

Luxembourg, 29 October 2007

To all credit institutions

In case of discrepancies between the French and the English text, the French text shall prevail
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CIRCULAR BCL 2007/212

Update of the instructions for the statistical data collection

Ladies and Gentlemen,

We should like to refer to the circular letter of the Banque centrale du Luxembourg (BCL), dated 23 January 2006, referring to regulation ECB/2004/21 concerning the reporting of loans and deposits as well as to the introduction of IAS/IFRS accounting rules for the accounting reporting of the Commission de surveillance du secteur financier (CSSF) as from 1 January 2008 onwards.

The introduction of IAS/IFRS accounting rules greatly affects the items of the balance sheet, is notably characterised by the valuation of assets and liabilities at their fair value and therefore distinguishes itself from the valuation rules currently in force. However, IAS/IFRS

accounting rules also concern some items of the off-balance sheet since they foresee, for the future, the reporting of financial derivatives under assets and liabilities of the balance.

In this context, we wish to attract the attention of credit institutions on the fact that the statistical reporting of the BCL will be subject to a more important modification in 2010; the later will follow the revision of regulation ECB/2001/13 concerning the consolidated balance sheet of the monetary financial institutions sector and ECB/2001/18 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations. Hence, BCL has decided to leave the layout of the statistical reports unchanged at the current juncture in order to avoid imposing two updates to credit institutions within 24 months.

The aim of the present circular is therefore to provide to credit institutions the clarifications that are necessary for the establishment of statistical reports due to the new supervisory reporting of the CSSF that will become applicable as from 1 January 2008 onwards. Indeed, by the way of its circulars 07/279 and 07/316, the CSSF has defined the new arrangements relating to the supervisory reporting that will become applicable as from 1 January 2008 onwards, especially the fact that the new reports for prudential supervision will be established according to the IAS/IFRS accounting rules.

In this context, it is important to note that the present circular provides a certain number of explanations on the specific points that have been brought to the attention of the BCL during the past months. However, only the implementation of the new accounting rules by credit institution will allow unveiling the bulk of the problems that will be faced by credit institutions during the forthcoming months. Hence, the BCL will publish, on its website, a specific document that will take up the explanations already provided in the present circular as well as the position of the BCL relating to problems that will be unveiled by credit institutions in the forthcoming months.

The clarifications of instructions that are necessary right away are the following:

1 Accounting rules

The BCL wishes, as far as possible, continuing to conform to the accounting rules set up by the CSSF. Hence, assets and liabilities will be valued according to the accounting rules recognised by the CSSF.

However, two special cases will have to be considered.

As indicated in our circular letter, dated 23 January 2006, regulation ECB/2004/21 stipulates that, regardless of the incorporation of the international accounting rule IAS 39 concerning financial instruments within the legislation of the European Union, for statistical purpose monetary financial institutions (MFIs) continue reporting the stocks of loans and deposits at nominal value.

Hence, regardless of the accounting rules for the prudential reporting, assets and liabilities under the following items must be reported at their nominal value in all the monthly and quarterly statistical reports:

- Assets
 - Item 1-020 «Loans»
 - Item 1-021 «Consumer loans»
 - Item 1-022 «Loans for house purchase»
 - Item 1-023 «Other loans»
- Liabilities
 - Item 2-021 «Deposits / Overnight deposits»
 - Item 2-022 «Deposits / Deposits with agreed maturity»
 - Item 2-023 «Deposits / Deposits redeemable at notice»
 - Item 2-024 «Deposits / Repurchase agreements»

2 Securities lending

The securities lending operations follow the same accounting treatment as repurchase operations.

Therefore, the instruction concerning the reporting of «Securities transferred to third parties within the framework of securities lending operation» in item 1-020 «Loans» will be repealed.

3 Financial derivatives

Following the introduction of IAS/IFRS accounting rules, financial derivatives will be reported at their fair value (corresponding to a unrealised earning or unrealised loss) on the balance sheet under assets and liabilities (financial derivatives that have a positive value will be recorded under financial assets and derivatives that have a negative value will be reported under financial liabilities, without offset between them).

Given that the current statistical reports do not foresee a specific item for the reporting of financial derivatives, the later will be included in the items 1-080 «Remaining assets» and 2-120 «Remaining liabilities».

At the time of the aforementioned/announced revision of the statistical reports for credit institutions, the BCL will deeper analyse the reporting of financial.

4 Report S 1.4 «Adjustments due to valuation effects»

The new accounting rules require the reporting of financial instruments at their fair value and/or at impairment value. All valuation effects affecting items foreseen on report S 1.4 must be stated on report S 1.4 and will find their counterpart in item «Results» of report S 1.4.

5 Report S 2.5 Off-balance sheet items

Regardless of the fact that financial derivatives will be reported at fair value on the balance sheet under assets and liabilities, their reporting under items 3-040 «Operations linked to exchange rates», 3-050 «Operations linked to interest rates» and 3-060 «Operations linked to other market rates» of report S 2.5«Quarterly statistical balance sheet» will continue to be done on the basis of their notional amounts.

6 Schedule of conditions

The relationships between report S 1.1 and report B 1.1 in its current version (that will be applicable until 31 December 2007) as described in the «Schedule of conditions» will be repealed.

Yours sincerely

BANQUE CENTRALE DU LUXEMBOURG
La direction

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