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ANNUAL REPORT 2015

BANQUE CENTRALE DU LUXEMBOURG
EUROSYSTEM

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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 Bank is a member of the Eurosystem that consists of the European Central Bank and the National Central Banks of the Member States that have adopted the euro. It takes part in the Single Supervisory Mechanism (SSM). It is in charge of managing the monetary and financial responsibilities granted to it as one of the National Central Banks of the ESCB.

At the national level, the central bank has to carry out the tasks conferred 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;
- 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 ensures 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;
- A good governance, within and through the governing bodies concerned with the use of the highest standards in governance.

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THE GOVERNOR'S MESSAGE[1]

1 Finalised mid-June 2016.

In 2015, the economic recovery in the euro area has continued. Although this recovery has firmed up, downside risks remain. Inflation has remained very low and is expected to increase only gradually.

Against the background of very low inflation, the Governing Council of the European Central Bank (ECB) has taken additional measures. On 22 January 2015, it announced the introduction of an expanded asset purchase programme targeting both private and public securities. When incepted, this programme included the asset backed securities and covered bonds purchase programmes introduced in 2014 as well as a new programme targeting public sector securities. While the initial monthly purchases under the asset purchase programme amounted to €60 billion, they were increased to €80 billion in March 2016.

The expanded programme introduced in January 2015 was subsequently widened twice. On 3 December 2015, the Governing Council decided to broaden the list of assets eligible under the public sector purchase programme. In its 10 March 2016 meeting, it decided to widen the programme again by including securities of the corporate sector from June 2016. These purchases pertain to investment grade securities issued by non-bank corporations established in the euro area.

The purchases made under the expanded asset purchase programme are intended to run until the end of March 2017, or beyond if necessary. The objective of the programme is a sustained adjustment in the path of inflation that is consistent with the definition of price stability, defined as inflation rates below, but close to 2% over the medium term. The Governing Council expects that the Eurosystem's policy rates will remain at their current level, or lower, over a prolonged period of time and well beyond the horizon of the asset purchase programme.

Following the introduction of the first series of targeted longer-term refinancing operations in 2014, the Governing Council decided in March 2016 to introduce some changes and to launch a second series of such operations from June 2016 to incentivise the banks to grant loans to the real economy.

The Governing Council also decided to lower the interest rate on the deposit facility to -0.3% in December 2015 and to -0.4% in March 2016. The Governing Council also decided to leave the interest rate on the main refinancing operations unchanged at 0.05% in 2015 and to lower it to 0%, an historic low, in March 2016. Hence, both conventional and unconventional monetary policy measures have continued to underscore the accommodating stance of the Eurosystem's monetary policy. Through these new measures, the Governing Council has reiterated its commitment to prevent any risk of disinflationary trend.

The year 2015 also witnessed changes in the ECB's governance.

First, with Lithuania joining the euro area on 1 January 2015, a rotation scheme of voting rights among the governors of the national central banks, which had been designed some time ago, came into force. In this system, central bank governors currently fall into two groups. The governors of the first group, emanating from the larger countries, vote with a frequency that is slightly higher than the governors that are part of the second group. The members of the Executive Board have a permanent voting right. It is important to note that the governors who do not have a voting right at a certain moment in time can still participate in the discussions and that the decision-making process in the Governing Council remains based on consensus.

Second, the Governing Council decided to publish regular accounts of its monetary policy meetings. These accounts, which aim to provide more information about the underlying reasoning leading to monetary policy decisions, are published four weeks after every monetary policy meeting. Since 1 January 2015, such meetings take place every six instead of every four weeks.

The Single Supervisory Mechanism, the first pillar of the Banking Union, has functioned well since its inception in November 2014. The *Banque centrale du Luxembourg (BCL)* participates in the decision-making process of the Single Supervisory Mechanism at the level of the Governing Council, the Supervisory Board and various committees and working groups. The BCL also assists the ECB directly in Joint Supervisory Teams (JSTs), especially for the supervision of liquidity. In 2015, the number of banks directly supervised by the ECB increased from 123 to 129. In Luxembourg, this number increased from five to six. One of the challenges at the European level is to continue harmonising supervision practices in the countries participating in the Mechanism. A first Regulation aimed at harmonizing the exercise of national options and discretions that are provided for by Union law has been adopted by the ECB.

On 1 January 2016, the Single Resolution Mechanism, the second pillar of the Banking Union, has become operational. It applies to the countries that participate in the Single Supervisory Mechanism and is composed of a Single Resolution Board and a Single Resolution Fund. While the former is the resolution authority of the Banking Union and has as a mission to prepare and implement the resolution of banks that are likely to fail or have failed, the latter aims to guarantee the availability of funds that are necessary to finance the restructuring or the resolution of banks. Initially, these financial resources will be provided by credits institutions at the national level. An intergovernmental agreement, which entered into force on 1 January 2016, foresees the gradual pooling of these national funds among countries that are signatories to the agreement in order to achieve the full capacity of the Single Resolution Fund on 1 January 2024.

As for the third pillar of the Banking Union, the European Deposit Insurance Scheme, the European Commission has introduced a draft regulation aiming to pool the national schemes by the year 2024.

The preparation of the Capital Markets Union, which, together with the Banking Union, aims to create a European Financial Union, has been ongoing, notably with the draft regulations on securitisation presented by the European Commission.

On 25 November 2015, the Eurosystem issued the new €20 banknote of the "Europa" series. After the €5 and €10 banknotes, this is the third banknote issued under the new series launched in 2013. On 4 May 2016, the Governing Council decided to discontinue the production of the €500 banknote. Hence, the "Europa" series will not include the €500 banknote. The issuance of the €500 denomination will end toward the end of 2018 but the banknote will remain legal tender and it will continue to be exchangeable during an unlimited period of time at the central banks of the Eurosystem. This decision does not impact other denominations and the Eurosystem will take the necessary measures to ensure the availability of other denominations is sufficient.

In Luxembourg, the financial institutional framework has been modified to implement the decisions taken at the European level.

The "Systemic Risk Committee" was established by a law of 1 April 2015. It is composed of the Minister whose area of responsibility includes the financial centre, who chairs the Committee, the Director general of the *Commission de surveillance du secteur financier (CSSF),* the Director of the *Commissariat aux assurances* and the Governor of the BCL. The Secretariat, which is notably in charge of drafting and publishing the recommendations, opinions and warnings issued by the Committee, is provided by the BCL, under the direct authority of its Governor. In 2015, the Committee issued three recommendations and one opinion. The Committee's work is described in its annual report.

The law of 18 December 2015 on the measures pertaining to the resolution, restructuring and liquidation of credit institutions and certain investment companies as well as to the deposit guarantee and investor compensation schemes has introduced new decision-making bodies.

For the resolution of banks, the law has created a "Resolution Council" within the CSSF as well as a new public institution, the "Resolution Fund Luxembourg". Concerning the guarantee of deposits, the law has replaced the "Deposit Guarantee Association, Luxembourg", a private system that was not prefunded, with a prefunded public system. The new system comprises, within the CSSF, the "Council of Protection of Depositors and Investors" and the "Deposit Guarantee Fund Luxembourg". Through the law, the Governor of the BCL has received four new mandates. Henceforth, he sits on the four newly-created bodies, without prejudice to his independence.

The widening and the deepening of the BCL's missions have continued to be a challenge in terms of organisation, staffing and financial resources. The BCL's very low capital is incompatible with the necessity to cover its commitments adequately. These notably include the provisions for the coverage of asset-related risks, the provisions required to entirely finance the legal pensions (1st pillar) of all staff and the increasing staffing needs.

In relation to its total balance sheet, the BCL's capital is insufficient, both in absolute and in relative terms compared to the other central banks of the Eurosystem. Against this background, the Prime Minister announced in March 2015 that a gradual and sustainable solution would be sought to endow the BCL with adequate capital. Since then, a dialogue has taken place among the parties involved and the efforts to find a solution that is acceptable to all parties have been sustained. Such a solution will have to be consistent with the BCL's independence, including its financial independence, and take into account the economic context and the situation of the public finances.

In 2015, the BCL signed a cooperation agreement with the Toulouse School of Economics. Through the financing of a Chair labelled "Aggregate Stability and Central Banks", the agreement aims to promote research in the areas of macroprudential analysis and virtual currencies. This approach is consistent with the BCL's endeavour to achieve a level of excellence in the areas of research that are of particular interest to its missions.

Finally, the BCL has sustained its efforts to better communicate on its activities. Against this backdrop, its new website, which is more comprehensive and more user friendly, went live in December 2015. In the same vein, the BCL launched a visitors' programme aimed at presenting the Bank's national and European missions and the history of money in Luxembourg. In 2015, the BCL also participated in the launch of the initiative "The week of money" *(D'Woch vun de Suen)* by offering an independent programme aimed first and foremost at allowing groups of schoolchildren to get acquainted with euro banknotes and coins. In light of the success of its first participation, the BCL organized an extended programme for the 2016 edition.

To conclude, I would like, together with the two other members of the Executive Board, thank the staff for their commitment and the quality of their work, in an institution that is both European and national and the missions of which are permanently deepening and widening.

Gaston Reinesch

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 implementing monetary policy, as defined by the Governing Council of the European Central Bank (ECB) for the entire Eurozone.

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

1.1.1 Conventional Operations

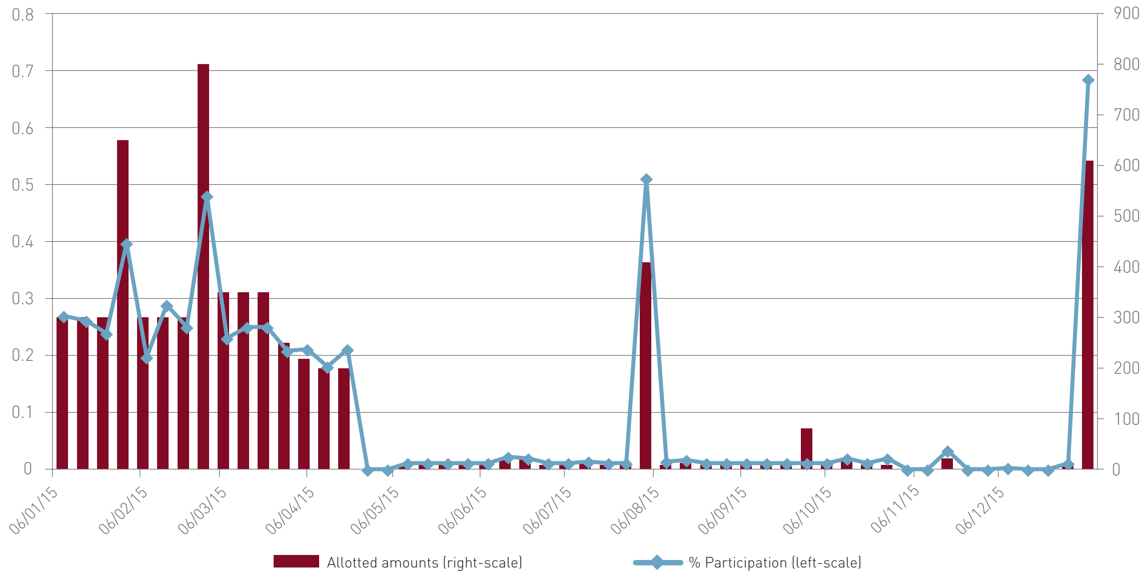
1.1.1.1 Open market operations in 2015

1.1.1.1.1 Main refinancing operations

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 in 2015. It was decided that this tender procedure will be maintained as long as necessary and at least until the end of the last maintenance period for minimum reserves in 2017. The Governing Council kept the interest rate on the main refinancing operations unchanged at 0.05% in 2015.

In 2015, the counterparties in Luxembourg accounted for 0.3% of the average volume of main refinancing operations in the Eurosystem until April. Subsequently they stopped their participation, with only a few exceptions, but showed a revival of interest for the end-of-year operation (0.69%).

Graph 1:
MRO - Allotted amounts in Luxembourg and participation ratio of Luxembourg compared to the euro area in 2015 (in € million)

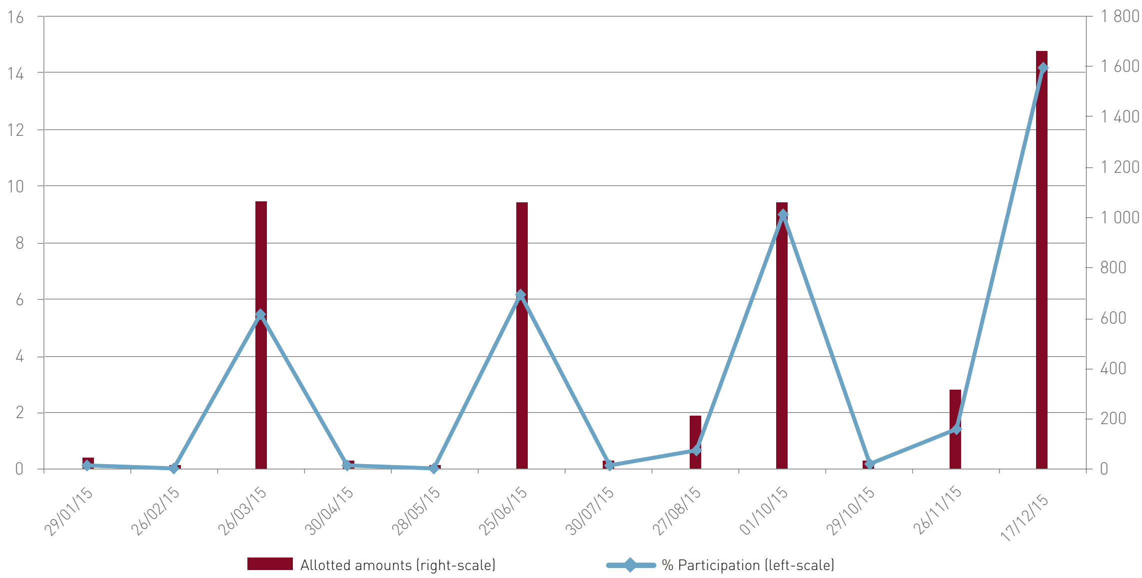


Source: BCL

1.1.1.1.2 Longer-Term Refinancing Operations

The Luxembourgish counterparties mainly took part in the Longer-Term Refinancing Operations (LTRO) on an end-of-quarter basis and participated more significantly to the last operation of the year. The participation ratio in the operations was 5.5% at the end of the first quarter, 6.15% at the end of the second quarter, 9% at the end of the third quarter and 14% during the last operation of the year.

Graph 2:
3 months LTRO - Allotted amounts in Luxembourg and participation ratio of Luxembourg compared to the euro area in 2015 (in € million)



Source: BCL

1.1.1.1.3 Fine-Tuning Operations

No fine-tuning operations were conducted in 2015.

1.1.1.2 Standing Facilities in 2015

Luxembourgish counterparties may have recourse to the standing facilities offered by BCL, i.e. the deposit and or the marginal lending facilities, at a pre-established interest rate.

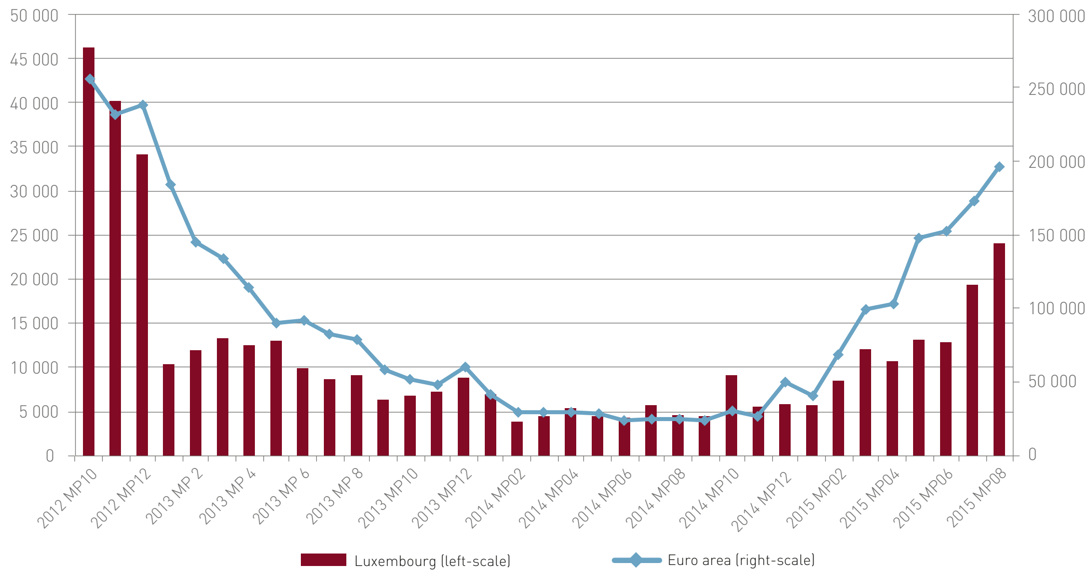
Marginal Lending Facility

Luxembourgish counterparties barely used the marginal lending facility in 2015; their recourse was punctual. The interest rate on the marginal lending facility remained unchanged at 0.3% in 2015.

Deposit Facility

The Governing Council of the ECB reduced the interest rate on the deposit facility to -0.3% from December 2015. The amounts deposited with the BCL increased in 2015, despite the negative interest rate. This has to be put notably in relation with the minimum requirements about the short-term liquidity ratio (LCR: liquidity coverage ratio) (see Part 1.7.2.1.2 and Glossary).

Graph 3:
Evolution of the deposit facility in Luxembourg and the euro area (Average daily amount) (in € million)



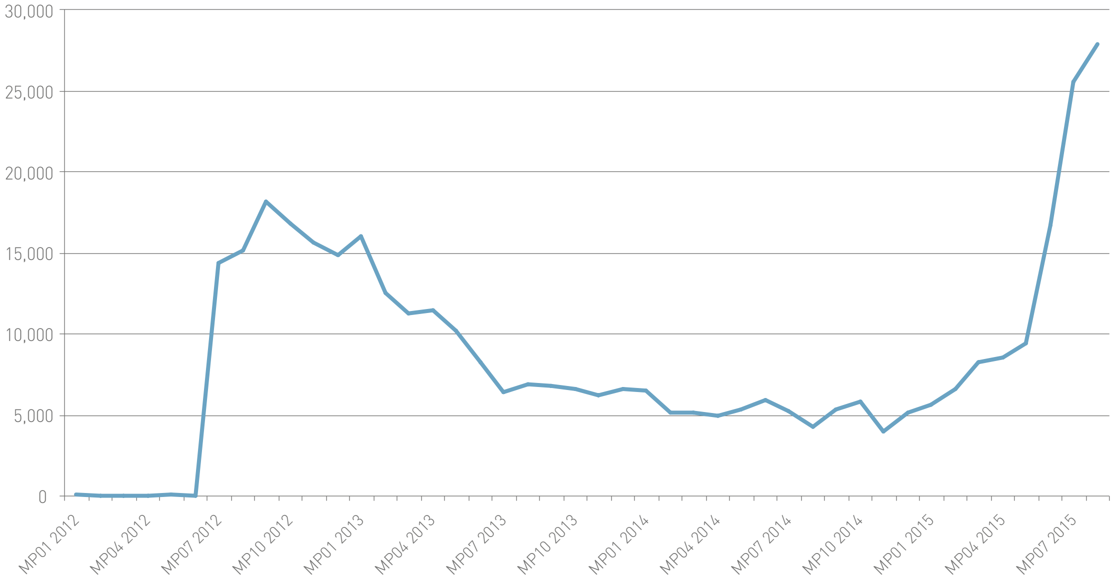
Source: BCL

1.1.1.3 Minimum Reserves in 2015

Since January 2012, the reserve ratio is 1%.

The rate on the deposit facility was lowered to 0% in July 2012, then to -0.1%, -0.2% in 2014 and -0.3% in December 2015. This rate is also applicable to excess reserves. Therefore, the counterparties can be indifferent between leaving their excess liquidities on the current account and using the deposit facility. The amounts considered as excess reserves increased significantly in the second half-year of 2012 and decreased gradually afterwards, due to the reallocation of the excess reserves by the counterparties. In 2015, the excess reserves increased again significantly with an average amount of a €13.6 billion per day for the whole of Luxembourgish counterparties. This is notably due to factors such as the injections of liquidities through the purchase programmes and the new requirements in terms of liquidity ratios.

Graph 4:
Average daily excess reserves of Luxembourgish counterparties since 2012 (in € million)



Source: BCL

1.1.2 Non-Conventional Operations

1.1.2.1 Temporary Currency Auctions Facilities

On 17 June 2014, the Governing Council, in cooperation with the Bank of England, the Bank of Japan and the Swiss National Bank, decided to continue to offer one-week US dollar liquidity-providing operations after 31 July 2014 until further notice. This orientation remained valid in 2015.

There were no participants to these operations in Luxembourg in 2015. In the euro area, there were no participants to these operations until June 2015. From there, one to three counterparties took part in these operations, mainly Greek banks.

1.1.2.2 Extension of Operations' Maturities

Over the last years, Longer-Term Refinancing Operations (LTROs) played an increasingly important role as far as provision of liquidity is concerned. Before the crisis, these operations accounted for merely one third of all liquidity provided by the Eurosystem. Today, they account for the main part of it.

Due to the tensions on the short end of the yield curve since August 2007 and on the medium to long part of the curve since 2010, two non-conventional operations were added to the operational framework at the end of 2011 and at the beginning of 2012. These operations matured on 29 January 2015 and on 26 February 2015 and were not renewed (see table 1 below).

On 5 June 2014, the Governing Council of the ECB announced measures aimed at supporting lending to the real economy and enhancing the functioning of the monetary policy transmission mechanism. In particular, the Governing Council decided to conduct a series of Targeted Longer-Term Refinancing Operations (TLTROs) aiming at improving bank lending to the euro area non-financial private sector, excluding loans to households for house purchase, over a period of two years.

In 2015, four targeted operations were conducted. The participation ratio of Luxemburgish counterparties was 0.5% for the operation of March and 0.2% for the operation of June. They did not participate in the operations of September and December. Table 2 below shows the outstanding amounts as of 31 December 2015 for the six targeted operations and the participation of Luxembourgish counterparties. All the targeted operations will mature on 28 September 2018.

Table 1:
Overview of the non-conventional LTROs as of 31 December 2015

Type	Number of Operations Executed until End 2015	Allotment of the First Operation	Allotment of the Last Operation	Max Allotted Amount in a Single Operation (in € billion)	Total Amount Allotted in the Eurozone (in € billion)	Max Number of Bidders in a Single Operation	Motivation (as communicated in ECB Press Releases)
Supplementary 3-Month LTRO	24	Aug-07	Dec-09	75	831	146	Supporting the normalisation of the functioning of the euro money market
6-Month LTRO	20	Apr-08	Aug-11	50	416	181	Supporting the normalisation of the functioning of the euro money market
1-Month LTRO	70	Sep-08	Jul-14	135	2599	210	Supporting the normalisation of the functioning of the euro money market
1-Year LTRO	4	Jun-09	Oct-11	442	671	1121	In continuity and consistency with the operations undertaken since October 2008
3-Year LTRO	2	Dec-11	Feb-12	530	1019	800	Enhanced credit support measures to support bank lending and liquidity in the Eurozone money market
Targeted LTRO	6 (8 in total)	Sep-14	Jun-16	130	418	306	Enhance the functioning of the monetary policy transmission mechanism by supporting bank lending to the real economy

Source: BCL

Table 2:
Targeted Longer-Term Refinancing Operations - Amounts allocated (in €) in the euro area and participation of Luxembourg.

	Luxembourg	Euro area	%
Sep- 14	250 000 000	82 601 570 000	0,3%
Dec- 14	141 140 000	129 840 130 000	0,1%
Mar- 15	500 000 000	97 848 230 000	0,5%
Jun- 15	150 000 000	73 789 170 000	0,2%
Sep- 15	-	15 548 330 000	-
Dec- 15	-	18 303 960 000	-
		417 931 390 000	

Source: BCL, ECB

1.1.2.3 The Asset Purchase Programme

On 4 September 2014, the Governing Council decided to start purchasing non-financial securities of the private sector. The new programmes encompassed an asset backed securities purchase programme (ABSPP) and a third covered bonds purchase programme (CBPP3)[2] on both the primary and the secondary markets.

2 CBPP and CBPP2 were conducted in 2009-10 and 2011-12.

On 22 January 2015, the Governing Council announced the launch of an expanded asset purchase programme in order to address the risks of a too prolonged period of low inflation. When incepted, the expanded programme included the ABSPP and CBPP3 as well as a new programme, the public sector purchase programme (PSPP). Under the latter, purchases concern good quality bonds issued by euro area central governments, agencies and European institutions in the secondary market. Purchases of securities issued by governments and agencies of the euro area are determined on the basis of the shares of the national central banks in the allocation key of the capital of the ECB. Additional eligibility criteria are applied to countries under a EU-MFI macroeconomic adjustment programme.

On 3 December 2015, the Governing Council decided to extend the asset purchase programme further. The € 60 million monthly securities purchases – initially planned until September 2016 – should be maintained until March 2017 or beyond if necessary. Furthermore, the Governing Council decided to add euro-denominated marketable debt instruments issued by regional and local governments located in the euro area to the list of assets eligible under the asset purchase programme.

Table 3:
Outstanding amounts under the asset purchase programmes as of 31 December 2015 (in € billion).

ABSPP	CBPP	CBPP2	CBPP3	PSPP
15,322	20,6	9,7	143,34	491,215

Source: ECB

National central banks of the Eurosystem expressed their intention to hold the bonds purchased through the covered bonds purchase programmes until maturity. As of 31 December 2015, the amount outstanding was € 20.6 billion for the first programme (CBPP), € 9.7 billion for the second programme (CBPP2) and € 143.34 billion for the third programme (CBPP3) (see table 3 here-above).

1.1.2.4 The Securities Market Programme

In May 2010, the Governing Council of the ECB launched the Securities Market Programme (SMP).

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 aimed at re-absorbing the liquidities injected through the programme. These liquidity absorbing operations were suspended in June 2014.

The Securities Market Programme ended in September 2012, following the decision of the Eurosystem to introduce Outright Monetary Transactions (see below). As of 31 December 2015, the total residual outstanding value of the purchases conducted under the Securities Market Programme amounted to € 122.6 billion.

1.1.2.5 Outright Monetary Transactions

On 6 September 2012 the Governing Council 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 (OMT) may only be activated to purchase securities of countries that strictly adhered to the conditions foreseen in a programme of the European Financial Stability Fund or the European Stability Mechanism (EFSF/ESM), either a macroeconomic adjustment programme or a precaution programme.

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

As of 31 December 2015, the OMTs have not been activated.

1.1.3 Management of collateralisation of Eurosystem credit operations

In 2015, the Eurosystem continued its work aimed at enhancing collateral management. This work took in particular place in the COGESI[3], in which the Eurosystem in its capacity as catalyst analyses together with market participants dossiers related to collateral mobilisation. COGESI documents are published on the website of the ECB.

1.1.3.1 List of eligible assets

According to Article 18 of the Statute of the ESCB and the ECB, all Eurosystem credit operations are conducted on the basis of "adequate collateral".

As such, each counterparty provides assets as collateral for its Eurosystem credit operations conducted with a national central bank of the Eurosystem. These assets have to comply with eligibility criteria specified in the Eurosystem's General Documentation on Eurosystem monetary policy instruments and procedures.

The Eurosystem accepts as collateral marketable assets and non-marketable assets, including credit claims. The list of eligible assets is published on the ECB's website.

In the course of 2015, the Governing Council took the following main measures relating to eligible assets:

- On 4 February 2015, the Governing Council decided to lift the waiver affecting marketable debt instruments issued or fully guaranteed by the Hellenic Republic. The waiver allowed these instruments to be used in Eurosystem monetary policy operations despite the fact that they did not fulfil the minimum credit rating requirements. This decision did not bear any consequences for the counterparty status of Greek financial institutions in monetary policy operations. Counterparties that did not have sufficient collateral available could contact their national central bank to obtain emergency liquidity assistance (ELA).

- On 18 February 2015, the Governing Council has adopted a new Guideline (ECB/2014/60) relating to the implementation of the Eurosystem monetry policy framework, replacing with effect on 1 May 2015 the Guideline ECB/2011/14. With regard to the collateral eligible for Eurosystem credit operations, the following changes were made:
  - changes to the eligibility criteria relating to asset-backed securities (ABS) aimed at enhancing the security and transparency of the debt instruments accepted by the Eurosystem;
  - changes to rules governing the own-use of multi-cédulas assets issued after 1 May 2015;
  - provisions restricting the own-use of government guaranteed unsecured debt instruments.

Further information on this matter is available on the ECB's website.[4]

3 Contact Group on Euro Securities Infrastructures.

4 www.ecb.europa.eu/press/govcdec/html/index.en.html.

- On 16 April 2015, the Governing Council adopted a new Guideline (ECB/2015/20) amending Guideline ECB/2014/60 on the implementation of the Eurosystem monetary policy framework, with effect on 1 May 2015, in order to reflect changes to the Eurosystem's collateral framework relating to the acceptable coupon structures for eligible marketable assets. In particular, the adjustment clarifies that marketable assets with a floating rate coupon can remain eligible as long as the actual cash flow due to note holders remains non-negative.

- On 31 August 2015, the Governing Council decided to introduce a new asset class as collateral for Eurosystem credit operations, namely the "non-marketable debt instruments backed by eligible credit claims (DECCs)". DECCs are debt instruments that: (a) are backed by credit claims that are also eligible as collateral with the Eurosystem on an individual basis; and (b) that have a dual recourse feature, namely to: (i) the credit institution that is the originator of the underlying credit claims; and to (ii) the underlying credit claims themselves. It should be noted that, in the initial stage, only the domestic use of DECCs is envisaged. This restriction will remain in place until the Eurosystem fully develops the procedures for the cross-border use of DECCs.

- On 20 November 2015, the Governing Council adopted two new Guidelines: (i) a new Guideline (ECB/2015/34) amending the General Documentation Guideline on the implementation of the Eurosystem's monetary policy and (ii) a new Guideline (ECB/2015/35) on the Eurosystem's valuation haircuts. The new Guidelines introduce changes to the monetary policy implementation framework. First, the provisions on the Eurosystem's valuation haircuts have been removed from the General Documentation and put into the new Guideline on the Eurosystem's valuation haircuts. Second, the new Guideline on valuation haircuts refines the provisions on additional haircuts applied to covered bonds that are own-used. As a rule, the additional haircuts will be applied only to the share of the covered bond issue that is own-used and not to the entire issue. Third, non-marketable debt instruments backed by eligible credit claims (DECCs), an asset class introduced in the Eurosystem's collateral framework on 2 November 2015, will be eligible for cross-border use through the Eurosystem's standard correspondent central banking model (CCBM) procedure.

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 had been 0.1739% since 1 July 2013, revised on 1 January 2014 to 0,2030% following the adoption of the euro by Lithuania.

As of 31 December 2015, the total market value of the ECB's reserves (including accrued interest) managed by the BCL corresponded to € 396 million[5]. 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 the main priorities while managing the foreign reserves.

For the management of this portfolio, the main task of the BCL is to invest the foreign reserves on behalf of the ECB, within the defined risk limits and leeway, with liquidity as the primary objective.

The amount of passively managed assets in gold is determined by the ECB, taking into account strategic considerations and market conditions.

5 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.

1.3 MANAGEMENT OF THE BCL'S ASSETS

1.3.1 Conceptual Framework

Objectives of investment policy

The main objectives of the investment policy are to generate regular income and, over the long term, to achieve positive performance while taking into consideration capital preservation, stability in the valuation 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 proactive investment policy based on modern portfolio theory.

The investment approach incorporates the following:

- Analysis of economies and international financial markets;
- An asset allocation process that involves assessing the returns on different international markets;
- Development of a clearly defined strategy;
- The preservation of the capital value of the assets by following a risk-diversification process and by requiring investment to be a of a specific quality;
- The application of strict risk control measures.

Investment decisions are based on technical and fundamental analysis. Investment decisions are made taking into account:

- Market Risk (interest rates, exchange rates, equity prices, commodity prices);
- Credit Risk (minimum credit ratings criteria by international rating agencies);
- Liquidity Risk (concentration limits by sector, issuer and issue, efforts to ensure geographic diversification in the daily management).

Performance Measurement

The quality of investment decisions is measured by comparing the performance to external benchmarks. This allows performance attribution to be carried out at all decision-making levels (strategic, tactical) as well as in the daily management.

1.3.2 Institutional Structure

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

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 evaluation 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 regard to both the overall balance sheet and the profit and loss account of the BCL. In the course of the year, ALCO regularly assesses 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 deviation relative to the strategic benchmark.

The tactical committees consist of the following:

- The Comite de gestion, for the BCL's own funds;
- The Comite reserves de change for the pooled reserves of the ECB;
- The Comite tactical benchmark for 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.

1.3.3 Risk Control

The Risk Management unit monitors the positions of all the portfolios in order to assess risks and to check compliance with the predefined limits. This monitoring is carried out daily and independently from the Front Office and incorporates traditional portfolio risk measurements such as the Value at Risk (VaR) and stress testing.

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 into other asset categories.

The BCL manages several different types of portfolios.

Investment Portfolio

The investment portfolio consists of assets which can be deemed to represent the own funds of the BCL. The main goal of the portfolio is to maximise the return by taking the abovementioned risk constraints into account (see section 1.3.2). As of 31 December 2015, the total market value (including accrued interest) amounted to € 2 266 million.

In 2015, the share of this portfolio invested in fixed income securities with a maturity above three years increased from 45% to 53%, whereas the percentage of bonds with a one to three year maturity decreased from 50% to 29%. Moreover, by the end of 2015, variable rate and fixed rate bonds with a maturity under one year represented 18% of the investment portfolio.

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

Liquidity Portfolio

This portfolio comprises the other assets that are largely attributable to a Eurosystem arrangement and mirrors TARGET2 accounts and other liabilities.

This portfolio aims to increase the revenues of the bank. The instruments used are mainly fixed income short term bonds, variable rate bonds and treasury bills, provided that they comply with strict and predefined rating criteria. As of 31 December 2015, the total market value (including accrued interest) amounted to € 998 million. Since 2011, a part of the portfolio has been outsourced to an external portfolio manager.

Table 4:
Breakdown of reserves as of 31 December 2015

Maturity	Investment Portfolio	Liquidity Portfolio
0-1 year	18%	58%
1-3 years	29%	37%
> 3 years	53%	5%

The Board and the Council decided to reduce the risk profile of the bank in 2015 in the absence of investment opportunities which offer a favorable relation of risk and return.

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 2015, the total market value (including accrued interest) of this portfolio in foreign currencies amounted to € 149 million.

Pension Fund Portfolio

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

Foreign Reserves Portfolio of the European Central Bank

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

Covered Bond Purchase Programme

After participating in the first Covered Bond Purchase Programme (CBPP1), and thereafter the second programme (CBPP2), which ended on 31 October 2013, the BCL is now participating in the third purchasing programme for covered bonds (CBPP3) which was announced on 29 September 2014 by the Governing Council of the ECB.

Public Sector Bond Purchase Programme

The BCL participates in the Public Sector Purchase Programme (PSPP) of the Eurosystem as part of the Asset Purchase Programme, which was announced in January 2015.

Securities Market Programme

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

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.

1.4 BANKNOTES AND COINS

The BCL, in cooperation with the ECB and the other National Central Banks of the Eurosystem, is in charge of putting the euro banknotes and coins into circulation. It participates in maintaining the public's confidence in the common currency by managing the circulation of fiduciary money and fighting against counterfeiting. Through its activities in the field of Luxembourg's numismatics, it contributes to the promotion of the Grand Duchy of Luxembourg.

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 2015 the BCL was responsible for the production of 6.17 million of € 50 banknotes and 12.04 million of € 10 banknotes of the "Europa" series for the Eurosystem's needs (compared to 20.7 million € 50 banknotes in 2014). The BCL allocated the production of these banknotes via a tender (section 1.4.4. National and international cooperation).

Following an agreement with the State of Luxembourg, the BCL also ensures the production of Luxembourg's euro coins, which it puts into circulation. Following a call for tenders, the BCL commissioned the production of 43.5 million coins of the 2015 series 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

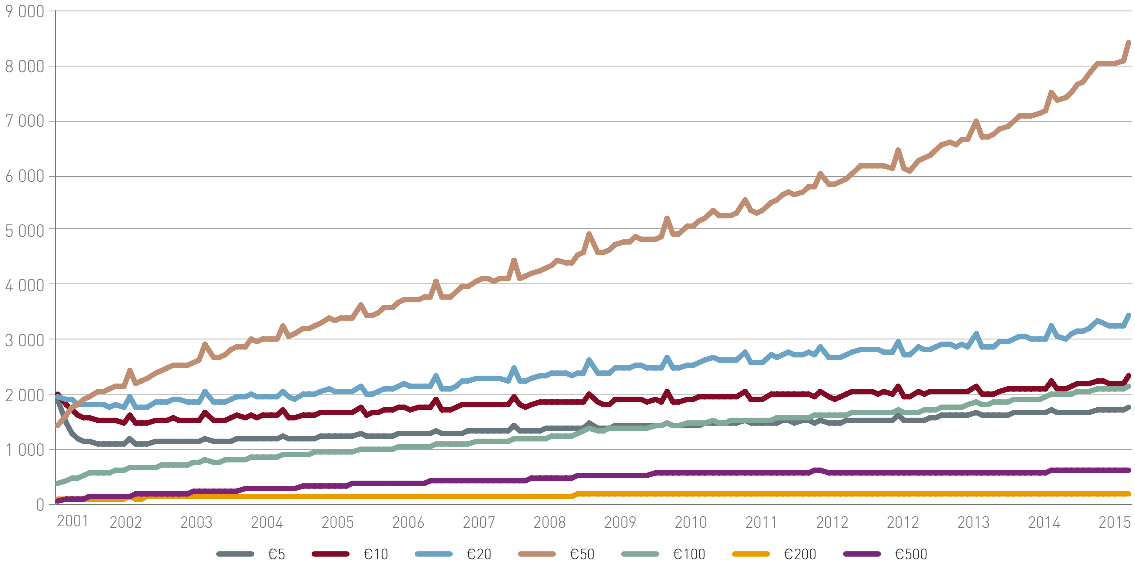
The total number of banknotes issued by the BCL in the course of 2015 amounted to 12.1 millions. The number of € 10 and € 20 banknotes deposited at the BCL exceeds the number of banknotes issued. Financial institutions have indeed deposited more of these banknotes at the BCL than they withdrew. This is explained by the fact that numerous € 10 and € 20 banknotes are brought into the country via tourists and, especially, by cross-border workers.

As to the denominations of € 100, € 200 and € 500, the demand declined, reflecting a trend, that has also been observed at the European level.

Mr Serge Kolb, Executive Director, BCL.

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

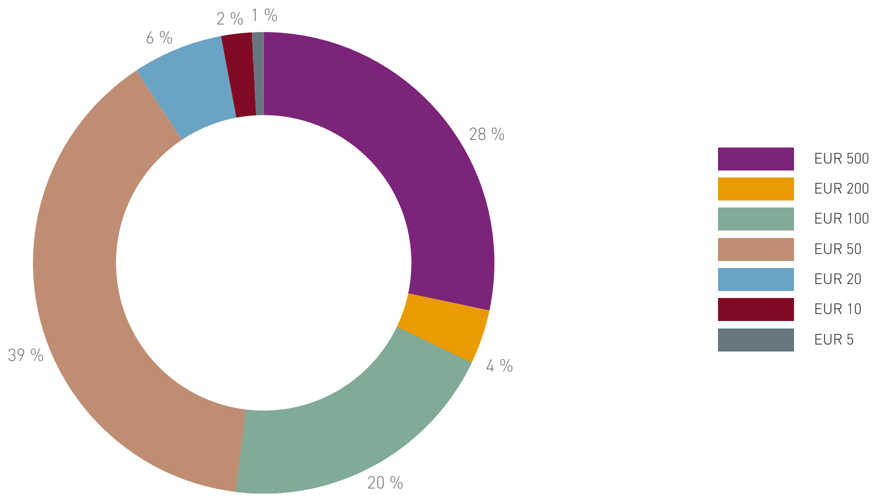
Graph 5:
Denominational breakdown of the number of euro banknotes put into circulation by the Eurosystem since 2002 (in millions of banknotes)



Source: ECB

In value terms, the net issuance of banknotes in Luxembourg grew by € 2 billion, which is a growth rate of 2.1% compared to the previous year. However, at the European level, the net issuance grew by 66.9 billion, an increase of 6.6%. In the euro area, the total amount in circulation reached 1 083 billion by the end of 2015. The breakdown by denomination is illustrated below in graph 6.

Graph 6:
Distribution of the value of euro banknotes put into circulation by the Eurosystem by denomination as of 31 December 2015



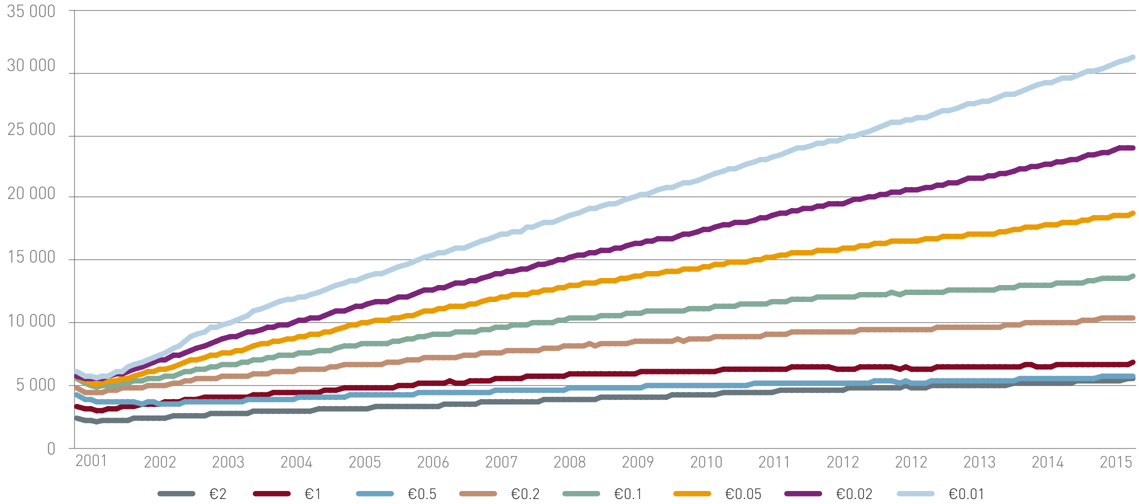
Source: ECB

1.4.2.1.2 Coins

The volume of coins put into circulation in the course of the year 2015 increased by 30.5 million pieces, thereby growing by 4.2%. At the euro area level, the total number of euro coins in circulation grew by 4.7%, reaching 116.2 billion pieces.

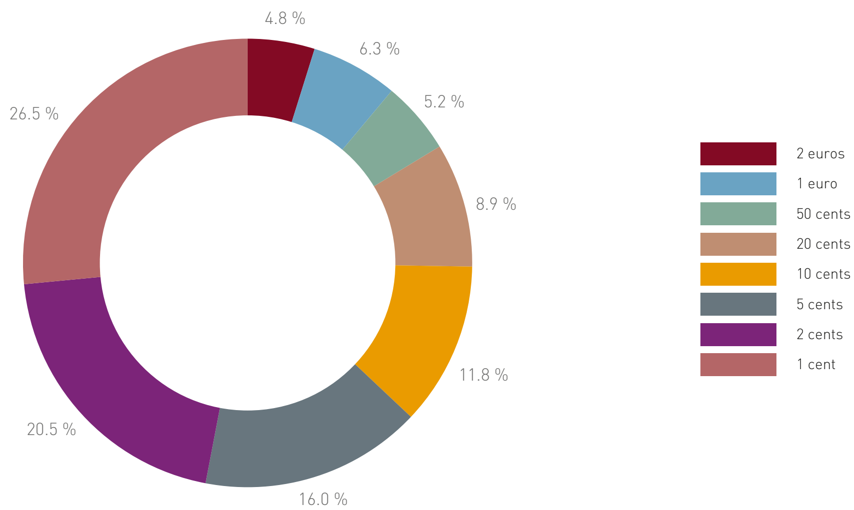
As to the value of euro coins in circulation in the euro area, it attained € 26 billion, showing a growth rate of 4%. The value of euro coins in circulation in Luxembourg grew by 4.3%, which constitutes an increase similar to the one observed at the European level.

Graph 7:
Distribution of the number of euro coins put into circulation by the Eurosystem by denomination since 2002 (in millions of coins)



Source: ECB

Graph 8:
Breakdown of the volume of coins of the euro area in circulation by denomination on 31 December 2015



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 204.3 million to LUF 203.2 million, a decrease of 0.5%. Their total value expressed in euro equals 5 million.

Table 5:
LUF banknotes in circulation as of 31 December 2015

LUF	Number	Value in LUF	Value in EUR
5 000	11 074	55 370 000	1 372 586.45
1 000	68 702	68 702 000	1 703 078.09
100	791 761	79 176 100	1 962 724.25
	871 537	203 248 100	5 038 388.79

[1 EUR = 40.3399 LUF]

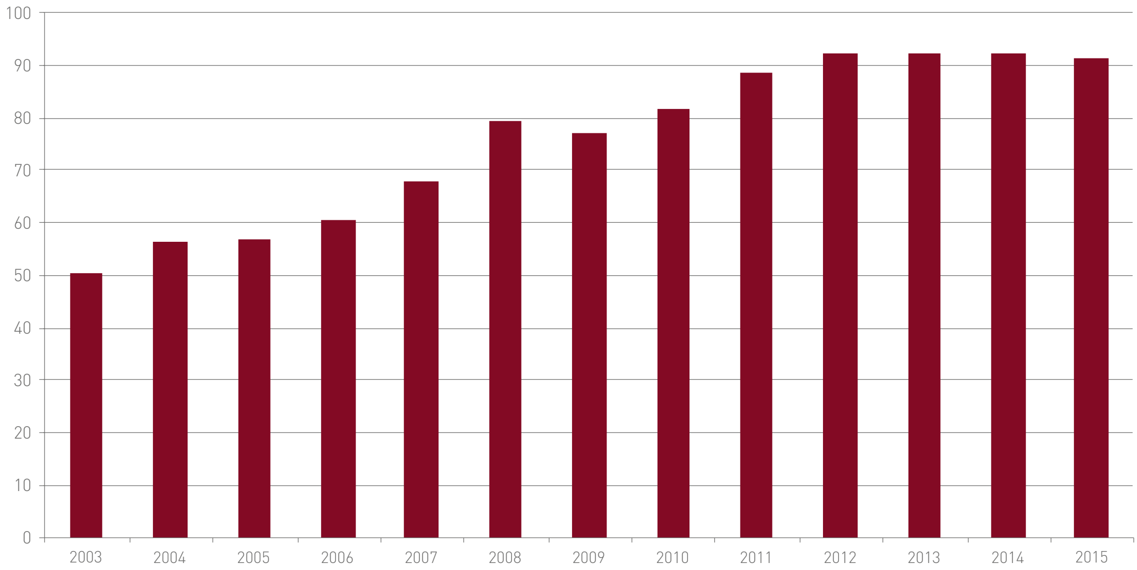
It is noted that coins denominated in LUF are neither exchanged nor reimbursed since end 2004.

1.4.3 Sorting of euro banknotes and coins

The volume of euro banknotes returned by financial institutions to the BCL decreased slightly, by 1.1%, compared to the previous year, from 92.3 to 91.3 million banknotes. Over the past four years, banknote lodgements made at the BCL remained at a stable level.

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

Graph 9:
Lodgements of euro banknotes by financial institutions at the BCL (in millions of banknotes)



Source: BCL

The lodged banknotes were processed with the help of banknote sorting machines. These machines are capable of verifying the authenticity and cleanliness of each banknote. In 2015, 12.8 million banknotes of all denominations (12 million in 2014) were destroyed because they were unfit for circulation, which amounts to a destruction rate of 14%, compared to 13% in the previous year. This rate shows a wide variation between the denominations processed: it ranged from 8.4% for the € 500 banknote to approximately 20 % for the € 10 and € 20 banknotes, due to the introduction of the banknotes of the series "Europa" and the systematic destruction of the banknotes of the first series.

1.4.4 National and international cooperation

In the fight against counterfeiting of euro banknotes and coins, the BCL closely cooperates with the European Central Bank (ECB) and the national authorities in charge. For the analysis of counterfeit and mutilated euro banknotes and coins, the BCL has been collaborating with the Banque de France and the Deutsche Bundesbank since 2002.

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 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 local commercial banks.

1.4.5 Issuance of the new "Europa" banknote series

The new "Europa" banknote series, which is also based on the theme of "Ages and styles in Europe", will be issued progressively. The new series' first banknote, the € 5, was put into circulation on 2 May 2013, followed by the € 10 on 23 September 2014. The new € 20 banknote was unveiled to the public on 24 February 2015 and was put into circulation on 25 November 2015. The issuance of the other banknotes of the "Europa" series will continue in the forthcoming 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.

New or improved security features have been incorporated to ensure maximum protection against counterfeiting and in order to enable the public to quickly distinguish a genuine banknote from a counterfeit.

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's goal is to share resources and experience which is necessary for the monitoring of the production of banknotes.

1.4.6 Numismatic issues

The BCL issues numismatic products on the theme of the Grand Duchy's history and culture. Through its numismatic premises, more than 2 500 sales transactions were completed in 2015. Around 4 000 parcels were sent out, corresponding to sales made through traditional mail or via the Internet shop of the BCL (https://eshop.bcl.lu).

In 2015, the BCL issued the following numismatic products:

- a € 2 commemorative coin dedicated to the 15th anniversary of the accession to the throne of the Grand Duke Henri;
- a second € 2 commemorative coin dedicated to the 125th anniversary of the dynasty Nassau-Weilbourg;
- a third € 2 commemorative coin dedicated to the 30th anniversary of the European flag;
- the 2015 BU set comprises Luxembourg's euro coins of the 2015 series (including the € 2 commemorative coin);

- the 2015 Proof set is composed of ten coins;
- the 2013-2015 Proof set is composed of six € 2 commemorative coins issued between 2013 and 2015;
- a silver-niobium coin dedicated to the castle of Brandenbourg and constituting the seventh element of the series devoted to the castles of Luxembourg;
- a silver coin dedicated to the 200th anniversary of the Congress of Vienna;
- a silver and Nordic gold coin dedicated to the wildcat and constituting the seventh element of the series devoted to the fauna and flora of 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 (ESCB), the European Systemic Risk Board (ESRB) 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 2015, the BCL received the new reports in accordance with instructions published in 2014 regarding the transition to the European System of National and Regional Accounts (ESA 2010). The first statistical reports established in compliance with ESA2010 were transmitted in January 2015 for the reference month of December 2014. Credit institutions, investment funds, securitisation vehicles and financial institutions made the necessary efforts for these changes to be implemented correctly. Statistics were generally provided within the deadlines and significant efforts were made to improve the statistical series made available by the BCL. The major challenge of 2015 consisted in implementing a new statistical data collection from insurance companies. In addition, in parallel to this work, the BCL collected and compiled the data that is necessary to perform its duties in the areas of monetary policy and financial stability.

It is worth reminding that, in the framework of the cooperation agreement between the BCL and STATEC, the BCL has been 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 a tripartite cooperation agreement between the ECB, the European Stability Mechanism (ESM) and the BCL, the BCL committed to use the accounting information provided by the ESM in order to compile macroeconomic aggregates. These statistics are necessary for the ECB in order for it to be able to compile aggregates for the euro area, since the ESM is considered to be a financial institution residing in the euro area.

In 2014, the People's Bank of China (PBOC) and the BCL signed a "Memorandum of Understanding (MoU)" establishing a cooperation between the two institutions on supervision (oversight), exchange of information and evaluation of renminbi transactions. In the context of this agreement, the BCL monitors developments in this market and provides related information on a regular basis to the PBOC. The first data transfer to the PBOC occurred on 7 October 2015.

The BCL also contributed to the execution of the quarterly data collection in the context of the Targeted Longer Term Refinancing Operations (TLTROs). The Luxembourg participating banks, that are not part of a cross border group, submitted reporting statements duly completed to the BCL.

Finally, the STATEC and the BCL signed a cooperation agreement regarding statistics on public finances whose objective is to improve information flows between the two institutions.

1.5.1 New statistical data collections

In 2015, the BCL introduced a new statistical data collection to insurance companies whose benefits are numerous for Luxembourg. Indeed, the collected data will not only be used to establish statistics on insurances themselves but will also be integrated in the balance of payments and in the international investment position statistics as well as in the financial accounts. This new statistical collection, based on the concepts of national accounting, will allow to substantially improve the quality of national aggregates like the gross domestic product (GDP) and the gross national income (GNI) in the context of the macroeconomic analysis conducted by the European Commission.

In the framework of the MoU signed between the PBOC and the BCL, a new statistical data collection on renminbi operations has been introduced in 2015. The statistical report S1.9 «Information on CNY (renminbi) operations» is addressed to all resident credit institutions and collects complementary information on loans, deposits and transactions denominated in renminbi.

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 (SDDS) of the International Monetary Fund (IMF).

In 2015, 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, namely as far as concerns statistics on the banking industry.

Finally, the BCL has adapted its statistical press releases by supplementing them with tables and charts and publishing them in both French and English.

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 operated in common by 24 central banks of the ESCB. Nineteen of these central banks have accepted the euro as their common currency and Lithuania joined the euro area in 2015.

At present, the Luxembourgish component TARGET2-LU counts 37 direct participants (13 more than in 2007 and one more than in 2014), 38 indirect participants and three ancillary systems.

Domestic payments

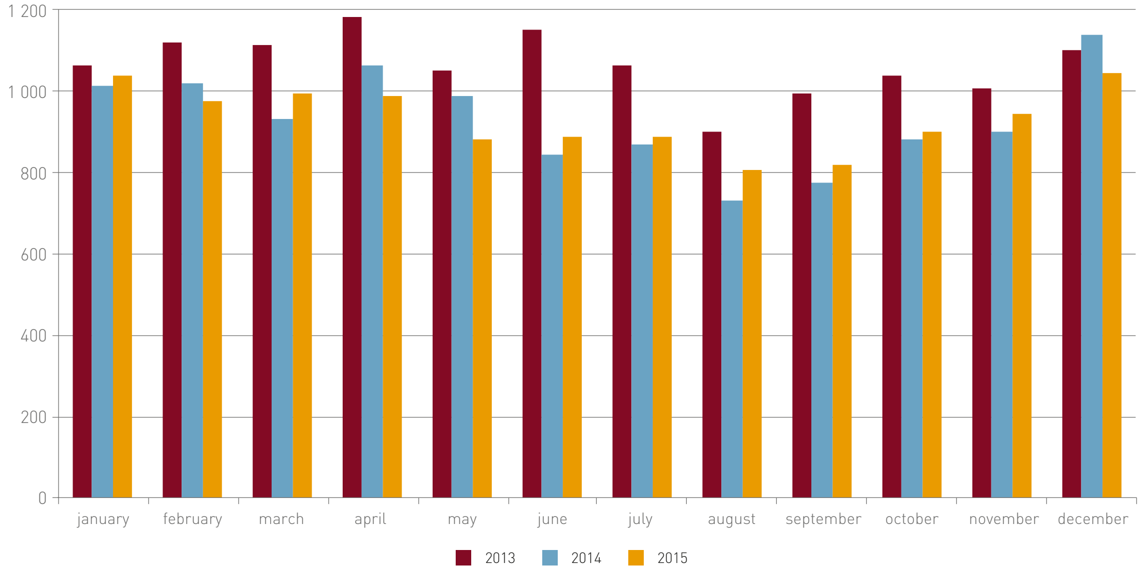
In 2015, participants in TARGET2-LU exchanged a monthly average of 19 866 payments (against 19 744 in 2014) for a value of € 75.1 billion (against € 138.1 billion in 2014). Out of these payments, 11 953 or 60.2% were retail payments. Their value represented a monthly average of € 6.4 billion or 8.6% of the domestic value exchanged.

In TARGET2-LU, domestic volumes were stable between 2014 and 2015 (+0.01%) after an important decrease one year earlier (-12.8%). The slowdown effect in 2015 is the opposite of the 2014 reversal trend which was entirely triggered by lower volumes of retail payments as a consequence of the SEPA[6] end date in August 2014. Banks were in 2014 strongly encouraged to migrate their customer payments to payment systems accommodating SEPA payment types.

In parallel, the value exchanged decreased very strongly by 45.6%, due to a strong decrease in interbank payments (-45.5%) whereas retail payments rose by 6.8%. Chart 16 illustrates the development of average daily volumes in domestic payments.

6 SEPA: Single Euro Payments Area

Graph 10:
Domestic payments: development of average daily volumes



Source: CRAKS1 / TARGET2

Cross border payments

In 2015, participants in TARGET2-LU sent a monthly average of 93 894 payments to other countries of the EU (77 268 payments in 2014), which represents an increase of 21.5%. The increase had been of 17.4% comparing the first three quarters of 2015 to 2014 only. The increase had even been much stronger for the last trimester with an increase of 32.5% compared to the average of the final quarter one year earlier. The average value raised by 6.4% towards € 547 billion (€ 514 billion in 2014). The volume of retail payments increased by 29.4% to reach 49 470 payments representing 52.7% of the total cross border volume. This increase remained similar to the one in 2014. The relative part of retail payments grew by 3.2%. The volume of interbank payments increased by 13.9%, thus reaching a monthly average of 44 418 transactions in 2015 (against 39 015 in 2014).

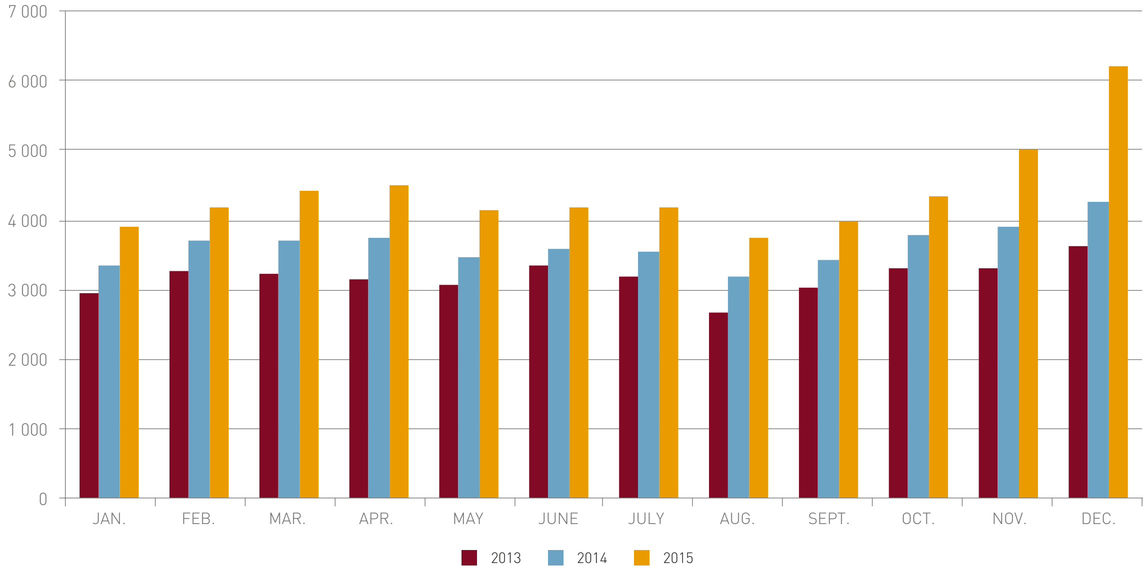
The monthly value of customer payments increased by 22.1%. It amounted to a monthly average of € 38.65 billion representing 7.1% of the total value exchanged. Besides, the monthly value of interbank cross border payments increased by 5.4% to € 508.2 billion.

Globally, cross border payments sent increased by 21.5% in volume. This was mainly due to transactions brought to the system by new participants. In value, they also increased by 6.4% within one year. The average value per transaction sent was € 5.8 million (against € 6.7 million in 2014). The average value of an interbank payment decreased again from € 12.4 million in 2014 to € 11.4 million in 2015.

Participants in TARGET2-LU received 86 044 payments on average per month from abroad against 76 984 in 2014 (+11.8%). The participants sent 113 760 payments on average per month in 2015 against 97 012 in 2014 (+17.3%). The average value of the payments received was € 591.3 billion or 5.2% lower than the value sent (€ 622 billion).

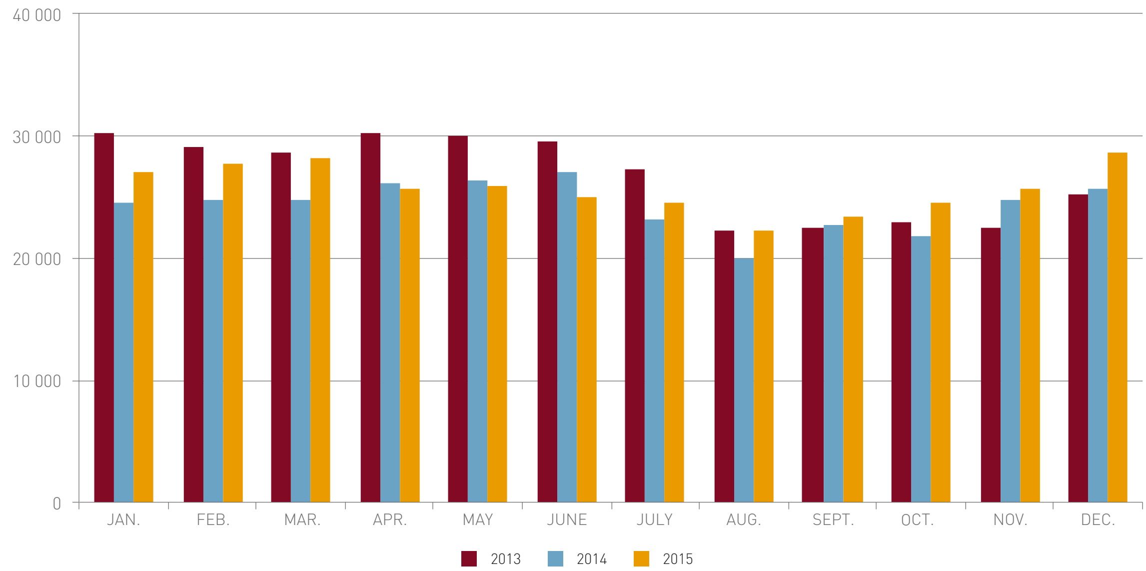
Charts 11 and 12 display the development of average daily volumes and values in cross border payments sent by Luxembourgish participants.

Graph 11:
Cross border payments sent: development of average daily volumes



Source: CRAKS1 / TARGET2

Graph 12:
Cross border payments sent: development of average daily values (in € million)



Source: CRAKS1 / TARGET2

Aggregated figures of domestic and cross border payments

The total number of payments sent by participants in TARGET2-LU in 2015 amounted to 1 365 120 transactions (an increase by 17.3% in one year). Of these payments, 54% were retail payments.

Table 6 provides a global overview of average daily volumes of payments per year since 2013.

The average monthly value of all payments sent in 2015 was € 622 billion of which 7.3% represented retail payments. Similar as the prior two years, for 82% of these payments, their value was below € 250.000.

On average, 77.1% (74.4% in 2014) of the retail payments and 82.8% (80.5% in 2014) of the interbank payments were settled before noon on each day. They represented 60.7% and 70.8% of the respective values.

Table 6:
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
2013	1 067	(25.1%)	3 179	(74.9%)	4 246	2 497	(37.0%)
2014	929	(20.4%)	3 636	(79.6%)	4 565	2 694	(37.1%)
2015	931	(17.5%)	4 401	(82.5%)	5 333	3 102	(36.8%)
Variation 2014-2015	+0.002%		+21.0%		+16.8%	+15.1%	

TARGET2-LU compared to other systems participating in TARGET2

All national RTGS systems participating in TARGET2 transferred a monthly average of 7.33 million payments in 2015 representing a decrease of 2.6% compared to 2014. The part of Luxembourg represented 1.6% of this volume (1.3% in 2014). The average monthly value exchanged totalised € 41 236 billion (€ 41 036 billion in 2014). The part of Luxembourg in the value exchanged was 1.5% (1.6% in 2014).

As in 2013 and 2014, 62 % of all payments in the whole national RTGS-System relied to TARGET 2 in 2015 were domestic transactions. The part of interbank payments increased by 4 percentage points to reach 44%. In TARGET2-LU, domestic payments represented 17.5% (20.3% in 2014) and interbank payments 45.8% of the volume (48.5% in 2014).

The average value of a TARGET2 payment was € 5.6 million in 2015 (€ 5.5 million in 2014). In TARGET2-LU, this value was € 5.5 million (€ 6.7 million in 2014).

The daily maximum of payments sent in TARGET2 was 519 539 transactions (7 April 2015). In 2014, the maximum amounted to 576 695 transactions (30 June 2014). For Luxembourg, the daily maximum was reached on 22 December 2015 with 9 578 payments. In 2014, the maximum was reached on 29 April with 7 789 payments sent.

Availability and performance of TARGET2

The availability of the TARGET2 platform, and hence of TARGET2-LU, was 99.99% in 2015, meanwhile from 2012 to 2014 the availability was 100%. This small failure of availability was due to a temporary blocking of incoming payments which occurred on 27 November 2015 and therefore the disposability was reduced to 99.96%. The SSP received a daily average of 343 822 payment instructions, 2% less than in 2014. Of all the instructions during that month, 99.95% (99.99% in 2014) were settled within five minutes, 0.03% within 10 minutes and 0.02% within 15 minutes after reception.

1.6.2 Retail payments in Luxembourg

Next to notes and coins, the most used payment instruments in Luxembourg are payment cards, credit transfers and direct debits.[7] Network-based electronic money, which are issued and operated by credit institutions or electronic money institutions, is mainly used for remote payments. As in 2014, new actors in the field of mobile and Internet payments emerged in Luxembourg. Several banks in Luxembourg offer mobile-based person-to-person (P2P) payments. The main card issuers furthermore started the issuance of contactless credit cards.

7 Cheques are no longer daily payment instruments; their usage is on the decrease.

Distribution of payment instruments in Luxembourg (share in %)

	2015	2014
Credit transfers and standing orders	31.69	33.10
Direct debits	8.36	7.43
Debit cards	32.66	32.47
Credit cards	27.17	26.86
Cheques	0.12	0.14
Total	100	100

Credit transfers and standing orders

The table below provides a summary – in volume and value - of the customer credit transfers and standing orders' activity:

Credit transfers sent	2014	2015	Change (%)
Total volume of customer transfers (in millions of transactions)	70.75	72.31	2.20
Volume of customer transfers processed for the account of non-MFI customers[7] (in millions of transactions)	67.87	69.28	2.07
Average value of customers transfers[8] (in euro)	3 687	3 647	1,10

Direct debits (SEPA and non-SEPA)

SEPA direct debits in Luxemburg are mainly processed in retail payment systems.

The volume of non-SEPA direct debits decreased sharply in 2014. This is due to the SEPA migration end date and, as a result, to the closing of the national direct debits scheme (DOM-Electronique) on the 31 July 2014.

Direct debits (SEPA and non-SEPA)

	2014	2015	Change (%)
Volume (in millions of transactions)	15.23	18.25	19.83
Value (in million euro)	7 015	8 490	21.03

Payment cards in Luxembourg

Banks and other categories of payment services providers in Luxembourg issue debit and credit cards in international schemes.

The payment cards activity in 2015 and its annual evolution are detailed in the tables below [10].

Number of payment cards issued in Luxembourg

Volume (number of cards)	2014	2015	Change (%)
Debit cards	664 983	698 148	4,99
Credit cards	1 454 822	1 453 576	-0,09

8 MFI = Monetary Financial Institution. The non-MFIs category includes corporates and households but also non-monetary investment funds.

9 It refers to the average value of credit transfers processed in the retail systems Step2 and Equens.

10 Payments transactions and ATM withdrawals.

Transactions on cards issued in Luxembourg[11] ("issuing" activity)

Volume (in millions of transactions)	2014	2015	Change (%)
Debit cards	66.58	71.91	8.00
Credit cards	55.07	59.44	7.94
Value (in billion euros)	**2014**	**2015**	**Change (%)**
Debit cards	5.37	5.65	5.21
Credit cards	5.21	5.66	8.64

Transactions in Luxembourg on cards issued in Luxembourg or abroad [12] ("acquiring" activity")

Volume (in millions of transactions)	2014[12]	2015	Change (%)
Debit cards	52.92	53.71	1.49
Credit cards	22.06	22.12	0.27
Value (in billion euros)	**2014[13]**	**2015**	**Change (%)**
Debit cards	4.35	4.03	-7.36
Credit cards	2.03	1.81	-10.84

The Single Euro Payments Area (SEPA)

The SEPA (Single Euro Payments Area) project aims at achieving a single euro payment area in which all scriptural payments are treated as domestic, without any distinction between national and cross-border transactions. The SEPA migration of credit transfers and direct debits was achieved on the 1 August 2014 in the euro area countries.

However, follow-up monitoring is necessary to ensure the implementation of harmonised processes and common standards. In December 2013, the ECB created the Euro Retail Payments Board (ERPB) as replacement of the SEPA Council. The ERPB has set-up a working group on SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) post-migration issues in order to identify, assess and address remaining issues. Taking a broader perspective, the objective of the ERPB is to contribute to and to facilitate the development of an integrated, innovative and competitive market for euro retail payments. The current work plan includes instant payments[15], person-to-person mobile payments, contactless payments at point-of-sales and e-invoicing related to retail payments.

In line with the rotation rule on the participation of central banks, the BCL took part in ERPB meetings in 2015.

1.6.3 Securities settlement systems

Selection of eligible depositories

For the mobilisation of securities by its counterparties, the Eurosystem has selected eligible securities settlement systems (SSS) operated by central securities depositories (CSDs).

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

11 Transactions in Luxembourg and abroad.

12 Activity of Luxembourgish acquirers only. Data on the activity of foreign acquirers in Luxemboourg are not available.

13 2014 data differ from those published in 2014 annual report. This correction reflects the revisions provided by one reporting agent.

14 2014 data differ from those published in 2014 annual report. This correction reflects the revisions provided by one reporting agent.

15 In particular, instant SEPA credit transfers whereby the beneficiary can dispose of the funds within seconds of the initiation of the transfer.

A domestic mobilisation of securities is also possible via the triparty collateral management service operated by Clearstream Banking S.A.. Detailed information on this topic is available on the website of the BCL.

New assessment framework

The Eurosystem applies a 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 has been applied since 2014. More detailed information as well as the questionnaires for securities settlement systems and their links are available on the website of the ECB.

Cross-border use of securities

Besides using eligible securities held at the national depository, counterparties can receive credit from their national central bank by providing collateral issued in a depository located in another country of the euro area, using:

1) The Correspondent Central Banking Model

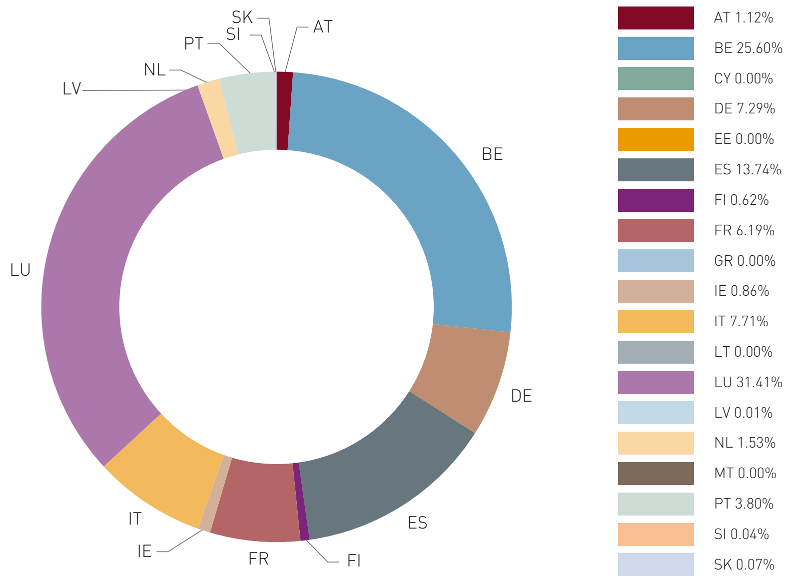
The Correspondent Central Banking Model (CCBM) enables all counterparties of the Eurosystem to use securities on a cross-border basis even if there is no eligible link between the national depository and the foreign depository in which the counterparty holds securities.

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 a central bank called 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 is also used for the cross-border mobilisation of securities via the triparty collateral management services offered by several CSDs of the euro area amongst which also of Clearstream Banking S.A., Clearstream Banking Frankfurt (CBF), Euroclear Bank in Belgium, Euroclear France and Monte Titoli in Italy.

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 2015 were those of Luxembourg (31,41%), Belgium (25,6%), Spain (13,74%), and Italy (7,71%).

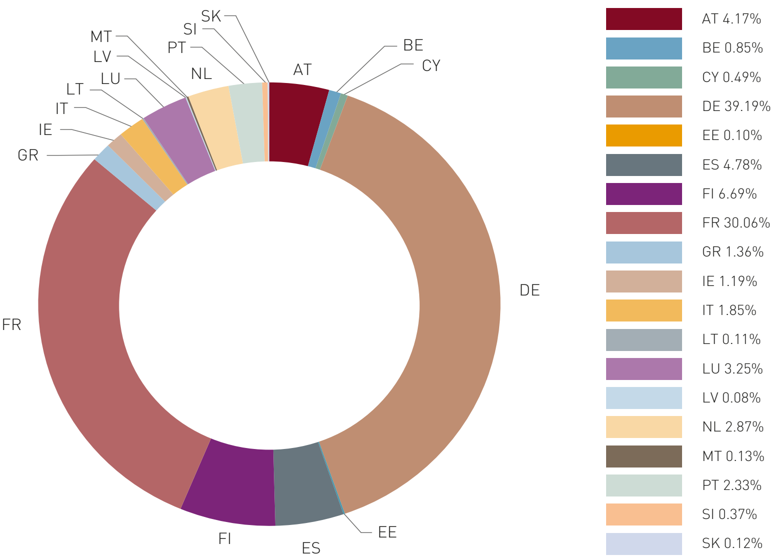
Graph 13
Correspondent central bank 2015



Source: ECB

The most active home central banks were those of Germany (39.19%), France (30.06%), Finland (6.69%) and Spain (4.78%).

Graph 14
Home central bank 2015



Source: ECB

2) 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 securities accounts that the two systems maintain with each other;
- relayed links enable the transfer of securities between two systems without bilateral relationship by using a third intermediary system.

Eligibility of each link requires prior approval by the Governing Council. In 2015, 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. Among these links, Luxembourg counterparties used primarily the links with CBF, Euroclear France and Monte Titoli. Moreover, the direct link between LuxCSD and CBL as well as eight relayed links of LuxCSD were considered eligible for Eurosystem credit operations.

1.6.4 TARGET2-Securities

TARGET2-Securities (T2S) is a centralised platform delivering harmonised clearing and settlement services to the market. It allows settling domestic and cross borders securities transactions, in central bank money, in euro or in other currencies.

The T2S platform encompasses both the securities accounts managed by the CSDs (Central Securities Depositories) and the dedicated cash account (DCA) hosted by the central banks. The DCAs are used to provide the liquidity necessary to settle the *securities purchase* transactions on T2S and to receive the cash proceeds resulting from the settlement of transactions. The DCAs are funded by the RTGS account they are associated with. For euro payments, the RTGS account is a TARGET2 account.

The settlement efficiency has been improved on T2S thanks to several mechanisms, including the *Auto-collateralisation* service, which is a credit operation automatically triggered when a participant fails to settle a *securities purchase* transaction because of a lack of cash on its DCA. In this case, T2S will in a first instance identify eligible collateral, either by making a selection among the assets available on the participant's securities account (this is referred to as an auto-collateralisation '*on stock*'), or by using the very securities that are being purchased via this transaction (auto-collateralisation '*on flow*'). T2S will then pledge these securities in favor of the central bank, in exchange of an equivalent intraday credit facility.

The year 2015 saw the successful delivery in production of the T2S technical platform as well as the migration of the first series of CSDs and central banks on this platform. The overall T2S roll out plan is made of several *migration waves*, each wave bringing additional CSDs and central banks onto T2S. The Wave 1, which the Banque Centrale du Luxembourg was part of, was implemented in June 2015, followed by the Wave 1bis in August 2015.

Since then, the BCL has been working on the preparation of the subsequent migration waves, providing the appropriate support to the Luxembourg CSDs and to the participants who intend to hold a DCA with the BCL and holding securities accounts with other T2S CSDs. The BCL has additionally been preparing the activation of the *central bank auto-collateralisation services*, briefly described here above, which is planned to go live with the implementation of the Wave 4 (February 2017).

The table below provides a high level view of the CSDs composition of the respective migration waves.

WAVE 1 22 June 2015	WAVE 1b 31 August 2015	WAVE 2 28 March 2016	WAVE 3 12 September 2016	WAVE 4 6 February 2017	FINAL WAVE 18 September 2017
Bank of Greece Securities Settlement System (BOGS) SIX SIS Ltd (**Switzerland**) CSD: Depozitarul Central S.A. (**Romania**) **Malta** Stock Exchange	Monte Titoli S.p.A. (**Italy**)	Interbolsa (**Portugal**) National Bank of **Belgium** Securities Settlement System (NBB-SSS)	Euroclear ESES (**France, Netherlands, Belgium**) VP LUX S.à.r.l. (**Luxembourg**) VP Securities A/S (**Denmark**)	Clearstream Banking A.G. (**Germany**) Centrálny depozitár cennych papierov SR, a.s. (**Slovakia**) KDD - Centralna klirinško depotna družba, d.d. (**Slovenia**) Központi Elszámolóház és Értéektár Zrt. - KELER (**Hungary**) Oesterreichische Kontrollbank Aktiengesellschaft (**Austria**) LuxCSD S.A. (**Luxembourg**)	Iberclear - BME Group (**Spain**) Euroclear **Finland** Oy ASEesti Väärtpaberikeskus (**Estonia**) LCD - Latvijas Centrālais depozitārjis (**Latvia**) Lietuvos centrinis vertybinių popierių depozitoriumas (**Lithuania**)

1.6.5 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;
- direct settlement against Clearstream Banking counterparties or against counterparties in domestic markets;
- securities issuance services with settlement in central bank money or free of payment;
- securities custody services;
- the routing of orders in investment fund shares;
- issuance of LEI[16] (Legal Entity Identifyer) for Luxembourg legal entities
- as from 2017, a national access point to T2S.

Mr Pierre Beck, Executive Director, BCL.

Securities eligible in LuxCSD are debt securities, equities or investment fund shares, whether they are domiciled in Luxembourg or not.

16 The LEI is a unique and global identifier that permits to unambiguously identify legal entities (other than physical persons) engaged in financial transactions.

Following its positive assessment as being compliant with the Eurosystem's User Standards and accordingly its qualification as eligible infrastructure for the use of collateral in Eurosystem credit operations, Luxembourg counterparties can use LuxCSD and its links approved by the Eurosystem for collateralisation of their credit operations with the Eurosystem. The approved links of LuxCSD are those with with Clearstream Banking S.A., as well as the relayed links with the CSDs of Austria, Belgium, France, Germany, Greece, Italy, the Netherlands, and Slovenia.

In 2015, the BCL was represented in the LuxCSD Board of Directors and LuxCSD audit committee. Throughout the year, these bodies aimed at setting a new company structure and governance for LuxCSD. This mission accomplished, the BCL stepped out of these bodies early 2016.

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 the central bank's participation in the Eurosystem – and on national legislation.

At the European level article 127(5) of the TFEU foresees that the European System of Central Banks, in addition to its fundamental tasks, should contribute 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'. Since the implementation of new prudential rules for the European Union's[17] (EU) banking system on 1st January 2014, which has been transposed in Luxembourg by the law of 23 July 2015 and inter alia the CRD IV[18], Member States now have a common legal basis for prudential supervision that also includes 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's (ESRB) recommendation[19], regarding the macro-prudential mandate of national authorities, the Luxembourgish legislator has adopted the law of 1st April 2015[20] thereby establishing the national Systemic Risk Committee, the national macroprudential aurhority, in Luxembourg. Within the Committee, the BCL has a leading role in macro-prudential supervision[21] and is in charge of the Secretariat under the hierarchical authority of its Director-General. In this context, the Secretariat is in charge of preparing the Committee's meetings, drafting opinions and recommendations as well as conducting the macro-prudential analyses required for the decision making process of the Committee. In addition to its financial stability mandate, the national legislator has entrusted the BCL with the supervision of the payment and securities settlement systems[22].

1.7.1.1 Macro-prudential supervision in Luxembourg

Although the legislative framework establishing the Systemic Risk Committee has only recently been formally adopted by the Luxembourg Parliament, the BCL has already been involved in the surveillance of systemic risks, i.e the risks that could affect the stability of the national financial system as a whole for many years. To this end, the BCL can draw on its expertise and competencies in order to identify and monitor the accumulation of risks over time as well as their distribution within the financial system. In view of the importance of the

17 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 or CRD IV 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.

18 See the transposition in Luxembourg of the CRD IV Directive. Since the Regulation CRR is directly applicable in member states, there is no need to transpose it.

19 See Recommendation of the ESRB of 22 December 2011 (ESRB/2011/3).

20 See law of 1st April 2015 establishing a Systemic Risk Committe and amending the modified law of 23 December 1998 regarding the monetary status and the Central Bank of Luxembourg

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

22 Article 2(5) of the organic law of the BCL.

banking system and the investment fund sector for Luxembourg, the analysis conducted places great emphasis on the assessment of risks between these two main components of the national financial system. Considering the growing importance of the parallel banking system in Luxembourg and the ongoing evolution of European banking regulation, the BCL has already completed several analyses in order to assess the degree of interconnectedness between investment funds and the banking sector and to model vulnerabilities which could impact investment funds by using estimated probabilities of default.

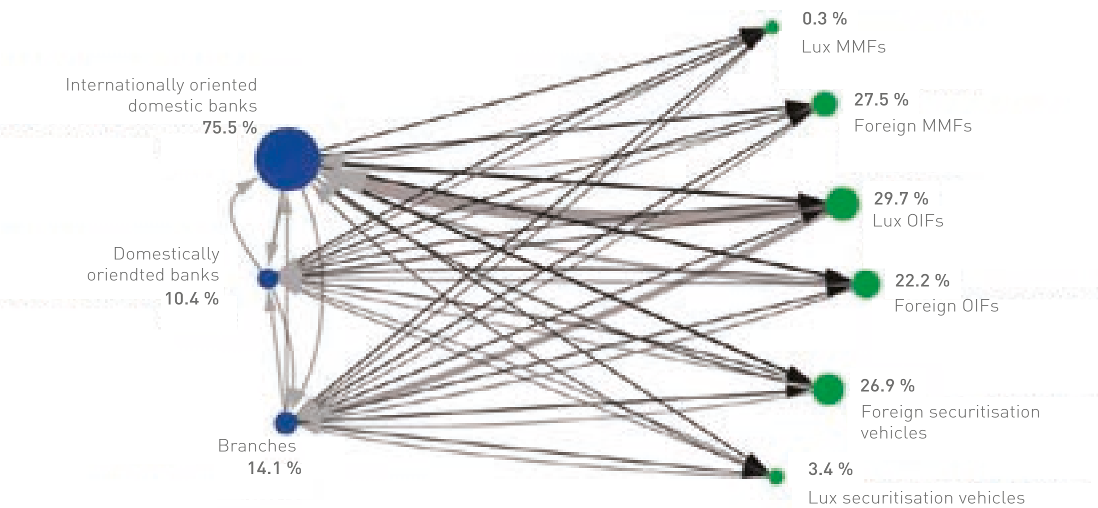
The temporal dimension of risk is analysed using indicators for the credit cycle, asset prices, leverage, maturity mismatches and other specific indicators of liquidity.

Within the annual publication of the Financial Stability Review in 2015, the BCL used a broad set of indicators, including counterparty probability of default, z-scores[23] and a vulnerability index, to assess the financial stability of Luxembourgs' financial sector. Measures of vulnerability for Undertakings for Collective Investment (UCITS) funds were also examined in order to assess systemic credit risk resulting from the interconnections between different categories of investment funds their interactions with the macroeconomic environment.

The intersectorial dimension of systemic risk is analysed using several tools which allow for the assessment of the interconnections and the size of the linkages between financial institutions.

Given the international composition of the Luxembourg banking sector, the BCL employs network analysis techniques to assess both domestic and cross border interbank linkages. In 2015, specific emphasis was placed on assessing the interconnections between the banking sector and investment funds. These efforts materialized in the construction of an indicator called the 'alpha index' which allows the BCL to track potential vulnerabilities induced by various degrees of interconnections[24]. For instance, the approach used by the BCL to assess the importance of the risks and the potential strengthening of links between the different components of Luxembourg's financial system is depicted in the two charts below. Thus, any significant increase of the alpha index is analysed in a granular manner in order to identify the relevant entities and the underlying reasons for the increase.

Graph 15:
Network of Luxembourg bank's exposures to domestic and foreign investment funds (nominal exposures, 2015Q3)

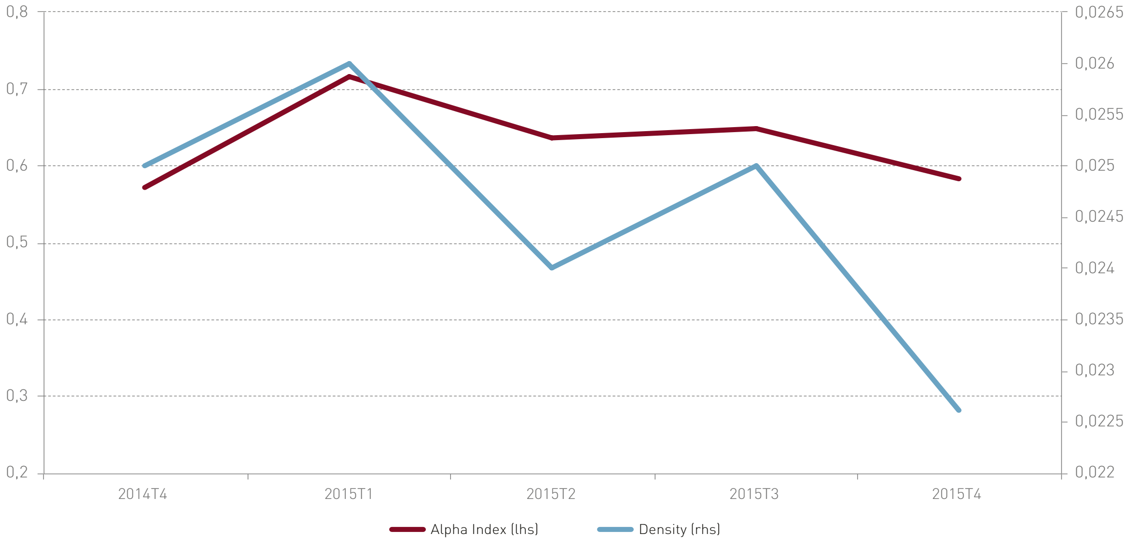


Source: BCL

23 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 sound ness of banks (balance sheet vs. market data).

24 The alpha index is a measure of the ratio between the number of fundamental circuits observed in a network to the maximum number possible. Its value lies from 0 to 1.

Graph 16:
Evolution of the alpha index: 2014Q4-2015Q4



Source: BCL

For the last quarter of 2015 the alpha index, having a value close to 60%, suggests that the interconnectedness of the domestic inter-bank network is relatively high. In other words, more than half of the credit institutions are linked directly or indirectly through multiple circuits in the network. However, the direct links captured by the density measure of the network remain fairly weak (2.3%). As a consequence, from a financial stability perspective, greater emphasis should be put on the indirect linkages between Luxembourgish banks considering that they could become the main transmission channel of shocks within the network.

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 indicators as well as macro-prudential stress tests.

The BCL has put in place a systemic risk dashboard, which has helped authorities to monitor systemic risk. This dashboard includes a set of both quantitative and qualitative indicators aimed at detecting potential rising systemic risks within one of the components of the financial sector and/or within an economic sector of interest for financial stability. The dashboard can also be used as a tool to assess whether the ESRB's intermediate objectives of macro-prudential policy are being achieved. The dashboard incorporates a multitude of indicators such as a measurement of the phase of Luxembourg's financial cycle, the evolution of residential real estate prices and the degree of interconnectedness of the financial sector.

This dashboard has been complemented by a number of specific studies aimed at identifying the emergence of new risks following changes in the regulatory environment. Several quantitative analyses have also been undertaken to assess the impact of the new Basel III liquidity and leverage requirements on Luxembourg's credit institutions.

The BCL used the Basel Committee on Banking Supervision (BCBS) G-SIB framework, as well as the guidelines developed by the European Banking Authority (EBA), in order to identify domestic systemically important institutions in Luxembourg. This framework is based on a series of relevant indicators including the size of the institution, its interconnectedness and its substitutability in the event of default. The BCL takes part in the Macro-prudential Supervision Group (MPG) of the BCBS which is the group in charge of the G-SIB framework.

The BCL is a member of the Regional Consultative Group for Europe of the Financial Stability Board (FSB), which is the international body in charge of following and drafting recommendations on global financial stability. Moreover, with the implementation of the Single Supervisory Mechanism (SSM), the BCL participates in the groups dedicated to crisis management and risk analyses. The central bank also plays an active role in the standing committee on 'regulation and policy' and in the EBA subgroup on crisis management.

With the entry into force of the SSM, the ECB is now in charge of macro-prudential tasks. Although national authorities have primary responsibility for the implementation of macro-prudential measures, the ECB can – in coordination with those authorities – take additional measures provided in the council's regulation concerning policies relating to the prudential supervision of credit institutions[25].

Measures available to the ECB include the fixing of the capital buffer rates as defined in the CRD IV as well as the measures under article 458 of the CRR[26] such as the definition of risk weights for targeting asset bubbles in the residential and commercial real estate sector, liquidity requirements, public disclosure requirements, or intra financial sector exposures. Against this background, the Financial Stability Committee (FSC) was established in order to help decision-making bodies fulfill their responsibilities in relation to the stability of financial system and prudential supervision.

The BCL, in performing its functions for macro-prudential supervision, contributes to the committees and working groups of the European System of Central Banks, such as the FSC and its substructures. In particular, these substructures include two subgroups dedicated to macro-prudential analyses and policy. The BCL also takes part in expert groups on legal acts and on draft regulatory technical standards.

At this stage, the macro-prudential policy framework under the SSM still faces some challenges. In particular, it appears necessary to harmonise instruments in order to facilitate the conduct of macro-prudential policy. Moreover, it seems crucial that the ECB continues to work closely with the European Systemic Risk Board whose scope of responsibilities covers the whole EU financial system.

1.7.1.2 The European Systemic Risk Board

The European Systemic Risk Board (ESRB) is comprised of more than 70 institutions including central banks, national and European financial supervisory authorities, the European Commission and other prudential authorities. Organizationally, the ESRB is composed of both a General Board and a Steering Committee. The aim of the ESRB is to identify macro-prudential risks at the level of the broader EU financial system. Likewise, it also provides a mechanism for issuing clear warnings and recommendations to facilitate and trigger prompt action by the relevant national authorities under the 'comply or explain' principle. 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. Within this structure, central banks 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 of the ESRB. 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. Finally, the BCL shares its macro-prudential, financial, statistical and monetary expertise through the participation of its staff members in the analysis and technical work conducted by the ESRB.

25 See 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.

26 See footnote 1.

The ESRB General Board holds its regular plenary meetings at a minimum frequency of four times per year. In 2015, the ESRB was mainly working on the following five subjects:

- the identification and assessment of systemic risk in the EU financial system, as well as the actions needed to deal with the identified vulnerabilities, and the publication of the systemic risk dashboard;

- the development of adverse scenarios for EBA stress tests assessing the resilience of credit institutions. The BCL directly contributes to the working groups dedicated to this task;

- the operationalisation of macro-prudential policy with the publication of an amended version of the Chapter 11 of the ESRB macro-prudential Handbook[27] and the approval of two recommendations regarding respectively (i) the recognition and the setting of countercyclical buffer rates for exposures to third countries (ESRB/2015/1) and (ii) the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2). In the same context, two other ESRB decisions have been approved concerning the setting and the recognition of counter-cyclical buffer rates (CERS/2015/3), as well as the establishing of a coordination structure for the notification of national macro-prudential measures (CERS/2015/4);

- the collection and publication on the ESRB website of an overview of macroprudential measures taken by Member States, along with quarterly updates of the counter-cyclical capital buffer rates;

- the identification of the analytical tools which, in the near future, the ESRB will further develop in order to better assess systemic risk.

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

- the establishment of guidance regarding the setting of counter-cyclical capital buffer rates and the identification of relevant variables to guide both the build up and release phases of this buffer;

- the development of two reports related to the residential real estate market and the commercial real estate market in Europe;

- the issuance of opinions on certain macro-prudential measures[28]. 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 includes nine representatives from central banks among the permanent members and are designated by the General Board.

The BCL has taken part in various ESRB expert groups on diverse topics such as market liquidity, securities financing transactions and cross border effects of macro-prudential policy and reciprocity. The BCL has also participated in several subgroups such as the board of editors of macro-prudential commentaries as well as the task forces on stress testing and the development of a heat map by intermediate objectives.

The involvement of the BCL in macro-prudential supervision has increased considerably following the creation of the ESRB as well as the establishment of the national Systemic Risk Committee, and especially through its new missions within the Secretariat.

27 ESRB handbook

28 See article 458 of the CRR and article 133 of the CRD.

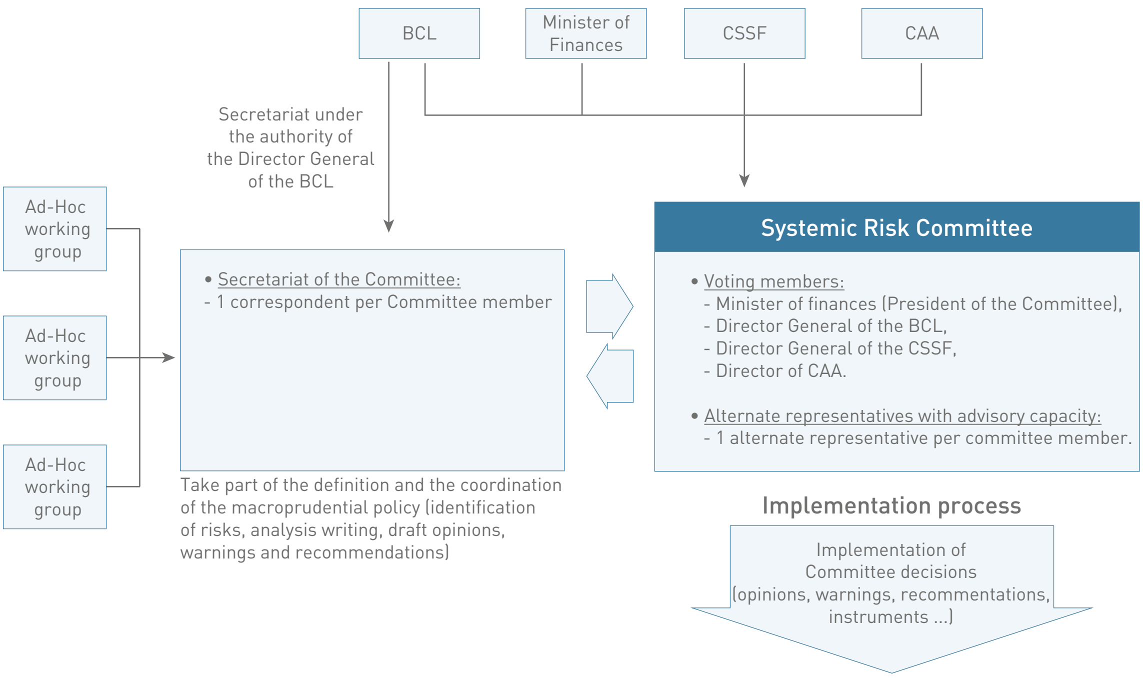
1.7.1.3 The Secretariat of the Systemic Risk Committee

Following the recommendation of the ESRB of 22 December 2011, the macro-prudential framework in Luxembourg was established by the adoption of the Law of 1st April 2015[29]. Thus, the Luxembourgish legislator opted for a board-b ased institutional structure for the macroprudential authority and, therefore, created a Systemic Risk Committee (the Committee) composed of all national authorities carrying a role in financial stability. The Committee consists of four members, namely (i) the Government, (ii) the Central Bank of Luxembourg (BCL), (iii) the Financial Sector Supervisory Commission[30] (CSSF), and (iv) the Insurance Commission[31] (CAA).

The member institutions of the Committee are represented, respectively, by (i) the Ministry of Finance (ii) the Director General of the BCL, (iii) the Director General of the Financial Sector Supervisory Commission, and (iv) the Director of the Insurance Commission. Similarly, four alternate members from these institutions sit on the Committee and can replace the members in case of absences. The Committee is chaired by the Minister of Finance and in his absence by the Director General of the BCL.

The collegiate form of the Committee reflects the aim of the Luxembourg law to cover all parts of the domestic financial sector in order to prevent the emergence or mitigate any sources of systemic risk and contagion from one sector to another. This holistic view of the financial system is also reflected by the composition of the Committee's Secretariat, which has among its members a representative of each authorities represented on the Committee (see figure 1).

Figure 1:
Organisation chart of the Systemic Risk Committee



Source: BCL

29 See law of 1st April 2015 establishing a Systemic Risk Committe and amending the modified law of 23 December 1998 regarding the monetary status and the Central Bank of Luxembourg.

30 In French, *Commission de surveillance du secteur financier.*

31 In French, *Commissariat aux assurances.*

As a decision-making body, the Committee relies on its Secretariat, which, by its powers, plays an essential role in the preparation of meetings and the undertaking of macro-prudential analyses. Thus, given the expertise of central banks in macro-prudential policy, and in accordance with the role entrusted to it by the ESRB recommendation, the Luxembourg legislator has assigned the Committee's Secretariat to the BCL, under the hierarchical authority of its Director- General[32].

Moreover, aside from the usual functions of a secretariat, it has, thanks to its composition and expertise of various departments of the BCL, genuine identification, evaluation and analytical capabilities with respect to systemic risks that are likely to emerge in the main components of the national financial system.

The establishment of an annual program between the Secretariat of the Committee and the Economic and Research Department of the BCL will allow members to rely on various input in their decision making process. In addition, the Secretariat works hard to promote and strengthen the cooperation and exchange of information between member authorities of the Committee.

Notwithstanding its relatively recent establishment, the Committee has already taken several actions based on the outcome of two meetings in June and November 2015, intended to strengthen the resilience of the domestic financial system. To this end, the Committee adopted a recommendation and two opinions that were directed to the attention of the competent authority, i.e. the CSSF[33].

1.7.2 Micro-prudential supervision

1.7.2.1 Liquidity surveillance

The liquidity supervision of market operators has been entrusted 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. The flaws in the liquidity risk management of certain operators having been one of the main causes of financial turbulences in 2008, management of liquidity and the related risk have been in the focus of attention of supervisory authorities at international level during the last years.

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 in normal times and times of stress, and, on the other hand, it can detect or prevent a failure chain in the markets, limiting thus the systemic risk.

Liquidity supervision constitutes also an important support function for analyses conducted in the field of financial stability and the analysis of systemic risks, which gets down to analyse also 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 year 2015 was marked by profound changes in the organisation of banking supervision in the euro area with the implementation of the single supervisory mechanism (ESM), which did also impact the task of supervising the liquidity of market operators.

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

33 http://www.bcl.lu/en/Financial-Stability-and-Prudential-supervision/CRS/index.html

1.7.2.1.1 *Liquidity risk supervision of credit institutions established in Luxembourg in the context of the Single Supervisory Mechanism*

In the context of the implementation of the Banking union and the establishment of the SSM, ECB assumes responsibility for the supervision of euro area banks since 4 November 2014.

This supervision is carried out directly by the ECB for credit institutions considered "significant", including their subsidiaries and branches, while national competent authorities are in charge of the supervision of credit institutions considered "less significant", under the ultimate responsibility of the ECB.

The main criteria laid down in the SSM Regulation[34] in order 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 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 the cross-border activities.

Ongoing supervision of "significant" credit institutions is conducted by Joint Supervisory Teams (JSTs), composed of staff from both the ECB and national competent authorities, including national central banks.

BCL participates to the JSTs of significant banks established in Luxembourg and selected JSTs of significant banks established in other Member States of the Eurozone with subsidiaries in Luxembourg, to contribute to liquidity risk supervision. In this context, liquidity risk supervision is conducted based on common methodologies and standards established by the SSM that have been jointly developed by the ECB, competent authorities and national central banks. Given that less significant banks are directly supervised by the national authorities, BCL continues to supervise the liquidity risk situation of less significant banks established in Luxembourg, in cooperation with the CSSF.

Within JSTs, as well as in the context of the supervision of less significant banks, BCL contributes actively to the annual liquidity risk assessments of banks conducted in the context of the Supervisory Review and Evaluation Process (SREP) to determine the adequacy of their liquidity risk management framework and liquidity resources. In this context, on-site meetings have taken place in 2015 in order to assess in a more detailed manner the liquidity risk management framework of these banks. In addition, recurring tasks such as the control of prudential reportings and regular analysis of the liquidity situation have been performed in the context of the liquidity risk supervision of banks according to a pre-established work plan.

In addition to its task in liquidity supervision, BCL is represented, jointly with the CSSF, at the Supervisory Board, which plans and conducts the supervisory tasks of the SSM and proposes to the Governing Council of the ECB draft decisions to be adopted by the latter. In this context, the BCL has established an SSM interdepartmental coordination unit which, in close cooperation with the CSSF, is in charge of the follow-up of all the files and draft decisions submitted for approval to the Supervisory Board and the Governing Council. In 2015, the coordination unit has treated more than 900 written procedures subject to decision and prepared the meetings of the Supervisory Board which generally meets twice per month.

In the context of the SSM, BCL also participates to the work of different groups and committees established at ECB level. These groups and committees assist the Supervisory Board in its decision making.

34 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.

1.7.2.1.2 Tools for the liquidity surveillance

Beyond the supervisory work carried out in the context of the SSM, the BCL performs a continuous monitoring of market operators at local level. This monitoring is 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 a 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 being counterparty in monetary policy operations.

From a database containing historical data listed in this daily liquidity reporting, the BCL has moreover developed an analytical tool that allows evaluating the short-term 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 analytical tool that allows assessing the vulnerability of individual credit institutions in terms of liquidity as well as identifying liquidity risks at an aggregated level. This tool was complemented by the development of a watch list that allows identifying credit institutions that have suffered a deterioration in their situation beyond a certain threshold on a quarterly basis, while highlighting the parameters of the model that are at the origin of such a deterioration.

Moreover, all information available from the prudential and statistical reporting are summarised in dashboards allowing for a direct and permanent access to financial information and key indicators. In particular, attention is paid to the new liquidity standards, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). This reporting is mandatory for all credit institutions on an individual and consolidated basis. In accordance with the Delegated Act[35] providing specifications on the LCR as well as details on the period of its progressive introduction, the LCR has become a binding standard on 1st October 2015. The minimum requirement has been set initially at 60% starting from this date, at 70% on 1st January 2016 and will increase each year until it reaches 100% on 1st January 2018. The BCL conducts checks on reports issued by major banks as well as in the context of the supervision of smaller banks and has implemented a model allowing to carry out simulations both on the LCR and on the NSFR.

Following the recommendations of the European Systemic Risk Board on foreign currency loans and USD financing of the credit institutions, the BCL also performs a specific monitoring of these positions on a quarterly basis, at both the individual level and the aggregated level of the entities under surveillance. Finally, a daily report with financial markets indicators has been developed as well. This set of tools allows to make the necessary analysis in the context of liquidity supervision.

In terms of communication and information exchange within the SSM, an Information Management System "IMAS" has been implemented, allowing the exchange of information between the ECB and the supervisory authorities at national level. In a first phase, this tool has been set up for the supervision of "significant" institutions. Thus, IMAS provides a number of tools that replicate the methodology and common standards established by the SSM and contributes to organise and conduct the process of supervision of "significant" credit institutions in a coordinated manner. In addition, IMAS provides key information relating to these banks and is connected to a reporting and document management tool. As a participant in the JST, the BCL is connected to this tool. More recently, it was decided to also consider the "less significant" credit institutions in IMAS in order to support national competent authorities in their supervisory activity. This project will be launched later this year.

35 Commission delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

1.7.2.1.3 National and International Cooperation

As regards the follow-up of regulatory developments at international level, the BCL keeps on participating 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 of relevance 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.

1.7.2.2 Oversight

The oversight of market infrastructures constitutes an essential mission of the European System of Central Banks (ESCB) due to the major role of the payment and securities settlement systems and infrastructures in the implementation of monetary policy, the preservation of financial stability and the smooth functioning of the economy in general.

BCL's oversight activity is based on European legislation and in particular the Treaty on the Functioning of the European Union (TFEU), the Statutes of the ESCB and of the ECB, as well as on national legislation. Pursuant to the law of 23 December 1998 concerning the monetary status and the Banque centrale du Luxembourg, the BCL shall ensure the safety and efficiency of payment systems and securities settlement systems as well as the safety of the payment instruments. The BCL Regulation 2016/N°21 of 15 January 2016[36], sets inter alia, the general oversight framework as well as the obligations of system operators, issuers of payment instruments and governance authorities, and specifies the implementing rules for the oversight activity. The Regulation also stipulates that 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, supplemented with regular meetings and, where appropriate, on-site visits, relates among others to the development of the infrastructures' activities, their performance, their governance and their risk management. In this context, the BCL coordinates and cooperates with the CSSF.

In addition to the oversight activities relating to systems and infrastructures operating in Luxembourg as well as to payment instruments available to the public in Luxembourg, the BCL contributes to oversight activities coordinated at the level of the Eurosystem and targeting, among others, infrastructures and payment instruments that do not present a clear national anchorage.

1.7.2.2.1 Oversight of payment systems

With regard to payment systems, the BCL contributes, by means of its participation in committees and working groups, to the oversight activities of the TARGET2 system, as well as of the EURO1 and STEP2 systems operated by EBA Clearing. The BCL collaborates in particular to the assessment of these three payment systems pursuant to the entry into force of the Regulation of the European Central Bank No 795/2014 on 12 August 2014 related to oversight requirements for systemically important payment systems, as well as to the identification of these systems as systemically important payment systems by the Governing Council of the European Central Bank on 13 August 2014.

The BCL is also informed of developments related to the multi-currency payment system *Continuous Linked Settlement* (CLS) operated by the CLS Bank International. Given the international nature of the CLS system, the oversight of this system is performed by a group combining the G10 central banks and the central banks of issue of settled currencies. Overall, the payment systems listed above operated in a stable and resilient manner in 2015.

1.7.2.2.2 Oversight of securities settlement systems

The oversight of securities settlement systems (SSS) covers the systems operated in Luxembourg by Clearstream Banking S.A. (CBL), LuxCSD S.A. (LuxCSD), globeSettle S.A. (globeSettle) and VP LUX S.à r.l. (VPLUX).

36 The Regulation 2016/N°21 of 15 January 2016 related to the oversight of payment systems, securities settlement systems and payment instruments in Luxembourg replaced the Regulation BCL 2010/N°6 of 8 September 2010 as amended.

In 2015, the surveillance included among others the follow-up of the implementation of recommendations addressed to the respective systems and the initiation of comprehensive assessments of the first three securities settlement systems mentioned above against the Principles for financial market infrastructures published by CPMI-IOSCO (Committee on Payments and Market Infrastructures – International Organization of Securities Commissions). The assessments will be finalized in the course of 2016. In addition, the BCL monitors the developments of activities and risks linked to the four systems operating in Luxembourg, through the analysis of regular information received from the systems operators and the participation in meetings and on-site visits. The functioning of the securities settlement systems operating in Luxembourg was generally stable and resilient in 2015.

In the context of Regulation No 909/2014 on improving securities settlement in the European Union and on central securities depositories of 23 July 2014, the BCL continued its contribution to the elaboration of related regulatory technical standards. In addition, the BCL participated together with the CSSF, in meetings with the operators of securities settlement systems in Luxembourg with regard to their future authorisation as central securities depositories, in conformity with the above Regulation.

For the purpose of its oversight of securities settlement systems, the BCL also continues its cooperation with other central banks and authorities, especially with the Belgian authorities with regard to the interoperable link between the securities settlement systems operated by CBL and Euroclear bank. In this context, the BCL follows and analyses among others the developments related to the functioning and the risk mitigation concerning this link.

Finally, the European Central Bank launched in 2015 the settlement platform Target2-Securities (T2S). This centralised technical platform aims at providing harmonised securities settlement services in central bank money, in euro and other currencies. The BCL followed closely the go-live of this platform and the first wave of migration of central securities depositories which started on 22 June 2015. Furthermore, following a cooperation agreement aiming at an efficient oversight of this platform, a dedicated working group has been set-up, bringing together the central banks in charge of the oversight of securities settlement systems and the prudential supervisors of the central securities depositories participating in T2S. The BCL participates in this working group due to its oversight of the securities settlement systems operated by LuxCSD and VPLUX, which will soon migrate to T2S.

1.7.2.2.3 Oversight of payment instruments

As concerns payment instruments, such as credit transfers, direct debits, payment cards and electronic money schemes, the BCL follows the developments and evolutions on the basis of regular information collected from payment instruments issuers in Luxembourg as well as topical meetings with the respective entities.

Furthermore, the BCL also pursues its active contribution to the European Forum for the Security of Retail Payments (SecuRe Pay). Established in 2011 and co-chaired by the ECB and the EBA, the purpose of this forum is to facilitate a common and consistent understanding between the central banks in charge of the oversight of payment instruments and the authorities responsible for the prudential supervision of payment service providers on topics relating to the security of retail payments within the European Union. In December 2014, the EBA published guidelines based on the recommendations on the security of payments issued by the ECB in 2013 and applicable starting August 2015. In that respect, discussions were conducted in 2014 and 2015 in collaboration with the CSSF, with some payment instruments issuers in Luxembourg with a view to analysing the authentication methods currently deployed by these actors for electronic payments and the evolutions needed to comply with the recommendations for the security of internet payments.

In the same context, the BCL also contributes to the EBA's working group in charge of the elaboration, together with central banks, of regulatory technical standards relating to strong authentication and secure communication, in line with the mandate granted to the EBA in the revised Directive on Payment Services (PSD2). For this purpose, the working group prepared a discussion paper, published for consultation by EBA in December 2015, in order to collect market views on certain aspects to be covered in the future technical standards, which are foreseen for end 2016.

Moreover, at the Eurosystem level, the BCL participated in the review of the assessment guide relating to the oversight framework for card payment schemes. This review aimed at integrating the SecuRe Pay recommendations on the security of internet payments. The assessment guide for card payment schemes was published in February 2015 by the Governing Council.

Finally, the BCL participates in the joint assessment of the SEPA (Single European Payment Area) direct debit scheme initiated by the Eurosystem in 2014 and which is foreseen to be finalized during the year 2016.

1.8 REGULATORY AND LEGISLATIVE DEVELOPMENTS

1.8.1 European legislation

The Eurosystem, to which the *Banque centrale du Luxembourg* (BCL) is a part of, follows with particular interest the developments of the European and national legislation which during the year 2015 mainly concerned the strengthening of the Economic and Monetary Union (EMU), notably the Banking Union and financial stability.

1.8.1.1 Banking Union

During 2015, the setting up of the Banking Union has been further strengthened. It is supported by three pillars: the single supervisory mechanism (SSM), the single resolution mechanism (SRM), and the deposit guarantee scheme (DGS). The sections below describe the legislative developments in 2015 in relation to these three pillars.

1.8.1.1.1 Prudential supervision

SSM Area

The geographical area covered by the SSM mirrors the area of Members States whose currency is the euro, as well as those Member States that voluntarily decide to engage in a close cooperation with the ECB.

This SSM area did not change in 2015. There was no European Union (EU) Member State out of the euro area that entered into a close cooperation as provided for in the SSM Regulation[37].

SSM supervised entities

The number of supervised entities falling under the ECB's direct supervision increased in 2015. It changed up from 123 to 129. To note that J.P. Morgan Bank Luxembourg S.A. having its registered seat in Luxembourg has been included in the category of significant institutions that are directly supervised by the ECB.

Before including new supervised entities in the list, the ECB put these "significant" banks under the scrutiny of a comprehensive assessment comparable to the one carried out in 2014.

The number of "significant" institutions having their seat established in Luxembourg was 6 by 31 December 2015. These are the following: Banque et Caisse d'Epargne de l'Etat, Luxembourg; Precision Capital S.A. (holding of Banque Internationale à Luxembourg and KBL European Private Bankers S.A.); RBC Investor Services Bank S.A.; State Street Bank Luxembourg S.A.; UBS (Luxembourg) S.A. and J.P. Morgan Bank Luxembourg S.A.

SSM Governance

The Governing Council of the ECB is the ultimate decision-making body of the ECB, including in the area of the prudential supervision of credit institutions.

37 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.

In addition, the SSM Regulation provides for the creation, within the ECB, of a Supervisory Board responsible for preparing decisions on supervisory matters. In particular, it is composed by one representative of each national competent authority and if the national central bank is not the national competent authority, by one representative of the national central bank. This college is composed of 32 members, including one member from the BCL. This internal body of the ECB held 32 meetings during 2015.

During 2015, the Governing Council of the ECB adopted several hundred of prudential decisions based on "complete draft decisions" that were proposed by the Supervisory Board, pursuant to a non-objection procedure. For banking supervision decisions in the field of macro-prudential supervision, this non-objection procedure does not apply and the Governing Council may amend the draft decisions proposed by the Supervisory Board. Additionally, the non-objection procedure does not apply with regard to the definition of the general framework governing the organisation of the practical modalities for the cooperation within the SSM that fall within the remit of competences of the decision-making bodies of the ECB that are the Governing Council and the Executive Board.

Harmonising national options and discretions

The exercise of the single supervision by the ECB is considerably hampered by a lack of harmonisation of applicable national laws. At the end of 2015, the ECB carried out a public consultation on a draft ECB regulation on the exercise of options and discretions available in Union law. The draft ECB regulation was presented together with a draft guide and was aimed to be adopted during the spring 2016.

These documents define the terms of the harmonisation, within the euro area, for exercising options and national discretions that are provided in banking legislation and that are left in the hands of competent authorities.

The BCL contributed to the preparatory work for these documents in the High level group on Options and Discretions.

Joint Supervisory Teams

The Joint Supervisory Teams (JSTs) are the main operational structure for the conduct of supervision by the SSM. Pursuant to the SSM Framework Regulation[38], the BCL participates in the JSTs concerning "significant" banks established in Luxembourg as well as certain JSTs of "significant" banks established in other Member States of the SSM area having subsidiaries in Luxembourg.

1.8.1.1.2 The resolution of banks

Regulation (EU) No. 806/2014 establishing the SRM[39] in the context of the Banking Union entered into force on 19 August 2014 (SRM Regulation).

The SRM is the second pillar of the Banking Union. It provides a crisis management regime based on the harmonisation achieved by the directive on bank recovery and resolution[40] (BRRD) and puts into place a centralised European institutional framework for the resolution of "significant" banks in the Member States participating in the SSM.

38 Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (the "SSM Framework Regulation") (ECB/2014/17).

39 Regulation (EU) n° 806/2014 of the European Parliament and the Council of 16 April 2014 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) n° 1093/2010.

40 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 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) n° 1093/2010 and (EU) n° 648/2012.

The SRM area corresponds to the SSM area, currently the euro zone.

The SRM comprises a Single Resolution Board (SRB) and a Single Resolution Fund (SRF). As the European resolution authority for the Banking Union, the SRB is responsible to prepare and ensure the resolution of banks which are failing or likely to fail, in cooperation with the national resolution authorities of participating Member States. The SRB is composed of six full-time members, all appointed in 2015. Mrs Elke König undertook her duties as chair of the SRB on 1st March 2015, in Brussels.

The SRF is established under the management of the SRB to guarantee the availability of funding, at medium-term, in case of restructuring of a credit institution. This fund is financed by banking contributions, which initially take place at national level.

An intergovernmental agreement relating to the transfer and mutualisation of the contributions to the SRF, signed on 21 May 2014 and ratified, at 30 November 2015, by a number of Member States allowing its entry into force on 1st January 2016, foresees with respect to the banks covered by the SRM the transition from existing national resolution funds to the SRF during a transitional period of 8-years (2016-2023) in order to allow the SRF reaching its full capacity on 1st January 2024. During that period, the contributions of banks will be allocated to different compartments corresponding to each participating Member State. According to the terms of the Agreement, those compartments will be subject to a progressive mutualisation, so that they will be fully merged at the end of the transitional period. The SRF should reach the target level of at least 1 % of the amount of covered deposits of all credit institutions authorised in all of the participating Member States. The amount to be reached would be around €55 billion.

The cooperation between the ECB and the SRB has been the subject of a memorandum of understanding, signed in 2015. The SRM Regulation organises the allocation of tasks between the European and the national authorities. Accordingly, the SRB is directly entrusted with the preparation of resolution plans and the adoption of all resolution-related decisions in particular with respect to the entities supervised by the ECB, as well as with respect to cross-border groups, while the national resolution authorities are in charge of other credit institutions. Pursuant to the SRM Regulation, the SRB and the national resolution authorities shall cooperate closely. The latter are also responsible for implementing the resolution decisions of the SRB at the national level.

1.8.1.1.3 Deposit Protection

The third pillar of the Banking Union, namely the creation of a European system of deposit protection, is to date characterised by slower progress.

Luxembourg has transposed directive 2014/49/EU on Deposit Guarantee Schemes (DGSD) by way of a law of 18 December 2015[41].

From a longer-term perspective of integration, on 24 November 2015, the European Commission published a legislative proposal for a regulation aimed at establishing a European Deposit Insurance Scheme (EDIS), as stated in the Five Presidents' Report[42], in three consecutive steps to eventually reach a strictly speaking European deposit guarantee scheme by 2024.

The draft regulation is based on the current framework applicable to national Deposit Guarantee Schemes (DGS) provided under the DGSD[43], which aims at enhancing the protection of depositors beyond the requirements foreseen under directive 94/19/EC, as amended by directive 2009/14/EC.

The DGSD provides for an enlargement and clarifications as regards to the scope of the protection, shorter reimbursement periods, improved availability of information, as well as funding criteria towards a level of protection of deposits up to € 100 000.

41 Law of 18 December 2015 on the measures concerning the resolution, reorganization, winding up of credit institutions and certain investments firms as well as the schemes of deposit protection and investors compensation.

42 See chapter 1.8.1.3.

43 Directive 2014/49/EU on Deposit Guarantee Schemes (DGSD).

1.8.1.2 Capital Markets Union (CMU)

A Financial Union, as proposed by the Five Presidents' Report, not only requires the completion of the Banking Union for the euro zone, but also the achievement of the Capital Markets Union (CMU) for the European Union as a whole.

The CMU is a priority for the European Commission, in addition to the strengthening of the EMU. The aim is to mobilise capital in Europe, especially for small and medium-sized enterprises (SMEs). By linking savings with growth, the CMU should offer new opportunities for the single market and the economic policy in the EU, based on the rebound of investments.

The CMU is a new aspect of Europe's single market and its creation is a key element of the Investment Plan announced by the Juncker Commission in November 2014.

Following the Green Paper "Building a Capital Markets Union" consultation in 2015, to which the Eurosystem contributed[44], the European Commission adopted on 30 September 2015 an action plan setting out 20 key measures to achieve a true single market for capital in Europe.

In addition, the European Commission also published on 30 September 2015 draft regulations relating to securitisation. These two drafts are:

- The proposal for a regulation laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation;
- The proposal for a regulation amending the CRR.

The BCL and the Eurosystem as a whole are supportive of the CMU, in particular with respect to measures aimed at reviving securitisation. The ECB, according to Article 282(5) TFEU, having a competence to deliver an opinion, since the proposed regulations contain provisions affecting the basic tasks of the ESCB, delivered its opinion on the abovementioned draft regulations on 11 March 2016 (CON/2016/11). Furthermore, the BCL is in contact with the European Investment Fund (EIF) with regard to the follow-up of the legislation relating to securitisation.

1.8.1.3 Economic Governance

Following the financial and economic crisis, the legal framework of economic governance has been strengthened in 2011 and in 2013 in order to restore confidence in public finances of the Member States of the European Union, in particular with the economic governance package (six pack)[45], the Treaty on Stability, Coordination and Governance (TSCG) and the budgetary surveillance package (two pack)[46].

As far as budgetary policy is concerned, the reform aimed at strengthening and deepening budgetary surveillance as well as introducing additional surveillance for euro area Member States, in order to ensure the correction of excessive deficits and the integration of European recommendations in the area of economic and budgetary policies in the national budgetary procedures.

44 Building a Capital Markets Union – Eurosystem contribution to the European Commission's Green Paper, European Central Bank, 2015.

45 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).

46 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.

The various instruments of the economic governance have a very complex nature, which limits the transparency of policy making, which in turn poses challenges especially for its implementation. The economic governance's reform, mainly at the EMU level, remains for the EMU a considerable challenge.

In its 2015 Annual Growth Survey the European Commission identified investment, structural reforms and fiscal responsibility as key elements of the European Union's economic policy strategy to create jobs and growth.

The European Commission published a Communication which allows a flexible interpretation of the Stability and Growth Pact's (SGP) existing rules, without actually changing them, thus aiming at strengthening the link between those pillars[47]. This flexibility affects the following fields: (i) cyclical conditions; (ii) structural reforms; and (iii) public investment.

This Communication especially impacts the SGP's preventive arm. The SGP is a cornerstone of the regulation relating to EU's economic governance and of decisive importance for the proper functioning of the EMU. Its credibility and its consistent application must be ensured.

During the year 2015, progress has been made in the implementation of the European Commission's Investment Plan for Europe of 2014, notably by establishing the European Fund for Strategic Investments (EFSI)[48]. The EFSI is based on a strategic partnership between the European Commission and the European Investment Bank, (EIB) deployed by the EIB Group (EIB and European Investment Fund), to address market failure by helping to reduce the risk inherent in projects to encourage further investment. The EIB will contribute to this initiative amounting to € 5 billion, in addition to the €16 billion EU's budget guarantee. This contribution should allow the EFSI to mobilise at least €315 billion of additional investment for the period 2015-2017.

Besides, in the 2016 Annual Growth Survey, published on 26 November 2015, the European Commission decided that from now on the European Semester will be sequenced in two successive phases distinguishing more clearly between a European phase (from November to February) and a national phase (from February to June).

The strengthening of the economic governance and the completion of the Banking Union remain considerable challenges for the EMU's consolidation.

In this regard, the Five Presidents' Report[49], published on 22 June 2015, provides proposals in order to deepen the EMU from the 1st of July 2015 and to finalise it in 2015 at the latest.

This report rests on the proposals of the European Council's President Report of 5 December 2012 (Four Presidents' Report). It foresees three distinguished stages:

- Stage 1 or "deepening by doing" (1 July 2015 - 30 June 2017): it aims at, building on existing instruments and existing Treaties, boosting competitiveness and structural convergence, achieving and maintaining responsible fiscal policies at national and euro area level, completing the Financial Union, and enhancing democratic accountability.
- Stage 2 or "completing EMU": concrete measures of a more far-reaching nature would be agreed, in order to make the convergence process more binding, for instance through a set of commonly agreed benchmarks for convergence that could be given a legal nature, as well as a euro area treasury.
- Final Stage (at the latest by 2025): once all the steps are fully in place, a deep and genuine EMU would provide a stable and prosperous place for all citizens of the EU Member States that share the single currency, attractive for other EU Member States to join if they are ready to do so.

47 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of Regions and the European Investment Bank "Making the best use of the flexibility within the existing rules of the Stability and Growth Pact", of 13 January 2015 (COM(2015) 12 final provisional).

48 Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (OJ L 169, 1.7.2015, pp. 1-38).

49 Report by the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup, the President of the European Central Bank, and the President of the European Parliament "Completing Europe's Economic and Monetary Union" of 22 June 2015.

To prepare the transition from Stage 1 to Stage 2, the Commission will present a White Paper in spring 2017 assessing progress made in Stage 1 and outlining the next steps needed, including measures of a legal nature to complete EMU in Stage 2.

On 21 October 2015, the European Commission proposed concrete steps to implement stage 1. It is notably proposed to create national Competitiveness Boards and an advisory European Fiscal Board.

1.8.1.4 ECB Legal Acts

Payment systems

The ECB adopted in the field of payment systems and market infrastructures the Guideline (EU) 2015/930 of the ECB of 2 April 2015 amending Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) (ECB/2015/15).

This guideline amended the TARGET2 Guideline in view of the launch of T2S and was implemented in the BCL Conditions for Participation in TARGET2-LU.

Monetary policy

The ECB also adopted legal acts in the field of monetary policy, amending Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60), known as the "General Documentation", such as:

- Guideline (EU) 2015/732 of the ECB of 16 April 2015 amending Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (ECB/2015/20);

- Guideline (EU) 2015/1938 of the ECB of 27 August 2015 amending Guideline (EU) 2015/510 of the ECB on the implementation of the Eurosystem monetary policy framework (ECB/2015/27); and

- Guideline (EU) 2016/64 of the ECB of 18 November 2015 amending Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (General Documentation Guideline) (ECB/2015/34).

In addition to the legal acts implementing standard monetary policy measures, the ECB adopted legal acts regarding exceptional monetary policy measures, such as:

- Decision (EU) 2015/299 of the ECB of 10 February 2015 amending Decision ECB/2014/34 on measures relating to targeted longer-term refinancing operations (ECB/2015/5);

- Decision (EU) 2015/509 of the ECB of 18 February 2015 repealing Decision ECB/2013/6 on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds, Decision ECB/2013/35 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral and Articles 1, 3 and 4 of Decision ECB/2014/23 on the remuneration of deposits, balances and holdings of excess reserves (ECB/2015/9);

- Decision (EU) 2015/774 of the ECB of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10);

- Decision (EU) 2015/1613 of the ECB of 10 September 2015 amending Decision (EU) 2015/5 on the implementation of the asset-backed securities purchase programme (ECB/2015/31);

- Decision (EU) 2015/2101 of the ECB of 5 November 2015 amending Decision (EU) 2015/774 on a secondary markets public sector asset purchase programme (ECB/2015/33); and

- Decision (EU) 2015/2464 of the ECB of 16 December 2015 amending Decision (EU) 2015/774 on a secondary markets public sector asset purchase programme (ECB/2015/48).

Banking supervision

A new ECB regulation was adopted by the Governing Council:

- Regulation (EU) 2015/534 of 17 March 2015.

There were also a very important number of decisions, recommendations and guidelines that were published in the Official Journal of the European Union[50].

Outright Monetary Transactions

The OMT programme, allowing the Eurosystem to purchase euro area government bonds in the secondary market since certain conditions are met, has been the object of a request for preliminary ruling submitted to the European Court of Justice (Court), by the Federal Constitutional Court of Germany (*Bundesverfassungsgericht*), in the context of various national constitutional actions.

The parties at the origin of these actions submit that the OMT programme, on the one hand, is not covered by the mandate of the ECB and infringes the prohibition of monetary financing (Article 123 TFEU) of euro area Member States, and, on the other hand, breaches the principle of democracy entrenched in the German Basic Law (*Grundgesetz*) and thereby impairs German constitutional identity.

The *Bundesverfassungsgericht* asks the Court whether the European Union's Treaties permit the Eurosystem to adopt a programme such as the OMT programme. It has in particular some doubts relating to the compatibility of this programme with the European System of Central Banks' (ESCB) tasks as defined by the European Union's Treaties, as well as with the prohibition of monetary financing of Member States in the euro area.

In its judgment of 16 June 2015[51], the Court globally follows the Opinions of the Advocate General of 14 January 2015 and confirms the compatibility of the OMT programme with the European Union's Treaties. The Court acknowledged that the ECB has a broad discretion regarding the definition and the implementation of the monetary policy.

The OMT programme, aiming to safeguard the singleness of the monetary policy in the euro area and to ensure an appropriate monetary policy transmission of the single monetary policy is part of the ECB mandate, in particular the maintenance of price stability.

Following this judgment, the *Bundesverfassungsgericht* should deliver its judgement in 2016.

1.8.2 National legislation

1.8.2.1 Enacted law

1.8.2.1.1 Modification of the organic law of the BCL

The Law of 23 December 1998 concerning the monetary status and the Central Bank of Luxembourg has been modified by the Law of 1st April 2015 establishing a Systemic Risk Board (see 1.8.2.1.3) in order to insert a new title "Civil liability" and a new provision formulated as follows:

> « **Civil liability**
> Art. 34-1. The Central Bank performs its tasks in the public interest. The civil liability of the Central Bank may be triggered in case it is demonstrated that the damage suffered was caused by gross negligence in the choice and the application of the means implemented to carry out the public service tasks of the Central Bank".

50 See the "ECB Annual Report on supervisory activities", which will be published in March 2016.

51 Case Gauweiler and others against Deutscher Bundestag of 16 June 2015, C-62/14, ECLI:EU:C:2015:400.

This article, which inserts a limitation of non-contractual liability, specifies that the performing of BCL's tasks is done in the public interest.

The BCL's limitation of liability is comparable to the one the CSSF and the CAA benefit.

It appears from the parliamentary proceedings that the motivation of this provision is that "the BCL has the obligation to protect a plurality of interests, among them in particular the price stability and the stability of the financial system. The BCL's liability can only be engaged if it is proved that a damage has been caused by a gross negligence in the choice, the application or the absence of means implemented by the BCL, including in the case of intentional fault. In order to engage its liability, besides the damage, the plaintiff or plaintiffs must establish fault and the causal link, that is to say prove that the damage is the immediate consequence of a gross negligence and not only an error of assessment. The adequacy of means chosen by the BCL must be evaluated in relation to standards notably applied by other European and national authorities having similar missions to those of the BCL"[52].

1.8.2.1.2 Implementation of the Law of 12 July 2014 on the coordination and governance of public finances

In Luxembourg, the "National Council of public finances" (*Conseil national des finances publiques*, the "CNFP") was set up in 2014 by the Law of 12 July 2014 on the coordination and governance of public finances. On the basis of its tasks defined in Article 8 concerning the fiscal policy monitoring, the CNFP adopted in its meeting of 27 May 2015 its first "Assessment of public finances" with reports and recommendations, at the occasion of the Stability Programme for the period 2015-2019. It presented also its assessment of public finances on the occasion of the draft budget 2016 and the draft law of multiannual financial planning for the period 2015-2019.

The BCL does not have a formal consultation role during the legislative procedure in the context of the national public finances governance foreseen by the national legislation. However, in view of its tasks and according to the ECB Opinion of 18 December 2013[53], the BCL shall regularly assess current and prospective developments that are relevant for monetary policy and can present its view on relevant fiscal developments on the basis of is monitoring activity and the independence its advice, with a view to also contributing to the proper functioning of European Monetary Union.

In this respect, the BCL issued in 2015 an opinion on draft laws concerning the State budget for year 2016 and the multiannual financial planning for the period 2015-2019, presented to the parliamentary Committee on 4 December 2015.

In order to fulfil its tasks of assessing public finances, the BCL needs to be granted, on a continuous basis, access to all public finance statistics. In this context, the BCL has started an exchange of views with the Ministry of Finance with regard to the transmission of data. In future, these steps should concretise in a more regular data flow, which could be completed in the context of a memorandum of understanding between the Ministry of Finance and the BCL.

At this stage, data provision by the Ministry of Finance has made important progress concerning the revenue side. Nevertheless the BCL regrets that these transparency efforts have not yet succeeded in a real progress on the expenditure side, on which it does not have a whole set of data which would have enabled it to carry out a more detailed analysis.

52 Proceedings of the Budget and Finances Commission meeting of 29 January 2015.

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

1.8.2.1.3 Law of 1st April 2015 establishing a Systemic Risk Board

The law creates a collegial body to coordinate the macro-prudential policy in Luxembourg, called "Systemic Risk Board", comprised of four members, namely:

- the Government, represented by the member of the Government responsible for the financial centre;
- the BCL, represented by its Director General;
- the *Commission de Surveillance du Secteur Financier* (CSSF), represented by its Director General;
- the *Commissariat aux Assurances* (CAA), represented by its Director.

The law entrusts the BCL with the Secretariat of the Systemic Risk Board under the hierarchical authority of its Director General.

The law foresees that the Director General of the BCL chairs the board in the absence of the member of the Government responsible for the financial centre.

Furthermore, the law amended the organic law of the BCL[54].

1.8.2.1.4 Law of 23 July 2015 transposing, amongst others, the CRD IV

The law has for main goal to enact into Luxembourg law the 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 (also known as CRD IV).

This law notably establishes a new range of monitoring tools, including macro-prudential ones, such as requirements on capital buffers and completes provisions of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (also known as CRR).

This law amends in particular the provisions of the amended Law of 5 April 1993 on the financial sector and those of the amended Law of 23 December 1998 establishing a *Commission de Surveillance du Secteur Financier.*

The law of 23 July 2015 imposes the CSSF, when it acts as the designated authority to use instruments addressing macro-prudential risks foreseen in CRD IV and CRR, to make decisions following close consultation with BCL and to request the opinion of the Systemic Risk Board.

The explanatory memorandum of the draft law n°6660 specifies that *"a close and continued consultation between the designated authority and the BCL is necessary because of both the micro and macro-prudential nature of most of the decisions to make […], while the designated authority is generally the micro-prudential authority and that the BCL has a broad expertise in the field of macroeconomic and financial stability, and considering the leading role granted to central banks in the macro-prudential field by the European Systemic Risk Board (ESRB).*

Since then, for the whole chapter 5 of part III, when the CSSF acts in its capacity of designated authority, the following steps have to be followed before it makes its decision:

The CSSF prior consults with the BCL in order to reach a common position. This consultation encompasses the analysis of the actual and potential impacts of measures taken. The CSSF, as designated authority, will duly take into account explanations and arguments raised by the BCL before requesting the opinion, the issuing of an alert or a recommendation of the systemic risk board. The draft decision, based on this common position, is submitted by the CSSF to the systemic risk board for an opinion. It is, where appropriate, updated after consultation with the BCL in order to take into account the opinion/recommendation of the systemic risk board."

54 See section 1.8.2.1.1 above.

1.8.2.1.5 The Law of 18 December 2015 on resolution, recovery and liquidation measures of credit institutions and some investment firms, on deposit guarantee schemes and indemnification of investors

The Law of 18 December 2015 transposes into Luxembourg law, amongst others, provisions of the BRRD for the banking resolution component and provisions of the DSGD for the deposit guarantee component.

Concerning the banks' resolution aspect, the law foresees, amongst others,

- the recovery and the planning of the banks' resolution on an institution-specific basis and at groups level;
- the designation of the national resolution authority, in our case the CSSF;
- the creation of a scheme for resolutions funding, in our case a public institution named the "*Fonds de résolution Luxembourg*" (FRL);
- the creation of a new body within the CSSF, named "*Conseil de résolution*" (Resolution Council).
- the Resolution Council's powers and the regime of the various available resolution tools.

Concerning the FRL, the law permits it to raise contributions from credit institutions. The FRL's financial means will be used to finance resolution measures (for instance a sale of assets or a bridge bank).

Furthermore, the law foresees that the Resolution Council can exchange information and cooperate with the BCL for the fulfilment of their respective missions, with respect to the BCL's competences and independence. The law foresees that the Resolution Council's information request must be unanimously approved by members of the Resolution Council. These provisions are without prejudice to the professional secrecy laid down in Article 37 of the Statute of the ESCB and of the ECB.

Concerning the deposit guarantee aspect, the law transforms the protection of depositors' national scheme, of a private nature and ex-post financed, into a scheme falling under the public sector and ex-ante financed. To this end, the law creates two new bodies: (i) a deposit guarantee scheme as a public institution named the "*Fonds de garantie des dépôts Luxembourg*" (FGDL) and (ii) an internal body of the CSSF, named "*Conseil de protection des déposants et des investisseurs*" (CPDI), designed as authority responsible for the management of the national deposit guarantee scheme.

The law includes the obligation to carry out stress tests at regular intervals.

The law assigns new mandates to the Director General of the BCL who will be a member of the newly created bodies. He is thus a member of the Resolution Council, member of the CPDI and member of the FRL's and FGDL's executive committees. As pointed out by the ECB in its Opinion of 20 November 2015, these membership positions have been entrusted to the Director General of the BCL as a result of the BCL's competences for supervising the general liquidity situation on the markets, for promoting the smooth operation of payment systems and in the field of financial stability.

Eventually, the law imposes that the FGDL's funds are allocated in an account opened at the BCL.

1.8.2.1.6 The law of 18 December 2015 approving the Agreement on the transfer and mutualisation of contributions to the single resolution fund (SRF) signed in Brussels on 21 May 2014

The law approves the ratification of the agreement on the transfer and mutualisation of contributions to the SRF and provides that the FRL is in charge of transferring these contributions to the FRU according to the said agreement.

The law permits the government to grant a State guarantee or a credit line to the SRB, for a maximum amount of €1 085 million on a period up to eight years. The only purpose of this guarantee is to address a possible shortfall of available resources in the SRF compartment corresponding to Luxembourg, in relation to resolution proceedings for Luxembourg's authorised credit institutions. This guarantee implements a bridge financing scheme, as agreed by Member States in 2013 and 2015, in order to permit the SRM to be fully operational from its start.

1.8.2.2 BCL Regulation

In 2015, the BCL issued one regulation, in the statistical area, namely: the Regulation of the *Banque centrale du Luxembourg* 2015/N°20 of 24 August 2015 amending the Regulation of the *Banque centrale du Luxembourg* 2011/N°9 of 4 July 2011 relating to the data collections on instruments and payment operations.

The list of BCL Regulations is available on the BCL website.

1.8.2.3 Interest rates

The legal interest rate for the year 2015 was set at 3% by the grand-ducal Regulation of 19 December 2014 on the determination of the legal interest rate for the year 2015 (Memorial A - N°246 of 23 December 2014, p. 4805). For the year 2016, this rate is set at 3% by the grand-ducal Regulation of 18 December 2015 on the determination of the legal interest rate for the year 2016 (Memorial A - N°250 of 24 December 2015, p. 6158). It should be noted that this rate does not correspond to a particular money market reference rate.

As regards late payment interest rates on overdue claims in commercial transactions, it is calculated, unless otherwise provided for by contract, on the basis of the European Central Bank's reference rate plus a margin. The late payment interest rate is published every six months in the Memorial B (Official Gazette). For the first half of 2015, the late payment interest rate was at 8.05% (Memorial B - N°21 of 25 February 2015, p. 596). For the second half of 2015, the late payment interest was also 8.05% (Memorial B - N°87 of 31 July 2015, p. 1552). The above mentioned rates include the margin provided for by the amended law of 18 April 2004 on payment deadlines and late payment interests. This margin increased from 7% to 8% starting from 15 April 2013.

1.8.2.4 Draft laws

Draft law regarding OTC derivatives, central counterparties and trade repositories [...] (n°6846) [55]

The draft law n°6846, introduced to the Parliament on 5 August 2015, notably amends the amended Law of 10 November 2009 on payment services, in order to insert the new rules regarding interoperable systems foreseen in the Regulation (EU) n° 648/2012, to implement the Regulation (EU) n° 260/2012 and to remove any ambiguity with regard to the free choice of the depository to which payment institutions resort to in order to protect the funds they have received in exchange for payment operations or issuance of electronic money. Furthermore, in order to facilitate the proper functioning of T2S, the prior amendment of Article 111 of the amended Law on payment services of 10 November 2009 is required, and this in particular for Luxembourg central securities depositories (CSD) to fulfil their obligations concerning settlement finality resulting from their participation in T2S.

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55 Draft law regarding OTC derivatives, central counterparties and trade repositories and transposing:
The Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings; and implementing:
1. Regulation (EU) n° 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) n° 924/2009;
2. Regulation (EU) n° 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories; and
3. Regulation (EU) n° 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EC) n° 1060/2009 on credit rating agencies;
and amending:
1. The Law of 23 December 1998 establishing a financial sector supervisory commission ("Commission de surveillance du secteur financier"), as amended;
2. The Law of 13 July 2005 on institutions for occupational retirement provision in the form of a pension savings company with variable capital (SEPCAV) and a pension savings association (ASSEP), as amended;
3. The Law of 10 November 2009 on payment services, as amended;
4. The Law of 17 December 2010 relating to undertakings for collective investment, as amended;
5. The Law of 28 October 2011 implementing Regulation (EC) n°1060/2009 of 16 September 2009; and
6. The Law of 12 July 2013 on alternative investment fund managers, as amended.

The envisaged amendments in the draft law n°6846, and to the writing of which the BCL has been associated, aim at ensuring that the moment of entry of transfer orders into the system (SFI) and the moment of irrevocability of transfer orders by the participants of a system or by third parties (SFII), are disconnected and that consequently SFII moment may occur later than SFI. The said Article 111 has since then been restructured in its entirety in the draft law n°6846, in order to assemble the provisions relating to enforceability and those relating to irrevocability. This new structure, which follows to the extent possible Articles 3 and 5 of Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (SFD), enables to clarify the distinction between the moment of entry into the system, which entails the enforceability of transfer orders in case of an insolvency procedure, and the moment of irrevocability of transfer orders, which applies not only to the system's participants but also to third parties; this shall be defined by the governing rules of said system.

Recommendation to review the organic law of the BCL

In its opinion of 20 November 2015, the ECB recommends to the Luxembourg legislator to further specify the nature of the privilege (a special as opposed to a general one) of the BCL and to increase the ranking of this privilege so as to preserve its financial independence. The ECB underlines that the BCL, as well as the Eurosystem, has a statutory privilege dating back to 1998, which provides that claims of the BCL, the ECB or any other NCB in the ESCB resulting from operations in connection with monetary or exchange rate policies, will have priority over all debtor assets, whether held with the BCL or with a securities settlement system or any other counterpart in Luxembourg. According to the ECB this privilege ranks equally with that of a pledgee[56].

1.9 COMMUNICATION

1.9.1 Publications

As required by its organic law, the BCL publishes a report on its activities every year. The annual report is available in French and in English.

In 2015, the BCL also published three Bulletins and one Financial Stability Review.

In its working papers, which are available on its website, the BCL publishes the research conducted by its staff. Working papers are introduced by a non-technical summary. In 2015, six working papers were published.

1.9.2 Training at the BCL

1.9.2.1 Academic cooperation

On 18 May 2015, Mr Gaston Reinesch, BCL Governor and Mr Jean Tirole, Dean of the Toulouse School of Economics (TSE), signed a memorandum of understanding on the establishment of a chair entitled "Aggregated Stability and Central Banks". The chair, made up of a group of well-known researchers around Professors Jean Tirole and Patrick Fève and financed by the BCL, aims to promote high-level research on central banking matters. The chair has been established for five years (see also 1.9.8).

The BCL continued its cooperation with the University of Luxembourg and its staff members gave several lectures at the Faculty of Law, Economics and Finance. Staff members also gave lectures on econometrics (Metz University).

The BCL also organised one-off presentations for student groups.

1.9.2.2 Technical cooperation

The BCL was a shareholder of the Agence de Transfert de Technologie Financière (ATTF). This agency, established in 1999 at the initiative of the Luxembourgish government, aimed to make Luxembourg's know how in financial matters accessible to other countries, in particular to emerging economies. In 2015, the

56 See Article 27-1 (formerly Article 4(4)) of the organic law of the BCL.

Luxembourg state repurchased the shares of the other shareholders, including the BCL's, and the ATTF activities were incorporated into those of the House of Training.

1.9.2.3 Cooperation with high schools

The BCL continues to organise presentations on the BCL and the Eurosystem for secondary school students 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 missions of the BCL and the Eurosystem. Other topics can also be addressed if so requested by teachers or students.

In 2014-2015, the BCL organised for the second time in Luxembourg the Eurosystem's Generation €uro Students' Award, a competition for high schools. Since 2011 this competition has been 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. In Luxembourg, the 2014-2015 edition of the competition, won by the "SLL-Euroteam" from the Sportlycée, ended with the national award ceremony on 26 March 2015 at the BCL and the European award ceremony – which was attended by each participating country's winning team – on 7-8 May 2015 in Frankfurt.

Luxembourg's third edition of the competition was launched on 1st October 2015, in the context of an information session for teachers organised at the BCL. Briefing sessions were provided to students and teachers participating in the competition in order to help them prepare the different stages of the competition. The third edition concluded with the final and the national award event at the BCL on 1st March 2016.

Photo: Luxembourg's Generation €uro Students' Award winning team members and their teacher participated in the European award event organised at the ECB on 7-8 May 2015, along winning teams of the other participating countries.

1.9.2.4 Cooperation with primary schools

In 2015, for the first time, the BCL independently took part in the European Money Week ("Woch vun de Suen"). From 9 to 13 March, the BCL offered a programme allowing groups of pupils from cycle 4.1 of the primary school system to get acquainted with money, in general, and with security features of euro banknotes and coins, in particular. Sessions of a duration of two and a half hours, organised throughout the week, allowed pupils to benefit from entertaining and interactive presentations, including films and games, before visiting the BCL's banknote sorting centre and a workshop where they could put into practice the knowledge they had acquired on banknotes' security features. This programme was met with success, with a total of 250 participating pupils, from 8 different schools.

Photo: BCL

1.9.2.5 Presentations for groups of external visitors

In January 2015, the BCL launched a programme to welcome groups of external visitors to its premises. This programme allows groups of 15 to 25 people to register for a presentation on the history and current tasks of the BCL as well as on Luxembourg's monetary history. This initiative corresponds to the BCL's desire to better inform the public of its European and national tasks.

The BCL welcomes one external group of visitors per month, either on Thursday evenings (18.00 – 19.30) or on Friday afternoons (14.30 - 16:00), for a presentation in either French, Luxembourgish or in English, depending on the visitors' preferences. Presentations can be organised by sending a request to the email address info@bcl.lu. In 2015, overall, seven groups of visitors were welcomed at the BCL.

Photo: BCL

1.9.3 The BCL's website

With a view to modernise and improve its external communication, the BCL launched its new website in December 2015.

The new website includes the following improvements:

- Improved graphics and significant improvements in navigation and interactivity;
- Better classification of information, allowing the website to evolve in line with the BCL's tasks;
- Increase in the volume of information provided and development of new information contents devoted to specific activities of the Bank;
- Enhancement of educational and general public content;
- Widening of the range of bilingual information in French and in English.

Given the variety of audiences targeted by the BCL, the new website aims to help all users gain quick access to the information they are looking for.

More than 121 000 people visited the BCL's website in 2015 (over 23.5 million clicks (+22.1%) were registered on over 3.4 million consulted pages (+20.5%). The most frequently downloaded document continues to be the numismatic catalogue, which was downloaded around 14 000 times.

1.9.4 The library

The library of the BCL, inaugurated in 2005, is a member of Luxembourg's public libraries network. Its collection can be accessed through the network's common platform.

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

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

Contacts with the national and international press were sustained throughout the year, where the BCL answered many queries send by journalists.

Overall, 90 press releases were published.

1.9.6 Information campaign on the new €20 banknote of the "Europa" series

In the context of the introduction of the "Europa" series banknotes, a press conference was organised on 24 February 2015 on the occasion of the presentation of the new € 20 banknote.

Several other press meetings on this topic followed during 2015.

In the last week of August, a banner was installed on the front of the BCL building located on boulevard Royal as a reminder to the public that the new € 20 banknote would be put into circulation on 25 November 2015.

Photo: BCL

In October 2015, in collaboration with the ECB, the distribution of a leaflet to 3.5 million points of sale in the euro area, of which 6 000 in Luxembourg, was organised, and early November nearly 60 000 brochures on the new € 20 banknote were made available to the public at large and the professionals trough the counters of local banks and the counters of POST Luxembourg.

1.9.7 Conferences and events

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

- Conference on the topic "Luxembourg and Economic and Monetary Union" by the association Bridge Forum Dialogue on 30 March at the Chamber of commerce. Mr Pierre Gramegna, Luxembourg's Minister of Finance, gave a speech. The conference was chaired by the BCL Governor, in his quality of President of the Bridge Forum Dialogue.

- Conference on the topic "Brexit – What would this mean for Britain and Europe?" by the association Bridge Forum Dialogue on 15 September at the *Chambre des métiers*. Sir Julian Priestley, former European Parliament Secretary General, and Mr Martin Bailey, Head of Unit at the European Commission held a speech.

- Conference on the topic "The investment plan for Europe" by the association Bridge Forum Dialogue on 27 October at the European Investment Bank (EIB). The speech was held by Dr Werner Hoyer, President of the EIB and Vice-President of the Bridge Forum Dialogue.

1.9.8 Research activities

BCL published research output as working papers or through the BCL bulletins or the Financial Stability Review. Several studies were published in peer-reviewed scientific journals (The World Economy, Empirical Economics, International Review of Applied Economics, Quarterly Review of Economics and Finance).

BCL researchers also presented their results in seminars and workshops organised by different institutions, including the Eurosystem, the European University Institute in Florence, the Royal Economic Society, and the Society for the Study of Economic Inequality.

Since December 2006, the BCL is a member of the research network organised by European central banks under the title "Household Finance and Consumption Network" (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 the Luxembourg Institute of Socio-Economic Research (LISER, formerly CEPS/Instead). Results of the first survey wave were published as working papers or text boxes in the BCL bulletin. In 2014, the second wave of the survey was conducted and the data collected is currently being prepared.

In June 2015, 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 and in the neighbouring regions.

In May 2015, Mr Gaston Reinesch, Governor of the BCL, and Mr Jean Tirole, President of the Toulouse School of Economics (TSE), signed a cooperation agreement setting up a research Chair titled « Aggregate stability and central banks ». This Chair, financed by the BCL, aims to encourage frontier research on subjects concerning central banks. Cooperation between the two institutions will take place through a set of initiatives including common publications, mentoring, training, organisation of conferences and workshops as well as joint hosting of researchers at the BCL and the TSE.

Created in 2011, the BCL Foundation aims to promote research and higher education in the BCL's fields of activity. Its Board of Directors continued to see research on financial stability as remaining of primary importance.

The Foundation's statutes were approved by the *Règlement grand-ducal* of 12 March 2011.

On 1st December 2015, 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

1.10 EUROPEAN ACTIVITIES

1.10.1 Activities at the level of the ECB

The BCL Governor attends the Governing and the General Council meetings. Members of the Governing Council act in their personal capacity and not as national representatives.

The Governing Council, as a rule, meets twice a month at the ECB's headquarters in Frankfurt.

Since January 2015, Governing Council meetings dedicated to monetary policy decisions take place every six weeks instead of the previous monthly schedule.

In 2015, more than 1000 decisions were taken by the Governing Council via written procedure. About 60% of these written procedures concerned exclusively or partly the Single Supervisory Mechanism (SSM). The remaining procedures included many opinions relating to draft laws at the European or national level, in line with 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, as a rule, on a quarterly basis.

The Eurosystem/ESCB Committees assist the decision making bodies of the ECB in the fulfilment of their tasks. The Governing Council and the Executive Board may ask Committees to conduct studies on specific topics. Committees report to the Governing Council through the ECB's Executive Board.

In 2015, 17 Eurosystem/ESCB committees provided expertise in their field of competence in order to support the decision making process of the Governing Council. Committees are mainly composed of Eurosystem staff members, but for issues which fall under the competence of the General Council, staff members of ESCB central banks whose countries have not yet adopted the Euro may participate in the meetings. If appropriate, other competent bodies may also be invited to participate in committee meetings.

In order to support the work linked to the Single Supervisory Mechanism, some of these committees meet in a composition corresponding to the SSM, i.e. including representatives of National Competent Authorities that are not NCBs.

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

1.10.2 Economic and Financial Committee (JB)

The Economic and Financial Committee (EFC) is a consultative committee, composed of representatives of the Treasuries or the Ministries of Finance and the Central Banks of EU Member States as well as representatives of the European Commission and the ECB. 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 major 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".

The EFC meets in two configurations: full and restricted. In its full configuration, the EFC meets with the representatives of the Treasuries or the Ministries of Finance, national central banks (NCBs), the Commission and the ECB and monitors economic developments, financial stability and matters pertaining to the IMF. NCB representatives do not participate in the meetings in restricted composition, but can attend when their country's stability and convergence programmes are discussed.

The EFC meets every four to six weeks. It also meets twice a year in a specific format, the "Financial Stability Table". It then includes, in addition to members of the full composition, high representatives from the European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB).

The EFC plays an important role in the preparation of European common positions at the G20 meetings, the IMF, and the Financial Stability Board (FSB). It also deals with economic policy issues discussed at the informal ECOFIN, to which the Governors of the NCBs of the EU are invited.

In 2015, the EFC in full composition continued to closely monitor the evolution of financial stability in the EU, the progress towards a Banking Union - including the establishment of a European Deposit Insurance Scheme -, a Capital Markets Union and the Investment Plan for Europe, more commonly known as the Juncker Plan. During 2015, the EFC also established a High Level Working Group on the Regulatory Treatment of Sovereign Exposure. In addition, the EFC has several sub-committees which cover notably the functioning of EU Sovereign Debt Markets, the circulation and Issuance of Euro Coins, statistics, financial stability, climate change and the International Monetary Fund (IMF).[57] The BCL is member of the sub-com-

57 These are the Subcommittee on EU Sovereign Debt Markets, the Euro Coin Subcommittee, the Subcommittee on Statistics, the Ad Hoc working groups and task forces on Financial Stability and Services Issues, the Joint Working Group on Climate Change and the Subcommittee on the IMF and related issues (SCIMF).

mittee on IMF matters, the SCIMF, which prepares and harmonises EU positions regarding IMF matters. In 2015, the SCIMF discussed, inter alia, the adequacy of Fund resources and the review of the Special Drawing Rights (SDR) basket.

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

On 24 April 2013, the European Statistical System (ESS) and the ESCB signed a 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 central banks, 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. Central banks, 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 2015. Progress has been made in particular with regard to financial accounts, balance of payments, financial services and public finances statistics as well as national accounts.

1.11 NATIONAL AND EXTERNAL ACTIVITIES

1.11.1 National activities

1.11.1.1 Relations with Parliament

On 4 December 2015, the Banque centrale du Luxembourg (BCL) presented its opinion on the government's draft budgetary plan on revenues and expenditures for the financial year 2016 and for the multi-year budget programming 2015-2019 to the Financial and Budget Commission of the Luxembourg Parliament.

1.11.1.2 BCL Committees

Lawyers Committee

The Lawyers Committee of the BCL met five times in 2015. It discussed various subjects relating to the Eurosystem, such as the Opinion of the Advocate General of 14 January 2015 in the case C-62/14 Gauweiler *et al*., known as the "OMT" case (Outright Monetary Transactions) and the Judgment of the Court of Justice of the European Union of 16 June 2015 in the same case, the Judgment of the General Court of the European Union of 4 March 2015 in the case T-496/11 (United Kingdom / European Central Bank) known as the "location policy" case, the Economic governance of the euro zone and the securitisation.

The 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 of the financial sector.

The 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 2015, the Commission was informed and consulted on various conceptual issues relating to the modification of statistical data collection from credit institutions, namely as far as concerns the introduction of a granular credit and credit risk data collection (the ECB's AnaCredit project).

The 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 positions. 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 2015.

1.11.1.3 External committees

The Economic Committee (Comité de conjoncture)

The Economic Committee acts on the basis of legislation which authorises the government to take measures in order to stabilise employment. The Committee provides a framework for the examination of business cycle fluctuations and for the monitoring of economic policy issues when they arise. The BCL's contribution to the Economic Committee is twofold: first, the BCL collects information on Luxembourg's economic situation and, second, 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 à la consommation)

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

Since October 2013, the BCL is a member of the Accounting Standards Board (*Commission des normes comptables*, hereafter the "CNC").

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. In 2014, the CNC became member of the EFRAG - European Financial Reporting Advisory Group, being the Luxembourg representative;
- assume missions entrusted to it by the law of 30 July 2013 reforming the CNC and modifying various provisions relating to the accounting and the annual accounts of the companies as well as to the consolidated accounts of certain forms of companies.

In 2015, the CNC fulfilled its mandate and as such elaborated advice and comments on questions that were addressed to it. Besides, the CNC was consulted about transposing in Luxemburgish accounting law the directive 2013/34/UE from European Parliament and Council from June 26, 2013 concerning annual accounts and consolidated accounts of certain forms of companies, modifying the directive 2006/43/CE from European Parliament and Council and repeal Council's directives 78/660/CEE and 83/349/CEE. This transposition resulted in the law from December 18, 2015 (Memorial A n° 258) which adapted: 1) the modified law from August 10, 1915 about commercial companies; 2) the modified law from December 19, 2002's title II about the Commerce and companies Register and the accounting and annual accounts of the companies; and 3) title II from Commerce Code's first book. The CNC also organised in October 14, 2015 a conference to comment the results on the previous year public consultation related to the update of the Standard Chart of Account (Plan comptable normalisé). During this conference were also announced the corresponding updates which were considered to be implemented in 2016. The BCL participated as a member of the conference expert panel.

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, BCL analyses the potential to adopt the XBRL standard in the context of statistical reporting collected by 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. Beyond the Benelux countries, the other 12 members of the constituency of which Luxembourg is a member, are, in decreasing order of their quotas, Ukraine, Israel, Romania, Bulgaria, Croatia, Cyprus, Bosnia Herzegovina, Georgia, Moldova, Macedonia, Armenia and Montenegro.

Quota subscriptions are a central component of the IMF's financial resources. They correspond broadly to a country's relative position in the world economy. In the context of the 14th General Review of Quotas, the IMF's total quotas doubled from SDR[58] 238.4 billion to SDR 476.8 billion. Luxembourg's quota increased from SDR 418.7 million to SDR 1 321.8 million, an increase of 216%. This increase of SDR 903.1 million is regulated by the law of 10 October 2012, which allows the Government to participate in the general review of quotas of IMF Member States, and approves the amendment to the IMF's Articles of Agreement as stipulated by Resolution n° 66-2 of the IMF Board of Governors of 15 December 2010.

58 Special Drawing Rights, see Glossary.

To supplement its quota resources, the IMF can also borrow temporarily. The New Arrangements to Borrow (NAB), which were expanded in 2009 and can provide supplementary resources of up to SDR 370 billion (about € 468 billion), are the main backstop to quotas.

In 2012, given the delays in approving the 14th General Review of Quotas, a certain number of member countries, mainly European, also pledged to increase the IMF's resources through bilateral borrowing agreements by an equivalent of US$ 461 billion. Luxembourg contributed to this effort by signing a bilateral loan agreement in favour of the IMF of EUR 2.06 billion in April 2014. This credit line had initially a two-year maturity but two extensions of one year each deferred the final maturity to 2018.

Following the doubling of the IMF's quotas under the 14th General Review, the NAB was rolled back from SDR 370 billion to SDR 182 billion. Luxembourg's participation in the NAB has been reduced from SDR 970.59 million to SDR 493.1 million.

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 (GRA) and the SDR account.

On 31 December 2015, Luxembourg's quota, recorded in full on the BCL's balance sheet, amounted to SDR 418.7 million, while Luxembourg's reserve position – i.e. the difference between Luxembourg's quota and the IMF's holdings of euro denominated assets at the BCL – was SDR 25.35 million, equivalent to 6.05% of Luxembourg's quota at that time.

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 NAB reached SDR 94.57 million.

At the end of 2015, Luxembourg held SDR 244.49 million, or 99.13% of its SDR allocation, in comparison with 99.11% at the end of 2014.

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

Established in 1930, the BIS is the oldest international financial institution. It promotes cooperation between central banks, notably through the organisation of regular high level meetings between the Governors of central banks and experts. It also contributes to the establishment of international banking standards. At present the BIS has 60 members from central banks of advanced and emerging economies.

The BCL is closely involved in the activities of various committees and working groups of the BIS.[59]

Besides participating 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 every two months in Basel.

The economic discussions focus essentially on current macroeconomic and financial developments in advanced and emerging economies. In 2015, the Global Economy Meetings examined, in particular, the natural interest rate, the interaction between monetary, fiscal and structural policies and the appropriate combination of the three, the impact of the decline in oil prices, risk taking in the real economy and in the financial sector as well as external adjustment in the context of diverging monetary policies and high indebtedness.

The All Governors' Meeting, for its part, addressed the following topics: financial markets and central banks, technological innovation as well as financial education and inclusion.

59 These BIS committees and working groups include: The Financial Stability Board, the Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Committee on Payments and Market Infrastructures, the Markets Committee, the International Association of Insurance Supervisors and the International Association of Deposit Insurers.

Bilateral relations

Allocation of an RQFII quota to Luxembourg

Following the signing of a Memorandum of Understanding (MoU) between the People's Bank of China (PBoC) and the BCL in June 2014, and the designation of the Industrial and Commercial Bank of China (ICBC) as renminbi clearing bank in Luxembourg by the PBoC in September 2014, the PBoC decided, on 29 April 2015, to allocate an initial quota of ¥ 50 billion to Luxembourg under the Renminbi Qualified Foreign Institutional Investor (RQFII) programme. Under the RQFII programme, institutional investors based in Luxembourg can invest directly in the Chinese domestic capital markets.

This important decision strengthens the position of Luxembourg on the renminbi market and reflects further progress in the financial cooperation between the People's Republic of China and Luxembourg.

Working visit of Mr Gaston Reinesch, Governor of the Banque centrale du Luxembourg to Washington D.C. on 12 June 2015

Mr Gaston Reinesch visited Washington for a series of meetings with members of the Board of Governors of the Federal Reserve System (FED). On this occasion, he notably had a meeting with Stanley Fischer, Vice Chairman of the FED, on the economic, financial and monetary situation in the USA and Europe.

Stanley Fischer, Vice Chairman of the Federal Reserve System, and Gaston Reinesch, Governor of the Banque centrale du Luxembourg

Mr Gaston Reinesch also met with the former Chair of the Board of Governors of the Federal Reserve System, Mr Ben Bernanke, at the Brookings Institution. This meeting focused, inter alia, on the unconventional monetary policies implemented on the two sides of the Atlantic as a result of the 2008 crisis as well as on the lessons that can be learned from recent events in terms of economic, financial and monetary theory.

Ben Bernanke, former Chair of the Board of Governors of the Federal Reserve System and currently Distinguished Fellow in Residence at the Brookings Institution, and Gaston Reinesch, Governor of the Banque centrale du Luxembourg

<u>Meeting of the Governor of the Banque centrale du Luxembourg, Mr Gaston Reinesch with Ms Christine Lagarde, Managing Director of the IMF, on 19 June 2015</u>

Mr Gaston Reinesch gathered with Ms Christine Lagarde, Managing Director of the International Monetary Fund (IMF), for a working meeting. The discussions focussed mainly on current economic and monetary developments in the euro area and the economic situation in Luxembourg.

Ms Christine Lagarde, Managing Director of the International Monetary Fund, and Gaston Reinesch, Governor of the Banque centrale du Luxembourg

Meeting of BCL Governor Gaston Reinesch with Mr Valdis Dombrovskis, Vice-President of the European Commission and Commissioner for the Euro and Social Dialogue, on 2 July 2015

Mr Gaston Reinesch received Mr Valdis Dombrovskis for a working visit at the BCL. The discussion focused mainly on current economic and monetary developments in the euro area and the economic situation in Luxembourg.

Valdis Dombrovskis, Vice-President of the European Commission, and Gaston Reinesch, Governor of the Banque centrale du Luxembourg

1.12 THE EUROSYSTEM PROCUREMENT COORDINATION OFFICE (EPCO)

In December 2007, the ECB Governing Council appointed the BCL to establish and host the Eurosystem Procurement Coordination Office (EPCO) with the objective of coordinating joint procurement of goods and services that are necessary for the performance of Eurosystem tasks.

At the end of 2014, the first period for BCL to host EPCO expired. The Governing Council decided to appoint BCL for a second mandate of 5 additional years, until 31 December 2019.

The legal framework applicable to joint Eurosytem procurement has been amended by Decision ECB/2015/51[60]. According to the terms of this decision, EPCO's main task is to identify and assess potential cases for joint procurement for the benefit of central banks that have agreed to participate in EPCO's activities[61].

In order to achieve this objective, the main priority for EPCO in 2015 was to focus on the identification and implementation of the most promising procurement opportunities for the participating central banks.

The 2015 annual procurement plan, approved by the ECB Governing Council on 21 May 2015, contained 19 areas for joint procurement to be launched with the aim of concluding framework contracts for the benefit of each interested EPCO central bank. Many of them were already concluded in 2015 in the area of information technology, market data and rating agency services, air transport and hotel services or euro banknote related products.

60 Decision (EU) 2016/21 of the European Central Bank of 23 December 2015 amending Decision ECB/2008/17 laying down the framework for joint Eurosystem procurement (ECB/2015/51)

61 In 2015, 19 central banks participated in EPCO's activities: 17 central banks of the Eurosystem, as well as the central banks of Romania (Banca Naţională a României) and Croatia (Hrvatska Narodna Banka). Discussions have been held with other central banks that had expressed an interest in a future cooperation within EPCO.

EPCO also provided support in the management of the framework contracts in force. The contracts delivered important financial and administrative savings for the EPCO central banks.

EPCO also progressed in several study areas that are potentially suitable for new joint procurements. Special attention was paid to the IT sector which resulted in the identification of several joint procurement opportunities for 2016.

EPCO also continued to further develop best practices in the field of public procurement within the Eurosystem, in collaboration with the network of procurement experts of the central banks. The network also serves as a platform to foster the joint procurement culture within the Eurosystem and to identify potential cases for joint procurement.

The new legal framework widened the list of entities who may participate in EPCO's activities. In addition to ESCB central banks, upon invitation by the Governing Council, it is possible also for national authorities of Member States, Union institutions and bodies, or international organisations to participate in joint procurements and contracts with conditions similar to those that apply to the central banks.

In 2015, the Governing Council of the ECB approved for the first time a Financial Envelope for EPCO for the period of 2015-2019 which is financed by the central banks. It is now possible to compensate from this envelope the supplementary efforts of the central banks that are leading joint procurement procedures.

The execution of EPCO's budget for 2015 was approximately 14% below the initially allocated amount.

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. In 2015, the Council consisted of the following members:

President: Mr Gaston Reinesch
Members: Mr Pierre Beck
Mr Pit Hentgen
Mr Serge Kolb
Mr Jacques F. Poos
Ms Simone Retter
Mr Romain Schintgen
Mr Michel Wurth
Mr Claude Zimmer

During 2015, the Council held eight meetings. The level of participation by the members was as follows: Mr Pierre Beck (8 meetings), Mr Pit Hentgen (5 meetings), Mr Serge Kolb (8 meetings), Mr Jacques F. Poos (5 meetings), Ms Simone Retter (8 meetings), Mr Romain Schintgen (8 meetings), Mr Michel Wurth (7 meetings) and Mr Claude Zimmer (7 meetings).

Within the framework of monitoring the financial situation of the Bank, the Council approved the financial accounts as per 31 December 2014, the budgetary trends and subsequently the budget for the 2016 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.

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 18 December 2015, the Council nominated the members of the Audit Committee for 2016: Mr Pit Hentgen, Mr Romain Schintgen and Mr Claude Zimmer. In 2015, the Audit Committee was chaired by Mr Claude Zimmer and held five meetings.

2.1.2 The Governor

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

2.1.3 The Executive Board

The Executive Board is the superior executive authority of the BCL. It takes the decisions and draws up the measures necessary for the BCL to carry out its tasks. Without prejudice to the independence of the Director-General (Governor) 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.

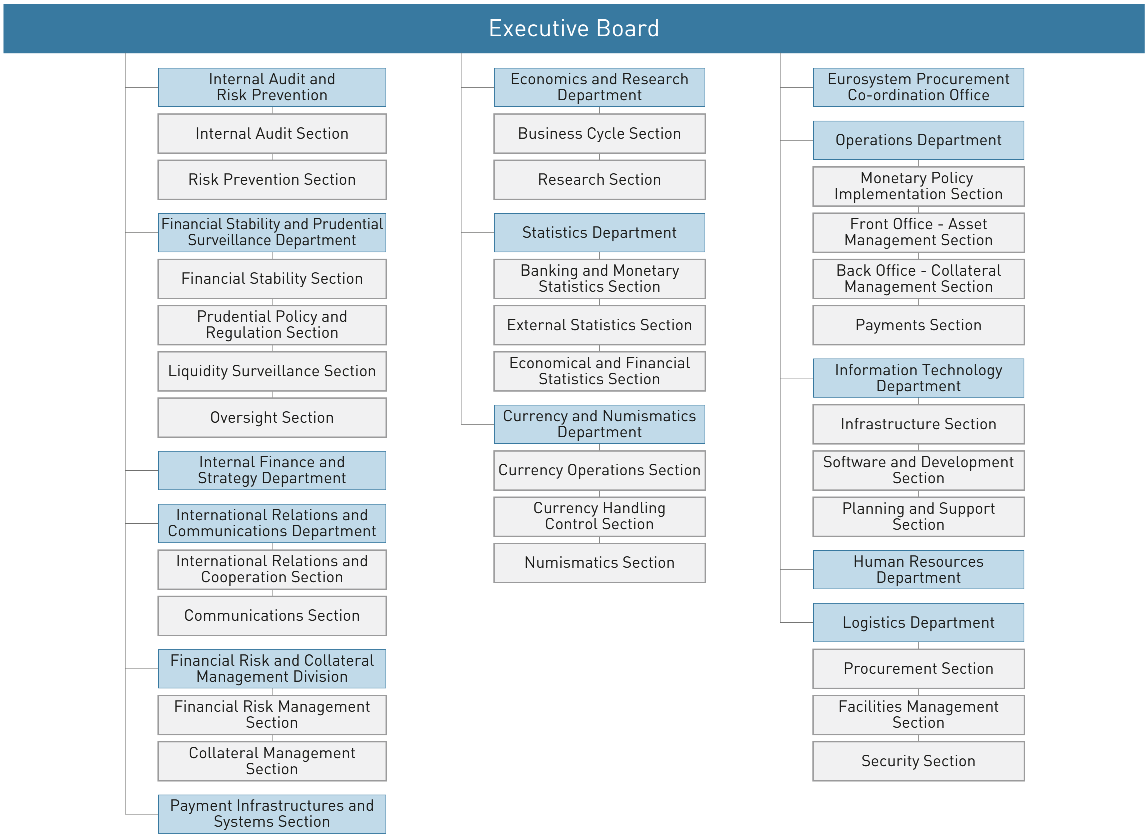
The Executive Board consists of a Director-General (Governor) and two Directors:

Director-General (Governor): Mr Gaston Reinesch

Directors: Mr Serge Kolb and Mr Pierre Beck

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

2.1.4 Organisation chart as of 31 December 2015



* This organisation chart does not include the functions and the staff of the Governor in his capacity as member of the Governing Council.

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.

- The Financial Risk Management section is 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 of the established investment limits and of the production of regular reports on these issues;

- The Collateral Management section 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 the operational 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 on the residual operational risks.

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

- The Controlling function provides the assurance that the available resources are used effectively and that an eventual misuse is detected without delay. It ensures the proper functioning of the budgetary procedure and it supervises the execution of the budget. It reports on a regular basis on the follow-up thereof.

In addition, 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 falling under the competence of the compliance function.

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 market abuse,
- conflicts 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. The Internal Audit unit is independent from the other administrative units and reports directly to the President of the Council. When performing its tasks, 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 that are coordinated by the Internal Auditors Committee of the ESCB, in compliance with the ESCB/SSM 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, whose mandate is to certify the correctness and completeness of the BCL's financial accounts. Moreover, the external auditor is mandated by the Bank's Council to perform additional reviews and specific controls on an annual basis.

At European level, the BCL's external auditor's nomination 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 Eurosystem level. The mandate of the external auditor of the BCL for the years 2014 to 2018 was granted to DELOITTE Audit S.àr.l. Luxembourg, following the selection and agreement process according to Article 27.1 of the ESCB/ECB Statutes.

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 some 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.

The implementation of Conduct the Code of Conduct, as far as the Director general is concerned, was, at his request, reinforced at his expenses. Furthermore, 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, the Director general does not take part in the deliberations on such investment matters in the Executive Board of the BCL. 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 adhere individually 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

Over the course of 2015, the BCL staff increased by 8.49% to reach a total of 345 staff members on 31 December 2015, equivalent to 329.50 full time positions. The staff members are of 20 different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On 31 December 2015, 31 staff members occupied a part-time position:

- Part-time work (50%): 12 staff members
- Part-time work (75%): 6 staff members
- Leave for half-time work: 13 staff members
- Full-time parental leave: 3 staff members
- Part-time parental leave: 10 staff members

Furthermore, eleven staff members were on unpaid leave and two staff members were on special leave.

The average number of staff members working at the BCL in 2015 was 334,10 persons or 316,74 full-time equivalents (FTE).

The overall approved headcount cap for the year 2015 was 368,75 full-time equivalent positions.

During the year 2015, 7 staff members left the bank. On the other hand, 34 new staff members joined the bank during that same period.

2.2.2 The pension fund

Article 14 of the Organic Law of the BCL provides that the legal pension entitlements of each BCL agent are determined by their legal status: civil servant, State employee, private employee or worker.

Paragraph 4(b) of the same article states that: "The pensions of the BCL's agents shall be paid by the Bank. These costs shall be financed by a pension fund of the Central 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 corresponding to their 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 internal regulations and two committees, one executive and one consultative.

The executive committee is the *Comité directeur* which is composed of the BCL's Board of Directors, two elected representatives from the staff, two co-opted members acting as delegated managers and one member of 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 continues to update its accounting system and its procedures in order to meet the quality standards of the Eurosystem. As in previous years, the BCL has participated in the Working Groups on ESCB's financial framework and has transposed the accounting revisions accordingly.

Based on harmonised rules, the Eurosystem imposes specific rules on the daily reporting of balance sheet data by each central bank.

The control systems have been adapted to the changes in relation to operations carried out during the reporting period.

The BCL regularly checks the development of the balance sheet items, the off balance sheets and the profit and loss accounts. Investments, revenues and expenses are especially closely monitored with special attention paid to the correct execution of signing powers.

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

The *management information system*, in the form of dashboard reports, meets the continuous need to follow the Bank's activities. 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 set benchmarks.

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

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 boundary of the operating expenditure and investments the Bank may incur during a given financial year.

The 2015 budget of the BCL has been established in accordance with the BCL's budgetary procedure and the guidelines set by the Bank's Council on 11 July 2014. The 2015 budget was approved by the Council of the BCL on 25 April 2015.

In particular, the 2015 budget includes the following elements:

- The implementation of the Single Supervisory Mechanism (SSM) has continued in 2015 as well as unconventional Monetary Policy Operations adopted by the Eurosystem. Both elements had a significant impact on the activities and subsequently on the budget of the BCL;
- At national level BCL's tasks have also continued to increase, mainly in the areas of statistical data collection and prudential supervision. The activities of the systemic risk committee for Luxembourg, to which the BCL provides the secretariat, have also created additional tasks for the BCL;
- Taking into account the elements above, the reinforcement of its staff basis remains crucial;
- In 2015, the renovation of the new building situated at 7, boulevard Royal has been achieved;
- At Eurosystem level the cooperation among central banks is characterised by an ongoing consolidation of systems in operation as well as a significant number of common projects;
- The Eurosystem key interest rates remained at a historically low level which also had a negative impact on the revenues of the BCL. In view of the latter and given the continued broadening and deepening of the missions assigned to the BCL, the budget of the BCL might in future suffer from a structural deficit;
- The BCL has continued to make additional contributions to its pension fund as well as to the provisions for general banking risks.

The Internal Finance and Strategy Department monitors 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 gap 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 for the preparation of future budgets.

The expenditure for operating costs and investments as at 31 December 2015 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 priorisation of the Bank's internal projects. It is in charge of the secretariat to the BCL's project steering committee (BISC) in which the status of ongoing projects as well as the launching of future projects is discussed on a regular basis. The "Overall Project Monitoring Reports" (OPMR), prepared by management control, allow the BISC to better monitor and control the progress of the BCL's various projects and ensure the information flow to the Executive Board of the Bank on project related matters. In 2015, the internal regulation of the management of projects was amended in order to further clarify the different roles of the involved parties and to align its miles stones with the organisational practices of the BCL.

In the same vein a so-called Project Office was created, to serve as a single point of contact for all project related matters, to provide active support to project managers and to supervise the correct application of the project methodology.

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. Furthermore, the BCL has been represented in the EISC (Eurosystem IT Steering Committee) 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. The methodology used is in compliance with the harmonised set of rules as defined at Eurosystem level. 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 the cost accounting system this allows the management and the Executive Board to better monitor the operational performance of the Bank. Furthermore, reports containing both financial and operational indicators facilitate the alignment of tasks and activities with strategic orientations on one hand and identified objectives of the Bank on the other hand.

As the BCL continues to develop its activities, a more comprehensive medium and long term planning remains a core requirement. 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)

	2015	2014	Change in % 2015/2014
Total assets	158 958 450 236	117 097 829 518	36%
Liabilities to credit institutions	57 237 329 129	16 663 675 776	243%
Lending to credit institutions	3 657 140 000	3 357 142 385	9%
Own funds (1), revaluation accounts, administrative provisions and specific banking risks provisions	1 273 839 511	1 256 885 814	1%
Net result from banking activities (2)	183 299 452	185 915 686	-1%
Total net income	88 499 642	133 849 927	-34%
Administrative expenses	81 084 686	127 151 030	-36%
Net profit	1 776 128	1 646 171	8%
Cash Flow (3)	61 309 622	48 539 712	26%
Staff	345	318	8%
BCL's weighting in the capital of the ECB	0.2030%	0.2030%	
BCL's weighting in lending to credit institutions related to monetary policy operations	0.654%	0.533%	

([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

2.4.2 Report of the *Réviseur d'Entreprises agréé*

We have audited the accompanying financial statements of Banque centrale du Luxembourg, which comprise the balance sheet as at December 31, 2015 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for 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 *Réviseur d'Entreprises agréé*'s judgement, 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, 2015, 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.

For Deloitte Audit, *Cabinet de révision agréé*

Martin Flaunet, *Réviseur d'entreprise agréé*
Partner

March 23, 2016

2.4.3 Balance sheet as at 31 December 2015

ASSETS	Note	2015 EUR	2014 EUR
Gold and gold receivables	3	70 499 018	71 594 050
Claims on non-euro area residents denominated in foreign currency	4	637 580 813	638 887 797
- Receivables from the IMF		463 802 134	483 875 214
- Balances with banks, security investments, external loans and other external assets		173 778 679	155 012 583
Claims on euro area residents denominated in foreign currency	5	1 564 264 473	2 103 019 172
Claims on non-euro area residents denominated in euro	6	1 299 649 164	1 528 572 335
- Balances with banks, security investments and loans		1 299 649 164	1 528 572 335
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	3 657 140 000	3 357 142 385
- Main refinancing operations	7.1	610 000 000	1 300 000 000
- Longer-term refinancing operations	7.2	3 047 140 000	2 057 140 000
- Marginal lending facility	7.5	-	2 385
Other claims on euro area credit institutions denominated in euro	8	10 920 730	431 451 459
Securities of euro area residents denominated in euro	9	3 494 337 566	3 270 015 535
- Securities held for monetary policy purposes	9.1	1 592 425 088	490 637 316
- Other securities	9.2	1 901 912 478	2 779 378 219
Intra-Eurosystem claims	10	147 672 239 627	105 219 638 314
- Participating interest in the ECB	10.1	36 396 638	36 396 638
- Claims related to the transfer of foreign reserves	10.2	117 640 617	117 640 617
- Other claims within the Eurosystem	10.3	147 518 202 372	105 065 601 059
Items in course of settlement		160	46
Other assets	11	551 818 685	477 508 425
- Tangible and intangible assets	11.1	62 838 449	61 899 701
- Other financial assets	11.2	398 210 311	302 336 903
- Accruals and prepaid expenses	11.3	88 821 256	103 831 610
- Sundry	11.4	1 948 669	9 440 211
Total assets		**158 958 450 236**	**117 097 829 518**

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

LIABILITIES	Note	2015 EUR	2014 EUR
Banknotes in circulation	12	2 876 503 995	2 714 156 460
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	57 237 329 129	16 663 675 776
- Current accounts (covering the minimum reserve system)	13.1	35 596 035 548	12 780 675 776
- Deposit facility	13.2	21 641 293 581	3 883 000 000
Liabilities to other euro area residents denominated in euro	14	2 424 253 596	2 418 077 103
- General government	14.1	559 056 089	578 993 301
- Other liabilities	14.2	1 865 197 507	1 839 083 802
Liabilities to non-euro area residents denominated in euro	15	259 926 093	527 265 350
Liabilities to non-euro area residents denominated in foreign currency	16	1 567 549 469	2 108 906 558
Counterpart of special drawing rights allocated by the IMF	17	313 901 066	294 072 620
Intra-Eurosystem liabilities	18	92 617 860 680	90 777 374 330
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	92 617 860 680	90 777 374 330
Items in course of settlement		-	375 598
Other liabilities	19	49 492 966	34 049 516
- Accruals and income collected in advance		26 763 928	15 848 391
- Sundry		22 729 038	18 201 125
Provisions	20	1 266 110 878	1 183 567 010
- Provision for banking risks	20.1	928 178 149	880 456 617
- Provision for pensions	20.2	337 793 729	302 990 393
- Other provisions		139 000	120 000
Revaluation accounts	21	153 630 371	186 193 332
Capital and reserves	22	190 115 865	188 469 694
- Capital	22.1	175 000 000	175 000 000
- Reserves	22.2	15 115 865	13 469 694
Profit for the year	39	1 776 128	1 646 171
Total liabilities		**158 958 450 236**	**117 097 829 518**

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

2.4.4 Off-balance sheet as at 31 December 2015

	Note	2015 EUR	2014 EUR
Securities received as collateral	23	125 563 173 973	133 330 745 366
Foreign currency reserve assets managed on behalf of the ECB	24	396 160 538	361 011 986
		125 959 334 511	**133 691 757 352**

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

2.4.5 Profit and loss account for the year ending 31 December 2015

	Note	2015 EUR	2014 EUR
Interest income	25	198 616 561	304 368 851
Interest expense	25	(52 300 546)	(159 425 577)
Net interest income	25	**146 316 015**	**144 943 275**
Realised gains / (losses) arising from financial operations	26	42 455 051	43 042 325
Write-downs on financial assets and positions	27	(3 827 078)	(716 525)
Transfer to/from provisions for risks	28	(50 067 587)	(41 124 291)
Net result of financial operations, write-downs and risk provisions		**(11 439 614)**	**1 201 509**
Fees and commissions income	29	9 176 688	10 223 976
Fees and commissions expense	29	(10 821 223)	(11 577 363)
Net result from fees and commissions	29	**(1 644 535)**	**(1 353 387)**
Income from participating interest	30	4 028 096	3 509 905
Net result of pooling of monetary income	31	(54 933 657)	(21 207 230)
Other income	32	6 173 339	6 755 858
Total net income		**88 499 644**	**133 849 929**
Staff costs	33	(36 959 511)	(33 360 689)
-Gross salaries		(34 744 189)	(31 332 701)
-Other staff costs		(2 215 322)	(2 027 988)
BCL's contribution to the legal pension scheme	34	(25 017 104)	(78 078 196)
Other administrative expenses	35	(13 623 839)	(11 875 948)
Depreciation of tangible and intangible assets	11.1, 36	(5 638 829)	(5 052 725)
Banknote production services	37	(1 727 196)	(870 182)
Other expenses	38	(3 757 037)	(2 966 015)
Profit for the year	39	**1 776 128**	**1 646 171**

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

2.4.6 Notes to the financial statements as at 31 December 2015

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 single supervisory mechanism, the macro-prudential authority, the single resolution mechanism, and the deposit guarantee scheme have resulted and continue to entail new missions and responsibilities for the Bank.

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 and those held for monetary policy purposes), 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 and rules applicable to the portfolios of financial assets held by the BCL

Securities currently held for monetary policy purposes are accounted for at amortised cost (subject to impairment), regardless of the holding intention.

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.

The Agreement on Net Financial Assets (ANFA) is an agreement between the NCBs of the euro area and the ECB, which together form the Eurosystem. The objective of this agreement is for the Governing Council to ensure a full control of the consolidated balance sheet of the Eurosystem. The agreement sets rules and limits for holdings of financial assets which are related to national tasks of the NCBs other than the monetary policy. As part of this agreement, the principle of a dynamic exemption is foreseen in relation to the maximum amount of net financial assets (NFA). This dynamic exemption, which applies to the BCL, adjusts the historical waiver (ensuring that the NCBs do not have to reduce their NFA below a level which is linked to their historical starting position) over time in proportion to the growth or decline of Eurosystem maximum NFA.

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 euro area NCBs, which together comprise the Eurosystem, issue euro banknotes. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks 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, 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 in the balance sheet under 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 also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed under the sub-item "Intra-Eurosystem: Net claims/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".

2.9 Intra-Eurosystem claims and liabilities

Intra-Eurosystem balances result primarily from cross-border payments in the EU that are settled in central bank money in euro. They are settled in TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system) and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of the BCL vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro are presented on the balance sheet of the BCL as a single net asset position and disclosed under "Other claims within the Eurosystem (net)".

There are other claims and liabilities of the BCL vis-à-vis the Eurosystem due to its participation in the capital of the ECB, the transfer of a part of foreign reserves, the interim profit distributions and accrued liabilities from the ECB resulting from the distribution of the monetary income results and the allocation of euro banknotes between the NCBs and the ECB.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net position 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 position on the balance sheet of the BCL.

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

Since 1 January 1999, after the entry into force of the Founding Law of 23 December 1998, as modified, the legal pension claims (1st pillar) of the BCL's staff are fully borne by the BCL. The pension fund was set up in 2000.

The actuarial method determines the pension fund's liability related to old age, disability or survival for each member of staff. The actuarial model is based, among other things, on each member of staff's personal and past and foreseeable career data, on the forecast of the cost and standard of living 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 from the wage share and the payment by the BCL and decrease by pension payments to retirees. At the year end, the provision is adjusted in the light of the new actuarial calculation. If necessary, the account "Booking reserve of the pension fund", equivalent to the gains generated by the fund's assets, is also transferred to adjust the account "Provision for pensions".

In cases where regular transfers and the results of the pension fund would be insufficient to cover the BCL's pension liabilities, the difference between the existing provision and the accrued liabilities valued by the actuary is covered in the same trend by a contribution from the BCL. The BCL applies the method of "projected unit credit" (PUC) in line with international standards.

In accordance with the prudence principle, the management body of the BCL has decided to gradually follow the measurement method from IAS 19 standard.

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 2015, the BCL holds 72 438.56 ounces of fine gold amounting to 70.5 million euro (72 480.56 ounces of fine gold amounting to 71.6 million euro on 31 December 2014).

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

	2015 EUR	2014 EUR
Receivables from the IMF	463 802 134	483 875 214
Balances with banks, security investments, external loans and other external assets	173 778 679	155 012 583
	637 580 813	**638 887 797**

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. 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 162 million euro as at 31 December 2015 (144 million euro on 31 December 2014), 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 2015, their value at market prices included a negative net revaluation adjustment amounting to 0.4 million euro (negative net revaluation adjustment amounting to 0.3 million euro on 31 December 2014).

Balances with banks amounted to 11.3 million euro as at 31 December 2015 (11 million euro on 31 December 2014).

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 1 564 million euro as at 31 December 2015 (2 103 million euro on 31 December 2014).

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

	2015 EUR	2014 EUR
Balances with banks	2 649	8 321
Available-for-sale securities portfolio	1 299 646 515	1 528 564 014
	1 299 649 164	**1 528 572 335**

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 available-for-sale 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 2015, the market value of the latter comprised a negative net revaluation adjustment amounting to 17.4 million euro including the premium and discount amortisation (positive net revaluation adjustment amounting to 18.9 million euro on 31 December 2014).

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:

	2015 EUR	2014 EUR
Main refinancing operations	610 000 000	1 300 000 000
Longer-term refinancing operations	3 047 140 000	2 057 140 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	2 385
Credits related to margin calls	-	-
	3 657 140 000	**3 357 142 385**

The total Eurosystem holding of monetary policy assets amounts to 558 989 million euro of which the BCL holds 3 657 million euro.

In accordance with Article 32.4 of the Statute, any risks from monetary policy operations, if they were to materialise, may 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 forty eight 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

	2015 EUR	2014 EUR
Securities held for monetary policy purposes	1 592 425 088	490 637 316
Other securities	1 901 912 478	2 779 378 219
- available-for-sale securities portfolio	*1 546 339 378*	*2 368 526 155*
- held-to-maturity securities portfolio	*355 573 100*	*410 852 064*
	3 494 337 566	**3 270 015 535**

9.1 Securities held for monetary policy purposes

This item contains securities acquired by the BCL within the scope of the three purchase programme for covered bonds, the securities markets programme and the public sector purchase programme.

First and second covered bond purchase programmes and Securities Markets Programme
Purchases under the first covered bond purchase programme were completed on 30 June 2010, while the second covered bond purchase programme ended on 31 October 2012. The Securities Markets Programme was terminated on 6 September 2012.

Third covered bond purchase programme
On 2 October 2014 the Governing Council announced the operational details of the third covered bond purchase programme (CBPP3). The aim of this programme is to facilitate credit provision to euro area economy, generate positive spillovers to other markets and, as a result, ease the ECB's monetary policy stance.

Public Sector Purchase Programme
On 22 January 2015 the Governing Council decided that asset purchases should be expanded to include a secondary market public sector asset purchase programme (PSPP). This programme aims to further ease monetary and financial conditions, including those relevant to borrowing conditions of euro area and non-financial corporations and households, thereby supporting aggregate consumption and investment spending in the euro area and ultimately contributing to a return of inflation rates to levels below but close to 2% over the medium term. Under this programme the ECB and the NCBs may purchase, in the secondary market, euro-denominated marketable debt securities issued by central governments of a Member State whose currency is the euro, recognised agencies located in the euro area, international organisations located in the euro area and multilateral development banks located in the euro area.

In terms of the size of the PSPP, the ABSPP and the CBPP3, the liquidity provided to the market by the combined monthly purchases will amount to EUR 60 billion. Purchases are intended to be carried out until at least March 2017.

Securities purchased under all programmes are valued on an amortised cost basis subject to impairment. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end.

The amortised cost of these securities, as well as their market value (which is provided for comparison purposes only), are as follows:

Securities held for monetary policy purposes	2015 EUR		2014 EUR	
	Amortised cost	Market value	Amortised cost	Market value
First covered bond purchase programme	5 998 651	6 203 088	5 971 376	6 204 900
Second covered bond purchase programme	14 484 734	15 655 103	28 374 479	31 025 647
Third covered bond purchase programme	382 769 132	384 382 983	92 234 840	92 587 342
Securities markets programme	193 588 257	219 265 699	364 056 621	394 430 158
Public sector purchase programme	995 584 314	1 012 956 584	-	-
	1 592 425 088	**1 638 463 457**	**490 637 316**	**524 248 047**

Market values are indicative and were derived on the basis of market quotes. When market quotes were not available, the amortised cost was used for the evaluation of the securities portfolio.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes.

The total Eurosystem NCB's holding of securities held in the securities markets programme, the third covered bond purchase programme and securities issued by international or supranational institutions held in the public sector purchase programme amounts to 305.7 billion euro as at 31 December 2015, of which the BCL holds 576.4 million euro. In accordance with Article 32.4 of the Statute, losses from holdings of these securities, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

On the basis of the results of an impairment test as at 31 December 2015 on securities purchased under the third covered bond purchase programme and securities issued by international or supranational institutions held in the public sector purchase programme, the Governing Council decided that all future cash flows on these securities are expected to be received and that, therefore, no impairment losses should be recorded at year end.

In the context of the impairment test conducted as at the end of 2015 on securities purchased under the securities markets programme, the Governing Council identified one impairment indicator in particular, relating to the holdings of securities issued by the Hellenic republic, which occurred in the course of 2015. The impairment indicator was triggered due to the Hellenic republic failing to repay to the IMF and to the Bank of Greece on 30 June 2015. The Governing Council considered that the identified impairment indicators had not affected the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the holdings of securities issued by the Hellenic republic under the securities markets programme. Furthermore, no impairment losses were recorded in respect of the other securities purchased under the securities markets programme.

9.2 Other securities

The securities portfolio recorded under this item includes:

– the available-for-sale securities portfolio in euro issued by residents of the euro area amount to 1 546.3 million euro as at 31 December 2015 (2 368.5 million euro on 31 December 2014). This portfolio contains government bonds in euro issued by Member States of the euro area and bonds issued by companies of the euro area. Securities are valued at market value. As at 31 December 2015, the market value of the latter comprised a negative net revaluation adjustment amounting to 6.3 million euro including premium and discount amortisation (positive net revaluation adjustment amounting to 25.1 million euro on 31 December 2014). In this portfolio, the BCL does not hold any security issued by the State of the Grand Duchy of Luxembourg

– the held-to-maturity securities 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 2015, these securities amount to 355.6 million euro (410.9 million euro on 31 December 2014). In this portfolio, the BCL does not hold any security issued by the State of the Grand Duchy of Luxembourg.

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 are subject to adjustment every five years. On 1 January 2015, following the entry of Lithuania in the Eurosystem, the BCN's participations key in in the Eurosystem changed.

The NCBs' capital key shares are as follows (in percentage):

Country	Capital key in ESCB (in %)	Eurosystem key (in %)	
	from 1 January 2014	from 1 January 2015	until 31 December 2014
Belgium	2.4778	3.52003	3.54081
Germany	17.9973	25.56743	25.71840
Estonia	0.1928	0.27390	0.27551
Ireland	1.1607	1.64892	1.65866
Greece	2.0332	2.88842	2.90547
Spain	8.8409	12.55961	12.63377
France	14.1792	20.14334	20.26228
Italy	12.3108	17.48904	17.59231
Cyprus	0.1513	0.21494	0.21621
Latvia	0.2821	0.40076	0.40312
Lithuania	0.4132	0.58700	-
Luxembourg	0.2030	0.28839	0.29009
Malta	0.0648	0.09206	0.09260
Netherlands	4.0035	5.68748	5.72106
Austria	1.9631	2.78883	2.80530
Portugal	1.7434	2.47672	2.49134
Slovenia	0.3455	0.49083	0.49372
Slovak Republic	0.7725	1.09743	1.10391
Finland	1.2564	1.78487	1.79541
Bulgaria	0.8590	-	-
Czech Republic	1.6075	-	-
Denmark	1.4873	-	-
Croatia	0.6023	-	-
Hungary	1.3798	-	-
Poland	5.1230	-	-
Romania	2.6024	-	-
Sweden	2.2729	-	-
United Kingdom	13.6743	-	-
Total	**100.0000**	**100.00000**	**100.00000**

The capital shares of the NCBs in the ECB are shown in the following table (in euro):

	Subscribed capital since 1 January 2015	Subscribed capital until 31 December 2014	Paid-up capital since 1 January 2015	Paid-up capital until 31 December 2014
Banque Nationale de Belgique	268 222 025	268 222 025	268 222 025	268 222 025
Deutsche Bundesbank	1 948 208 997	1 948 208 997	1 948 208 997	1 948 208 997
Eesti Pank	20 870 614	20 870 614	20 870 614	20 870 614
Central Bank of Ireland	125 645 857	125 645 857	125 645 857	125 645 857
Banque de Grèce	220 094 044	220 094 044	220 094 044	220 094 044
Banco de España	957 028 050	957 028 050	957 028 050	957 028 050
Banque de France	1 534 899 402	1 534 899 402	1 534 899 402	1 534 899 402
Banca d'Italia	1 332 644 970	1 332 644 970	1 332 644 970	1 332 644 970
Central Bank of Cyprus	16 378 236	16 378 236	16 378 236	16 378 236
Latvijas Banka	30 537 345	30 537 345	30 537 345	30 537 345
Lietuvos bankas	44 728 929	-	44 728 929	-
Banque centrale du Luxembourg	21 974 764	21 974 764	21 974 764	21 974 764
Central Bank of Malta	7 014 605	7 014 605	7 014 605	7 014 605
De Nederlandsche Bank	433 379 158	433 379 158	433 379 158	433 379 158
Oesterreichische Nationalbank	212 505 714	212 505 714	212 505 714	212 505 714
Banco de Portugal	188 723 173	188 723 173	188 723 173	188 723 173
Banka Slovenije	37 400 399	37 400 399	37 400 399	37 400 399
Národná banka Slovenska	83 623 180	83 623 180	83 623 180	83 623 180
Suomen Pankki – Banque de Finlande	136 005 389	136 005 389	136 005 389	136 005 389
Subtotal for euro area NCBs	***7 619 884 851***	***7 575 155 922***	***7 619 884 851***	***7 575 155 922***
Българска народна банка (Bulgarian National Bank)	92 986 811	92 986 811	3 487 005	3 487 005
Česká národní banka	174 011 989	174 011 989	6 525 450	6 525 450
Danmarks Nationalbank	161 000 330	161 000 330	6 037 512	6 037 512
Hrvatska narodna banka	65 199 018	65 199 018	2 444 963	2 444 963
Lietuvos bankas	-	44 728 929	-	1 677 335
Magyar Nemzeti Bank	149 363 448	149 363 448	5 601 129	5 601 129
Narodowy Bank Polski	554 565 112	554 565 112	20 796 192	20 796 192
Banca Naţională a României	281 709 984	281 709 984	10 564 124	10 564 124
Sveriges Riksbank	246 041 586	246 041 586	9 226 559	9 226 559
Bank of England	1 480 243 942	1 480 243 942	55 509 148	55 509 148
Subtotal for non-euro area NCBs	***3 205 122 218***	***3 249 851 147***	***120 192 083***	***121 869 418***
Total	**10 825 007 070**	**10 825 007 070**	**7 740 076 935**	**7 697 025 340**

Totals may not add up due to rounding.

The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of 14.4 million euro of ECB reserves.

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 2015, the claim of the BCL amounts to 117 640 617 euro (117 640 617 euro on 31 December 2014).

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 147.6 billion euro as at 31 December 2015 (105.1 billion euro on 31 December 2014). This increase results from the growth of the current accounts and of the deposit facilities related to the provision of liquidities by the Eurosystem.

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:

	Lands and Buildings EUR	Furniture and equipment EUR	Software EUR	Other EUR	Total EUR
Cost as at 1 January 2015	109 658 356	16 674 954	8 920 751	2 096 390	137 350 451
Disposals/Transfers	-	(84 915)	-	-	(84 915)
Acquisitions	4 812 826	929 159	144 393	691 199	6 577 577
Cost as at 31 December 2015	**114 471 182**	**17 519 198**	**9 065 144**	**2 787 589**	**143 843 113**
Accumulated depreciation as at 1 January 2015	54 080 063	14 082 847	7 287 840	-	75 450 750
Disposals	-	(84 915)	-	-	(84 915)
Depreciation	3 904 641	968 201	765 987	-	5 638 829
Accumulated depreciation as at 31 December 2015	**57 984 704**	**14 966 133**	**8 053 827**	**-**	**81 004 664**
Net book value as at 31 December 2015	**56 486 478**	**2 553 065**	**1 011 317**	**2 787 589**	**62 838 449**

The sub-item "Lands and 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:

	2015 EUR	2014 EUR
Other participating interests	91 273 821	85 519 216
Pension fund	306 936 490	216 817 687
	398 210 311	**302 336 903**

The other participating interests comprise the BCL's investments held in 2015 in SWIFT, LuxCSD SA., 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 2015. In 2015, the BCL transferred an exceptional amount of 74.7 million euro to the assets of the pension fund further to the decision taken during the financial year 2014 related to the contribution to the provision for pensions.

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 2016, and other income receivables.

11.4 Sundry

	2015 EUR	2014 EUR
Others	1 948 669	9 440 211
	1 948 669	**9 440 211**

As at 31 December 2014, the item "Sundry" consisted in particular of the counterpart of the unrealised loss on SDR recorded in the financial statements of the BCL for an amount of 4 million euro, 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.

As at 31 December 2015, the BCL recognises a gain on SDR disclosed in the item "Other liabilities" (see Note 19 "Other liabilities").

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 2 876.5 million euro (2 714.2 million euro on 31 December 2014).

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

	2015 EUR	2014 EUR
Current accounts (including the minimum reserves)	35 596 035 548	12 780 675 776
Deposit facility	21 641 293 581	3 883 000 000
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	57 237 329 129	**16 663 675 776**

This item primarily comprises credit institutions' accounts held within the framework of the requirements of the minimum reserve system and deposit facilities.

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. Banks' minimum reserve balances have been remunerated since January 1, 1999 at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. Since June 2014 the reserves held in excess of the minimum requirements are remunerated at the lower rate of either zero per cent or the deposit facility rate.

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:

	2015 EUR	2014 EUR
Current accounts	4	12
Account related to euro coins issued by the Treasury	271 556 085	260 143 289
Specific account of the State	147 500 000	178 850 000
Fixed-term deposit	140 000 000	140 000 000
	559 056 089	**578 993 301**

The item current accounts records an amount of 4 euro 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

	2015 EUR	2014 EUR
Other liabilities	1 865 197 507	1 839 083 802
	1 865 197 507	**1 839 083 802**

As at 31 December 2015, this item included mainly a current account held by a European institution.

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 313.9 million euro as at 31 December 2015 (SDR 246.6 million, or 294.1 million euro on 31 December 2014).

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.

In 2015, the item "Other liabilities" also comprises the counterpart of the gains on SDR (9.2 million euro on 31 December 2015).

The Luxembourg franc banknotes still circulating as at 31 December 2015 amount to 5.0 million euro (5.1 million euro on 31 December 2014).

NOTE 20 - PROVISIONS

Provisions are as follows:

	2015 EUR	2014 EUR
Provision for banking risks	928 178 149	880 456 617
Provision for pensions	337 793 729	302 990 393
Other provisions	139 000	120 000
	1 266 110 878	**1 183 567 010**

20.1 Provision for banking risks

Provision for banking risks includes the following items:

Provisions for specific banking risks	2015 EUR	2014 EUR
Provision covering credit and market risk	525 342 826	501 504 599
Provision covering operational risk	30 430 000	32 980 000
Provision covering liquidity risk	16 739 954	16 667 044
Provision for doubtful debts	-	2 327 055
	572 512 780	**553 478 698**
Provisions for general banking risks	**2015 EUR**	**2014 EUR**
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	323 323 415	294 635 965
	355 665 369	**326 977 919**
	928 178 149	**880 456 617**

20.1.1 Provision covering credit and market risk

The provision of 525.3 million euro (501.5 million euro on 31 December 2014) corresponds to:

- 7.54% (7.30% on 31 December 2014) of the BCL's own securities portfolio existing as at 31 December 2015 and participations other than the participating interest in the capital of the ECB;
- 7.54% (7.30% on 31 December 2014) 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 and the third covered bond purchase programme and the securities issued by international or supranational institutions held in the public sector purchase programme (excluding securities held by the ECB).

According to the BCL's guidelines of the Bank's Council, the objective is to target a rate of 12% on all items above.

In order to achieve this objective in the light of non-conventional measures, this provision should be progressively increased by an additional amount of more than 1 000 million euro (2014: 800 million euro) over the next years in order to cover the potential liabilities. It is worth noting that the current financial capacity of the Bank is insufficient to generate the required level of income.

Yet this situation goes against the ECB recommendations on 7 September 2012 in relation to the capital increase of the BCL (CON/2012/69) in which it is noted that: *"The principle of financial independence requires a national central bank (NCB) within the European System of Central Banks (ESCB) to have sufficient means not only to perform its ESCB or Eurosystem-related tasks, but also its national tasks, e.g. financing its administration and own operations. [...] Financial independence primarily implies that an NCB should always be sufficiently capitalised. [...] In particular, the ECB is of the view that the higher the level of capital, reserves and provisions against financial risks is, the higher the safeguards against future losses are."*

20.1.2 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 2015, the average has been based on previous years in accordance with these rules.

20.1.3 Provision for doubtful debts

This provision was initially established to cover unsettled invoices sent annually to the Commission de Surveillance du Secteur Financier (CSSF) since 2010. These invoices aimed to cover BCL's cost in accordance of its responsibility for the oversight of the general market liquidity situation and the evaluation of the market participants in this respect. The provision was used in 2015 (2.3 million euro as at 31 December 2014) considering the repeated non-payment of the invoices.

20.1.4 Provision for liabilities resulting from monetary agreements

The provision, created in order to face any future monetary liabilities, did not change in 2015.

20.1.5 Other provision for general banking risks

This provision is intended to cover non-specific risks of losses resulting from central bank's activities. Due to the uncertainties of the financial markets, those risks can not be quantified in advance.

This provision increased by 28.7 million euro in 2015.

20.2 Provisions for pensions

Provisions for pensions include the following items:

	2015 EUR	2014 EUR
Provision for pensions	337 793 729	302 990 393
	337 793 729	**302 990 393**

In accordance with its Organic Law, the statutory pensions (first pillar) of its staff members are fully borne by the BCL.

The financing of pension obligations is provided on the one hand through deductions from wages and salaries in accordance with the rules governing the pension regime at the BCL and the other hand by payments made by the BCL.

The pension liabilities of the employer vis-à-vis all its staff members amounted to 337.8 million euro at 31 December 2015 compared with 303.0 million euro at 31 December 2014.

The demographic, economic and financial assumptions applied as part of the assessment of pension liabilities at 31 December 2015 are as follows:

Discount rate	3.25 %
Wage growth rate (incl. index)	3.30 %
Expected return on plan assets	3.55 %
Pension growth rate (incl. index)	2.35 %
Mortality table	German DAV 2004 tables
Disability rate	0.5 %
Staff turnover	0 %

Pension liabilities have been assessed based on the principles of the IAS 19 accounting standard. This standard requires both the use of actuarial method of projected unit credit and the use of a discount rate corresponding to the Eurozone "corporate" bond rate with an AA rating and a duration - at value date - reflecting those of the liabilities. For the fiscal year 2015, this rate was estimated at 2.50%.

The full adoption of the measurement features from IAS 19 standard for the fiscal year 2015 would have resulted in pension fund liabilities of a total of 419.4 million euro. As a consequence, this would have amounted in a total 116.4 million euro to make up for in 2015.

It should be noted that the adoption of this method is not mandatory for the BCL. However, in order to best reflect the economic and financial reality and to be able to meet the requirement of its Organic Law to bear all the expenses for pensions of its staff members, the Bank has decided to progressively increase its pension provisions in line with the application of the measurement features from IAS 19, thus smoothing the major burden over several years.

The difference of 34.8 million euro in pension liabilities as at 31 December 2015 (337.8 million euro) compared to those at 31 December 2014 (303.0 million euro) includes:

- salary and wage deductions (employees' share) accounting for 2.7 million euro;
- a transfer from the "Booking reserve of the pension fund" account (adjustment of the actuarial value of the pension fund assets) to the account "Provision for pensions" for 8.4 million euro;
- a contribution of 25.0 million euro borne by the BCL;
- pension payments for retired staff members of 1.2 million euro.

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 euro (unchanged since June 2009).

22.2 Reserves

The reserves amount to 15.1 million euro (13.5 million euro on 31 December 2014). This amount was increased by 1.6 million euro following the allocation of profit for 2014 according to the decision of the BCL's Council in application of its Founding Law (Article 31).

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 2015, the market value of these securities amounts to 125.6 billion euro (133.3 billion euro on 31 December 2014).

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 – 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
	2015	2015	2015
IMF	235 931	-	235 931
Monetary policy	-	53 356 070	53 356 070
Intra-Eurosystem claims	-	60 130 263	60 130 263
Securities	1 009 843	76 753 940	77 763 783
Gold	-	-	-
Other	6 785 988	344 526	7 130 514
Total	**8 031 762**	**190 584 799**	**198 616 561**

Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2015	2015	2015
IMF	(163 022)	-	(163 022)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(2 199 433)	(2 199 433)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(46 431 479)	(46 431 479)
Other intra-Eurosystem liabilities	-	-	-
Interests on term deposits	-	-	-
Other liabilities	(3 491 761)	(14 851)	(3 506 612)
Interest on swap operation	-	-	-
Total	**(3 654 783)**	**(48 645 763)**	**(52 300 546)**

Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2014	2014	2014
IMF	417 960	-	417 960
Monetary policy	-	2 752 965	2 752 965
Intra-Eurosystem claims	-	172 343 215	172 343 215
Securities	633 678	113 100 545	113 734 223
Gold	-	-	-
Other	2 941 896	12 178 592	15 120 488
Total	**3 993 534**	**300 375 317**	**304 368 851**

Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2014	2014	2014
IMF	(240 838)	-	(240 838)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(11 839 969)	(11 839 969)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(143 745 295)	(143 745 295)
Other intra-Eurosystem liabilities	-	(31 047)	(31 047)
Interests on term deposits	-	-	-
Other liabilities	(1 879 182)	(1 689 246)	(3 568 428)
Interest on swap operation	-	-	-
Total	**(2 120 020)**	**(157 305 557)**	**(159 425 577)**

NOTE 26 – 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 2015, they amount to 42.5 million euro (43.08 million euro on 31 December 2014) and to 0.02 million euro (0.04 million euro on 31 December 2014) respectively, giving a net gain of 42.5 million euro (a net gain of 43.04 million euro on 31 December 2014).

NOTE 27 – WRITE-DOWNS ON FINANCIAL ASSETS AND FOREIGN CURRENCY POSITIONS

This item includes revaluation losses on securities for 3.8 million euro (revaluation losses on securities for 0.7 million euro in 2014).

NOTE 28 – TRANSFER TO/FROM PROVISIONS FOR RISKS

This item includes the transfers to and from provisions for banking risks and other provisions.

NOTE 29 – 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	
	2015	2014	2015	2014
Securities	7 910 059	8 842 870	(10 345 671)	(10 999 520)
Others	1 266 629	1 381 106	(475 552)	(577 843)
Total	**9 176 688**	**10 223 976**	**(10 821 223)**	**(11 577 363)**

NOTE 30 - INCOME FROM PARTICIPATING INTEREST

The ECB's seigniorage income, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from securities purchased under (a) the securities markets programme, (b) the third covered bond purchase programme, (c) the asset-backed securities purchase programme and (d) the public sector purchase programme is due in full 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 distribution of profit. 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 aforementioned programmes, 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. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

In 2015, the BCL received 3.2 million euro from the ECB.

In 2015, the BCL also received a dividend of 0.7 million SDR (0.8 million euro) due to the participating interest held in the Bank for International Settlements (BIS).

In total, this item amounts to 4.0 million euro as at 31 December 2015 (3.5 million euro on 31 December 2014).

NOTE 31 – 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 mainly 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;
- accrued interest recorded at quarter-end by each NCB on monetary policy liabilities the maturity of which is one year or longer.

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;
- accrued interest recorded at quarter-end by each NCB on monetary policy assets the maturity of which is one year or longer;
- a limited amount of each NCBs' gold holdings in proportion to each NCB's capital key share.

Gold is considered as generating no income. Securities held for monetary purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programme, under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bonds purchase programme and under Decision ECB/2015/10 of 4 March 2015 on the implementation of a secondary markets public sector asset purchase programme are considered to generate income at the latest available marginal rate used by the Eurosystem's in its tenders for 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 set at 0.28839% since 1 January 2015 (0.29009% for the BCL as at 31 December 2014).

This item includes the net monetary income allocated to the BCL for 2015 representing an expense amounting to 54 933 657 euro (expense of 21 207 230 euro on 31 December 2014).

NOTE 32 – OTHER INCOME

Other income includes revenue for services rendered to third parties, transfers from administrative provisions, income from numismatic activities and the recovered functioning costs of EPCO (Eurosystem Procurement Co-ordination Office).

Other income includes also, when appropriate, the BCL's revenue from financial agreements between the Government of Luxembourg and the BCL.

NOTE 33 – STAFF COSTS

	2015 EUR	2014 EUR
Gross wages and salaries	(34 744 189)	(31 332 701)
Other staff costs	(2 215 322)	(2 027 988)
	(36 959 511)	**(33 360 689)**

This item includes the gross wages and salaries (adjusted in particular by the increase of the index point), compensations as well as other staff costs (the employer's share of contributions to the social security scheme and meal vouchers).

The amount relevant to the Board of Directors, including the amounts of the representation expenses as decided by Government in council, amounted to 736 878 euro for the year 2015 (704 861 euro for the year 2014).

As at 31 December 2015, the BCL employed 345 persons (318 on 31 December 2014). The average number of persons working for the BCL from 1 January to 31 December 2015 was 334 (309 for the year 2014).

NOTE 34 – BCL'S CONTRIBUTION TO THE LEGAL PENSION SCHEME OF ITS STAFF

	2015 EUR	2014 EUR
Notional employer's share	(5 569 053)	(5 010 710)
Ajustments to the pension liabilities	(19 448 051)	(73 067 486)
	(25 017 104)	**(78 078 196)**

This item includes the notional employer's share of the BCL determined on the basis of the gross wages and salaries for an amount of 5.6 million euro as well as the contribution of the BCL for an amount of 19.4 million euro resulting from the willingness of the BCL to progressively adopt the measurement features from IAS 19 standard (see also Note 20.2 "Provisions for pensions"). It is worth noting that the BCL contribution amounted to 73.1 million euro in 2014.

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 fees to match the staff to the needs of the Bank, both from a recruitment and a qualification perspective. The compensations paid to the members of the Council amounted to 92 325 euro in 2015 (85 794 euro in 2014).

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

This item includes in particular costs related to numismatic activities and to consultancy.

NOTE 39 – RESULT FOR THE YEAR

	2015 EUR	2014 EUR
Profit for the year	1 776 128	1 646 171

The fiscal year 2015 shows a profit of 1 776 128 euro (profit of 1 646 171 in 2014).

When taking into consideration the BCL pension liabilities (see Note 20.2) and the provisions for risks (see Note 20.1), the provisional results indicate a trend toward a significant structural loss.

NOTE 40 – EVENTS AFTER THE REPORTING PERIOD

Within the framework of the 14th General Review of Quotas, the total Luxembourg's quota of IMF was increased, in February 2016, from SDR 418.7 million to SDR 1 321.8 million. This increase of SDR 903.1 million is regulated by the law of 10 October 2012, which authorises the Government of Luxembourg to participate in the general review of quotas of IMF Member States.

On 24 February 2016, the BCL paid to the IMF an amount of 284 674 064 euro (equivalent to SDR 225 775 000) for the increase of quota (paying up of 25% of the increase). This amount was previously paid to the BCL by the Treasury of Luxembourg in accordance with Article 4 (2) of the BCL's Organic Law in relation to its financial base.

At the same time of the quota increase, Luxembourg's contribution to the New Arrangements to Borrow to the IMF went down from SDR 970.6 million to SDR 493.12 million.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PIERRE WERNER

03 ANNEXES

3
ANNEXES

3.1 BCL REGULATION PUBLISHED IN 2015

2015/N°20 of 24 August 2015

Regulation of the "Banque centrale du Luxembourg" 2015/N°20 of 24 August 2015 amending the regulation of the Banque centrale du Luxembourg 2011/N°9 of 4 July 2011 relating to the data collections on payment instruments and operations.

Domain: Statistics

For a complete list of regulations published by the BCL, please visit the BCL's website (www.bcl.lu).

3.2 LIST OF BCL CIRCULARS PUBLISHED IN 2015

Circular n° 239 of 9 November 2015

Introduction of a statistical data collection for insurance corporations - to all insurance corporations

Circular n° 238 of 12 January 2015

Introduction of a new statistical reporting on renminbi-denominated operations – to all credit institutions

For a complete list of circulars published by the BCL, please visit the BCL's website (www.bcl.lu).

3.3 LIST OF BCL PUBLICATIONS PUBLISHED IN 2015

3.3.1 BCL bulletins

- BCL Bulletin 2015/3, January 2016
- BCL Bulletin 2015/2, September 2015
- BCL Bulletin 2015/1, July 2015
- BCL Financial Stability Review, May 2015

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

- Annual Report 2014, French version, July 2015
- Annual Report 2014, English version, September 2015

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° 100, November 2015
  LOLA 3.0: Luxembourg OverLapping generation model for policy Analysis Introduction of a financial sector inLOLA, by Luca Marchiori and Olivier Pierrard.

- Working paper n° 99, August 2015
  Other Real Estate Property in Selected Euro Area Countries, by Michael Ziegelmeyer.

- Working paper n°98, July 2015
  The interest rate sensitivity of Luxembourg bond funds: Results from a time-varying model, by Raphaël Janssen and Romuald Mohrs.

- Working paper n°97, July 2015
  Is the financial sector Luxembourg's engine of growth?, by Paolo Guarda and Abdelaziz Rouabah.

- Working paper n°96, July 2015
  Immigration, occupational choice and public employment, by Luca Marchiori, Patrice Pieretti and Benteng Zou.

- Working paper n°95, July 2015
  Investment Funds' Vulnerabilities: A Tail-risk Dynamic CIMDO Approach, by Xisong Jin and Francisco Nadal de Simone.

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

- La Banque centrale du Luxembourg, French version, January 2015
- The Banque centrale du Luxembourg, English version, January 2015
- Die Banque centrale du Luxembourg, German version, September 2015
- Brochure of the BCL's numismatic products (2015)

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 Euro banknotes and coins, please visit the BCL's website (www.bcl.lu).

3.3.6 Publications and external presentations of BCL staff

3.3.6.1 External publications of the BCL's staff members

- Necker, Sarah and Michael Ziegelmeyer (2015): *Household Risk Taking after the Financial Crisis, The Quarterly Review of Economics and Finance*, in press, doi:10.1016/j.qref.2015.03.006

- 3.3.6.2 **External presentations**

- 6th annual meeting of the Society for the Study of Economic Inequality (ECINEQ), Luxembourg, July 2015
- 3rd Luxembourg Household Finance and Consumption Workshop, Luxembourg, June 2015
- EUI-nomics 2015: Debating the economic conditions in the euro area and beyond, European University Institute, Florence, Italie, April 2015.
- Royal Economic Society (RES) annual conference, Manchester, March 2015

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:

European Central Bank
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

1. Monetary policy statistics

1.1 Financial statement of the Banque central du Luxembourg
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 the Luxembourg 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 (NICP)
4.2 Industrial goods and commodity prices
4.3 Costs indicators and terms of trade

5. Luxembourg macro-economic 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 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

3.6 LIST OF ABREVIATIONS

ABBL	Association des Banques et Banquiers, Luxembourg
ABS	Asset-Backed Securities
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
CCBM	Correspondent central banking model
CETREL	Centre des transferts électroniques Luxembourg (*Center for Electronic Transfers Luxembourg*)
CLS	Continuous linked settlement
CPMI	Committee on Payments and Market Infrastructure
CPSS	Committee on Payment and Settlement
CRD	Capital Requirement Directive
CRR	Capital Requirement Regulation
CSD	Central Securities Depositories
CSSF	Commission de surveillance du secteur financier
EBA	European Banking Authority
ECAF	Eurosystem Credit Assessment Framework
ECB	European Central Bank

EFC	Economic and Financial Committee
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMU	Economic and Monetary Union
EPC	European Payments Council
ESCB	European System of Central Banks
ESM	European Stability Mechanism
ESMA	European Securities and Markets 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
IML	Institut Monétaire Luxembourgeois
IOSCO	International Organization of Securities Commissions
LCR	Liquidity Coverage Ratio
LFF	Luxembourg for Finance
LSF	Luxembourg School of Finance
LTRO	Longer Term Refinancing Operations
LU	Luxembourg
MRA	Maximum Risk Allowance
MRO	Main Refinancing Operations
NCB	National Central Banks
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Cooperation and Development
PBC	People's Bank of China
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	Trans-European Automated Real-time Gross settlement Express Transfer system
TFEU	Treaty on the Functioning of the European 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 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.

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, CBPP2 and CBPP3): 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. On 4 September 2014, the Governing Council decided to launch a new euro-denominated covered bonds purchase programme (CBPP3) in the primary and secondary markets.

As at 31 December 2015, the outstanding CBPP was € 20.6 billion; the outstanding CBPP2 was € 9.7 billion; the CBPP3 holdings reached € 143.34 billion.

CPMI-IOSCO: The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing and securities settlement related arrangements. The CPMI monitors and analyses developments in these arrangements and is a global standard setter in this area. It also serves as a forum for central bank cooperation in related oversight, policy and operational matters.

The International Organization of Securities Commissions (IOSCO) is a body that brings together the world's securities regulators. The organization develops among others internationally recognized standards of regulation, oversight and enforcement aiming at protecting investors and promoting integrity of securities markets.

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).

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.

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.

EURO1: Multilateral net payment system providing same-day settlement at a pan-European level. EURO1 is operated by EBA Clearing and settles large-value interbank payments in euro.

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, Lithuania, 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 and the ECB. The Eurosystem and the SEBC are governed by the decision-making bodies of the ECB, i.e. by the Governing Council, by 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 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.

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.

Expanded Asset Purchase Programme (APP): Following the first and second covered bond purchase programmes (CBPP and CBPP2) conducted respectively in 2009-10 and 2011-12, the expanded asset purchase programme (APP) includes all purchase programmes under which private sector securities and public sector securities are purchased to address the risks of a too prolonged period of low inflation. It consists of the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP).

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.

G10: The Group of Ten (G10) refers to the group of countries that have agreed to participate in the General Arrangements to Borrow (GAB), a supplementary borrowing arrangement that can be invoked if the IMF's resources are estimated to be below member's needs. The GAB was established in 1962, when the governments of eight IMF members—Belgium, Canada, France, Italy, Japan, the Netherlands, the United Kingdom, and the United States—and the central banks of two others, Germany and Sweden, agreed to make resources available to the IMF for drawings by participants and, under certain circumstances, for drawings by nonparticipants.

G20: The Group of Twenty (G20), refers to a group of key advanced and emerging market economies that was created in 1999, in response to the financial crisis in the late 1990s, to modernise the international financial architecture, strengthen policy coordination between its members, and promote financial stability. In recent years it has increasingly influenced the debate on the global economic and financial policy agenda.

The membership of the G20 comprises the G7 countries (Canada, France, Germany, Italy, Japan, United Kingdom and the United States), Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey and the European Union, which is represented by the rotating Council Presidency and the European Central Bank.

Jointly G20 members represent about 85 per cent of global gross domestic product, over 75 per cent of global trade, and two-thirds of the world's population.

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 harmonised 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.

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.

Public sector purchase programme (PSPP): On 22 January 2015 the Governing Council expanded its scope of intervention by announcing a securities purchase programme in the public sector (PSPP) scheduled to start on 09 March 2015. The PSPP was the latest of a suite of asset purchase programmes (APP), which included the asset-backed securities (ABSPP) and the covered bonds (CBPP3), aimed at addressing the risk of a of a too prolonged period of low inflation.

The secondary market transactions conducted under the PSPP include high quality euro-denominated instruments issued by the euro area central governments - or by regional and local governments that meet all other eligibility criteria - or by eligible international or supranational institutions and agencies established in the euro area.

The share of purchases in a national central bank's home market is conducted in proportions reflecting the respective share of the national central bank in the ECB's capital key.

Additional eligibility criteria apply to countries subject to an EU-IMF macroeconomic adjustment programme. As at 31 December 2015, the outstanding PSPP was € 491.215 billion.

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 TARGET2).

SDR (Special Drawing Rights): The SDR was created by the IMF in 1969 as an international reserve asset to supplement its member countries' official reserves. Its value is currently based on a basket of four key international currencies: the euro, the Japanese yen, the pound sterling, and the US dollar. The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members.

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 at 31 December 2015, the outstanding SMP was € 122.6 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.

Standing Facilities: Standing facilities aim to provide and absorb overnight liquidity, signal the general monetary policy stance and bound overnight market interest rates. Two standing facilities, which are administered in a decentralised manner by the NCBs, are available to eligible counterparties on their own initiative: the marginal lending facility and the deposit facility.

STEP2: Pan-European Automated Clearing House (PE-ACH) for retail payments in euro. The clearing house is operated by EBA Clearing.

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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