01 THE BCL'S ACTIVITIES

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1.1 MONETARY POLICY OPERATIONS

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

The objective of monetary policy is to steer interest rates and 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.

Conventional monetary policy instruments are:

Open market operations

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

Open market operations include:

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

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

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

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

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

Standing Facilities

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

Two types of standing facilities are available:

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

Minimum reserves

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

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

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

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

- EUR refinancing operations with a tenor of one maintenance period
- Temporary currency auction facilities
- Extension of operation maturities
- The securities purchase programme
- The securities markets programme
- The outright monetary transactions programme

Details on these operations are reported here-below.

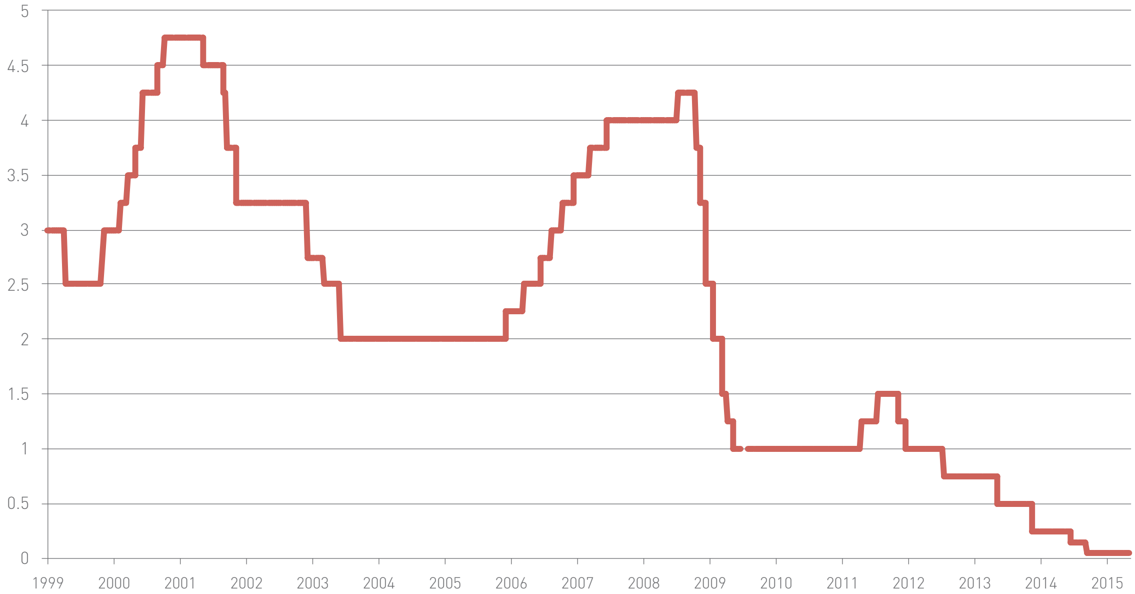
1.1.1 Conventional Operations

1.1.1.1 Open market operations in 2014

1.1.1.1.1 Main refinancing operations (MRO)

Since October 2008, the main refinancing operations (MRO) were conducted by the ECB against a fixed rate and with full allotment. These modalities continued to be applicable in 2014. It was decided that this tender procedure will be maintained as long as necessary, and at least until December 2016. The Governing Council decreased the interest rate on the main refinancing operations by 10 basis points on two occasions, to 0.15 % on 11 June 2014 and to 0.05 % on 10 September 2014.

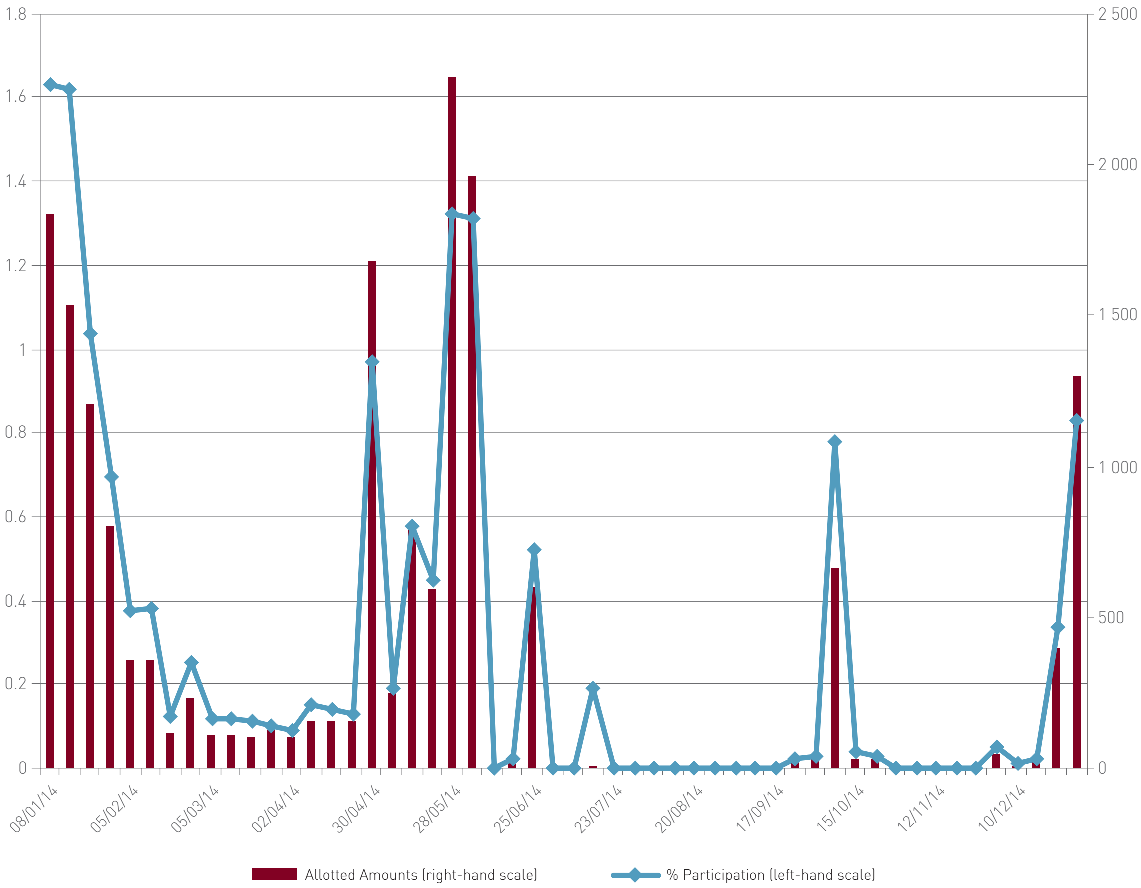
Graph 1:
MRO - Interest Rate Evolution since 1999 (%)



Source: BCL, Bloomberg

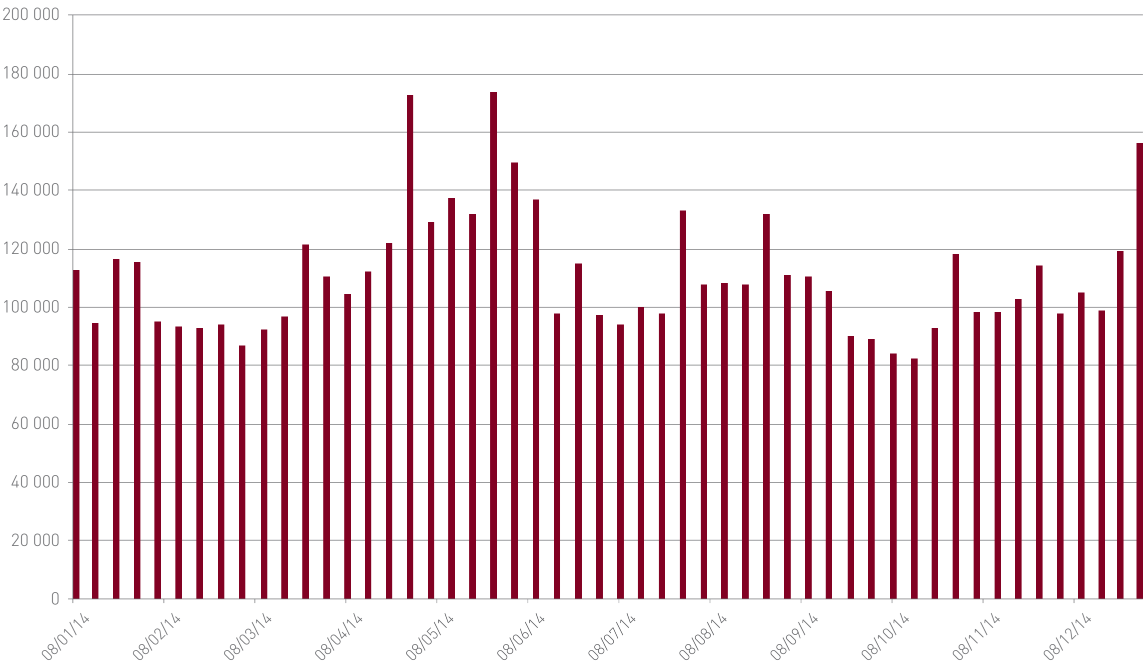
The participation ratio of Luxembourg banks in the main refinancing operations of the Eurosystem ranked between 1.6 % and 0.2 % in the first half-year and reached 0 % in the second part of the year, with an exception of an increase of interest for end-of-quarter operations.

Graph 2:
MRO- Allotted Amounts in Luxembourg (in € million) and Participation Ratio of Luxembourg compared to the Euro area in 2014



Source: BCL

Graph 3:
MRO - Allotted Amounts in 2014 in the Euro area (in € million)

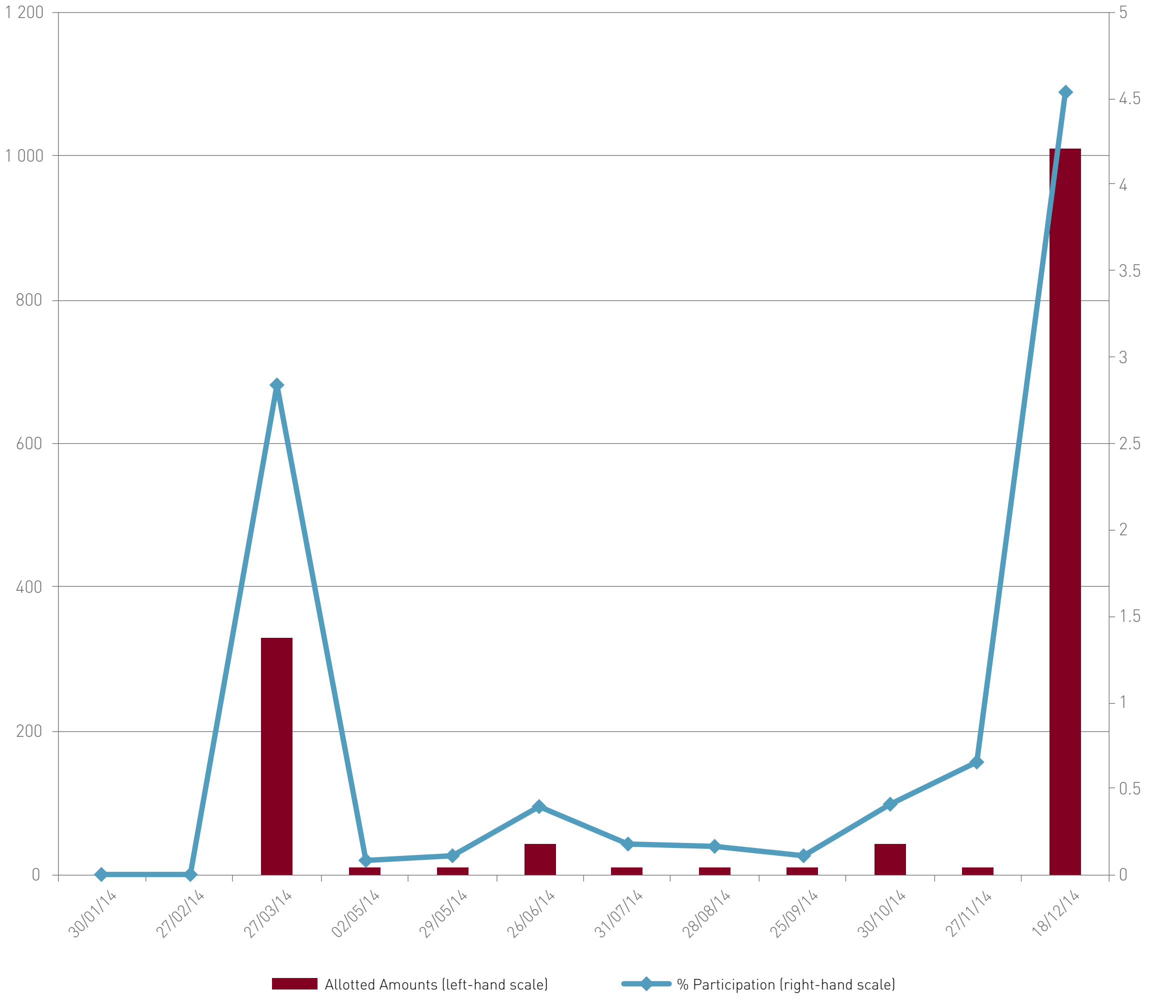


Source: BCL

1.1.1.1.2 Longer-term refinancing operations (LTRO)

Luxemburgish counterparties participated mainly in the three-month LTRO operation of the end of the first quarter and more significantly in the last operation of the year.

Graph 4:
LTRO 3 months - Allotted Amounts in Luxembourg and Participation Rate of Luxembourg compared to the Euro area in 2014 (in € million)



Source: BCL

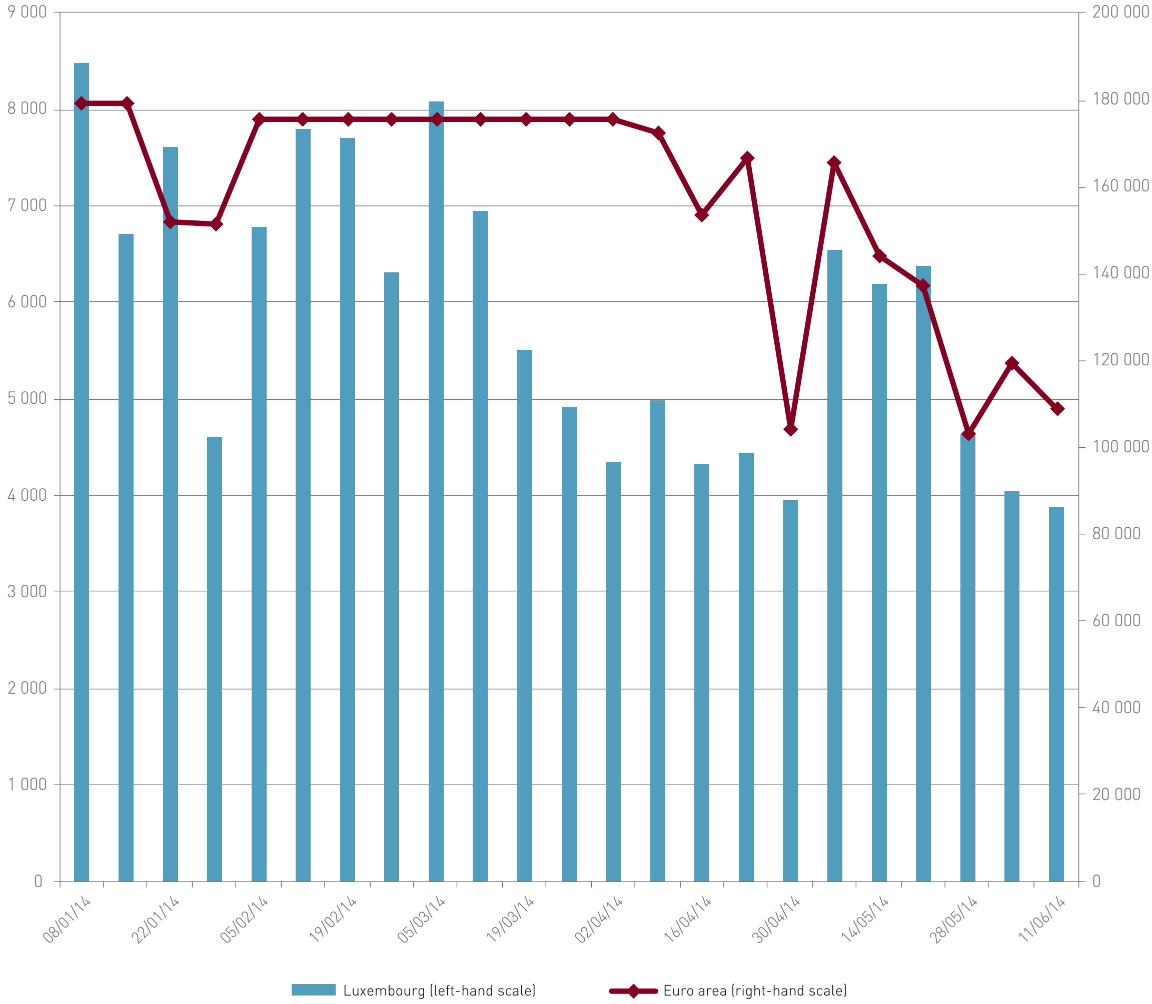
1.1.1.1.3 Fine-tuning operations

Liquidity-absorbing operations

Since May 2010, the Governing Council of the ECB have been implementing one-week operations aimed at absorbing the liquidities injected through the Securities Markets Programme or the Outright Monetary Transaction Programme (see points 1.1.2.5 and 1.1.2.6). On 5 June 2014, the Governing Council decided to discontinue the weekly fine-tuning operations.

Overall, 23 operations of this type were conducted in 2014, absorbing on average € 5.8 billion in Luxembourg and € 157.19 billion in the euro zone.

Graph 5:
One Week Deposits in 2014 - Luxembourg and Euro area (in € million)



Source: BCL

Liquidity-providing operations

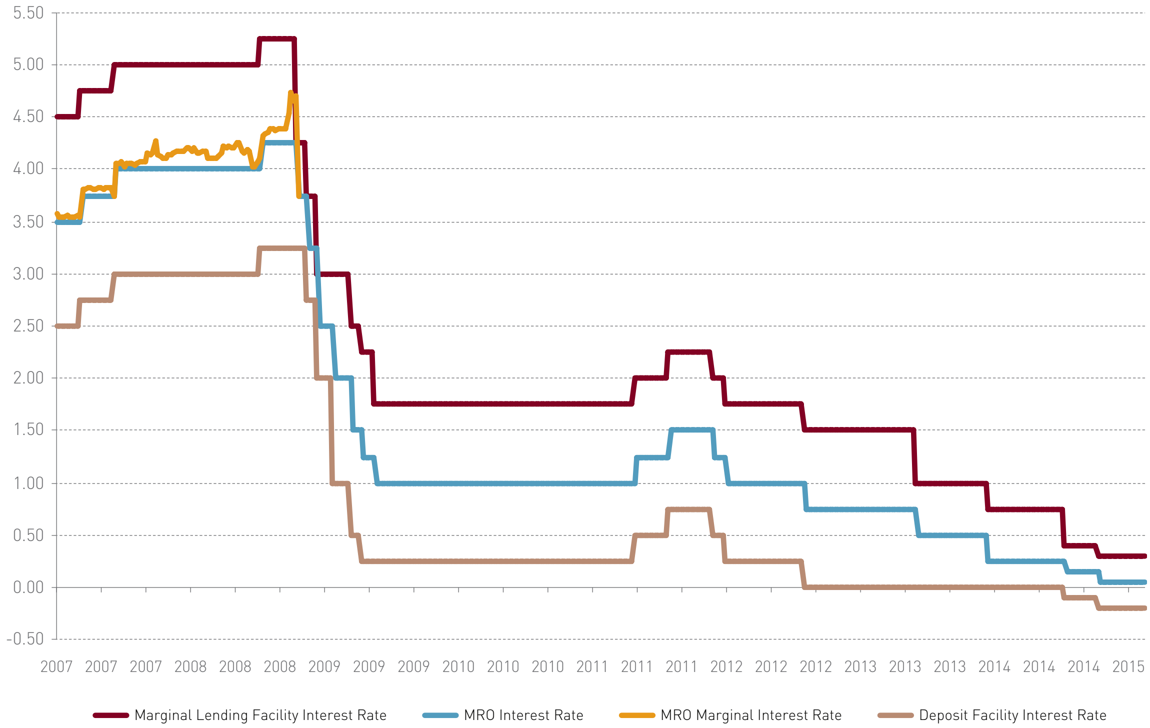
No fine-tuning liquidity providing operations were conducted in 2014.

1.1.1.2 Standing facilities in 2014

Luxembourgish counterparties may have recourse to the standing facilities offered by BCL, i.e. the deposit or marginal lending facilities at a rate fixed beforehand. These rates are defined relative to the reference rate of the Eurosystem.

The Governing Council lowered the interest rate on the marginal lending rate by 35 basis points to 0.40 % in June 2014 and by another 10 basis points to 0.30 % in September 2014. The interest rate on the deposit facility was reduced by 10 basis points to -0.10 % in June 2014 and by another 10 basis points to -0.20 % in September 2014.

Graph 6:
Evolution of the Reference Rates of the ECB since 2007



Source: BCL, Bloomberg

Marginal lending facility

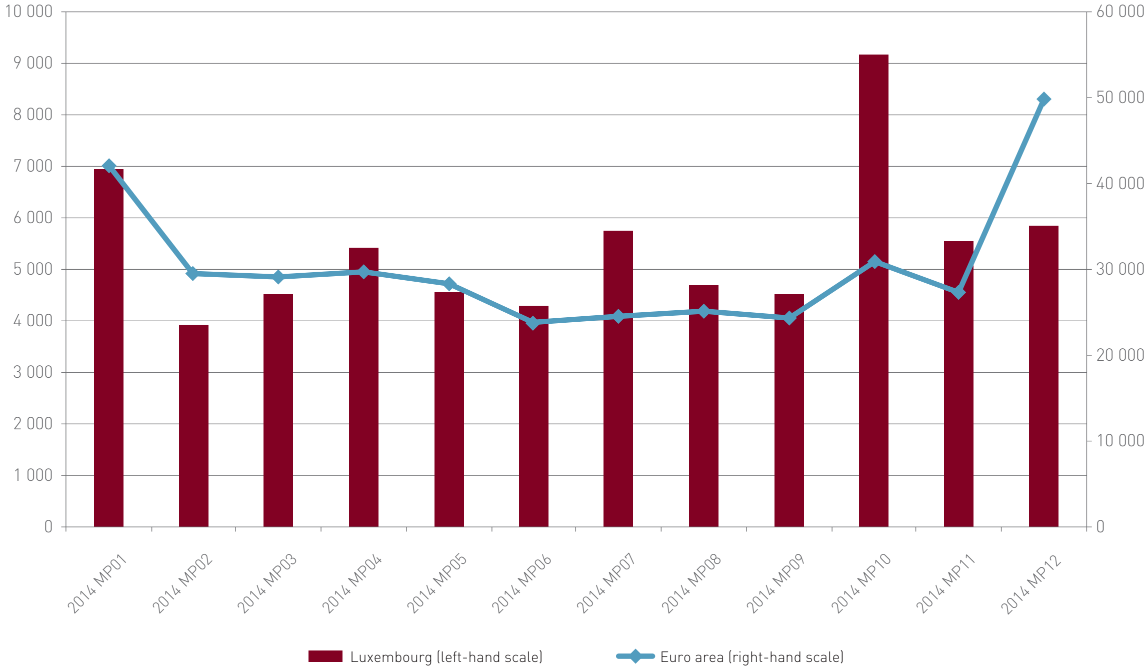
Luxembourgish counterparties barely used the marginal lending facility in 2014. Their eventual recourse was punctual.

Deposit facility

The amounts deposited at the BCL were stable in 2014 at a high level but inferior to 2013, notably due to the change of the deposit facility rate (0 % from 11 July 2012 to 10 June 2014, then -0.10 % from 11 June 2014 to 9 September 2014 and -0.20 % from 10 September 2014 on).

The amounts held by counterparties on their current accounts remained very high. Due to the absence of an opportunity cost since July 2012, the counterparties can be indifferent between leaving their liquidities on a non-remunerated current account and using the deposit facility.

Graph 7:
Evolution of the Deposit Facility in 2014 - Luxembourg and the Euro area (Average Daily Amounts in € million)



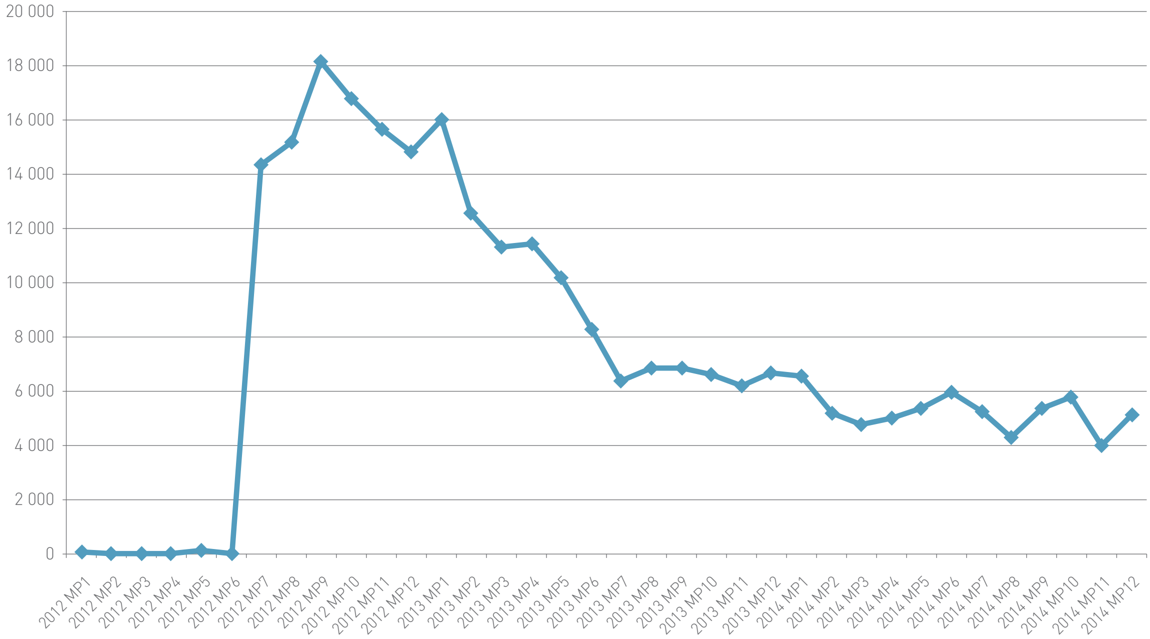
Source: BCL

1.1.1.3 Minimum reserves in 2014

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

The rate on the deposit facility was lowered to 0 % in July 2012, then to -0.10 % and -1.20 % in 2014. 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. First, 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. Nevertheless, with an average amount of € 5.2 billion per day for the whole of Luxembourgish counterparties, these amounts remained at a high level in 2014.

Graph 8:
Total Average Daily Excess Reserves of Luxemburgish Counterparties since 2012 (in € million)



Source: BCL

1.1.2 Non-conventional operations

1.1.2.1 One maintenance period operations in EUR

From 10 June 2014, the Governing Council has decided to discontinue the Eurosystem's special term refinancing operations with a maturity of one maintenance period. There was no participant to these operations in Luxembourg in 2014.

1.1.2.2 Temporary currency auction facilities

On 24 January 2014, in view of the improvement in US dollar funding conditions, the Governing Council has decided to cease conducting three-month US dollar liquidity-providing operations as of April 2014, one-week US dollar liquidity operations being maintained at least until 31 July 2014.

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

There was no participant in these operations in Luxembourg in 2014. In the euro area, there has been no participant to these operations since the end of September 2014.

1.1.2.3 Extension of operations' maturities

Over the last years, LTROs played an increasingly important role in the provision of liquidity to the banking sector. Before the crisis, these operations accounted for merely one third of the total liquidity provided by the Eurosystem. Today, they represent the main part. New LTROs have been added, most of them with much longer maturities than the standard LTROs.

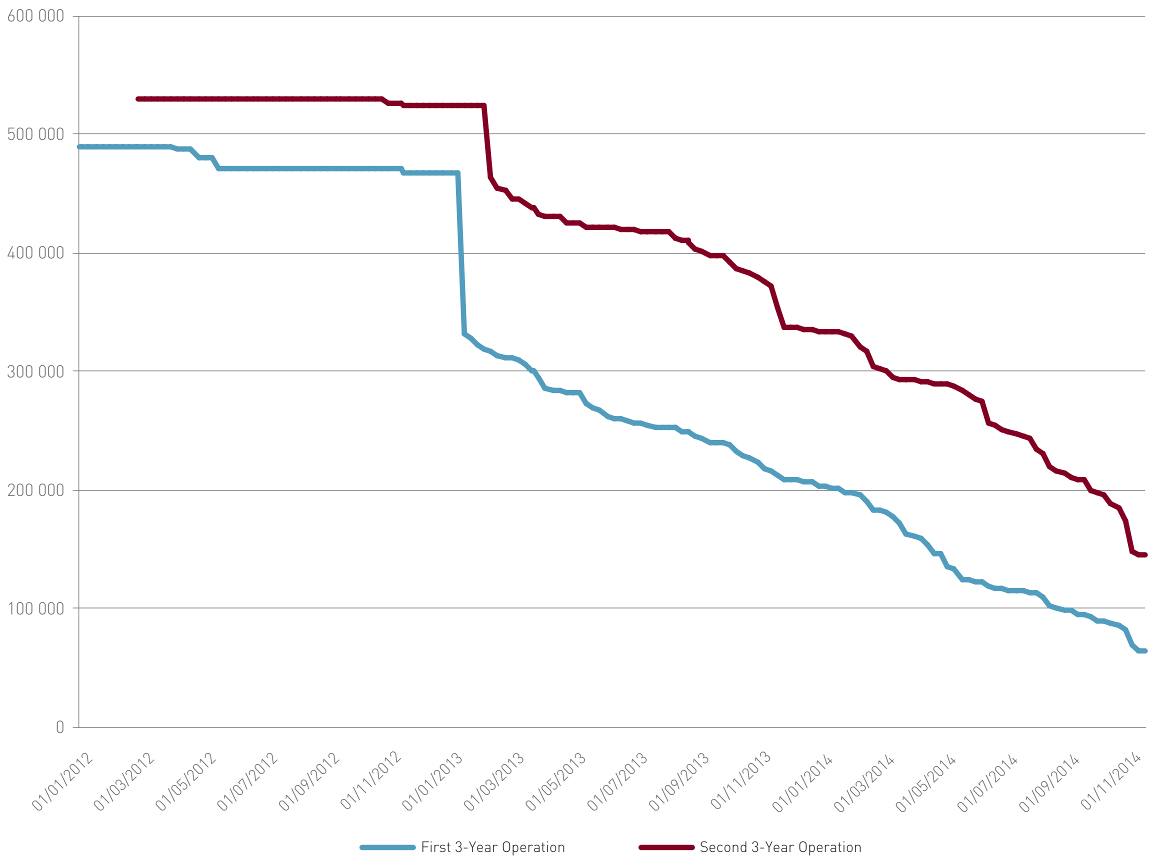
First, operations with a maturity of one maintenance period were added to the operational framework, followed by supplementary 3-month LTROs and six-month LTROs and one-year LTROs. These operations aimed at containing the pressures on the money markets and at satisfying the short-term funding needs of the banks.

However in 2010, the tensions spread to the sovereign debt market, leading to a significant fragmentation of the interbank market and an increase of the costs of funding, both on the short-term segment of the money market yield curve and on the medium to longer-term part of this curve. As these segments of the curve became increasingly dysfunctional, the Eurosystem extended its role of intermediation and proposed supplementary financing facilities covering a wider spectrum of maturities.

Accordingly, due to the funding difficulties and to the maturity mismatches in the balance sheets of the banks of the euro zone, the operational framework had to be re-organised by adapting existing instruments, particularly through the extension of the maturities of LTROs up to three years.

At the end of 2011 and in the beginning of 2012, two three-year operations were conducted by the ECB in order to favour the banking credit and the liquidity on the money market of the euro zone. The operations were allotted at 100 %, at a revisable rate calculated at maturity and fixed at the average of the MROs interest rates over the life of the operation. Starting after one year, the counterparties had the opportunity to reimburse a part of the amounts allotted, at each date corresponding to an MRO and this until the end of the operation.

Graph 9:
Evolution of the Outstanding Amount of the 3-Year Operations in the Euro area as of 31 December 2014 (in € million)



Source: BCL

As of 31 December 2014, in the euro area, the early reimbursements for the operation maturing on 29 January 2015 represented 87 % of the total amount borrowed (€ 425 billion out of € 489 billion). The early reimbursements for the operation maturing on 26 February 2015 represented 73 % of the total amount borrowed (€ 384 billion out of € 529 billion).

On 5 June 2014, the Governing Council of the ECB announced measures that 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) aimed at improving bank lending to the euro area non-financial private sector, excluding loans to households for house purchase, over a window of two years.

In the context of these operations, the counterparties are entitled to an initial TLTRO borrowing allowance equal to 7 % of the total amount of their loans to the euro area non-financial private sector, excluding loans to households for house purchase, outstanding on 30 April 2014. During these two TLTROs that were conducted on 18 September 2014 and on 11 December 2014, counterparties were able to borrow an amount that cumulatively did not exceed this initial allowance. During the period from March 2015 to June 2016, all counterparties have been and will be able to borrow additional amounts[2] in a series of TLTROs conducted quarterly. All TLTROs will mature on 26 September 2018.

The interest rate on the TLTROs is fixed over the life of each operation at the rate of the Eurosystem's main refinancing operations (MROs) prevailing at the time of take-up, plus a fixed spread of 10 basis points. Following the Governing Council of the ECB's decision on 22 January 2015, this spread was eliminated for the TLTROs and it was decided to be conducted between March 2015 and June 2016.

The borrowing in Luxembourg through the first TLTRO (September 2014) amounted to € 250 million, for a total amount of € 82.6 billion in the euro zone, i.e. a participation ratio of 0.3 %. The participation of Luxembourg banks in the second operation (December 2014) amounted to € 141.14 million, i.e. 0.11 % of the total participation of the euro zone (€ 129.8 billion).

Table 1:
Overview of the non-conventional LTROs

Type	Number of Operations Executed	Allotment of the First Operation	Allotment of the Last Operation	Max Allotted Amount in EUR Billion in a Single Operation	Total Amount Allotted	Max Number of Bidders in a Single Operation	Motivation (as communicated in CB 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	June-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 euro area money market
Targeted LTRO	2 (8 planned in total)	Sep-14	Apr-16	130	212	306	Enhance the functioning of the monetary policy tranmission mechanism by supporting bank lending to the real economy

1.1.2.4 The Securities Purchase Programmes

Covered bonds are key for the funding of credit institutions. This market segment had been particularly affected by the financial crisis. In order to revive this market segment, the Eurosystem launched two purchase programmes on the covered bonds primary and secondary markets. The first programme – in which

2 The additional liquidity granted to the participants in the context of TLTROs is equal to the higher amount between i) zero and ii) three times the cumulative net amount of eligible loans granted by the participant between 1 May 2014 and the reference date of the tender, minus the amounts borrowed before through the TLTROs conducted from March 2015 on.

€ 60 billion of covered bonds were purchased - was launched in July 2009 and ended on 30 June 2010. The second programme was launched in November 2011 and ended on 31 October 2012. The purchase target of the programme initially amounted to € 40 billion. However, due to the improvement of the situation of the supply and demand for the covered bonds in the euro zone, only € 16.418 billion were finally purchased.

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 2014, the amount outstanding was of € 28.7 billion for the first programme and € 12.8 billion for the second programme.

On 4 September 2014, the Governing Council decided to launch a new purchase programme for non-financial securities of the private sector. The programme encompasses an asset-backed securities purchase programme (ABSPP) and a third covered bonds purchase programme (CBPP3) on the primary and secondary market.

On 20 October 2014, the Eurosystem began to purchase covered bonds in the context of this third programme. As of 31 December 2014, the oustanding amount of this programme was € 27.9 billion.

On 21 November 2014, the purchases of asset-backed securities started. As of 31 December 2014, the outstanding amount of this programme was € 1.75 billion.

On 21 January 2015, the Governing Council announced an expanded asset purchase programme including sovereign bonds. This programme has been added to the existing private sector asset purchase programme in order to address the risks of a prolonged period of low inflation. Combined monthly asset purchases will amount to € 60 billion and are intended to be carried out until at least September 2016. The ECB will buy 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 NCBs in the allocation key of the capital of the ECB. Additional eligibility criteria are applied to countries under an EU-MFI macroeconomic adjustment programme.

1.1.2.5 The Securities market programme

On May 2010, the Governing Council of the ECB launched an exceptional securities market programme (SMP).

The objective of the 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 these bond purchases, the Eurosystem conducted specific operations, aiming to re-absorb 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 on outright monetary transactions (see below). As of 31 December 2014, the total residual outstanding value of the purchases conducted under the securities market programme amounted to € 149.4 billion.

1.1.2.6 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 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 time to maturity between one and three years.

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

This programme has not yet been activated.

1.2 FOREIGN EXCHANGE RESERVE MANAGEMENT BY THE BCL

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

As a result of the EU's enlargement and the relative growth of GDP and population in Luxembourg, the BCL's share in the ECB's capital key has been 0.1739 % since 1 July 2013. This was revised on 1 January 2014 to 0.2030 % following the adoption of the Euro by Lithuania.

As of 31 December 2014, the total market value of the ECB's reserves (including accrued interest) managed by the BCL corresponded to € 361 million[3]. One of the objectives of foreign exchange reserve management is to ensure that the ECB has sufficient available liquidity to intervene in the foreign exchange markets if need be. Security and liquidity are, therefore, basic requirements in managing reserves.

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

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

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

1.3 MANAGEMENT OF THE BCL'S ASSETS

1.3.1 Institutional Structure

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

Level 1: The Council

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

Level 2: The Executive Board

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

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

Level 3: The Asset and Liability Management Committee ALCO

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

Level 4: The tactical committees

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

The tactical committees consist of the following:

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

1.3.2 Risk Control

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

1.3.3 Conceptual Framework

The investment policy objectives

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

The investment approach takes the following into account:

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

Investment decisions are based on:

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

Performance Measurement

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

1.3.4 Portfolio Structure

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

The BCL manages eight kinds of portfolios.

a) Investment Portfolio

This portfolio consists of assets (equity and bonds), which can be deemed to represent its own funds (with a long-term investment profile). The main goal of the portfolio is to maximise return by taking the above-mentioned risk constraints into account (see section 1.3.2). As of 31 December 2014 the total market value (including accrued interest) amounted to € 3 056 million.

In 2014, the share of this portfolio invested in fixed income securities with a maturity above three years decreased from 52 % to 45 %, whereas the percentage of bonds with a one to three year maturity increased from 40 % to 50 %. Moreover, by the end of 2014, variable rate and fixed rate bonds with a maturity under one year represented 5 % of the investment portfolio.

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

b) Liquidity Portfolio

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

This portfolio, whose liability profile covers certain liquidity needs, also aims at maximising income. The instruments used are mainly fixed income short-term bonds, variable rate bonds and certificates of deposits (Euro commercial paper (ECP), provided that they comply with strict and predefined rating criteria). As of 31 December 2014, the total market value (including accrued interest) amounted to € 835 million. Since 2011 a part of the portfolio has been outsourced to an external portfolio manager.

Table 2:
Breakdown of reserves as of 31 December 2014

Maturity	Investment Portfolio	Liquidity Portfolio
<1 year	5 %	60 %
1-3 years	50 %	39 %
> 3 years	45 %	1 %

c) Domestic Foreign Reserves Portfolio

This portfolio aims to maintain an intervention portfolio in addition to the pooled foreign exchange reserves transferred to the ECB. Thus, the main requirements for this portfolio are security and liquidity. As of 31 December 2014, the total market value (including accrued interest) of this portfolio in foreign currencies amounted to € 145 million.

d) Pension Fund Portfolio

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

e) Foreign Reserves Portfolio of the European Central Bank

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

f) Covered Bond Purchase Programme

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

The BCL also participates in the third purchase programme which was announced by the ECB in September 2014. This third programme is composed of an asset backed securities purchase programme (ABSPP) as well as of a covered bond purchase programme (CBPP3).

g) Securities Market Programme

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

h) Third Party Portfolios

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

1.4 BANKNOTES AND COINS

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 2014 the BCL was responsible for the production of 20.7 million of € 50 banknotes for the Eurosystem's needs (compared to 13.1 million € 10 banknotes of the Europa series and 8.2 million € 20 banknotes in 2013). The BCL allocated these banknotes via a tender. In addition, for its own needs, the BCL received 67.7 million banknotes from other NCBs (compared to 78.5 million in 2013).

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 64.1 million coins of the 2014 series (compared to 43.0 million coins in 2013), to cover the needs of economic agents and numismatists.

Mr Serge Kolb, Executive Director, BCL.

1.4.2 Circulation of banknotes and coins

1.4.2.1 Euro banknotes and coins

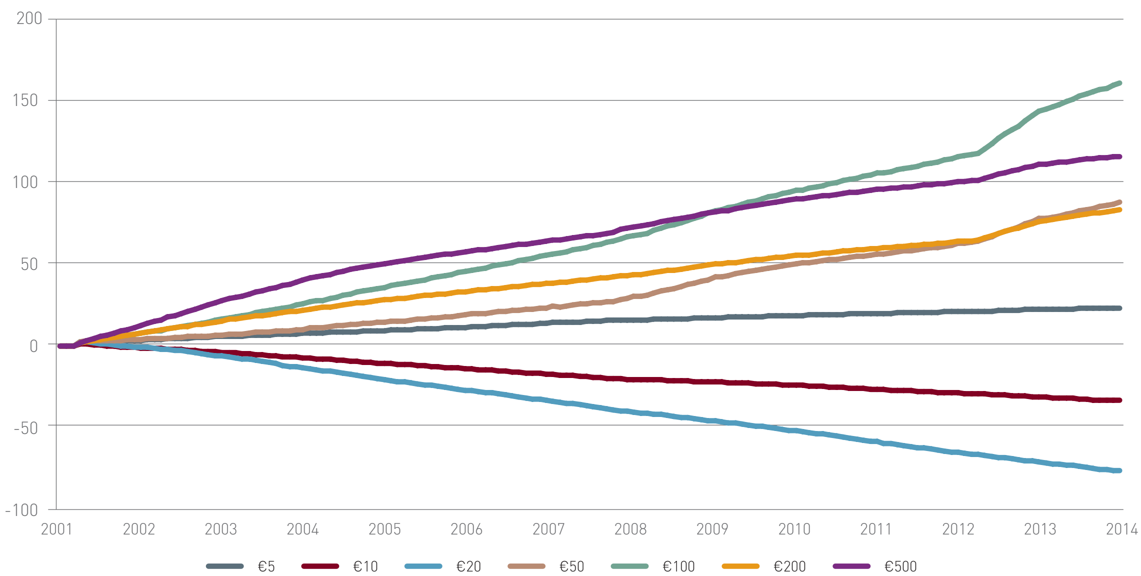
1.4.2.1.1 Banknotes

The total number of banknotes issued by the BCL on 31 December 2014 attained 362.7 million, which is an increase of 9.5 % compared to end-2013. The BCL contributed 3.1 % to the overall volume of notes put into circulation by the Eurosystem. A closer look at the distribution of banknotes by denomination reveals that the number of € 10 and € 20 banknotes deposited at the BCL exceeds the number of banknotes issued. 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 high denominations, banknotes of € 100, € 200 and € 500 were marked by a sustained demand during 2014, but this was less pronounced than the previous year. This development reflects a trend affecting banknotes of € 100 and € 500, which has also been observed at the European level.

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

Graph 10:
Denominational breakdown of the number of euro banknotes put into circulation by the BCL (in millions)

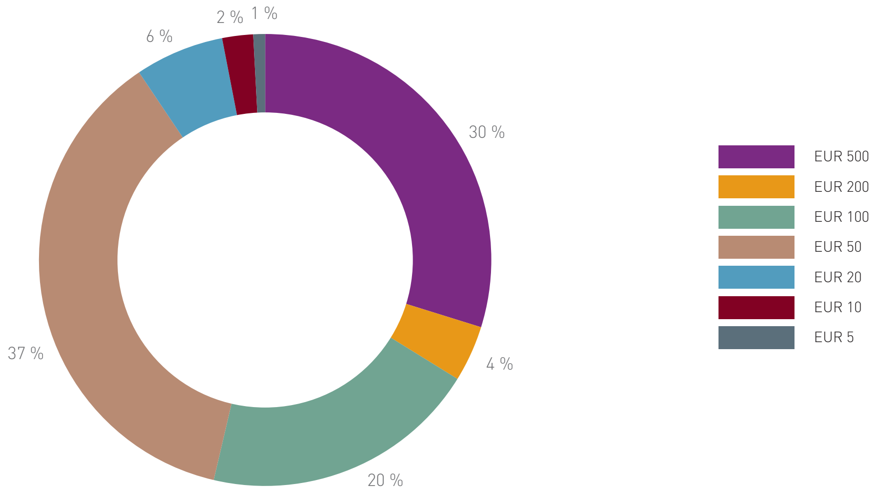


Source: BCL

In value terms, the net issuance of banknotes in Luxembourg grew by € 6 billion, which is a growth rate of 6.8 % in comparison to the previous year, and reached € 93.5 billion by end-December 2014. This increase is less strong than that recorded in 2013 which was +14.6 % and hence exceptionally high (+6 % in 2012).

Luxembourg continued to rank fourth among the Eurosystem's net issuers between 2002 and 2014, behind Germany (€ 508.4 billion), Italy (€ 142.2 billion) and France (€ 108.3 billion). The growth rate of Luxembourg's annual net issuance is higher than that of the Euro area as a whole: at the European level, the net issuance reached € 1 016.5 by the end of 2014, and measured against € 956.2 billion by the end of 2013 this growth rate equals 6.3 %. The breakdown by denomination is illustrated in graph 11:

Graph 11:
Distribution of the value of euro banknotes put into circulation by the Eurosystem by denomination on 31 December 2014



Source: ECB

1.4.2.1.2 Coins

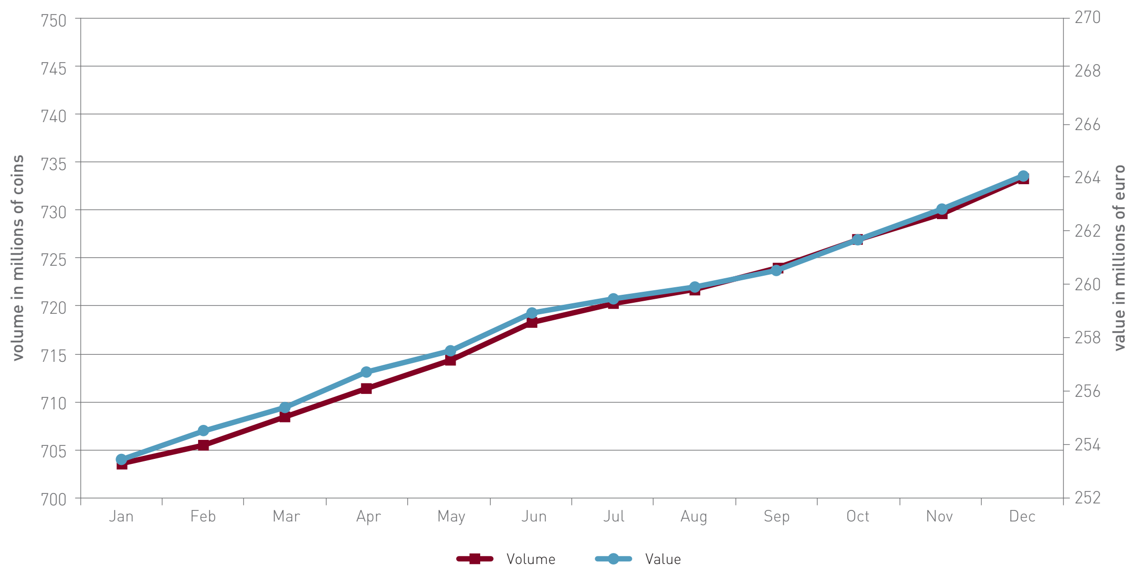
As in previous years, Luxembourg's coins continue to be the object of strong demand from the public.

The total value of coins put into circulation increased by 4.5 % in 2013 (against 7.5 % in 2013). It grew from € 252.8 million to € 264.1 million.

The volume of coins put into circulation in the course of the year 2014 increased by 4.6 %, reaching a total of 733.3 million Luxembourg coins in circulation at the end of the year.

Graph 12 below depicts the evolution both in terms of the volume and value of Luxembourg euro coins in circulation in 2014. The growth in demand was constant and the average value of a coin in circulation remained steady at approximately 36 cents. In the Euro area, the average value of a coin in circulation remained unchanged at 23 cents.

Graph 12:
Volume and value of Luxembourg euro coins put into circulation in 2014

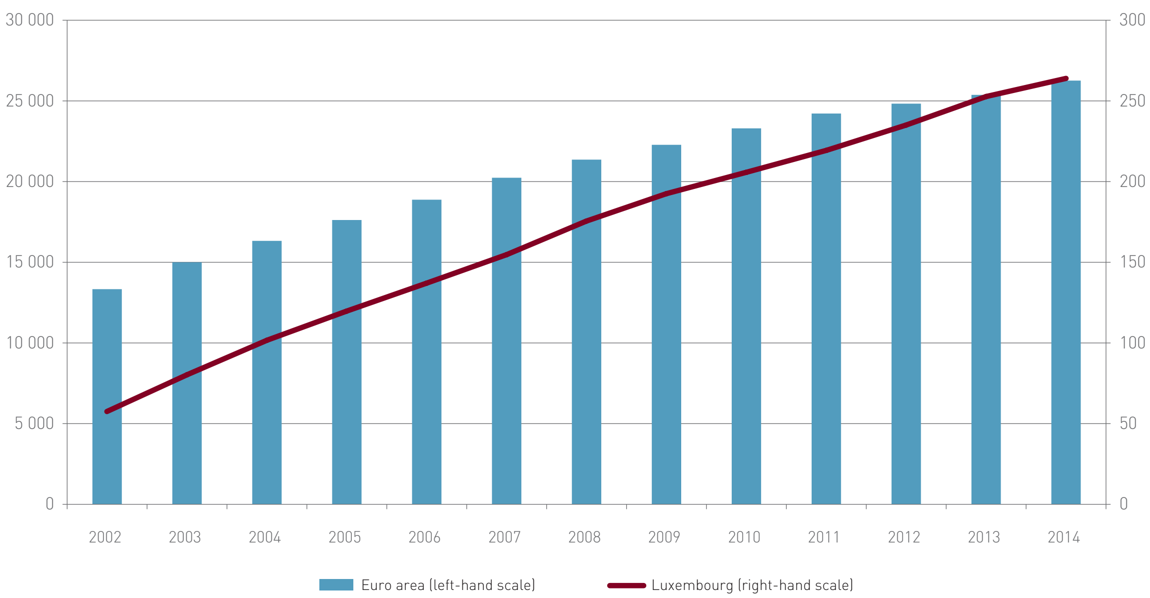


Source: BCL

Within the euro area, Luxembourg contributes 1 % to the total value issued by all issuing authorities and 0.6 % of the total volume.

Graph 13 shows a visual comparison of the volume of coins put into circulation in Luxembourg with the corresponding volume of the euro area.

Graph 13:
Comparison of the euro coin circulation volume in Luxembourg and in the euro area (in € million)

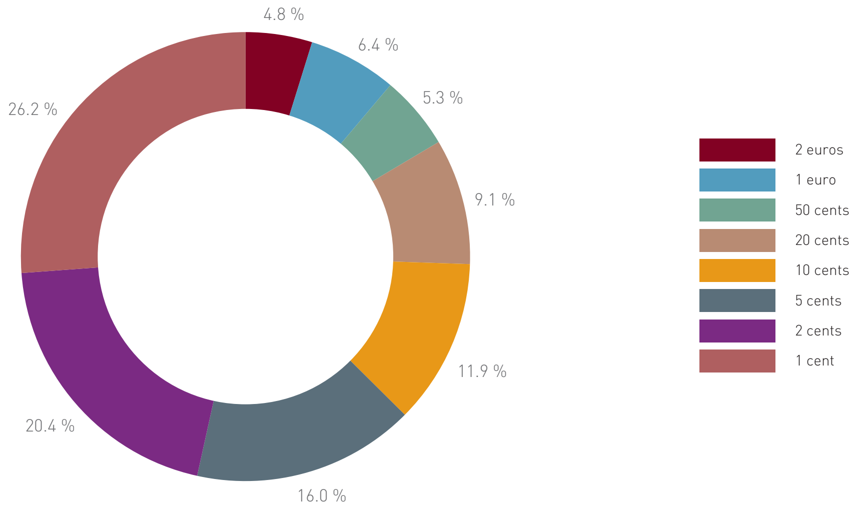


Source: ECB and BCL

In 2014, at the level of the euro area, the total number of coins in circulation increased by 4.7 % and reached 110.9 billion. By the end of 2014, the total value of coins in circulation increased to € 25 billion, which is 3.2 % more than at the end of the year 2013.

Graph 14 shows the breakdown of this volume by denomination. It is noted that in the euro area the 1 and 2 cent coins represent almost half (46.6 %) the number of coins put into circulation, while at national level these two denominations represent around one third (34.9 %) of the coins put into circulation.

Graph 14:
Breakdown of the volume of coins of the euro area in circulation by denomination on 31 December 2014



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 205 million to LUF 204.3 million, equalling a decrease of 0.35 %. Their total value expressed in euro equals 5.1 million.

Table 3:
LUF banknotes in circulation at 31 December 2014

LUF	Number	Value in LUF	Value in EUR	Variation
5 000	11 206	56 030 000	1 388 947.42	-0.92 %
1 000	68 984	68 984 000	1 710 068.69	-0.26 %
100	792 755	79 275 500	1 965 188.31	-0.03 %
	872 945	204 289 500	5 064 204.42	

(1 EUR = 40,3399 LUF)

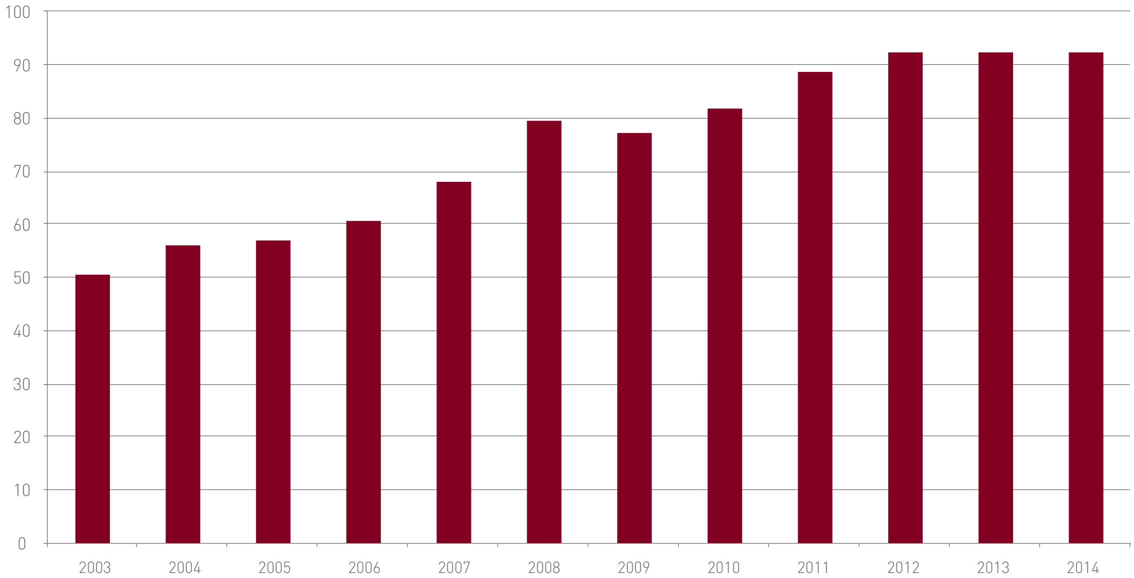
Source: BCL

1.4.3 Sorting of euro banknotes and coins

The volume of euro banknotes returned by financial institutions to the BCL increased slightly compared to the previous year, from 92.2 to 92.3 million banknotes. Over the past three years, banknote lodgements made at the BCL remained at a stable level.

Graph 15 describes the evolution of these lodgements at the BCL since 2003.

Graph 15:
Lodgements of euro banknotes by financial institutions at the BCL (in million 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. 12 million banknotes of all denominations (9.1 million in 2013) were destroyed because they were unfit for circulation, which amounts to a destruction rate of 13 % (compared to 12.4 % the previous year). This rate shows a wide variation between the denominations processed: it ranged from 7.1 % for the € 500 banknote to 35.3 % for the € 10 banknote, due to the introduction of the € 10 banknotes of the series "Europa" and the systematic destruction of the banknotes of the first series lodged at the BCL's counters.

1.4.4 National and international cooperation

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

In meetings organised by the ECB, the BCL participates in the preparation of the new series of euro banknotes. The design of this new series, which is also based on the theme of "Ages and styles in Europe", is slightly adapted. The dominant colour of each of the denominations have been maintained. 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 "Europa" banknote series 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 will be put into circulation from 25 November 2015 onwards. 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.

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.

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 Numismatic issues

The BCL issues numismatic products on the theme of the Grand Duchys' history and culture. Through its numismatic premises, more than 2 400 sales transactions were completed in 2014. More than 4 200 parcels were sent out, corresponding to sales made through traditional mail or via the Internet shop of the BCL.

In 2014, the BCL issued the following numismatic products:

- a € 2 commemorative coin dedicated to the 175th anniversary of the independence of the Grand Duchy of Luxembourg, minted in 500 000 units was put into circulation on February 2014. This coin depicts the effigies of The Royal Highness the Grand Duke Henri, the year-dates "1839" and "2014" as well as the inscriptions "LËTZEBUERG", "Onofhängegkeet" and "175 Joer". It was also issued in BU quality as a coin card limited to 10 000 units;

- a second € 2 commemorative coin, minted in 500 000 units was put into circulation on November 2014. This coin, depicting the effigies of Their Royal Highnesses the Grand Duke Henri and the Grand Duke Jean as well as a crown and the inscription "50e anniversaire de l'accession au trône du Grand-Duc Jean" was also issued in BU quality as a coin card limited to 10 000 units;

- the 2014 BU set, issued in 7 500 units, comprises Luxembourg's euro coins of the 2014 series (including the € 2 commemorative coin);

- the 2014 Proof set, limited to 2 000 sets, is composed of ten coins;

- a silver-niobium coin, issued in June 2014 in an edition of 3 000 pieces, was dedicated to the castle of Larochette and is the sixth element of the series devoted to the castles of Luxembourg;

- a gold coin minted in "Fairtrade" gold and issued in June 2014 in an edition of 2 500 units, was dedicated to the 175th anniversary of the independence of the Grand Duchy of Luxembourg;

- a silver and Nordic gold coin, issued in November 2014 in an edition of 3 000 units, was dedicated to the apple tree "Reinette de Luxembourg" and constitutes the sixth element of the series devoted to the fauna and flora of Luxembourg;

- a stainless steel coin, issued in June 2014 in an edition of 2 500 units, represents a high furnace.

1.5 STATISTICS

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

In 2014, statistics were generally provided within the deadlines and significant efforts were made to improve the statistical series made available by the BCL. The major challenges of 2014 consisted in updating the statistical data collections from credit institutions, investment funds and securitisation vehicles. In addition, in parallel to the work of recasting some existing statistical data collections, the BCL collected and compiled the data that is necessary to perform its duties in the areas of monetary policy and financial stability.

In the framework of the cooperation agreement between the BCL and STATEC, the BCL 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 itself to using 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.

1.5.5 New statistical data collections

In 2014, the People's Bank of China (PBC) and the Banque centrale du Luxembourg signed a "Memorandum of Understanding (MoU)" establishing a cooperation between the two institutions as far as concerns supervision (oversight), exchange of information and evaluation of Renminbi transactions.

In order to enable it to monitor developments in this market and to exchange information with the PCB, the BCL introduced a new data collection dedicated to the gathering of information on the use of the renminbi by Luxembourg and Foreign entities established in Luxembourg.

The BCL has expanded its data collection from financial entities by requesting, since December 2014, balance sheet data from all companies whose objective is to hold participating interests in other companies regardless of the underlying financial instrument.

The Eurosystem has established a new 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. To the extent that such operations are of a temporary nature, the participating banks must provide reporting statements duly completed until September 2018, and, if necessary, until the total anticipated prepayment.

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 2014 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. In addition, the BCL launched various statistical series relating to the Luxembourg securitisation vehicles.

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.

At present, the Luxembourgish component TARGET2-LU counts 36 direct participants (12 more than in 2007 and four more than in 2013), 41 indirect participants and three ancillary systems.

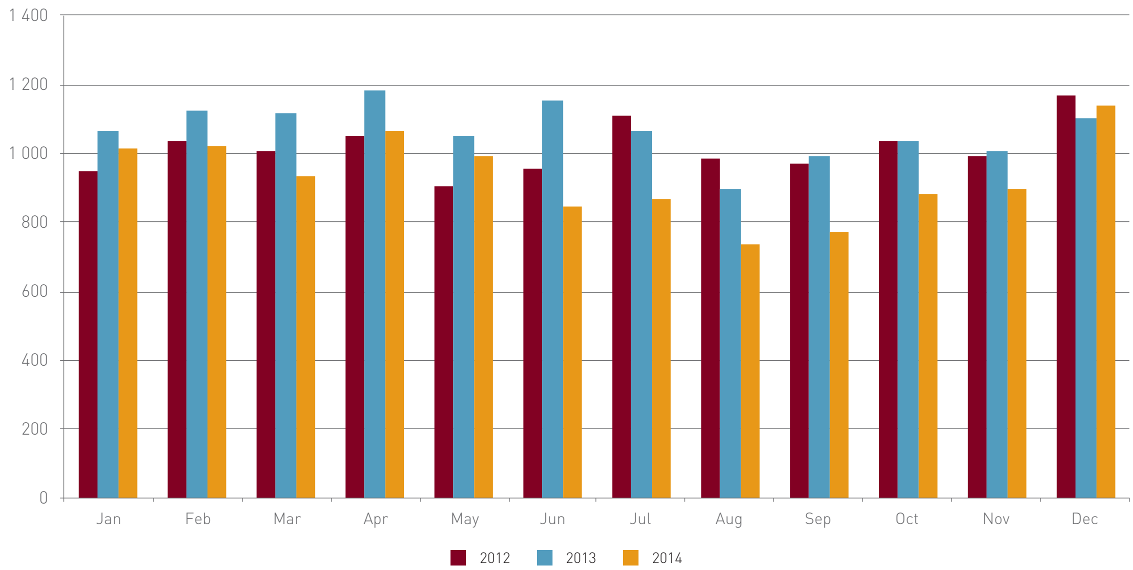
Domestic payments

In 2014, participants in TARGET2-LU exchanged a monthly average of 19 744 payments (against 22 633 in 2013) for a value of € 138.1 billion (against € 145 billion in 2013). 11 725 or 59.4 % of these payments were retail payments. Their value represented a monthly average of € 6 billion or 4.4 % of the domestic value exchanged.

In TARGET2-LU, we notice an important decrease of the domestic volumes between 2013 and 2014 (-12.8 %); it follows two years of increasing volumes. The reversal of the trend was entirely triggered by lower volumes of retail payments as a consequence of the SEPA[4] end date in August 2014: banks were strongly encouraged to migrate their customer payments to payment systems accommodating SEPA payment types.

In parallel, the value exchanged decreased by 4.8 % where 0.3 percentage points were triggered by retail payments, the remainder being due to interbank payments. Chart 16 illustrates the development of average daily volumes in domestic payments.

Chart 16:
Domestic payments: development of average daily volumes



Source: CRAKS1/TARGET2

Cross-border payments

In 2014, participants in TARGET2-LU sent a monthly average of 77 268 payments towards other countries of the EU (67 447 payments in 2013) for an average value of € 514 billion (€ 565.4 billion in 2013). The volume of retail payments remained unaffected by the SEPA end date. On the contrary, it increased by 22.3 % to reach 38 246 payments representing 49.5 % of the total cross-border volume. Their relative part in the cross-border payments sent increased by 3.1 %. The volume of interbank payments increased by 7.9 %, thus reaching a monthly average of 39 015 transactions in 2014.

The value of customer payments increased by 24.1 %. It amounted to a monthly average of € 31.7 billion representing 6.2 % of the total value exchanged. In contrast, the monthly value of interbank cross-border payments decreased by 10.7 % to € 482.3 billion. As in 2013, the decrease was largely a consequence of lower overnight deposits with BCL leading to a reduction of related transfers.

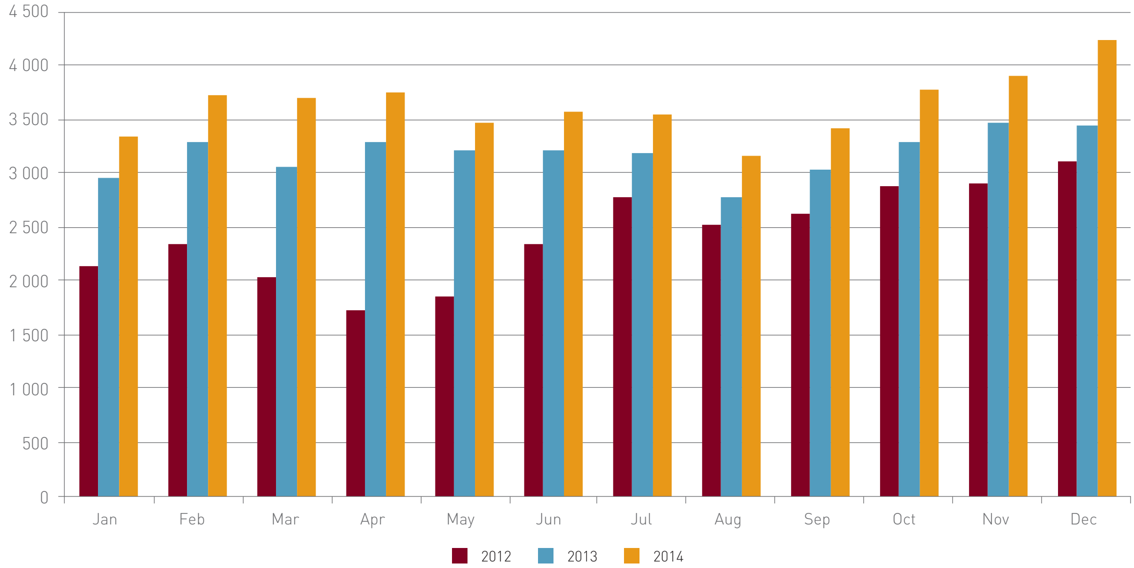
Globally, cross-border payments increased by 14.6 % in volume. This was mainly due to transactions brought to the system by new participants. In value, they decreased by 9.1 % within one year. The average value per transaction sent was € 6.7 million (against € 8.4 million in 2013). The average value of an interbank payment decreased again from € 14.9 million in 2013 to € 12.4 million in 2014.

Participants in TARGET2-LU received 76 984 payments on average per month: this amounted to 284 payments more than they had sent. The average value of the payments received was € 482.3 billion or 6.2 % lower than the value sent.

4 SEPA: single Euro payments area, see page 33.

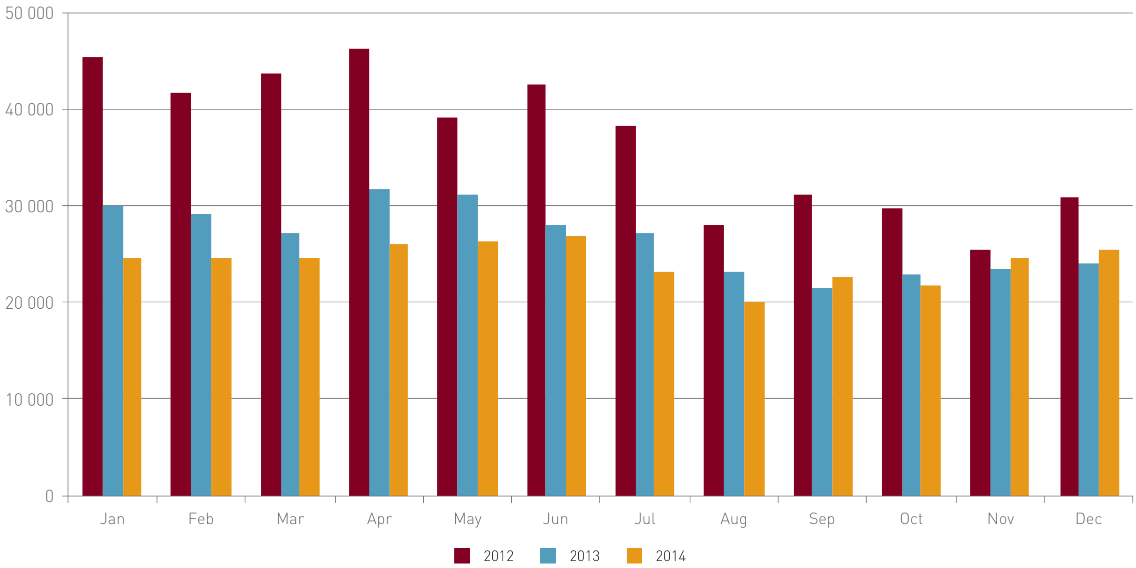
Charts 17 and 18 display the development of average daily volumes and values in cross-border payments sent by Luxembourgish participants.

Chart 17
Cross-border payments sent: development of average daily volumes



Source: CRAKS1/TARGET2

Chart 18
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 2014 amounted to 1 164 024 transactions (1 080 957 in 2013, increase by 7.7 % in one year). 599 645 or 51.5 % of all payments were retail payments.

Table 4 provides a global overview of average daily volumes of payments per year since 2012.

The average monthly value of all payments sent in 2014 was € 652.1 billion of which € 37.7 billion (5.8 %) represented retail payments. As in 2013, for 80 % of these payments, their value was below € 250.000.

On average, 74.4 % (72.6 % in 2013) of the retail payments and 80.5 % (84.2 % in 2013) of the interbank payments were settled before noon on each day. They represented 54.8 % and 63.6 % of the respective values.

Table 4:
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
2012	1 014	29.3 %	2 447	70.7 %	3 461	1 965	36.2 %
2013	1 067	25.1 %	3 179	74.9 %	4 246	2 497	37.0 %
2014	929	20.4 %	3 636	79.6 %	4 565	2 694	37.1 %
Variation 2013-2014	-12.9 %		+14.4 %		+7.5 %	+7.9 %	

TARGET2-LU compared to other systems participating in TARGET2

All national RTGS systems participating in TARGET2 transferred a monthly average of 7.53 million payments in 2014 representing a decrease of 2.4 % compared to 2013. The part of Luxembourg represented 1.3 % of this volume. The average monthly value exchanged totalled € 41 036 billion. The part of Luxembourg in the value exchanged was 1.6 %.

As in 2013, 62 % of all payments in 2014 were domestic transactions. The part of interbank payments increased by 2 percent points to reach 40 %. In TARGET2-LU, domestic payments represented 20.3 % and interbank payments 48.5 % of the volume.

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

The daily maximum of payments sent in TARGET2 was 576 695 transactions (30 June 2014). In 2013, the maximum amounted to 604 412 transactions (2 April 2013). For Luxembourg, the daily maximum was reached on 29 April 2014 with 7 789 payments. In 2013, the maximum was reached on 28 June with 6 332 payments sent.

Availability and performance of TARGET2

Similar to 2013, the availability of the TARGET2 platform, and hence of TARGET2-LU, was 100 % in 2014. The SSP received a daily average of 362 155 payment instructions, 2.4 % less than in 2013. 99.9 % (100 % in 2013) of all instructions were settled within five minutes and 100 % 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. The use of cheques continues to decrease. Network-based electronic money, which is issued and operated by credit institutions or electronic money institutions, is mainly used for remote payments. As in 2013, new actors in the field of mobile and internet payments have emerged in Luxembourg.

Credit transfers and standing orders

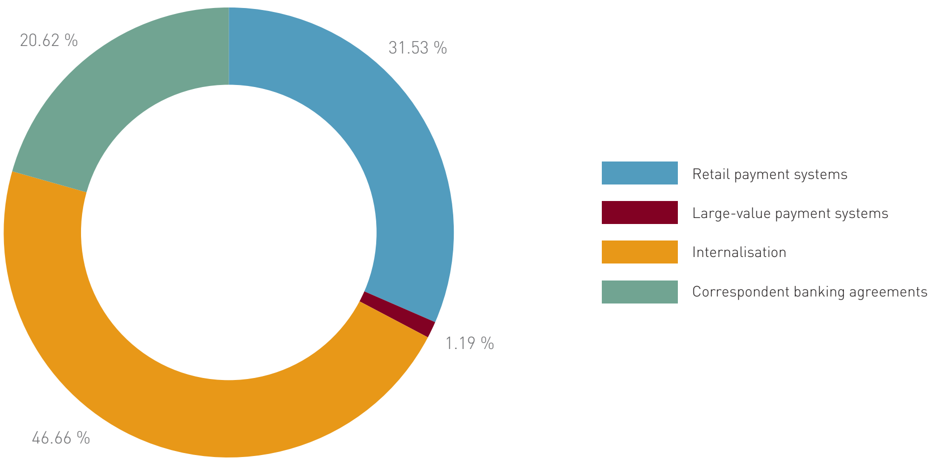
Credit transfers can be processed internally in banks, through a payment system or through correspondent banking agreements.

Banks in Luxembourg processed the majority of their non-internal credit transfer and standing order transactions (domestic[5] and cross-border) in retail payment systems (please refer to the chart below).

In 2014, banks in Luxembourg executed 70.75 million credit transfers, of which 67.87 million were executed following the request of customers who are not monetary financial institutions[6].

Transactions settled in retail payment systems (e.g. Step2, Equens) provide a good indicator of the use of credit transfers by households and non-financial corporations. In 2014, the average value of these transfers amounted to € 3 647.

Graph 19 :
Credit transfers - Distribution per settlement channel



Source: BCL

Direct debits

Until 2012, direct debits were domestic payments cleared by banks in the DOM-Electronic system, bilaterally or internally. In 2013, creditors in Luxembourg started their migration to the SEPA Direct Debit (see below, 'The Single Euro Payments Area (SEPA)'). As for credit transfers, 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, the closing of the national direct debits scheme (DOM-Electronique) on 31 July 2014. In 2014, the volume of direct debits whose debtor was not a monetary financial institution, amounted to 15.23 million transactions for a value of € 7 015 million.

Payment cards in Luxembourg

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

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

6 This category includes non-financial corporations and households but also non-monetary investment funds.

The payment cards activity in 2014 and its evolution are detailed in the tables below[7].

Number of payment cards issued in Luxembourg

Volume (number of cards)	2014	2013	Annual variation
Debit cards	664 983	636 053	4.55 %
Credit cards	1 454 822	1 373 845	5.89 %

Transactions on cards issued in Luxembourg[8] ("issuing" activity)

Volume (in millions of transactions)	2014	2013	Annual variation
Debit cards	66.58	62.05	7.30 %
Credit cards	55.07	47.03	17 %

Value (in billion euros)	2014	2013	Annual variation
Debit cards	5.37	5.16	4.07 %
Credit cards	5.21	4.65	12.04 %

Transactions in Luxembourg on cards issued in Luxembourg or abroad[9] ("acquiring" activity)

Volume (in millions of transactions)	2014	2013	Annual variation
Debit cards	48.82	50.78	-3.86 %
Credit cards	20.15	21.6	-6.71 %

Value (in billion euros)	2014	2013	Annual variation
Debit cards	4.07	4.26	-4.46 %
Credit cards	1.94	2.02	-3.96 %

The number of payment cards in issue in Luxembourg increased by 4.55 % for debit cards and by 5.89 % for credit cards. Along with this development, the volume and the value of transactions on cards issued in Luxemburg ("issuing" activity) also increased. On the contrary, the volume and the value of payments in Luxemburg on cards issued in Luxemburg or abroad ("acquiring" activity) decreased.

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 1st August 2014 in the euro area countries[10].

With SEPA, a common set of payment instruments will be available and governed by a harmonised legal framework. The SEPA area encompasses 34 countries and territories[11], where users can make and receive payments in euro from a single account, as easily and subject to the same conditions, as domestic transactions.

The European banking industry through the European Payments Council (EPC) implemented the SEPA payment instruments[12]. The Eurosystem and the European Commission are the catalysts of this project.

SEPA credit transfers and SEPA direct debits being "new" instruments, the EPC adopted detailed operation schemes ("rulebook") in order to define the rules that apply to the processing of these payment orders.

The EPC adopted a more flexible framework for payment cards. Indeed, according to the SEPA Cards Framework (SCF), every cardholder should be able to use its card in the SEPA area and every merchant should be

7 Payments transactions and ATM withdrawals.

8 Transactions in Luxembourg and abroad.

9 Activity of Luxembourgish acquirers only. Data on the activity of foreign acquirers in LuxembOourg are not available.

10 The SEPA migration end date was 1 February 2014. Regulation (UE) 248/2014 enabled payment services providers (credit institutions) to accept processing non-SEPA payments until 1 August 2014.

11 EU Countries, Iceland, Lichtenstein, Monaco, Norway, San Marino and Switzerland.

12 www.europeanpaymentscouncil.eu

able to accept all SEPA compliant cards, as far as it is economically justified. However, in the absence of interoperability standards among European card schemes, some of the objectives stated in the SCF have proven difficult to implement. Common processing standards are still under development. In 2014, the Eurosystem reiterated its positions, its guidelines and its policy for the achievement of SEPA for cards in a report.[13]

The BCL has an active role in supporting and promoting the harmonisation of payments in Europe and thus the SEPA project. The focus is now set on improving the functionalities and processes of SEPA instruments, in order to enable a more widespread adoption.

1.6.3 Collateralisation of Eurosystem credit operations

1.6.3.1 List of eligible assets

According to Article 13 of the Statute of the ESCB and the ECB, all credit operations of the ECB and national central banks are based on "adequate collateral". Consequently, each counterparty of the Eurosystem guarantees the credit received from a Eurosystem central bank by providing assets as collateral. These assets have to fulfil specific eligibility criteria specified by the Eurosystem in the General Documentation on Eurosystem monetary policy instruments and procedures.

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

Eligible assets can be used throughout the whole euro area in order to collateralise credit operations with the Eurosystem. According to the nature of the assets as well to the country in which they are settled, counterparties use different channels and procedures to mobilise collateral. The mobilisation of marketable assets requires the involvement of one or of several securities settlement systems (SSS). Non-marketable assets are either mobilised via appropriate handling procedures developed by each NCB (domestic mobilisation) or via the intermediation of a correspondent central bank (cross-border mobilisation).

Over the course of 2014, the Governing Council took the following main measures relating to eligible assets:

- On 12 March 2014, with effect from 1 April 2014, the Governing Council adopted three guidelines on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral. These new legal acts are related to:

  - the loan-level template for asset-backed securities (ABS) of credit card receivables,
  - a clarification on the rating rules for ABS, and
  - the mapping of credit ratings to the Eurosystem credit assessment framework's credit quality steps of the Eurosystem's harmonised rating scale.

- On 5 June 2014, in order to support the effectiveness of longer-term refinancing operations and to ensure sufficient collateral is available for banks to participate in the scheme, the Governing Council decided to extend, at least until September 2018, the existing eligibility of additional assets as collateral, notably under the additional credit claims framework (ACC).

- On 9 July 2014 the Governing Council adopted a new guideline which allows for the inclusion, in the additional credit claims (ACC) framework, of certain short-term debt instruments issued by non-financial corporations that would not satisfy the Eurosystem eligibility criteria for marketable assets, provided they comply with a number of specific criteria.[14]

- On 1 September 2014, with effect from 1 October 2014, the Governing Council decided to modify the loan-level requirements for ABSs backed by auto loans, leasing receivables, consumer finance loans

13 Card Payments in Europe – A Renewed Focus on SEPA for Cards, April 2014

14 The Governing Council adopted Guideline ECB/2014/31 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9.

and credit card receivables that are used as collateral in the Eurosystem monetary policy operations. More information is provided on the website of the ECB.

- On 1 September 2014, with effect from 15 December 2014, the Governing Council adopted a decision on additional measures relating to Eurosystem refinancing operations and eligibility of collateral. A rule defining the priority of ratings is in place for the purpose of selecting the appropriate rating to be used for determining the eligibility of marketable assets for Eurosystem credit operations and their related haircuts. The decision caters for an adjustment of the rule with regard to public issuers.

- On 19 November 2014 the Governing Council adopted a new legal act implementing the decision to revise the haircut schedule applicable to marketable debt instruments issued or fully guaranteed by the Hellenic Republic in view of the overall improved market conditions for Greek marketable assets since the beginning of 2013.[15]

1.6.3.2 Securities settlement systems

Selection of eligible depositories

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

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

A domestic mobilisation 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.

Cross-border use of securities

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

Counterparties may use:

- the Correspondent Central Banking Model (CCBM, cf section 1.6.4), or
- links established between securities settlement systems of CSDs.

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

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

Eligibility of each link requires prior approval by the Governing Council. In 2014, Luxembourg counterparties could use the direct links between CBL and Clearstream Banking A.G. Frankfurt (CBF), Euroclear Bank, the SSS operated by the National Bank of Belgium, Monte Titoli (Italy), OeKB (Austria), Euroclear Netherlands, Euroclear Finland, Euroclear France, KDD (Slovenia), BOGS (Greece), CDCP (Slovakia) and VP Lux, as well as the relayed link between CBL and Maltaclear via CBF. Moreover, the direct link between LuxCSD and CBL as well as eight relayed links of LuxCSD were considered eligible for Eurosystem credit operations.

15 The Governing Council adopted Guideline ECB/2014/46 amending Guideline ECB/2014/31 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral.

New assessment framework

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

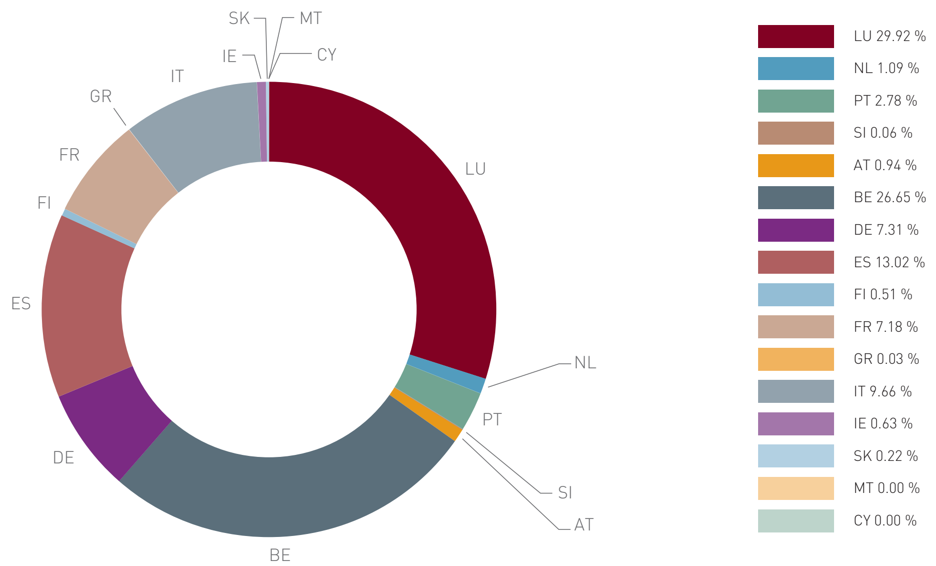
The new framework has been applied since 2014. More detailed information as well as the questionnaires for securities settlement systems and their links are available on the website of the ECB.

1.6.4 Correspondent Central Banking Model

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

The CCBM remains the main channel for the cross-border mobilisation of collateral used in the Eurosystem's credit operations. In terms of value, the most active correspondent central banks in 2014 were those of Luxembourg (29.92 %), Belgium (26.55 %), Spain (13.02 %), and Italy (9.66 %).

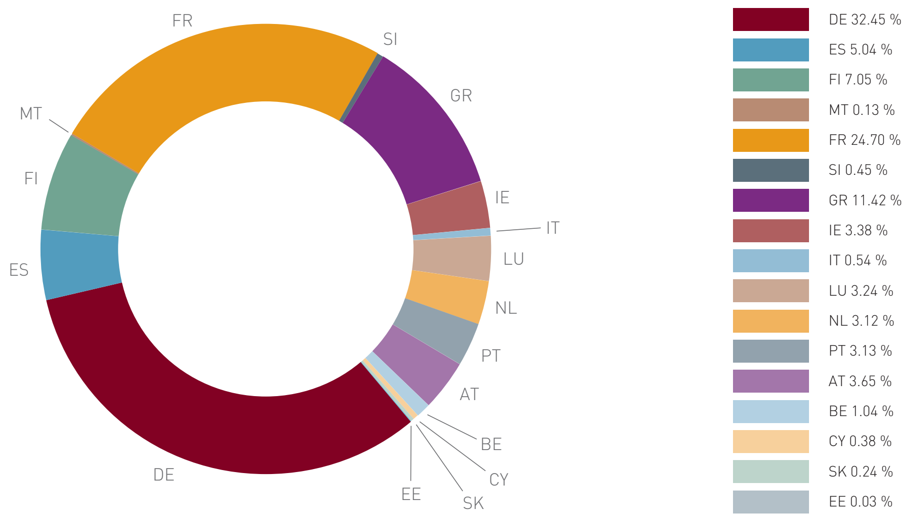
Graph 20:
Correspondent Central Bank – 2014



Source: ECB

The most active home central banks were those of Germany (32.45 %), France (24.70 %), Greece (11.42 %), and Finland (7.05 %).

Graph 21:
Home Central Bank – 2014



Source: ECB

1.6.5 Future collateral management of the Eurosystem

In 2014, the Eurosystem continued its work aimed at enhancing collateral management, both for the Eurosystem and for counterparties. In particular, the need to repatriate eligible securities from the investor SSS to the issuer SSS in order to use them in the CCBM, was abandoned in May 2014.

In addition, the cross-border use of triparty services for the mobilisation of collateral was introduced in September 2014.

Detailed information on this matter is available on the website of the ECB.

1.6.6 TARGET2-Securities

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

In July 2012, the Governing Council appointed the members of the T2S Board to the executive body in charge of formulating proposals to the Governing Council on strategic matters related to T2S. One of the BCL Executive Directors is Vice-Chairman of the T2S Board. The Governing Council decided to extend the mandate of the T2S Board until February 2017.

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

Mr Pierre Beck, Executive Director, BCL.

The year 2014 was marked by preparation in the following different areas:

- On 31 March 2014 the Eurosystem started the acceptance testing phase (Eurosystem Acceptance Testing, EAT). The objective of these tests was to assess the quality of the T2S platform. The phase was concluded in September 2014 and confirmed that the platform is sufficiently stable to perform the user testing.
- In October 2014, the user testing phase started. During this phase, the users of the T2S platform, i.e. the CSDs and the central banks, first test the functioning of their connection to the platform (connectivity tests). Thereafter follows the verification of the interactions of the internal systems of CSDs and of central banks with the T2S platform (bilateral interoperability testing), as well as the tests for cross-border transactions (multilateral interoperability testing).

The last stage of the user testing consists of tests involving all the actors, i.e. CSDs, central banks and their participants, in order to verify the functioning of the production in the T2S environment (community testing and business day testing). It is foreseen to finalise the user testing by June 2015.

During the weekend of 22 and 23 November 2014, central banks and CSDs migrating to T2S in the first wave performed a migration test. This exercise simulated the migration to the T2S platform and was successfully concluded.

Further important work in order to prepare for the use of the T2S platform was performed, in particular training of the operators, as well as the elaboration of a Manual of Procedures. This key document for the performance of operations in the T2S world establishes the operational procedures to be respected by the CSDs and central banks using the platform in their daily operations.

On the national level, the Luxembourg user community (T2S National User Group) met several times in 2014 in order to continue its preparation activities in view of the migration of Luxembourg actors to the T2S platform.

1.6.7 LuxCSD

LuxCSD, Luxembourg's central securities depository was jointly created by the BCL and Clearstream International on the basis of an equal shareholding in 2010. It provides securities settlement services in central bank money.

The Clearstream Group is the operator of LuxCSD, allowing it to benefit from operational synergies and a functional IT platform.

LuxCSD provides the following main services:

- the settlement of securities transactions in central bank money;
- the settlement of free of payment transactions;
- 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 Identifier) for Luxembourg legal entities
- as from 2016, a national access point to T2S.

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

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

Following its positive assessment in 2013 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 Clearstream Banking S.A., as well as those with the CSDs of Austria, Belgium, France, Germany, Greece, Italy, the Netherlands, and Slovenia.

The governance of LuxCSD is assured by an audit committee and by a board of directors currently composed of seven members from the BCL and Clearstream Banking as well as an independent director.

1.7 FINANCIAL STABILITY AND PRUDENTIAL SUPERVISION

1.7.1 Macro-prudential supervision

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

At the European level article 127(5) of the TFEU foresees that the Eurosystem, in addition to its central 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 EU banking system[17] on 1 January 2014, Member States now have a common legal basis for prudential supervision including multiple macro-prudential instruments.

At the national level, article 2(6) of the organic law of the BCL stipulates that 'the Central Bank shall cooperate with the Government and with prudential supervision authorities at the national level, as well as with

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

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.

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 Boards' (ESRB) recommendation, regarding the macro-prudential mandate of national authorities, the draft law on the establishment of a Systemic Risk Committee (hereafter the Committee) in Luxembourg was approved by the Chamber of Deputies in March 2015. Within this Committee the BCL will play a leading role in macro-prudential supervision[18] and will provide the Secretariat under the hierarchical authority of its Director General, which implies that the BCL will be in charge of the meeting preparations for 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.[19]

1.7.1.1 Macro-prudential supervision in Luxembourg

Although the legislative framework establishing an authority in charge of macro-prudential supervision 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 measure the accumulation of risks over time and their distribution within the financial system. In view of the importance of the shadow banking system as a potential source of risks in addition to the regulatory initiatives designed to mitigate such risks, the BCL has already conducted 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, the BCL uses a broad set of indicators to assess the financial stability of Luxembourgs' financial sector including counterparty probability of default, z-scores[20] and a vulnerability index. Measures of vulnerability for Undertakings for Collective Investment (UCITS) were also examined in order to assess systemic credit risk resulting from the interconnections between different categories of investment funds by interactions between those categories of funds and the macroeconomic environment. The intersectoral dimension of systemic risk is analysed using several tools which allow for the assessment of the interconnections and the size of linkages between financial institutions.

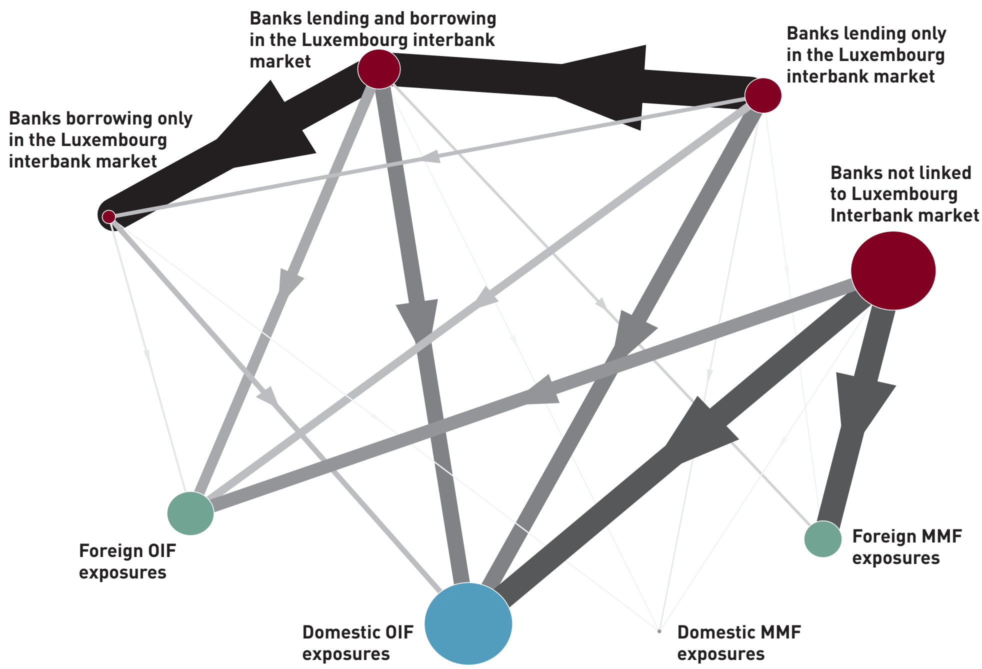
Given the international composition of the Luxembourg banking sector, the BCL employs network analysis techniques to assess both domestic and cross-border interbank linkages. In 2014, specific emphasis was placed on assessing the interconnections between the banking sector and investment funds. For instance, the chart below depicts 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.

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

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

20 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).

Chart 22:
Network of Luxembourg banks' exposures to Money Market Funds and Other Investment Funds (nominal exposures, 2014Q1)



Source: BCL

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

The BCL is currently developing a systemic risk dashboard, which remains in a preliminary testing phase. 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 content of the dashboard could be used as a tool to assess whether the ESRB's intermediate objectives of macro-prudential policy are being achieved. The dashboard also incorporates a multitude of indicators such as a measurement of the phase of Luxembourg financial cycle, the evolution of real estate prices and the degree of interconnectedness of the financial sector.

This dashboard is complemented by a number of specific studies aimed at identifying the emergence of new risks following changes in the regulatory environment. In this context, several quantitative analyses were undertaken to assess the impact of the new Basel III liquidity and leverage requirements on Luxembourg's credit institutions.

In addition, a common project between the BCL and the Luxembourg School of Finance (LSF) financed by the *Fonds National de la Recherche,* will end during the first half of 2015. This project has already produced two academic publications focused on the assessment of stability in the Luxembourg financial sector and on the development of possible macro-prudential instruments.

The BCL used the Basel Committee on Banking Supervision (BCBS) G-SIB framework in order to identify the domestic systemically important institutions in Luxembourg. The BCBS framework is based on a series of indicators including the size of the institution, its interconnectedness and its substitutability in the event of default. Moreover, 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 now participates in the groups dedicated to crisis management and risk analysis. The BCL also takes an active role in the standing committee on regulation and policy and in the subgroup on crisis management of the EBA.

Finally, the research on macro-prudential issues carried out within the MaRS network (Macro-prudential Research and Supervision network), which involves central banks of the EU countries, including the BCL, has reached its conclusion. The work of the research network centred around three main pillars:

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

The final report of this network was published by the ECB in 2014. The numerous contributions of the BCL, in particular for the first two work streams of this project, were subsequently published in top peer reviewed journals.[21]

With the entry into force of the SSM, the ECB is now in charge of macro-prudential tasks in Europe. 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 for in the council regulation concerning policies relating to the prudential supervision of credit institutions.[22]

Measures available to the ECB include the capital buffer as defined in CRD IV as well as the measures under article 458 of the CRR such as risk weights for targeting asset bubbles in the residential and commercial property sector, liquidity requirements, public disclosure requirements, or intra financial sector exposures. Against this background, a financial stability committee (FSC) was established in order to help decision bodies to fulfil their responsibilities for 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 analysis and policy. The BCL also takes part in expert groups on legal acts and on draft technical standards.

At this stage, the macro-prudential policy 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 continue 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 in total including central banks, national and European financial supervision authorities, the European Commission and other prudential authorities, and 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 EU-wide financial system. Likewise, it also provides a mechanism for issuing clear warnings and recommendations to facilitate and trigger prompt action by the concerned national authorities under the 'comply-or-explain' principle. 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.

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

22 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.

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 expertise through the participation of its staff members in the analysis and technical work conducted by the ESRB.

The ESRB General Board started holding its regular plenary meetings at a minimum frequency of four times per year. In 2014, 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 both a flagship report and a handbook on macro-prudential policy in the banking sector. In addition, the ESRB has approved a decision on a coordination framework for the notification of national macro-prudential policy measures by competent or designated authorities and the provision of opinions and the issuing of recommendations by the ESRB;
- the collection and publication of an overview of measures taken by Member States that are of macro-prudential interest;
- the identification of the analytical tools which, in the near future, the ESRB will further develop in order to assess systemic risk.

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

- the establishment of guidance regarding the setting of countercyclical capital buffer rates and the identification of relevant variables to guide both the build-up and release phases of this buffer. The BCL took part in the work achieved by the ESRB which resulted in the publication of an occasional paper[23] and a recommendation[24] on guidance for setting countercyclical buffer rates;
- the issuance of opinions on certain macro-prudential measures.[25] 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 contribution to the consultation regarding the CRD/CRR review.

The BCL has considerably increased its involvement in macro-prudential supervision following the creation of the European Systemic Risk Board (ESRB). The BCL participates directly in the Advisory Technical Committee and its three substructures related to macro-prudential instruments, systemic risk identification and categorisation, and macro-prudential analysis.

The BCL takes part in various ESRB expert groups on market liquidity, guidance on setting the countercyclical capital buffer rate 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, the assessment team of the ESRB recommendation on US dollar funding, securities financing transactions as well as the task forces on stress testing and heat-map by intermediate objectives.

23 Occasional Paper No. 5: Operationalising the countercyclical capital buffer: indicator selection, threshold identification and calibration options

24 See Recommendation of the ESRB of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1).

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

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 the focus of attention of supervisory authorities at the 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, thus limiting the systemic risk.

Liquidity supervision also constitutes an important support function for analyses conducted in the field of financial stability and the analysis of systemic risks and analyses, notably, the interconnection between different market operators as well as the risks of contagion. The market operators monitoring function is thus a major source of data and information in the field of financial stability. In analogy with previous years, the BCL's framework of supervision in 2014 has essentially been based on two pillars, namely the permanent off-site monitoring carried out internally and the on-site inspections of market operators.

Significant changes in the organisation of banking supervision within the euro zone have, however, affected the end of the year 2014 with the operational implementation of the Single Supervisory Mechanism (SSM), which has impacted the activity of the BCL in relation to its mission of liquidity supervision of market operators.

Finally, particular importance has been attached to the follow-up of regulatory work at the international level, in relation to the definition and set-up of new liquidity standards in the framework of Basel III, as well as in the context of their transposition at the European level.

1.7.2.1.1 Changes induced by the establishment of the Single Supervisory Mechanism

Besides its ongoing activity of liquidity supervision of market operators, the BCL has been actively involved throughout 2014 in the preparatory work relating to the establishment of the SSM, which became operational from 4 November 2014 onwards.

Since then and according to the European Regulation on the Single Supervisory Mechanism (SSM Regulation[26]), the ECB directly supervises credit institutions considered as "significant", including their subsidiaries and branches established in participating Member States. The criteria laid down in the SSM Regulation in order to define the significance of a bank, at the highest level of consolidation, are the following:

- the size (the total value of assets exceeding € 30 billion)
- the importance for the economy of the Union or any participating Member State (the total value of assets exceeding 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.

The operational conduct of day-to-day supervision of "significant" credit institutions is conducted by Joint Supervisory Teams (JSTs). JSTs, composed of staff from both the ECB and national authorities, have been established for each significant credit institution. The BCL is involved in the JSTs at the level of its competences, i.e. liquidity supervision for the credit institutions or banking groups that have a relevant significance for the Luxembourg financial centre. The national authorities remain responsible for the prudential supervision of the "less significant" credit institutions, under the general supervision of the ECB. Their supervision

26 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.

is conducted under common standards and processes established by the SSM. Thus, the BCL continues supervising the liquidity situation of the Luxembourg banks that are considered "less significant".

The 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.

The BCL also participates in the works of different groups and committees instituted by the ECB in the context the SSM.

1.7.2.1.2 Tools for the liquidity surveillance

The off-site monitoring of market operators is based on a regular analysis of qualitative and quantitative information on an individual as well as an aggregated level. In order to have a better monitoring of the liquidity position of the market operators, the BCL notably implemented 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 that are counterparties 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 for the evaluation of the structural liquidity position of these credit institutions and the evolution of their liquidity position over time on an individual basis. In parallel, the BCL has developed an analytical tool that allows for the assessment of the vulnerability of individual credit institutions in terms of liquidity as well as the identification of liquidity risks at an aggregated level. This tool was complemented by the development of a watch list that identifies 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 is summarized in dashboards, allowing for a direct and permanent access to financial information and key indicators. 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 2014, the BCL carried out four on-site inspections, follow-up inspections included, with regard to the liquidity supervision. These assessments aim at evaluating the framework and the procedures in place at the level of the individual operators in order to assess the appropriateness of their liquidity risk management framework. As a general rule, the on-site inspections are coordinated and carried out in cooperation with the CSSF. The on-site inspections revealed that the credit institutions have in general reinforced their liquidity risk management framework in order to comply with the recommendations for this matter.

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

Since the operational launch of the SSM in November 2014, the supervision of the liquidity situation of credit institutions is performed on the basis of common methodologies and features, implemented by the SSM in the "Supervisory Manual". The latter has been developed jointly by the ECB, the national central banks and the national competent authorities of the SSM.

The ECB has implemented an Information Management System "IMAS" that allows for centralised information sharing with the national competent authorities and the supervised credit institutions. Furthermore, the ECB has introduced a standardised and transparent approach ensuring a harmonised application of processes by each JST.

1.7.2.1.3 Work for the implementation of the Basel III standards

With regards to the implementation of the new liquidity standards, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the BCL follows and accompanies regulatory developments in this area. At the regulatory level, the European Banking Authority has worked out and published in July 2013 a draft "Implementing Technical Standards" in order to establish the regulatory reporting of the LCR and the NSFR on a monthly and quarterly basis respectively, as of 31 March 2014. Eventually, the Commission Implementing Regulation (EU) No 680/2014[27] of 16 April 2014 postponed the first remittance date for the LCR and the NSFR to end of June 2014. This regulatory reporting is mandatory for all credit institutions on an individual and consolidated basis. These regulatory reporting requirements will remain in effect until the LCR becomes a binding standard on 1st October 2015.

In a second step and according to article 460 of the CRR, the European Commission has adopted a delegated act[28], which stipulates the final specifications of the LCR as well as details on the period of the progressive introduction of this new liquidity standard. Thus, the minimum requirement is set initially at 60 % starting from 1st October 2015 and will increase each year until it reaches 100 % on 1st January 2018. The Commission has incorporated the recommendations issued by the EBA in two reports published on 20 December 2013 with regard to the impact of the LCR on the European economy and the definition of the liquid assets. After an evaluation of potentially negative macroeconomic effects resulting from a too restrictive definition of the eligible liquid assets, the Commission decided to also include certain instruments that have been considered as particularly useful for the financing of the European economy, such as covered bonds and certain asset-backed securities. As the ratio is primarily applied on single entity level, certain intra-group flows can also be exempted from the cap on the cash inflows and thus benefit from more favourable weightings under certain conditions. With respect to the specificity of certain activities such as factoring, leasing and car financing, the Commission has alleviated the constraints on the cap for these cash inflows.

The stable funding requirement will remain a monitoring tool until a decision on its establishment has been taken before the end of 2016.

Over the course of 2014, the BC continued to conduct, in cooperation with the CSSF, two impact studies on a representative sample of credit institutions of the financial centre in order to determine the current positions of these banks facing these new liquidity standards. While a number of credit institutions do not meet the ratios at this stage, it should be noted that this is in general due to the fact that these credit institutions are part of banking groups which centralise liquidity at the level of the parent. On the other hand, institutions with a strong franchise in the Luxembourg economy in general already meet the new standards. The BCL will continue in 2015 to attach great importance to the follow-up of the two liquidity ratios for all the institutions.

1.7.2.1.4 National and International Cooperation

As a supervisor in charge of liquidity, the BCL has contributed to the work of 14 supervisory colleges in 2014. The majority of the credit institutions are affiliates of groups that have their head office abroad, the participation in these colleges allows the assessment of the activity and risk profile of Luxembourg entities in the context of their group.

As regards the follow-up of regulatory developments at international level, the BCL participates in the working groups dedicated to liquidity issues at the level of the Basel Committee and the European Banking Authority. Beyond the working groups dedicated to liquidity aspects, the BCL is also a member of the Board of Supervisors of the European Banking Authority as well as of other committees and subgroups that are 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.

27 Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

28 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.

1.7.2.2 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.

Pursuant to its organic law, the BCL ensures the safety and efficiency of payment systems and securities settlement systems as well as the safety of the payment instruments. The Regulation BCL 2010/N°6 of 8 September 2010 as amended, 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 rules that implement 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 by regular meetings and, where appropriate, on-site visits, relates to the development of infrastructures' activities, their performance, their governance and risk management. In this context, the BCL coordinates and cooperates with the *Commission de surveillance du secteur financier* (CSSF).

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

With regard to payment systems, the BCL contributed, by means of its participation in European 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 was 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 of the G10 central banks and the central banks that issue settled currencies. Overall, payment systems listed above operated in a stable and resilient manner in 2014.

In the context of securities settlement systems, the scope of the BCL oversight was expanded in 2014. Indeed, on 17 November 2014, the BCL designated the system operated by globeSettle S.A. as a securities settlement system pursuant to articles 109 and 110 of the law of 10 November 2009 as amended. To this end, the BCL performed an assessment of the adequacy of the systems' operating rules in accordance with the legal provisions. The BCL also initiated an assessment of the system against the CPMI-IOSCO principles for financial market infrastructures (Committee on Payments and Market Infrastructures – International Organization of Securities Commissions).

Furthermore, the BCL monitored the developments of activities and analyzed the regular information obtained from the other operators of settlement systems established in Luxembourg, namely Clearstream Banking S.A. (CBL), LuxCSD S.A. (LuxCSD) and VP LUX S.à r.l. (VPLUX). The BCL also closely followed the implementation of recommendations and action points addressed to the respective operators in previous assessments of the securities settlement systems against the ESCB-CESR recommendations. The functioning of the securities settlement systems in Luxembourg was generally stable and resilient in 2014.

For the purpose of its oversight of securities settlement systems, the BCL also continued its cooperation with other central banks and authorities, especially with the Belgian authorities for the interoperable link between the securities settlement systems operated by CBL and Euroclear Bank.

The BCL also contributed to the elaboration of regulatory technical standards relating to the regulation of the European Parliament and Council on improving securities settlement in the European Union and on central securities depositories (CSDs) published on 23 July 2014. Finally, the BCL actively contributed to the report of the CPMI working group (Working Group on Developments in Collateral Management Services) aimed at analyzing the developments relating to collateral management services, offered among others, by CSDs.

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

In this context, certain e-money schemes and payment solutions made available to the public in 2014 were subject to particular attention by the BCL and specific reporting frameworks were defined together with the respective entities for the purpose of the BCL oversight.

Furthermore, the BCL also pursued its active contribution to the European Forum for the Security of Retail Payments (SecuRe Pay). Established in 2011, 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. The BCL thereby contributed to the elaboration of an assessment guide, published in February 2014, relating to the recommendations for the security of internet payments that had been published in 2013. In this respect, discussions were conducted in collaboration with the CSSF with some payment instrument issuers in Luxembourg with a view to analyzing the authentication methods currently deployed by these actors for electronic payments and the changes needed in light of the recommendations for the security of internet payments.

In the same context, following a public consultation launched in November 2013, the BCL also contributed to the preparation by SecuRe Pay of recommendations relating to the security of mobile payments. The recommendations will be incorporated into the SecuRe Pay work for the purpose of fulfilling the mandates to be granted to the European Banking Authority (EBA) within the framework of the revision of the payment services directive.

Moreover, at the Eurosystem level, the BCL participated in the review of the assessment guides relating to the oversight frameworks for credit transfer, direct debit and card payment schemes. This review aimed at integrating the SecuRe Pay recommendations on the security of internet payments. The assessment guides for credit transfer and direct debit schemes were published by the Governing Council in 2014. The assessment guide for card payment schemes was published in February 2015.

Finally, the BCL participates in the joint assessment of the SEPA direct debit scheme (Single European Payment Area) initiated by the Eurosystem in 2014 and which will be finalised during the year 2015.

1.8 REGULATORY AND LEGISLATIVE DEVELOPMENTS

1.8.1 European legislation

The Eurosystem, which the BCL is a part of, follows with particular interest the developments of the European and national legislation, which during the year 2014 were mainly concerned with the Banking Union, financial stability and economic governance.

1.8.1.1 Banking Union

The strengthening of the EMU requires the achievement of an integrated EU financial framework, including the establishment of a Banking Union, as identified in the report "*Towards a Genuine Economic and Monetary Union*" published by Mr Herman van Rompuy, former president of the Council, 5 December 2012, in close collaboration with Mr José Manuel Barroso, former President of the European Commission, Mr Jean-Claude Juncker, former President of the Eurogroup and Mr Mario Draghi, President of the European Central Bank.

The Banking Union involves the transfer of the regulatory and institutional framework related to credit institutions from the national to the European level with the objective of enhancing the safety and soundness of the banking sector in the euro area.

This Banking Union is based on a single rulebook and three pillars: a single supervisory mechanism (SSM), a single resolution mechanism (SRM) and a deposit guarantee scheme (DGS).

The sections below describe the legislative developments in 2014 in relation to these three pillars.

1.8.1.1.1 Prudential supervision

The SSM Regulation entered into force on 3 November 2013, following the adoption by the Council through an unanimous vote. This legal text contemplated a period of one year before the ECB could fully carry out its new prudential supervisory tasks.

Since 4 November 2014, supervisory powers traditionally held by national competent authorities have been transferred to the ECB.

Institutional framework

The SSM Regulation provides that "*significant*" credit institutions within euro area Member States will be directly supervised by the ECB as of 4 November 2014, whereas for the rest that have been classified as "*less significant*" banks, the supervision will be carried out by national competent authorities, subject to the ECBs' final supervisory authority.

Member States of the European Union whose currency is not the euro are free to opt-in to the SSM by entering into a "*close cooperation*" regime with the ECB. Lithuania joined the SSM at the same time that it joined the euro area, as from 1st January 2015.

Currently the ECB directly supervises 123 banks or banking groups, representing more than 80 % of total banking assets in the euro area. This limited number of supervised entities reflects in reality a consolidated approach, meaning that banking groups which include a certain number of subsidiaries that are themselves credit institutions are supervised in an integrated way.

In its role as supervisor within the SSM, the objective of the ECB is to promote the safety and soundness of credit institutions and the stability of the financial system of the SSM area, with due regard for the unity and integrity of the internal market.

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

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

This Supervisory Board consists of a Chair and a Vice-Chair appointed by the Council, based on a proposal of the ECB Governing Council, after approval of the European Parliament, four representatives of the ECB and one representative of each national competent authority, and finally of one representative of the national central bank if the national central bank is not the national competent authority. The BCL is represented by one member within the Supervisory Board, which is composed since 1st January 2015 of 32 members.

The Governing Council of the ECB remains the ultimate decision-making body of the ECB, including in the area of the prudential supervision of credit institutions. In this context, the Governor of the BCL takes part in the decision-making process of the SSM. In order to assist him, an SSM coordination cell has been set up.

In 2014, the Governing Council adopted a number of legal acts related to the implementation of the SSM.

On 22 January 2014, the Governing Council adopted a decision which modified its rules of procedure and predicted the practical modalities concerning the procedure for the adoption of prudential decisions on the basis of "complete draft decisions" proposed by the Supervisory Board pursuant to a non-objection procedure. However, with regard to 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.

Recent evolutions

In order to ensure the ECB's preparedness in carrying out such tasks, the one-year transitional period since the adoption of the SSM Regulation has been fully used to accomplish the following steps:

- *Comprehensive Assessment*

In order to carry out banking supervision tasks as of November 2014, the ECB conducted a comprehensive assessment of banks. This assessment was broad in scope. The exercise concerned 130 credit institutions whose total assets under assessment amounted to EUR 22.0 trillion, which accounts for 81.6 % of total banking assets in the SSM. The comprehensive assessment consisted of three main components: 1) the adoption of the relevant methodology, 2) the asset quality review (AQR), namely an assessment of the accuracy of the carrying value of banks' assets as of 31 December 2013, which provided a starting point for the stress test, and 3) the stress test as a forward-looking examination of the banks' solvency according to a base line scenario and an adverse scenario, also reflecting new information arising from the AQR.

On 26 October 2014, the ECB published the results of the comprehensive assessment, disclosing bank-level outcomes in the form of standardised templates, accompanied by an aggregate report describing the outcome across the full sample of participating banks and providing further information about the organisation, methodology and execution of the exercise.

The following six Luxembourg institutions participated directly in the comprehensive assessment: Clearstream Banking S.A.; 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.; and UBS (Luxembourg) S.A.

- *SSM Governance*

During 2014, the Supervisory Board held 22 meetings. This Supervisory Board finalised the procedures on the preparation, adoptation and notification, in all official languages, of the 120 final decisions, which determined the significance of supervised institutions. This procedure implied considerable analytical, legal and logistical work.

On 22 January 2014, the ECB adopted a decision which amended and updated its rules of procedure in order to reflect the functioning of the Governing Council and that of the Supervisory Board.

In February, the ECB launched a public consultation on a ECB draft regulation, establishing the framework for cooperation within the SSM between the ECB and national competent authorities as well as with national designated authorities, which took place from 7 February to 7 March 2014. Following such a consultation, the ECB adopted its regulation (EU) No 468/2014 of 16 April 2014 (SSM Framework Regulation). Based on this text, the references to the national competent authority contained therein shall apply to BCL to the extent that it exercises supervisory tasks conferred upon it by national law[29]. Under the national law framework, the BCL carries out certain tasks in the area of liquidity supervision, despite the fact that it has not been designated as a "national competent authority". The SSM Framework Regulation foresees the possibility of the BCL participating, jointly with the ECB, in the prudential supervisory teams.

A second public consultation took place from 27 May to 11 July 2014. It resulted in the adoption of the ECBs' regulation (EU) No 1163/2014 of 22 October 2014 relating to supervisory fees and prudential supervision, which defines the arrangements under which the ECB will levy an annual supervisory fee for the expenditures incurred in relation to its new role within the SSM.

On 17 September 2014, the Governing Council adopted an ECB decision on the internal rules required to insure separation of the ECB missions pertaining to, on the one hand, banking supervision and, on the other hand, monetary policy and other tasks. The rules became effective before the operational launch of the SSM.

29 Article 2, point (9), article 4, article 5, SSM Framework Regulation.

- *Guide to banking supervision*

On 29 September 2014, the ECB published a document entitled "*Guide to banking supervision*", available in all the official languages of the euro area. Based on the SSM Regulation and the SSM Framework Regulation, the guide explains the overall functioning of the SSM. More specifically, this guide gives an overview of the main supervisory processes and methodologies applied to significant and less significant credit institutions.

- *Joint Supervisory Teams*

The Joint Supervisory Teams (JSTs) are the main operational structure for the conduct of supervision by the SSM. They started the day-to-day supervision of significant banks as from 4 November 2014. Pursuant to the SSM Framework Regulation, 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.

- *The Role of BCL in SSM*

The BCL participates in the SSM on various levels. The Governor of the BCL is a member of the Governing Council, the ultimate decision-making body of the ECB and the BCL has a member within the Supervisory Board. The strengthened cooperation with the CSSF which was in place since 2013, has been pursued. Finally, some BCL staff participate in certain JSTs as well as in working groups and committees in SSM composition put in place by the ECB.

1.8.1.1.2 Banking resolution

On 19 August 2014, Regulation (EU) No. 806/2014 establishing a Single Resolution Mechanism (SRM[30]) entered into force, following its publication in the Official Journal of the EU on 30 July.

The SRM is the second pillar of the Banking Union. It concerns the crisis management of credit institutions, wherein the substantive rules on recovery and resolution are contained within the Bank Recovery and Resolution Directive (BRRD[31]). It provides for a centralised crisis management institutional framework for banks whose Member States participate in the SSM.

As indicated above, the SSM area consists of all euro area Member States as well as non-euro area Member States of the European Union that have submitted voluntarily to the ECBs' banking supervision under a regime of close cooperation.

The definition of a centralised procedure for the crisis management of credit institutions is considered a necessary corollary for the establishment of a centralised supervisor, in order to, on the one hand, ensure an appropriate interaction between the identification of difficulties affecting a credit institution by the supervisor, and on the other hand, in order to initiate a crisis management procedure. Consequently, the resolution procedure is triggered by the ECB which, in its capacity as supervisor, issues its Opinion on the solvability of a bank.

The SRM comprises a Single Resolution Board (SRB) and a Single Resolution Fund. As the European resolution authority for the Banking Union, the SRB is responsible for preparing, in cooperation with the national resolution authorities of participating Member States, resolution plans and carrying out the resolution of banks in trouble, whenever one of them fails or is likely to fail. The SRB will also be in charge of the Single Resolution Fund which will be set up to ensure that medium-term funding support is available while a credit institution is being restructured. Such funds will be financed by the banking sector, initially on a national level. Member States are called upon to ratify the Intergovernmental Agreement, signed on 21 May 2014, providing for the transfer and mutualisation of the contributions to the Single Resolution Fund.

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30 Regulation (EU) n° 806/2014 of the European Parliament and the Council of 15 July 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 of the European Parliament and of the Council.

31 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.

It is foreseen that the SRM will start its activities on 1st January 2015. However, it will only become fully operational, with regard to resolution procedures, as of 1st January 2016, provided that the above-mentioned Intergovernmental Agreement is ratified.

The establishment of a European resolution authority raises the question of its role compared to the role of national resolution authorities. In this regard, it should be noted that the BRRD was adopted on 15 May 2014 with the aim of harmonising the national resolution procedures across the European Union. Subject to certain exceptions, the directive provides for national transposition by 31 December 2014 in order to ensure the application of the new measures as from 1st January 2015. The bail-in mechanism, which is the possibility to convert debt into equity and, correspondingly, write-down unsecured liabilities, will be applicable starting from 1st January 2016.

1.8.1.1.3 Deposit Guarantee Schemes

The third pillar of the Banking Union, namely the creation of a single European Deposit Guarantee Scheme (DGS), is characterised by slower progress, which remains on a national level.

On 12 June 2014, directive (EU) No 2014/49/EU with regard to deposit guarantee schemes was published in the Official Journal of the EU. It consists of a recast of the current legislation aimed at enhancing the protection of depositors beyond the requirements foreseen under directive 94/19/EC, as amended by directive 2009/14/EC. The text of the new directive provides for an enlargement and clarification as regards the scope of the protection, shorter reimbursement periods, better availability of information as well as financing criteria, together with a level of protection of depositors up to € 100.000.

In particular, the directive introduces modifications as regards the modalities for the reimbursement of depositors (the deadline for the reimbursement has been reduced from 20 to seven working days, subject to a phase-in until 2014). It further imposes the ex ante setting up of deposit guarantee funds, which shall at least reach a target level of 0.8 % of the amount of the covered deposits over a period of ten years, financed by banks' contributions.

Luxembourg is called upon to transpose the directive by 3 July 2015.

1.8.1.2 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)[32], the Treaty on Stability, Coordination and Governance (TSCG) and the budgetary surveillance package (two-pack)[33].

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.

32 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).

33 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.

On 28 November 2014, the European Commission published a report on the application of the economic governance framework in the European Union in the form of a Communication[34], as provided for in the legislative acts which are composed of the six-pack and the two-pack.

It draws the attention to the fact that its ability to draw conclusions on the effectiveness of the six-pack and two-pack is limited by the short experience of their operation, which has been characterised by a severe economic crisis since the entry into force of the European legislation in 2011 and 2013.

Generally speaking, the European Commission considers that the procedures have functioned well within the European Union. Generally, the revised economic governance framework has proven to be important to support Member States' fiscal consolidation efforts, by better identifying macroeconomic imbalances and by providing recommendations addressed to Member States.

The two-pack, partially transposing the TSCG into Union law, has resulted in a strengthening of the budgetary frameworks of the euro area Member States, including Luxembourg. National fiscal councils have been established or reinforced in order to monitor compliance with national fiscal rules. Since most of these entities have only been incorporated recently, the European Commission stresses that their independence, credibility and effectiveness will have to be confirmed by practice over the coming years.

As far as structural policies are concerned, the introduction of the procedure on the prevention and correction of macroeconomic imbalances has proven to be a useful tool in identifying imbalances and their degree of importance. Nonetheless, the consistent and transparent implementation of relevant policy recommendations should be improved and tools need to be found that improve the incentives of Member States to adopt and implement the necessary policies.

The European Semester is considered an important tool for combining the different instruments in the annual cycle of integrated surveillance of economic and budgetary policies.

The European Commission, however, recognises the complex nature of the relationship between the various instruments, which limits the transparency of policy-making, which in turn poses challenges for its implementation.

The Eurosystem has contributed to the review of the "Europe 2020" strategy, undertaken by the European Commission.

The Eurosystem emphasises that the success of the "Europe 2020" strategy hinges upon a full, strict and consistent implementation of the strengthened economic governance framework, which is important in order to preserve its credibility and to prevent the emergence of budgetary imbalances.

The national fiscal councils, which should have been established at latest by 31 October 2013[35], and the implementation of the TSCG should play an essential role in this context to the extent that they have the task of monitoring compliance with national fiscal rules and, as the case may be, of monitoring the application of the correction mechanism alongside with the independent assessments of macroeconomic forecasts produced or endorsed by independent bodies.

The Euro summit of 24 October 2014 agreed that closer coordination of economic policies is essential in order to ensure the smooth functioning of the EMU. In this respect, it called for work to continue, in close cooperation with the Commission, to develop concrete mechanisms for stronger economic policy coordination, convergence and solidarity. It invited the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup and the President of the ECB, to prepare the next steps for better economic governance in the euro area. Following the conclusions of the European Council of 18 December 2014, a report will be presented at the latest to the June 2015 European Council.

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34 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, Economic governance review, Report on the application of Regulations (EU) n° 1173/2011, 1774/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 (COM(2014)905 final).

35 Article 17(3) of Regulation (EU) 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.

On 30 January 2015, the European Commission published a Communication setting out the way in which it intends to apply the existing rules of the Stability and Growth Pact[36].

1.8.2 National legislation

1.8.2.1 BCL Regulations

In 2014, the BCL issued four regulations, three in the monetary policy area (BCL Regulation 2014/N°16, BCL Regulation 2014/N°18 and BCL Regulation 2014/N°19) and one in the field of balance of payments and international investment position (BCL Regulation 2014/N°17).

- BCL Regulation 2014/N°16 of 12 May 2014 implementing the Guideline of the ECB of 12 March 2014 amending Guideline ECB/2013/4 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (ECB/2014/12). The BCL Regulation 2014/ N°16 has been repealed and replaced by the BCL Regulation 2014/ N°18;

- BCL Regulation 2014/N°17 of 21 July 2014 concerning the collection of statistical data from financial companies, amending the BCL Regulation 2011/N°8 of 29 April 2011 concerning the collection of statistics from companies which grant loans or issue debt securities or derivative instruments to affiliates. The BCL Regulation 2014/N°17 entered into force on 1st December 2014 and amended the BCL Regulation 2011/N°8 of 29 April 2011 from that date;

- BCL Regulation 2014/N°18 of 21 August 2014 implementing the Guideline of the ECB of 9 July 2014 concerning additional temporary measures relating to Eurosystem refinancing operations and the eligibility of collateral and amending Guideline ECB/2007/9 (recast) (ECB/2014/31). The BCL Regulation 2014/ N°18 repeals and replaces the BCL Regulation 2013/N°15 and the BCL Regulation 2014/N°16;

- BCL Regulation 2014/N°19 of 15 December 2014, amending the BCL Regulation 2014/N°18 of 21 August 2014 implementing Guideline ECB/2014/31 on additional temporary measures, relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9.

1.8.2.2 Interest rates

The legal interest rate for the year 2014 was set at 3.25 % by the grand-ducal Regulation of 23 December 2013 (Memorial A – N°228 of 27 December 2013, p. 4245). For the year 2015, this rate is set at 3.00 % by the grand-ducal Regulation of 19 December 2014 (Memorial A – N°246 of 23 December 2014, p. 4805). 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 2014, the late payment interest rate was at 8.25 % in accordance with the publication of the Memorial B – N°13 of 6 February 2014, p. 485. For the second half of 2014, the late payment interest was 8.15 % in accordance with the publication of the Memorial B – N°72 of 17 July 2014, p. 1448. 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.

1.8.2.3 Enacted law

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

The objective of the law of 12 July 2014 on the coordination and governance of public finances (Law of 12 July 2014) is mainly to transpose into Luxembourg law the provisions of the TSCG, in particular Article 3, as well as some provisions of the six-pack.

36 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank, Making the best use of the flexibility within the existing rules of the Stability and Growth Pact, of13 January 2015 (COM(2015)12 final provisional).

Article 7(1) of the draft law initially filed by the Government to Parliament designated BCL as an "independent body" in charge of specific tasks which were defined in the same article.

The ECB had been consulted by the Government on 12 July 2013 and delivered its Opinion on 18 December 2013[37].

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

Moreover, NCBs may present their views on relevant fiscal developments on the basis of their monitoring activity and the independence of their advice, with a view to also contributing to the proper functioning of European Monetary Union. In this respect, the monitoring of fiscal developments by Eurosystem central banks for monetary policy purposes should be based on the full access to all relevant public finance data.

Accordingly, the BCL should be granted unconditional, timely and automatic access to all relevant public finance statistics. The BCL's current role in monitoring fiscal developments should be enhanced through obtaining unconditional, timely and automatic access to all relevant public finance statistics. In any event, the BCL should retain any role it may already have regarding the production and quality control of government finance statistics [...]"[38].

The ECB considers that *"[...] an NCB's role should not go beyond monitoring activities that result from or are linked - directly or indirectly - to the discharge of their monetary policy mandate"* and that *"[...] the monetary policy mandate as well as an NCB's independence run the risk of being undermined if the NCB takes up the monitoring activities set out in Article 5 of Regulation (EU) No 473/2013 and Article 4 of Directive 2011/85/EU."*[39]

Following the ECB's Opinion, the Government amended the draft bill by designating a new entity, the "National Council of Public Finance" (*Conseil national des finances publiques, the* "CNFP") as independent institution in the sense of Article 3 TSCG.

The members of the CNFP are appointed by the Grand Duke for a renewable period of four years. They exercise their mandate in a neutral and independent manner.

The CNFP is chaired by its president who is elected amongst its members by absolute majority and assisted by a permanent secretariat. The latter is ensured by civil servants and employees of the State who may be seconded by the administration of origin.

The CNFP is in charge of the following tasks:

a) monitoring compliance with the medium-term budgetary framework, including the fiscal rule defined in Article 4 as well as the application of the correction mechanism;
b) assessment of the macroeconomic and budgetary forecasts established for the purpose of general government fiscal planning;
c) all other assessments pursuant to Article 5(2) of Regulation (EU) No 473/2013 (two-pack).

The CNFP publishes its reports and assessments.

Following the appointment of the members of CNFP by a grand-ducal regulation on 7 November 2014, the CNFP held its first meeting on 12 November 2014.

Beyond the establishment of an independent budgetary institution the Law of 12 July 2014 introduced, in particular, a new reference framework for the definition and implementation of budgetary policy in compliance with the European legal framework governing the European System of Accounts. Moreover, it provides for a fiscal rule as specified in Article 3 TSCG, for the definition of a medium-term objective as well as the

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

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

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

adjustment path leading to it, as specified in the context of the multiannual financial planning laws with an automatic correction mechanism. The Law of 12 July 2014 also introduces a medium-term budgetary framework comprising a budgetary plan of at least three years as well as a procedure traditionally qualified as "procedure of provisional twelfths" (*procédure des douzièmes provisoires*).

In order to fulfil its tasks of assessing public finances, BCL needs to be granted, on a continuous basis, access to all public finance statistics. In this context, 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.

Even though Luxembourg is not the object of an excessive deficit procedure, the adoption of the Law of 14 July 2014 is of major importance with regard to the structural budgetary challenges which Luxembourg is facing and the urgency of the need to modernise its legal budgetary framework, which has until now been based on an annual budgetary cycle.

The euro area Member States had to establish an independent institution by the end of 31 October 2013 at the latest.

Contrary to Article 3(2) TSCG it has to be noted that the Law of 12 July 2014 has taken the form of an ordinary law which could be amended at any point in time by any other ordinary law.

Moreover, in contrast to the same provision, the mechanism for correcting observed deviations does not operate in an automatic manner, as Article 6 of the said law does not sufficiently detail its specifications.

Law of 28 July 2014 regarding immobilisation of bearer shares and units and the keeping of the register of registered shares and the register of bearer shares

The law of 28 July 2014 regarding the immobilisation of bearer shares and units and the keeping of the register of registered shares and the register of bearer shares and amending 1) the law of 10 August 1915 on commercial companies, as amended, and 2) the law of 5 August 2005 on financial collateral arrangements, as amended, aims to adapt the Luxembourg legislation to the requirements of the Financial Action Task Force on Money Laundering (FATF) and of the Global Forum on Transparency and Exchange of Information for Tax Purposes in the field of identification of holders of shares and bearers units.

Furthermore, the law of 28 July 2014 enumerates a certain number of professionals which may act as depositaries empowered to receive on deposit bearer shares. Among those that may be appointed as depositaries feature, in particular, the "professional depositaries of financial instruments" which constitute a specific category of the "professionals of the financial sector (PFS)" within the meaning of Article 26 of the law of 5 April 1993 on the financial sector, as amended, and which may also be concomitantly notified to the European Securities and Market Authority (ESMA) as a securities settlement system, in accordance with Article 110, first paragraph, of the law of 10 November 2009 on payment services. This law incorporates the national provisions implementing the Directive on settlement finality in payment and securities settlement systems (SFD). Thus, a new function is entrusted to securities settlement systems which may cumulate the functions of a system, of a professional depositary of financial instruments and of a depositary empowered to receive on deposit bearer shares.

The law of 19 December 2014 regarding the implementation of the "Package of the future" (paquet d'avenir) – first part

The law of 19 December 2014 regarding the implementation of the Package of the future – the first part (Law of 19 December 2014) provides for the establishment of a sovereign fund.

On 8 December 2014, BCL presented its Opinion to the parliamentary Committee for Financial and Budgetary Affairs regarding the draft law n° 6720 which also concerned the establishment of a sovereign fund.[40]

40 See pages 47 ss. of the Opinion of BCL of 8 December 2014.

The Law of 19 December 2014 established this sovereign fund under the legal form of a public institution under the authority of the Ministry in charge of the financial center and enjoying legal personality, designated "*Intergenerational sovereign fund of Luxembourg*" (the Fund).

The Funds' task consists in realising savings whose "*income could be used, under certain conditions and within certain limits*" in order to contribute to the well-being of future generations.

The Fund shall have financial autonomy.

Further to the parliamentary amendments, the Opinions by the professional chambers as well as BCL's Opinion, the contributions to the Fund have been enlarged. It is henceforth foreseen to provide for an annual budgetary endowment of at least EUR 50 million composed of revenues originating from part of the VAT on electronic commerce as well as from excise on gas. Contributions from other non recurring revenues may also be foreseen.

As of the moment, when the Fund disposes of assets exceeding € 1 billion, at earliest 20 years of the constitution of the Fund, the Government may decide to allot a maximum of 50 % of the revenues generated by the assets of the Fund during the preceding financial year to the budget of the State.

The Fund is managed by the management board and the investment committee.

It is subject to the control by the Court of Auditors.

The investment policy is closely inspired by that of the "Compensation Fund"[41] (*Fonds de compensation*) which has been established in 2004 in order to manage the compensation reserve of the general pension regime. The Fund should therefore follow a conservative investment policy.

As far as the size of the Fund is concerned, the targeted amount of € 1 billion intended to be available in twenty years seems very limited both in value and as a percentage of GDP in relation to other existing sovereign funds.

As to the contributions to the Fund, other sources of financing should have been explored. The financing of the endowment to the Fund by recourse to public debt should be avoided.

The objective of the Fund according to Article 1(1) of the Law of 19 December 2014 is to "contribute to the well-being of future generations". Despite the imprecise wording of this objective raised by both the Council of State (*Conseil d'Etat*) in its Opinion of 18 November 2014 and by BCL in its Opinion of 8 December 2014, the parliamentary Commission has refrained from amending the draft law in this regard.

Regarding its governance, its organisational structure appear rather complex and costs are difficult to estimate.

1.8.2.4 Draft laws

Proposal for revision concerning the amendment and new ordering of the Constitution (n° 6030)

A proposal for a revision concerning the amendment and new ordering of the Constitution had been filed with Parliament on 21 April 2009. This constitutional reform is still pending.

BCL is not explicitly concerned with the proposals of amendment. It nonetheless draws the attention to the fact that in compliance with Article 3(2) of the TSCG it could be envisaged, as mentioned by the ECB in its Opinion of 18 December 2013[42], to introduce new rules of budgetary surveillance in the Constitution of the Grand Duchy of Luxembourg, even though this Opinion does not formally impose it[43].

41 Compensation Fund governed by the law of 6 May 2004 on the management of the assets of the general pension regime.

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

43 Reference is made in Article 3(2) TSCG to "*provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes. (…)*"

Draft law establishing a systemic risk committee and modifying the amended law of 23 December 1998 relating to the monetary statute and the Banque centrale du Luxembourg (n°6653).

Draft law implementing, inter alia, directive 2013/36/EU concerning the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

The two above mentioned draft laws are related.

In order to implement recommendations ESRB/2011/3[44] and ESRB/2013/1[45], a draft law n° 6653 establishing a systemic risk committee in Luxembourg has been introduced to the Parliament on 28 February 2014 and adopted on 18 March 2015[46]. This draft law entrusts the systemic risk committee (committee) with the task to coordinate the implementation of macro-prudential policy, in order to contribute to the Luxembourg financial stability. The objective of such macro-prudential policy is notably to reinforce the safety of the financial system and to reduce the building up of systemic risks. This mission covers the financial system as a whole, including the concept of "shadow banking".

In the majority of Member States, the aforesaid task has been entrusted to national central banks. In fact, central banks have a recognised experience in the domain of financial stability, enshrined in European law, which sets out the mission of contributing to the smooth conduct of policies pursued concerning financial stability (Article 127, paragraph 5, TFEU). The same task is enshrined in national law under Article 2, paragraph 6, of the organic law of the BCL. For this reason, the ESRB provides that Member States are to ensure that central banks play a leading role in macro-prudential policy, together with the principle that macro-prudential policy may not affect the independence of central banks pursuant to Article 130 TFEU.

The draft law made the choice of creating a collegial body, which was a second choice for the designation of a national macro-prudential authority. This choice has been adopted only in a minority of Member States. The committee is composed of four members, namely: a) the member of the Government being in charge of the financial center, acting as Chairman; b) the Governor of the BCL, replacing the Chairman in case of absence; c) the Director General of the CSSF; and d) the Director of the *Commissariat aux assurances*. The BCL, under the hierarchical authority of the Governor, is envisaged to ensure the secretariat of the committee and to be assisted by staff designated by the authorities that are members of the committee.

The draft law makes it clear that the coordination related to the implementation of macro-prudential policy by the committee is carried out without prejudice to the competences of the BCL, as member of the ESCB and of the Eurosystem, by virtue of the TFEU, as well as its organic law.

In addition, a second draft law was introduced on the same day: the draft law n°6660 aimed at transposing into Luxembourg law, inter alia, the CRD IV.

The second draft law proposes designating the CSSF as the "national designated authority" pursuant to Articles 131, 133 and 136 of the CRD IV as well as Article 458 of the CRR. It foresees that where the designated authority acts to use instruments addressing macro-prudential risks, the CSSF takes decisions following close concertation with BCL in order to reach a common position and, in case, after having requested an opinion of the systemic risk committee or having taken into account the recommendations of the systemic risk committee.

The Council of State (*Conseil d'Etat)* issued an Opinion on the first draft law on 20 May 2014, calling into question the architecture and the scope of the draw law, and threatening a formal opposition if amendments were not introduced to the draft on certain issues, such as delimitations to the shared secrecy regime, circumspection as regards the disclosure policy and more proportionality for the interventions of the committee.

44 Recommendation ESRB/2011/3 of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (OJ C 41 of 14.2.2012, p. 1). Available on the website of the European Systemic Risk Board at the following address: https://www.esrb.europa.eu

45 Recommendation ESRB/2013/1 of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (OJ C 170 of 15.06.2013, p. 1).

46 Law of 1st April 2015 establishing a systemic risk committee (published in the Official Gazette Memorial A No 64 of 3 April 2015, p. 1283).

The ECB, in turn, issued a rather critical Opinion on the above-mentioned draft laws on 26 June 2014 where it invited the Luxembourg legislator to proceed with caution as regards to the recommendations of the Council of State. The ECB identified a number of shortcomings concerning the first draft law, namely, the limited role of the BCL in the field of macro-prudential policy; the limited powers of the committee, including its power to collect information; the voting arrangements; the lack of clarity as regards the committees' functions; and the committee's disclosure policy. In light of these deficiencies, the ECB urged the Luxembourg legislator to thoroughly review the first draft law in order to strengthen the overall effectiveness of the institutional framework for macro-prudential policy in Luxembourg.

The ECB strongly recommends that: (a) the BCL's leading role in macro-prudential policy should be bolstered; (b) either the BCL, in its leading role in respect of the macro-prudential policy or the committee, should be endowed with direct enforcement powers, including those relating to collecting information and statistics; (c) voting and disclosure arrangements should be more flexible; and (d) the overall clarity with regard to the committees role should be improved[47].

The Council of State issued an Opinion on the second draft law transposing the CRD IV on 21 October 2014. Consequently, as the two draft laws are related, the Parliament (*Chambre des Députés)* works could not be concluded by the end of 2014.

The Finances and Budget Commission of the Parliament (COFIBU) held a meeting on 29 January 2015 where certain parliamentary amendments were introduced into the draft law n° 6653 and subsequently transmitted to the Council of State for a second Opinion. Essentially, the COFIBU attempted to address the issues raised by the Council of State without substantially changing the architecture for the supervision and definition of macro-prudential policy in Luxembourg.

In its supplemental Opinion of 10 March 2015 on the draft law n° 6653, the Council of State stated that its most fundamental concerns, raised in its previous opinion, were alleviated by the parliamentary amendments, in a way that it was not opposed anymore to give its waiver for a second constitutional vote.

1.8.3 ECB Legal acts

Besides the guidelines of the ECB mentioned in section 1.8.2.1 (BCL Regulations), the ECB adopted in particular the Regulation (EU) n° 795/2014 of the ECB of the 3 July 2014 on oversight requirements for systemically important payment systems (ECB/2014/28), and afterwards the decision of 13 August 2014 on the identification of TARGET2 as a systemically important payment system pursuant to Regulation (EU) N°795/2014 on oversight requirements for systemically important payment systems (ECB/2014/35). This is the first use by the ECB of its regulatory powers in the field of payment systems oversight.

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 2014, the BCL also published three Bulletins and one Financial Stability Review.

The BCL published an opinion on the state's draft budget motion for 2015. This opinion was presented on 8 December 2014 before the Finance and Budget Commission of the Luxembourg Parliament.

In its working papers, which are available on its website, the BCL publishes the research conducted by its staff. In 2014, 11 working papers were published.

47 ECB Opinion of 26 June 2014 on a Systemic Risk Committee (CON/2014/46), point 10.

1.9.2 Training at the BCL

1.9.2.1 Academic cooperation

The BCL continued its cooperation with the University of Luxembourg and its staff members gave lectures in economics and law. Staff members also gave lectures on econometrics (Metz University).

The BCL also organised one-off presentations for student groups (from ULB-Solvay, RWTH Aachen, Syracuse University, Saint-Gall University and Paris-Dauphine University).

1.9.2.2 Technical cooperation

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

1.9.2.3 Cooperation with secondary schools

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

In 2013-2014, the BCL organised for the first time in Luxembourg the Eurosystem's competition for high schools, *Generation €uro Students' Award*. 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 2013-2014 edition of the competition, which was met with great interest from high schools, ended with the national award ceremony on 25 March 2014 at the BCL and the European award ceremony – which was attended by each participating country's winning team – on 3-4 April 2014 in Frankfurt.

Luxembourg's *Generation €uro Students' Award* winning team members and their teacher participated in the European award event organised at the ECB on 3-4 April 2014, along winning teams of the other participating countries.

Luxembourg's second edition of the competition was launched on 9 October 2014, 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 second edition concluded with the final and the national award event at the BCL on 26 March 2015.

In addition, on 21 October 2014, the BCL organised for the first time a training seminar for economics teachers, covering the topic: "The ECB's conventional and non-conventional monetary policy". This seminar was organised in cooperation with the *Conférence nationale des professeurs en sciences économiques et sociales* (national conference for economics teachers) under the aegis of the *Institut de Formation Continue* (Luxembourg's training institute for teachers). Around forty teachers from the classical and technical teaching system attended the seminar. The topics addressed included the institutional settings of the Eurosystem, the strategy and operational framework of the Eurosystem and the implementation of monetary policy through conventional and non-conventional measures.

1.9.3 The BCL's website

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

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

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

In 2014, the BCL continued the process of redesigning its website and the new version is expected to go online in 2015.

More than 116 700 people visited the BCL's website in 2014 (over 18.3 million clicks were registered on over 2.87 million consulted pages). The most frequently downloaded document continues to be the numismatic programme, which was downloaded around 23 800 times.

1.9.4 The BCL's library

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

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

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

1.9.5 Press relations

On 14 January 2014, the BCL organised a press conference to present the new 10-euro banknote, in the context of the gradual introduction of the new series of euro banknotes, the so-called " Europa series ".

On 6 June 2014, a press briefing was organised at the BCL, where the BCL Governor Mr Gaston Reinesch explained to the media the decisions taken by the Governing Council on the day before, particularly in regard to non-conventional monetary policy measures.

On 25 June 2014, Mr Gaston Reinesch, Governor of the BCL, accompanied by Mr Serge Kolb, Director, presented the collector coin minted in fairtrade / fairmined gold and illustrating the theme "175th anniversary of Luxembourg's independence" to the press. Mr Jean-Louis Zeien, President of *Fairtrade Lëtzebuerg*, Mrs. Lina Villa, Director of *Alliance for Responsible Mining* and Mrs. Maria Rosa Reyes Pajuelo, staff member of the Peruvian cooperative which produced the gold used for the minting of this coin, attended the event. This manufacturing process was used for the first time in the world in the field of numismatics.

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

Overall, 108 press releases were published.

1.9.6 BCL research activities

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

BCL researchers also presented their results in seminars and workshops organised by different institutions, including the Conseil économique et social du Luxembourg, the Réseau d'Etudes sur le marché du Travail et de l'Emploi Luxembourgeois (RETEL), the Eurosystem, the European University Institute in Florence, the Swedish Network for European Studies in Economics & Business, the Austrian Economic Association, the University of Trier, the Fondation pour les études et recherches sur le développement international and the Université catholique de Louvain.

Since December 2006, the BCL is a member of the Eurosystem "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 CEPS/Instead research institute. 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.

European central banks also belong to the ESCB "Macro-prudential research network" (MaRs), which held its final conference in 2014. In this context, the BCL followed the workstreams on (i) macro-financial models linking financial stability and economic performance and (ii) early warning systems and systemic risk indicators.

Since March 2012, the BCL is also a member of the ESCB "Competitiveness research network" (Compnet) created by European central banks. BCL staff participated in meetings and followed the workstream on the macro-economic aspects of competitiveness (aggregate and sectoral measures and their link to national export performance).

In June 2014, 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.

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

The Foundations' statutes were approved by the *Règlement grand-ducal* of 12 March 2011. On 1 December 2014, the Board of Directors included the following members:

Christian Wolff, Vice-President and interim President, Professor at the University of Luxembourg, Director of the Luxembourg School of Finance

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

Hans Helmut Kotz, 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

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

1.9.7 Conferences and events

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

- Conference on the topic *"Upholding Union Values in Times of Societal Change: the Role of the Court of Justice of the European Union"* by the association *Bridge Forum Dialogue* on 16 January 2014. **Mr Koen Lenaerts,** Vice-president of the Court of justice of the European Union, gave a speech. The conference was chaired by the BCL Governor, in his quality of President of the *Bridge Forum Dialogue*.

(From l. to r.) Mr Vassilios Skouris, President of the European Court of Justice and Mr VÍtor Manuel da Silva Caldeira, President of the European Court of Auditors, both Vice-Presidents of the Bridge Forum Dialogue, Mr Koen Lenaerts, Vice-President of the European Court of Justice, Mr Gaston Reinesch, Governor of the BCL and President of the Bridge Forum Dialogue.

- Joint organisation with the National Bank of Belgium (NBB), on 25 April 2014, of a seminar on the preparations of the introduction of the new 10-euro banknote, in the perspective of its circulation as from 23 September 2014.

- Organisation, on 8 May 2014, by the association *Bridge Forum Dialogue*, of a conference on the topic : "*The EU and Russia – Ukraine, a border or a bridge?"*. The speech was held by Mr Pat Cox, former European Parliament President and member of the *Board of Yalta European Strategy, Ukraine*. The conference was chaired by M. Werner Hoyer, President of the EIB and Vice-president of the *Bridge Forum Dialogue*.

- Seminar of the "*Luxembourg Workshop on Household Finance and Consumption"* on 20 June at the BCL. The objective of this seminar, in which academics, researchers and PhD. students participated, was to present and discuss the studies using microeconomic data and surveys on households and individuals.

1.10 EUROPEAN ACTIVITIES

1.10.1 Activities at the level of the ECB

In 2014, the Governor of the BCL participated in 23 meetings of the Governing Council and in five meetings of the General Council. Members of the Governing Council act in their personal capacity and not as national representatives when taking decisions.

The Governing Council usually meets twice a month at the ECB's headquarters in Frankfurt. Until including the end of 2014, the first meeting of the month was, as a rule, dedicated to monetary policy decisions, whilst at the second meeting the Governing Council mainly discussed issues related to the other tasks and responsibilities of the Eurosystem[48]. In 2014, more than 500 decisions were taken by the Governing Council via written procedure, including 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, four times a year.

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

In 2014, 18 Eurosystem/ESCB committees provided expertise in their field of competence in order to support decision-making by 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 needed, other competent bodies may also be invited to participate in committee meetings.

In order to support the preparatory work linked to the creation of the Single Supervisory Mechanism (SSM), some of these committees have started meeting in a composition reflecting 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 related Committee's mandate. The Governing Council has further created High Level Groups to consider particular issues.

1.10.2 Economic and Financial Committee

The Economic and Financial Committee (EFC) is composed of representatives of the 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 tasks of the EFC is to "review the economic and financial situation of the Member States of the EU and to regularly report to the Council and to the Commission" as well as to "contribute to the preparation of the work of the Council".

In 2014, the EFC continued to closely follow the development of the budgetary situation of member states and the evolution of financial stability in the EU, as well as the progress towards the banking union including stress tests that commercial banks of the EU had to undergo, the establishment of the Single Resolution Mechanism (SRM) and of the Single Supervisory Mechanism (SSM).

48 Since the beginning of 2015, monetary policy decisions are, as a rule, taken by the Governing Council every six weeks instead of once per month. The two-week rhythm for the Governing Council meetings is however maintained.

The EFC plays an important role in the preparation of European common positions at the G20 meetings, the IMF[49], and the Financial Stability Board (FSB). It also deals with economic policy issues discussed at the informal ECOFIN, to which the Governors of the national central banks of the EU are invited.

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 2014. 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 8 December 2014, the BCL presented its opinion on the government's draft budgetary plan on revenues and expenditures to the Financial and Budget Commission of the Luxembourg Parliament.

1.11.1.2 BCL Committees

Operational Crisis Prevention Group (OPCG)

A couple of years ago, the BCL established the Operational Crisis Prevention Group (OCPG) with the mandate of enhancing the financial sector's preparation with regards to large-scale operational disruptions.

Members include the ABBL, the CSSF and systemically important financial institutions and market infrastructures established in Luxembourg.

In 2014, the group tested and started setting-up communication tools dedicated to the communication in crisis situations. Furthermore, it developed a test plan for the coming years.

Lawyers Committee

The Lawyers Committee of the BCL met six times in 2014 and discussed various subjects relating to the Eurosystem. The Lawyers Committee examined in particular the developments of new rules regarding the Banking Union, following the entry into force in November 2014 of the Single Supervisory Mechanism (SSM), but also pursuant to the adoption of a legal framework on the Single Resolution Mechanism (SRM).

49 For the IMF, see section 1.11.2.

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 2014, 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 new data collection relating to renminbi transactions as well as the work undertaken by the ECB in relation to the introduction of a granular credit data collection. The data collection on renminbi transactions starts in 2015.

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 2014.

The Economic and financial statistics consultative commission

The economic and financial statistics consultative commission has been set up by the BCL in order to ensure an efficient organisation of data collection in the area of economic and financial statistics as well as to enhance the dialogue between financial intermediaries and the central bank. Due to the absence of new projects, the commission was not consulted in 2014.

Market Operations Committee

This Committee, which acts as a consultative body, assists the BCL in the preparatory work related to the rules and practical modalities of the monetary policy operations, foreign exchange operations and the management of foreign exchange reserves. Equally, this Commttee has the objective of providing a discussion forum for questions related to financial market developments. The Committee held no meetings in 2014.

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, therefore, provides a framework for the examination of business cycle fluctuations in the country's economy and for the monitoring of economic policy issues when they arise.

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

The Consumer Price Index Commission (Commission de l'indice des prix a la 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 2014, the CNC fulfilled its mandate and as such elaborated advice and comments on questions that were addressed to it. Besides, for the first time the CNC invited all the interested parties in the accounting matters to take part in a public consultation mainly relating to the update of the Standard Chart of Account (Plan comptable normalisé); five years after its implementation.

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

Quota subscriptions are a central component of the IMF's financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. In the context of the 14th General Review of Quotas, the IMF's total quotas will double from Special Drawing Rights[50] 238.4 billion to SDR 476.8 billion. Luxembourg's quota will increase from SDR 418.7 million to SDR 1 321.8 million, an increase of 216 %. This increase of SDR 903.1 million is regulated by the law of 10 October 2012, which authorises the Government to participate in the general review of quotas of IMF Member States, which was approved by Resolution n° 66-2 of the IMF Board of Governors on 15 October 2010 that also approved the amendment to the IMF's Articles of Agreement.

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

To supplement its quota resources, the IMF can also borrow temporarily. The New Arrangements to Borrow (NAB), which were expanded in 2011 and can provide supplementary resources of up to SDR 370 billion, are the main backstop to quotas. Luxembourg's contribution to the NAB is SDR 970.59 million. At the end of the year, the credits granted by Luxembourg under the NAB reached SDR 116 million.

In mid-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 USD 461 billion. The countries from the euro area pledged EUR 150 billion (at the time the equivalent of about USD 200 billion). Luxembourg contributed to this effort by signing in April 2014 a bilateral loan agreement in favour of the IMF of EUR 2.06 billion.

Following the doubling of the IMF's quotas foreseen under the 14th General Review, the NAB will be rolled back from around SDR 370 billion to about SDR 182 billion. Luxembourg's participation in the NAB will then be 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 2014, Luxembourg's quota, recorded in full on the BCL's balance sheet, amounted to SDR 418.7 million. On the same date, Luxembourg's reserve position – i.e. the difference between Luxembourg's

50 Special Drawing Rights. As of 31 December 2014, SDR 1 was equivalent to USD 1.448810 and EUR 1.193320.

quota and the IMF's holdings of euro-denominated assets at the BCL – was of SDR 45.7 million, equivalent to 10.9 % of Luxembourg's quota.

At the end of 2014, Luxembourg held SDR 244.43 million, or 99.11 % of its SDR allocation, in comparison with 99.04 % at the end of 2013.

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 by the regular organisation of high level meetings including the governors of central banks and experts. It also contributes to the establishment of international banking standards. At present the BIS has sixty members from central banks of advanced and emerging economies.

The BCL is closely involved in the activities of the various committees and working groups of the BIS.[51] Besides its participation in the Committee on the Global Financial System (CGFS) and in the Annual General Meeting of the BIS, the BCL is also represented by its Governor at the Global Economy Meeting and at the All Governors' Meeting, which both take place every two months in Basel.

In 2014, the discussions that took place in the context of the BIS meetings addressed,notably, recent economic developments, financial market conditions, the domestic and global determinants of inflation as well as the implications for central banks resulting from global demographic change.

Bilateral relations

On 28 June 2014, Mr Gaston Reinesch, Governor of the Banque centrale du Luxembourg, and Mr Xiaochuan Zhou, Governor of the People's Bank of China, signed a Memorandum of Understanding (MoU) in the margins of the Bank for International Settlements' Annual General Meeting that took place in Basel.

The MoU launched to establish a cooperation between the two institutions in terms of oversight, exchange of information and assessment pertaining to the renminbi business in Luxembourg. Following the designation of the renminbi clearing bank in Luxembourg, on 16 September 2014, the BCL has been closely monitoring the renminbi market in Luxembourg and sharing relevant data with the PBoC.

51 These are: The Financial Stability Board, the Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Committee on Payments and Market Infrastructure, the Markets Committee, the International Association of Insurance Supervisors and the International Association of Deposit Insurers.

Mr Xiaochuan Zhou, Governor of the People's Bank of China and Mr Gaston Reinesch, Governor of the Banque centrale du Luxembourg.

During a work visit to Washington D.C., Governor Reinesch had a bilateral meeting with Ms. Janet L. Yellen, Chair of the Board of Governors of the Federal Reserve System. The discussion mainly pertained to economic and monetary developments in the euro area and the United-States.

Mr Gaston Reinesch, Governor of the Banque centrale du Luxembourg and Ms. Janet L. Yellen, Chair of the Board of Governors of the Federal Reserve System.

1.12 THE EUROSYSTEM PROCUREMENT COORDINATION OFFICE (EPCO)

In December 2007, the ECB Governing Council appointed the Banque centrale du Luxembourg to establish and host EPCO for an initial period of five years (2008-2012), extended until the end of December 2014 to allow further analysis for the future scope of EPCO. Subsequently, the Governing Council decided to extend EPCO's mandate under the responsibility of the BCL for an additional period of five years (2015-2019).

EPCO's objective is to coordinate and support the joint procurement of goods and services by those Central Banks of the European System of Central Banks of the European System of Central Banks (ESCB) that have agreed to participate in EPCO activities (the 'EPCO Central Banks'[52]), as well as to further improve best practices in the field of public procurement within the Eurosystem.

EPCO administers and facilitates the activities of the network of procurement managers and experts of the EPCO Central Banks. The network met four times in 2014 and continues to serve as an important platform to foster the joint procurement culture within the Eurosystem and to exchange views about best procurement practices.

In 2014, the sixth EPCO joint procurement plan was implemented, and good progress was made in a number of areas. EPCO actively supported the leading central banks in the preparation of procedures in areas including information technology, packaging products for transportation of euro banknotes, air transport and hotel services and market data services.

EPCO also provided support in the management of the contracts in force, which have produced important benefits for the EPCO central banks.

EPCO also progressed in a significant series of study areas potentially suitable for joint procurement in domains such as insurance services, the services offered by purchase cards, banknote related products, training services, air transport services and information technology goods and services.

For the preparation of its new mandate, EPCO contributed significantly to the work on the evaluation of its activities under the auspices of the EPCO Steering Committee, in particular by proposing the enhancement of cooperation among Central Banks and by determining methodologies allowing to capture the value added by EPCO to the central banks.

In April 2014, the ECB Governing Council approved the EPCO Annual Report for 2013. This report confirmed that the execution of the 2013 budget was approximately 14 % below the initially budgeted amount. It also established the distribution of EPCO's operating costs between the participating central banks and in line with the mechanism for the sharing of the costs approved by the Governing Council.

The Governing Council adopted the principle of a "Financial Envelope" for EPCO for the period from 2015 to 2019, as well as the EPCO procurement plan for 2015 (EPCO Procurement Plan – Update 2015) as a multi-annual procurement plan. This procurement plan has widened the scope of EPCO's activities for 2015 to include a total of fourteen joint procurement procedures and six areas for further study, and it enhanced the coordination of future joint procurements of EPCO Central Banks.

52 In 2014, the EPCO Central Banks were, in addition to seventeen Eurosystem Central Banks, the Central Banks of Romania *(Banca Națională a României)* and Croatia *(Hrvatska Narodna Banka)*. Discussions have been held with other central banks that had expressed an interest in getting more information on EPCO procedures in view of their potential joining.