet obtained by netting out inter-MFI positions (e.g inter-MFI loans and deposits) in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. the general government and other euro area residents) and vis-à-vis non-euro area residents. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3.

Correspondent Central Banking Model (CCBM): a mechanism established by the European System of Central Banks with the aim of enabling counterparties to use eligible collateral on a cross-border basis. In the CCBM, NCBs act as custodians for one another. Each NCB has a securities account in its securities administration for each of the other NCBs (and for the European Central Bank).

Council of the European Union: the institution of the EU made up of representatives of the governments of the EU Member States, normally ministers responsible for the matters under consideration and the relevant European Commissioner (see also ECOFIN Council).

Counterparty: the opposite party in a financial transaction (e.g. any party transacting with a central bank).

Covered bond purchase programmes (CBPP and CBPP2): an ECB programme, based on the decision of the Governing Council of 7 May 2009 to purchase euro-denominated covered bonds issued in the euro area in support of a specific financial market segment that is important for the funding of banks and was particularly affected by the financial crisis. The purchases under the programme were for a nominal value of 60 billion euro and they were fully implemented by 30 June 2010. On 6 October 2011 the Governing Council decided to launch a second covered bond purchase programme, the CBPP2. Between November 2011 and October 2012, a nominal amount of € 16.4 billion was purchased on the primary and secondary markets. The CBBP2 ended in November 2012, as scheduled. As of 31 December 2013, the outstanding amount of the CBPP was € 41.6 billion; the outstanding amount of the CBPP2 was € 15.4 billion.

Credit institution: 1) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; or 2) an undertaking or any other legal person, other than those under (1), which issues means of payment in the form of electronic money. The most common types of credit institutions are banks and saving banks. See also electronic money (e-money).

Economic analysis: One pillar of the European Central Bank's framework for conducting a comprehensive analysis of the risks to price stability, which forms the basis for the Governing Council's monetary policy decisions. The economic analysis focuses mainly on the assessment of current economic and financial developments and the implied short to medium-term risks to price stability from the perspective of the interplay between supply and demand in goods, services and factor markets at those horizons. Due attention is paid to the need to identify the nature of schools affecting the economy, their effects on cost and pricing behaviour, and the short to medium-term prospects for their propagation in the economy (see also monetary analysis).

Economic and Monetary Union (EMU): the process that led to the single currency, the euro, and the single monetary policy in the euro area, as well as to the coordination of the economic policies of the EU Member States. This process, as laid down in the Treaty, took place in three stages. Stage Three, the final stage, started on 1 January 1999 with the transfer of monetary competence to the European Central Bank and the introduction of the euro. The cash changeover on 1 January 2002 completed the process of setting up EMU.

ECOFIN Council: Council of the European Union reuniting/meeting at the level of the ministers of economics and finance.

Economic and Financial Committee (EFC): a committee which contributes to the preparation of the work of the ECOFIN Council and the European Commission. Its tasks include reviewing the economic and financial situation of both Member States and the EU, and contributing to budgetary surveillance.

Electronic money (e-money): An electronic store of monetary value on a technical device that may be widely used as prepaid bearer instrument for making payments to undertakings other than the issuer, without necessarily involving bank accounts in the transactions.

EONIA (euro overnight index average): a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in euro to another prime bank, as reported by a panel of contributing banks, computed daily for interbank deposits with different maturities of up to 12 months.

ERM II (exchange rate mechanism II): the exchange rate mechanism which provides the framework for exchange rate policy cooperation between the euro area countries and the non-euro area EU Member States. ERM II is a multilateral arrangement with fixed, but adjustable, central rates and a standard fluctuation band of 15%. Decisions concerning central rates and, possibly, narrower fluctuation bands are taken by mutual agreement between the EU Member State concerned, the euro area countries, the ECB and the other EU Member States participating in the mechanism. All participants in ERM II, including the ECB, have the right to initiate a confidential procedure aimed at changing the central rates (realignment).

Euro: The name of the European single currency adopted by the European council at its meeting in Madrid on 15 and 16 December 1995 and used instead of the term ECU originally employed in the Treaty.

Euro area: the area encompassing those Member States which have adopted the euro as the single currency in accordance with the Treaty and in which a single monetary policy is conducted under the responsibility of the Governing Council of the European Central Bank. The euro area currently comprises Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Eurogroup: an informal gathering of the ministers of economy and finance of the EU Member States whose currency is the euro.

European Central Bank (ECB): the ECB lies at the centre of the Eurosystem and the European System of Central Banks (ESCB) and has its own legal personality in accordance with the Treaty (ARTICLE 282(3)). It ensures that the tasks conferred upon the Eurosystem and the ESCB are implemented either through its own activities or through those of the NCBs, pursuant to the Statute of the ESCB. The ECB is governed by the Governing Council and the Executive Board, and, as a third decision-making body, by the General Council.

European Financial Stabilisation Mechanism (EFSM): an EU facility, based on Article 122(2) of the Treaty, that allows the European Commission to raise up to €69 billion on behalf of the EU for lending to EU Member States experiencing, or being threatened with, exceptional circumstances beyond their control. EFSM lending is subject to strong conditionality in the context of joint EU-IMF programmes.

European Financial Stability Facility (EFSF): a limited liability company established by the euro area counterparties, on an intergovernmental basis, for the purpose of providing loans to the euro area countries in financial difficulties. Such financial assistance is subject to strong conditionality in the context of joint EU-IMF programmes. The EFSF has an effective lending capacity of €440 billion, and its loans are financed through the issuance of debt securities, guaranteed by euro area countries on a pro rata basis.

European Monetary Institute (EMI): A temporary institution established at the start of stage two of Economic and Monetary Union on 1 January 1994. It went into liquidation upon the establishment of the European Central Bank on 1 June 1998.

European Stability Mechanism (ESM): an intergovernmental organisation established by the euro area countries on the basis of the Treaty establishing the European Stability Mechanism. It is a permanent crisis management mechanism for the euro area which issues debt instruments in order to finance loans and other forms of financial assistance to euro area countries. The ESM entered into force on 8 October 2012. It has an effective lending capacity of €500 billion and replaced both the European Financial Stability Facility and the European Financial Stabilisation Mechanism. ESM lending is subject to strict conditionality.

European System of Central Banks (ESCB): composed of the European Central Bank (ECB) and the NCBs of all 28 EU Member States, i.e. it includes, in addition to the members of the Eurosystem, the NCBs of those Member States whose currency is not the euro. The ESCB is governed by the Governing Council and the Executive Board of the ECB, and, as a third decision-making body of the ECB, by the General Council.

European Systemic Risk Board (ESRB): an independent EU body responsible for the macro-prudential oversight of the financial system within the EU. It contributes to the prevention or mitigation of systemic risks to financial stability that arise from developments within the financial system, taking into account macroeconomic developments, so as to avoid periods of widespread financial distress.

Eurosystem: the central banking system of the euro area. It comprises the European Central Bank and the NCBs of the Member States that have adopted the euro.

Eurosystem's international reserves: These comprise the reserve assets of the European Central Bank (ECB) and the reserve assets held by the national central banks (NCBs) of the participating Member States. Reserve assets must 1) be under the effective control of the relevant monetary authority, whether the ECB or the NCB of one of the participating Member States, and 2) comprise highly liquid, marketable and creditworthy foreign (i.e. non-euro) currency-denominated claims on non-euro area residents, plus gold, special drawing rights and the reserve positions in the International Monetary Fund of the participating NCBs.

Executive Board: one of the decision-making bodies of the ECB. It comprises the President and the Vice-President of the ECB and four other members appointed by the European Council, acting by a qualified majority, on a recommendation from the EU Council, after it has consulted the European Parliament and the ECB.

Fiduciary money: banknotes and coins having the status of legal tender.

Financial stability: condition in which the financial system- comprising financial intermediaries, markets and market infrastructures- is capable of with standing shocks and the unraveling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities.

Fine-tuning operations: an open market operation executed by the Eurosystem in order to deal with unexpected liquidity fluctuations in the market. The frequency and maturity of fine-tuning operations are not standardised.

Foreign exchange swap: Simultaneous spot and forward transactions exchanging one currency against another. The Eurosystem can execute open market operations in the form of foreign exchange swaps, where the national central banks)or the European central bank) buy or sell Euro spot against a foreign currency and, at the same time, sell or buy them back in forward transaction.

General Council: one of the decision-making bodies of the European Central Bank (ECB). It comprises the President and the Vice-President of the ECB and the governors of all the NCBs of the European System of Central Banks.

Governing Council: supreme decision-making body of the European Central Bank (ECB). It comprises all the members of the Executive Board of the ECB and the governors of the NCBs of the Member States that have adopted the euro.

Harmonised index of the consumer prices (HICP): a measure of the development of consumer prices that is compiled by Eurostat and harmonized for all EU Member states.

Key ECB interest rates: the interest rates, set by the Governing Council, which reflect the monetary policy stance of the European Central Bank. They are the rates on the main refinancing operations, the marginal lending facility and the deposit facility.

Longer-term refinancing operations: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a monthly standard tender and normally have a maturity of three months. During the financial market turmoil that started in August 2007, supplementary operations with maturities ranging from one maintenance period to one year were conducted, the frequency of which varied.

Main refinancing operations: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

MFIs (monetary financial institutions): financial institutions which together form the money issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined by Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.

M1, M2, M3: cf. monetary aggregates

Monetary aggregates: Currency in circulation, plus outstanding amounts of certain liabilities of monetary financial institutions and central governments that have a relatively high degree of liquidity and are held by non-MFI euro area residents outside the central government sector. The narrow monetary aggregate M1 has been defined as currency in circulation plus overnight deposits. The "intermediate" monetary aggregate M2 comprises M1 plus deposits with agreed maturity of up to two years and deposits redeemable at notice of up to three months. The broad monetary aggregate M3 includes M2 plus repurchase agreements, money market funds shares and units, money market paper and debt securities with a maturity of up to two years. In October 1998, the Governing Council announced a reference value for the growth of M3, which it has since reformed (see also reference value for monetary growth).

Monetary analysis: one pillar of the European Central Bank's framework for conducting a comprehensive analysis of the risks to price stability, which forms the basis for the Governing Council's monetary policy decisions. The monetary analysis helps to assess medium to long-term trends in inflation, in view of the close relationship between money and prices over extended horizons. The monetary analysis takes into account developments in a wide range of monetary indicators including M3, its components and counterparts, notably credit, and various measures of excess liquidity (see also economic analysis).

Open market operations: an operation executed on the initiative of a central bank to influence the financial market. With regard to their aims, regularity and procedures, Eurosystem open market operations can be divided into four categories: main refinancing operations; longer-term refinancing operations; fine-tuning operations; and structural operations. As for the instruments used, reverse transactions are the main open market instrument of the Eurosystem and can be employed in all four categories of operations. In addition, the issuance of debt certificates and outright transactions are available for structural operations, while outright transactions, foreign exchange swaps and the collection of fixed-term deposits are available for the conduct of fine-tuning operations.

Outright Monetary Transactions (OMTs): transactions that aim to safeguard an appropriate monetary policy transmission and the singleness of the monetary policy in the euro area through purchases of euro area government bonds in the secondary market based on strict and effective conditionality.

Outright transaction: A transaction whereby assets are bought or sold up to their maturity (spot or forward).

Price Stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the Harmonised Index of Consumer Prices for the euro area below 2%. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

Real-time gross settlement (RTGS) system: a settlement system in which processing and settlement take place on a transaction-by transaction basis in real time (see also TARGET)

Reserve base: the sum of the eligible balance sheet items (in particular liabilities) that constitute the basis for calculating the reserve requirement of a credit institution.

Reserve ratio: the ratio defined by the central bank for each category of eligible balance sheet items included in the reserve base. The ratio is used to calculate reserve requirements.

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with the Eurosystem over a predefined maintenance period. Compliance with the requirement is determined on the basis of the average of the daily balances in the reserve accounts over the maintenance period.

Reverse transaction: an operation whereby the central bank buys or sells assets under a repurchase agreement or conducts credit operations against collateral.

Securities Markets Programme (SMP): a programme set up in May 2010 for conducting interventions in the euro area public and private debt securities markets to ensure depth and liquidity in dysfunctional market segments with a view to restoring an appropriate monetary policy transmission mechanism. The SMP was terminated when the technical features of the Outright Monetary Transactions were announced on 6 September 2012. As of 31 December 2013, the outstanding amount of the SMP was € 178.8 billion.

Securities settlement system (SSS): a system which allows the transfer of securities, either free of payment or against payment (delivery versus payment).

Stability and Growth Pact (SGP): intended to serve as a means of safeguarding sound government finances in the EU Member States in order to strengthen the conditions for price stability and for strong, sustainable growth conducive to employment creation. The SGP has two arms – a preventive arm and a corrective arm. The preventive arm prescribes that Member States specify medium-term budgetary objectives, while the corrective arm contains concrete specifications on the excessive deficit procedure.

Systemic Risk: the risk that the inability of one participant to meet its obligations in a system will cause other participants to be unable to meet their obligations when due, with possible spillover effects such as significant liquidity or credit problems that may threaten the stability of the financial system. Such inability may be caused by operational or financial problems.

TARGET2: the second-generation TARGET system. It settles payments in euro in central bank money and functions on the basis of a single shared IT platform, to which all payment orders are submitted for processing.

TARGET2-Securtities (T2S): the Eurosystem's single technical platform enabling central securities depositories and NCBs to provide core, borderless and neutral securities settlement services in central bank money in Europe.

Treaty on the Functioning of the European Union (TFEU): Following entry into force of the Treaty of Lisbon on 1 December 2009, the Treaty establishing the European Community was renamed the Treaty on the Functioning of the European Union (TFEU). This Treaty - referred to as the Treaty of Rome (signed in Rome on 25 March 1957) - entered into force on 1 January 1958 to establish the European Economic Community (EEC). The Treaty establishing the European Community was subsequently amended by the Treaty on European Union (often referred to as the Maastricht Treaty) which was signed on 7 February 1992 and entered into force on 1 November 1993, thereby establishing the EU. Thereafter, both the Treaty establishing the European Community and the Treaty on the European Union were amended by the Treaty of Amsterdam, signed on 1 October 1997 and in force as of 1 May 1999, the Treaty of Nice, signed on 28 February 2001 and in force as of 1 February 2003, and then by the Treaty of Lisbon.

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