

Luxembourg, 20 August 2007

To all credit institutions

In case of discrepancies between the French and the English text,
the French text shall prevail

CIRCULAR BCL 2007/205

Adoption of the euro by Cyprus and Malta

Ladies and Gentlemen,

At the European Council on 10 July 2007, the Heads of State and Government of the European Union have decided that Cyprus and Malta will adopt the euro as from 1 January 2008 onwards.

The objective of the present circular is to clarify the impact of the adoption of the euro by Cyprus and Malta for the establishment of the monthly and quarterly statistical reports.

1 Impact on the statistical data collection of the BCL

The adoption of the euro by Cyprus and Malta as from 1 January 2008 onwards will not only have an impact on the establishment of monthly and quarterly statistical reports but also on the calculation of the reserve requirement which credit institutions are subject to.

1.1 Impact on the monthly statistical data collection

The monthly statistical reports S 1.1 «Monthly statistical balance sheet», S 1.4 «Adjustments due to valuation effects» and S 1.5 «Information on interest rates in EUR» require a breakdown of assets and liabilities according to the country of residency or the country of the registered office of the counterpart, i.e. the country where the centre of economic interest of a counterpart is located and distinguish between the following breakdowns:

- Luxembourg (LU)
- OMUMs: i.e. Other Monetary Union Members States
- Rest of the world: i.e. the countries that are not included in the two aforementioned categories

As from 1 January 2008 onwards, the category «Other Monetary Union Members States» (OMUMs) will also include Cyprus and Malta, that are currently and until 31 December 2007, included in the category «Rest of the world».

Furthermore, credit institutions are reminded that the inclusion of Cyprus and Malta in the category «Other Monetary Union Members States» entails a more detailed sector breakdown of assets and liabilities towards resident counterparts of Cyprus and/or Malta. The details of these sector breakdowns are detailed in part III – S 1.1 «Monthly statistical balance sheet» (pp. 5 to 15), part III – S 1.4 «Adjustments due to valuation effects» (pp. 5 to 14) and part III – S 1.5 «Information on interest rates in EUR» (pp. 7 to 9) of the compendium of reporting instructions for credit institutions.

As a consequence, credit institutions are invited to modify their reporting systems in order to include assets and liabilities resulting from operations with counterparts from Cyprus and Malta in the category «Other Monetary Union Members States» while applying the appropriate sector breakdown.

1.2 Impact on report S 2.5 «Quarterly statistical balance sheet»

The quarterly statistical report S 2.5 «Quarterly statistical balance sheet» requires a breakdown of assets and liabilities according to the country of residency or the country of the registered office of the counterpart by using a two digit ISO code.

In this context, credit institutions are also reminded that the joining of the euro area by Cyprus and Malta implies a more detailed sector breakdown of assets and liabilities resulting from operations with counterparts from Cyprus and Malta. The details of these sector breakdowns are detailed in part III – S 2.5 «Quarterly statistical balance sheet» (pp. 5 to 16) of the compendium of reporting instructions for credit institutions.

2 Impact for the calculation of the reserve requirement

Since the liabilities which are owed to the European central bank, to the National central banks that are members of the Eurosystem and to credit institutions that are subject to the Eurosystem's minimum reserve requirement are excluded from the reserve base, the volume of liabilities included in the reserve base must be reduced by the amount of liabilities owed to credit institutions from Cyprus and Malta that are subject to the Eurosystem's minimum reserve requirement as from January 2008 onwards.

For the maintenance period from 12 December 2007 to 15 January 2008, that from January 2008 to February 2008 as well as that from February 2008 to March 2008, the liabilities owed to credit institutions from Cyprus and Malta being subject to the Eurosystem's reserve requirement may already be deducted from the reserve base of credit institutions.

Luxembourg credit institutions that wish to benefit from this option must fill in the attached table for the periods of October 2007, November 2007 and December 2007 while considering credit institutions from Cyprus and Malta as being subject to the Eurosystem's reserve requirement even though these institutions are not subject to the Eurosystem's minimum reserve requirement in 2007. In that case, the amount of the reserve requirement reported on the basis of report S 1.1 «Monthly statistical balance sheet» will be amended by taking into account the information provided on the attached table.

Credit institutions are reminded that statistical reports S 1.1, S 1.4, S 1.5 and S 2.5 must be established by considering Cyprus and Malta as not being members of the Monetary Union until 31 December 2007 included.

3 Quality of the data transmitted

Credit institutions are reminded to scrupulously check the correct identification of their counterparts and to use, in particular, the official list of credit institutions published by the Commission de surveillance du secteur financier as well as the official list of monetary financial institutions made available to reporting agents on the website of the European central bank.

We therefore consider it necessary to stress once again the importance of the quality of the data transmitted to BCL and the necessity to submit the data to the verification rules detailed in the technical documentation. Only a rigorous control, undertaken during data production, will allow respecting the quality requirements as well as the reporting deadlines. This point is all the more important since the data collected will be checked by the ECB before aggregating it with the data of the other Member states. Any error or important negligence will have harmful repercussions on the reputation of the whole Luxembourg banking community.

4 Setting up of the new arrangements

The new classification of assets and liabilities with counterparts that are residents of Cyprus and Malta must be achieved for the first time when establishing monthly statistical reports referring to January 2008 and quarterly statistical reports referring to March 2008.

The attached table relating to the calculation of minimum reserves refers to the periods of October 2007, November 2007 and December 2007.

Yours sincerely

BANQUE CENTRALE DU LUXEMBOURG
La direction

Serge KOLB

Andrée BILLON

Yves MERSCH

Annex:

Annex. Information to be provided to the Banque centrale du Luxembourg for the reduction of the reserve base relating to the periods of October 2007, November 2007 and December 2007

Item	Currency	Country	Economic sector	Initial maturity		
				<= 2 years	> 2 years	No split
Overnight deposits	EUR	Cyprus and Malta	NCB + CIS subject to reserves			
	Other currencies	Cyprus and Malta	NCB + CIS subject to reserves			
Deposits redeemable at notice	EUR	Cyprus and Malta	NCB + CIS subject to reserves			
	Other currencies	Cyprus and Malta	NCB + CIS subject to reserves			
Deposits with agreed maturity	EUR	Cyprus and Malta	NCB + CIS subject to reserves			
	Other currencies	Cyprus and Malta	NCB + CIS subject to reserves			
Repurchase agreements	EUR	Cyprus and Malta	NCB + CIS subject to reserves			
	Other currencies	Cyprus and Malta	NCB + CIS subject to reserves			
Debt securities issued	EUR	Cyprus and Malta	NCB + CIS subject to reserves			
	Other currencies	Cyprus and Malta	NCB + CIS subject to reserves			

NCB + CIS subject to reserves: National central banks of Cyprus and Malta and credit institutions subject to the Eurosystem's minimum reserve requirement

The wording of the lines and columns of this table correspond with those used for report S 1.1 to be reported to the Banque centrale du Luxembourg with a monthly frequency. Credit institutions that wish to fill in this table may therefore refer to the definitions provided in the compendium of instructions for credit institutions.