The Banque centrale du Luxembourg

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BANQUE CENTRALE DU LUXEMBOURG

EUROSYSTEM

Table of contents

Foreword

On 1 June 1998, a central bank was created in Luxembourg. *The Banque centrale du Luxembourg* (BCL) was established at the same time as the European Central Bank (ECB), the outcome of long efforts aiming to create the European Economic and Monetary Union.

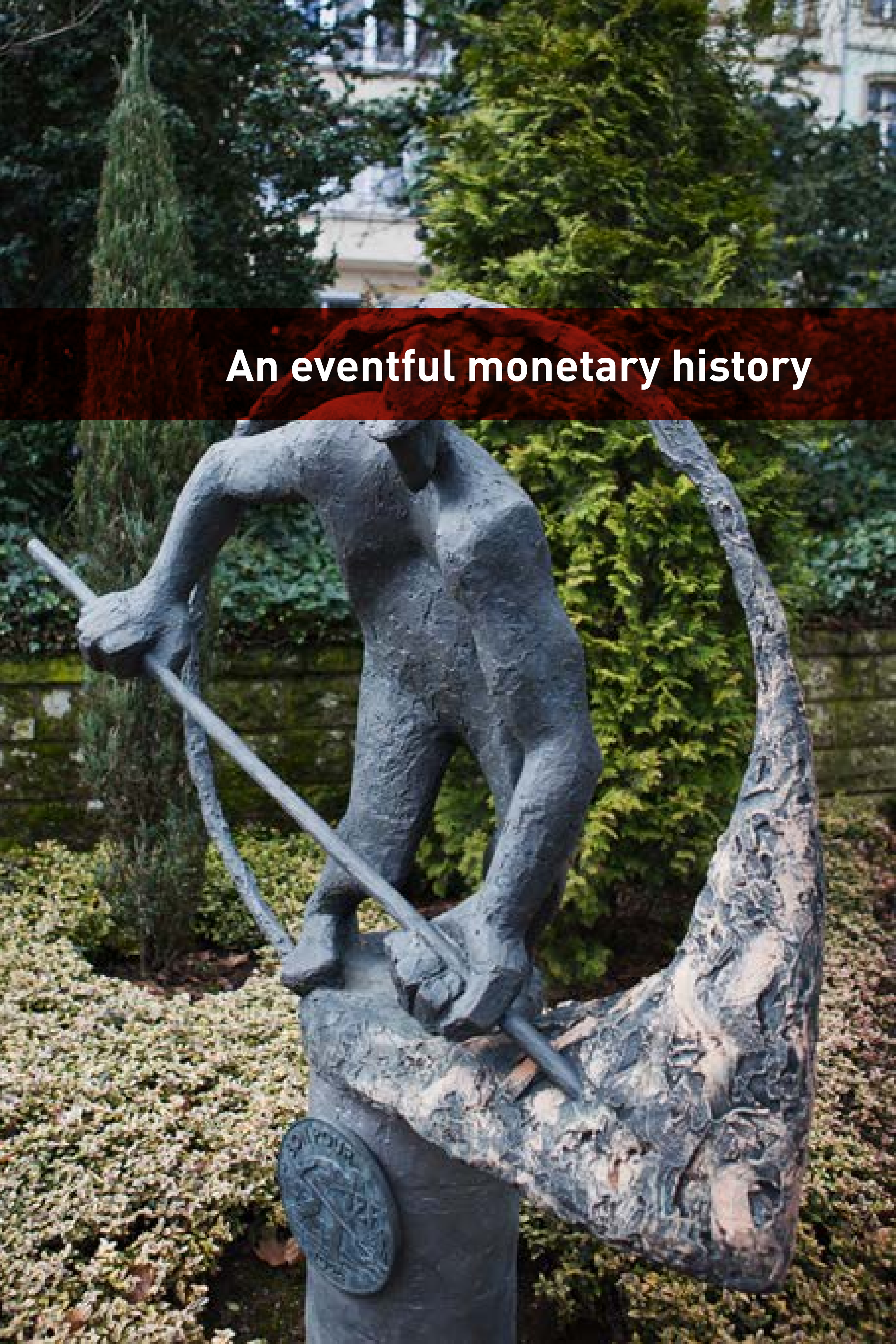
With the Treaties on the European Union and the advent of the euro, a central bank had to be established in Luxembourg. The BCL, which plays an important role in the euro area and at the national level, is an integral part of the European System of Central Banks (ESCB) and the Eurosystem. The BCL is entrusted with numerous missions related to monetary policy, the issuing of banknotes, financial stability, banking supervision, statistics, international relations, payment systems, as well as economic analysis and research.

This brochure aims to give a general overview of the BCL and the Eurosystem – their role, missions, areas of responsibility and functioning. It does not intend to analyse economic and financial developments, which are the focus of the BCL's periodical publications.

This brochure reflects the BCL's aspiration for clear communication and transparency. It aims to inform the public at large, those familiar with the BCL's workings and those wishing to get acquainted with the BCL.

Gaston Reinesch
Governor

An eventful monetary history



Luxembourg has an eventful monetary history and has only had a fully-fledged central bank since 1998.

For several centuries, while some European countries had already established their own central banks, Luxembourg went through numerous political and economic regimes, which made it difficult to establish a national monetary authority.

From the inception of the Luxembourg franc...

In the course of the 19th century and until the 20th century, multiple currencies circulated in the Grand Duchy. The French Revolution brought the standardised monetary and decimal system to Luxembourg. The Franc germinal, introduced in 1803, was widely accepted and retained its legal tender until 1825, even though Luxembourg adopted the monetary regime of the Netherlands in 1815, which lasted until Luxembourg gained independence in 1839. In the meantime, Belgium, having obtained its independence from the Netherlands, created its own currency, the Belgian franc in 1832, which was subsequently introduced in Luxembourg. Following the independence of the Grand Duchy in 1839 and its adhesion to the German Customs Union (Zollverein) in 1842, the Prussian thaler was introduced in Luxembourg. The thaler became the main currency, even though the unit of account used in Luxembourg remained the Belgian franc.

Two issuing institutions existed in Luxembourg during the second half of the 19th century. First, the *Banque internationale à Luxembourg* (BIL), created in 1856, had the privilege to issue banknotes and, like other private institutions in the then German confederation, the right to issue banknotes in several currencies: franc, florin, Prussian and Rhenish thalers. Second, the *Banque Nationale du Grand-Duché de Luxembourg*, a national issuing institution, whose banknotes had legal tender in the Grand Duchy's public administrations, was created in 1873. However, eight years later, due to operational and organisational problems, the *Banque Nationale* ceased its activities.

During World War I, the franc gradually replaced the German currency, in particular when Luxembourg left the *Zollverein* in December 1918. Not only did the Luxembourg government start to temporarily issue banknotes, but a law of 1914 also conferred legal tender to the notes issued by the BIL. In 1918, a grand-ducal decree referred to the term "Luxembourg franc" for the first time.

Photo: Statue "Feierstëppler" by Yvette Gastauer-Claire inaugurated on 25 October 2002

Monetary history

1803 Introduction of the *Franc germinal* by Emperor Napoleon, Luxembourg being the *Forêts* department under the French empire.

1815 Beginning of the Union between Luxembourg and the Netherlands until 1839. The florin becomes the legal currency.

1832 Monetary law in Belgium creating the Belgian franc, which starts circulating in Luxembourg.

1839 Independence of Luxembourg.

1842 Luxembourg becomes a member of the German Customs Union (*Zollverein*). Introduction of Prussian thalers in Luxembourg.

1856 Creation of the private bank *Banque Internationale à Luxembourg* (BIL) which obtains the privilege to issue banknotes.

1873 Foundation of the Banque Nationale du Grand-Duché de Luxembourg, which obtains the right to issue banknotes – a first attempt to establish a national central bank.

1881 The *Banque Nationale* ends its activities.

1914 Banknotes issued by the BIL obtain legal tender.

1918 Adoption of a grand-ducal decree that coins the term "Luxembourg franc" (*"franc luxembourgeois"*).

1921 Signature of a Convention establishing a Belgium-Luxembourg Economic Union, a first step towards monetary cooperation.

1929 Parity is established between the Luxembourg franc and the Belgian franc.

1935 Signature of a Monetary Agreement between Belgium and Luxembourg granting Belgian coins and banknotes the status of legal tender in Luxembourg and establishing a branch of the Belgian National Bank in Luxembourg.

1957 Signature of the Treaty of Rome establishing the European Economic Community, then composed of six Member States: Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

1970 Adoption of the Werner Report which foresees the creation of a single European currency in the long run.

1982 Devaluation of the Belgian and the Luxembourg francs.

1983 Creation of the *Institut monétaire luxembourgeois* (IML), responsible for the supervision of the financial sector and the issuance of banknotes and coins.

1992 Signature of the Maastricht Treaty which foresees a single European currency and the establishment of a European central bank.

1998 On 1 June, creation of the *Banque centrale du Luxembourg* (BCL) and the European Central Bank (ECB).

1999 Implementation of the third phase of the Economic and Monetary Union, introduction of the euro under scriptural form in 11 EU Member States.

2001 Introduction of the scriptural euro in Greece.

2002 Introduction of euro banknotes and coins in the 12 euro area Member States.

2007 Introduction of the euro in Slovenia.

2008 Introduction of the euro in Cyprus and Malta.

2009 Introduction of the euro in Slovakia.

2011 Introduction of the euro in Estonia.

2014 Introduction of the euro in Latvia.

2015 Introduction of the euro in Lithuania.

Luxembourg and Belgium signed a Convention for an Economic Union in 1921, establishing a closer monetary association. As a result, a law of 1929 set the exchange rate between the Luxembourg and Belgian francs at one to one. However, due to the devaluation of the Belgian franc in 1935, the exchange rate was temporarily set at 1.25 Belgian franc for 1 Luxembourg franc. The reestablishment of parity only took place in 1944 after the liberation and was confirmed in 1949 and 1979. In 1935, a monetary convention between Belgium and Luxembourg allowed for the National Bank of Belgium (NBB) to establish a branch in Luxembourg and conferred legal tender status on its notes on the territory of the Grand Duchy.

... to the establishment of a European monetary union

At the end of the 1950s and especially during the 1960s, initiatives to create a monetary union at the level of the European Community were put forward. Several reports, including one by former Luxembourg Prime Minister Pierre Werner (Werner Report, 1970), proposed the establishment of a European Economic and Monetary Union (EMU) in several stages – the natural outcome of the common market established by the Treaty of Rome (1957). Against this background, the European Monetary System (EMS) was created in 1979, fixing a fluctuation band around a bilateral central exchange rate between participating currencies. In order to confirm its monetary autonomy in the context of these European developments and the Belgian government's decision to devalue the Belgian franc, the Luxembourg legislator established a national monetary institute in 1983 - the *Institut monétaire luxembourgeois* (IML). While entitled to issue banknotes and to supervise the financial sector, the IML did not share all the characteristics of a central bank. The law of 22 April 1998 stipulated that the IML would become Luxembourg's central bank once the European System of Central Banks (ESCB) – comprising the national central banks of the European Union, and the European Central Bank (ECB) – was in place, in accordance with the Maastricht Treaty signed in 1992. The ECB was created on 1 June 1998 and the ESCB came into force on the same day. The *Banque centrale du Luxembourg* (BCL) was born and the IML ceased to exist.

Photo: 4 December 2001.
The first Governor of the BCL, Mr. Yves Mersch, hands a first euro banknote to Mr. Pierre Werner.

At the European summit of 2 May 1998, eleven EU Member States were designated to enter the euro area: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. These Member States introduced the single currency (starting as scriptural money only) on 1 January 1999, when the euro area was endowed with a single monetary policy. Euro banknotes and coins were introduced on 1 January 2002. Since 1999, other EU Member States have joined the euro area: Greece (2001), Slovenia (2007), Cyprus (2008), Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015).

The convergence criteria to be met in order to adopt the euro:

- → A high degree of price stability;
- → Sound and sustainable public finances;
- → Stable exchange rates vis-à-vis the euro for at least two years, without any devaluation;
- → Converging long-term interest rates.

The methods to assess these criteria are laid down in Article 140 of the Treaty on the Functioning of the European Union (TFEU) and in the Protocol (No 13) on the convergence criteria annexed to the TFEU.

The European foundations of the BCL

The BCL was created at the same time as the ECB

The establishment of the BCL on 1 June 1998 is directly related to the implementation of the Treaty on European Union, also known as the Maastricht Treaty, signed by the Member States of the European Union in 1992. EU leaders provided for a federal institutional architecture within which a single monetary policy would be defined for all countries adopting the euro. Besides, the Treaty required every country adopting the single currency to have a central bank.

As Luxembourg did not, at the time, have a fully-fledged central bank, it needed to create one that had to be operational by 1 January 1999, the date the euro was introduced. At that point in time, the Member States had to transfer the sovereignty of their national monetary policy to the federal structure of the ESCB (European System of Central Banks).

At the European level, the creation of a European central bank, responsible for the euro area's monetary policy decisions, was also a prerequisite for the establishment of the ESCB.

Thus, from the start, the BCL was created as part and parcel of a European monetary union – a distinguishing factor from other NCBs, which existed before the creation of the ESCB and had to adapt to this new institutional scheme. The BCL is, therefore, a national institution with a deep sense of its European mission.

Photo: Roll of 2-euro coins.

Photo 1: *BCL Headquarters* ***Photo 2***: *Pierre Werner building*
Photo 3: *Monterey building* ***Photo 4***: *7, boulevard Royal building*

ESCB – Eurosystem: what is the difference?

- The Maastricht Treaty provides for all the Member States of the European Union (EU) to adopt the single currency (except for Member States with a special status). The authors of the Treaty used the expression "European System of Central Banks" (ESCB) to refer to the European Central Bank (ECB) and all the national central banks (NCBs) of the EU, thereby implying that all EU Member States would adopt the euro over time.

- When it appeared that not all the countries of the EU would adopt the euro, it became necessary to distinguish the group including the euro area Member States' NCBs and the group including all EU Member States' NCBs.

- Hence, a distinction needs to be made between:

  - The Eurosystem, which comprises the ECB and the NCBs of all the countries of the euro area, and

  - The ESCB, which comprises the ECB and the NCBs of all Member States of the EU.

The BCL implements at the national level the decisions taken by the Governing Council of the ECB

Monetary policy decisions in the euro area are taken by the Governing Council of the ECB. The Governing Council consists of the governors of the NCBs of the euro area countries and the six members of the ECB's Executive Board. The Executive Board consists of the President and Vice-president of the ECB and four other members, all appointed by the European Council (meeting of the EU Heads of State or Government) by qualified majority, following a recommendation by the Council of the EU Member States' finance ministers (ECOFIN Council) and after consultation with the European Parliament and the Governing Council.

The Governing Council is responsible for adopting the guidelines and taking the decisions necessary to carry out the tasks entrusted to the Eurosystem. The Governing Council usually meets twice a month at the ECB headquarters in Frankfurt am Main, Germany. One out of three meetings is devoted to the assessment of economic and monetary developments and monetary policy decisions. At the other two meetings, the Governing Council mainly discusses issues related to other tasks and responsibilities of the Eurosystem. If necessary, the Governing Council also meets and takes decisions via teleconference.

Monetary policy decisions are explained in detail at a press conference after each monetary policy meeting. In addition, the ECB publishes an account of the Governing Council's monetary policy discussions four weeks after each monetary policy meeting.

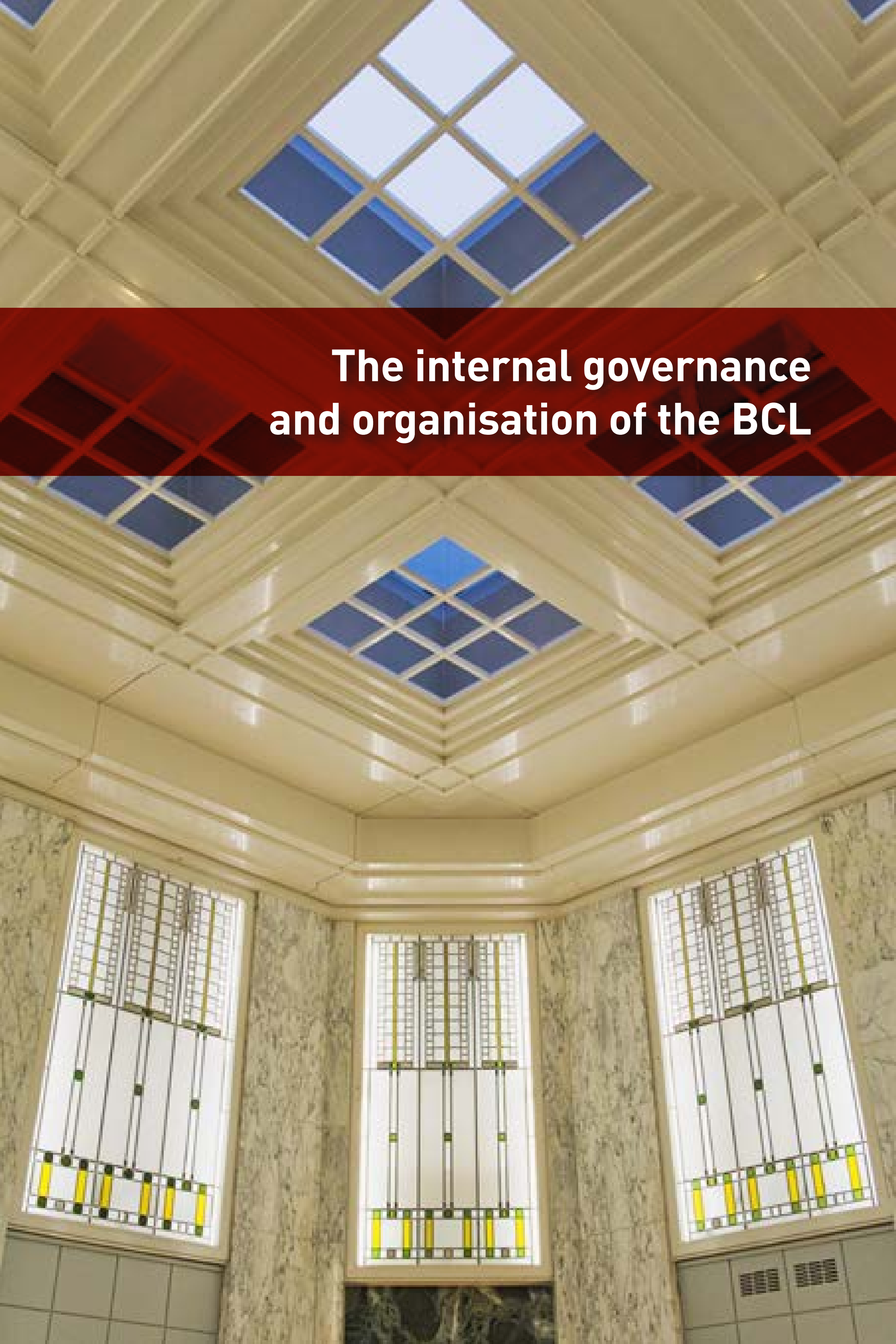
Within the Governing Council, Governors of NCBs participate in their personal capacity and do neither represent their institution nor their country of origin. Decisions are usually taken by consensus. In the absence of a consensus, certain decisions can be taken on majority basis, all votes having the same weight. Since 1 January 2015 a system of rotating voting rights is in place.

Committees and substructures help prepare or implement the decisions taken by the Governing Council. They consist of experts from each central bank of the Eurosystem, or in certain cases of the ESCB. These committees meet several times a year and carry out the tasks defined by their mandate. Committees send the results of their work to the Governing Council via the Executive Board.

Pursuant to the principle of decentralisation, decisions taken by the Governing Council of the ECB are implemented in the countries of the euro area by each NCB. Hence, only the credit institutions established in Luxembourg can obtain Eurosystem financing from the BCL and the BCL is the only central bank entitled to carry out monetary policy operations for credit institutions established in Luxembourg.

Photo: Meeting of the Governing Council of the ECB (© ECB)

The internal governance and organisation of the BCL



The BCL is independent

The Treaty on the Functioning of the European Union (TFEU) and its organic law establishes the independence of the BCL. This independence takes several forms: institutional, operational, financial and personal independence.

- *Institutional* independence implies that members of a central bank's Executive Board are not allowed to seek or take instructions from institutions, third parties – European or national – or national governments.

- *Operational* independence and *financial* independence ensure that a central bank is sufficiently endowed with the necessary technical and financial resources in order to accomplish its missions and responsibilities.

- Finally, *personal* independence refers to the independence of the governor as a member, in his personal capacity, of the Governing Council of the ECB. In Luxembourg his mandate runs for six years and is renewable.

The principle of independence according to article 130 of the Treaty on the Functioning of the European Union

"When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, **neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body.** The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle…".

Photo: The BCL Executive Board from left to right: Mr. Pierre Beck (Director), Mr. Gaston Reinesch (Director General), Mr. Roland Weyland (Director)

The independence of a central bank is essential to achieve the objective of price stability. Political leaders, who face elections on a regular basis, might be tempted to carry out policies that could generate inflationary pressures, without worrying about potential long-term effects on price stability.

As a counterpart to this independence, a central bank is obliged to inform the public about its decisions and to be accountable with regard to its mandate. The relevant information is provided, for example, through regular macroeconomic and financial publications. The BCL is also required by law to publish an annual report that is submitted to the government and the national parliament.

The BCL is composed of two statutory bodies

The two statutory bodies of the BCL are the Council and the Executive Board.

The Council is composed of nine members: the three members of the Executive Board, appointed by the Grand Duke following a proposal by the government in council, and six other members, appointed by the government in council. In order to ensure the independence of the Director General, he chairs the meetings of the Council. The Council most notably defines the business policy of the BCL and approves the budget and the annual accounts.

The Executive Board is the highest executive authority of the BCL. It consists of the Director General of the BCL[1] and two Directors. The Executive Board prepares the measures and takes the decisions that are required to accomplish the BCL's missions. Members of both bodies are appointed for six years (renewable).

[1] Governor in his quality of member of the ECB Governing Council

The BCL's internal organisation reflects the diversity of its missions

As of 1 January 2018, the BCL had 382 staff members assigned to different departments and sections, allowing for the accomplishment of the BCL's missions through numerous activities:

- Activities related to the preparation and follow-up of monetary policy decisions, based on analyses, studies and research;
- Implementation of monetary policy operations, most notably through liquidity injection/withdrawal, reserve requirements, purchase programmes and collateral management;
- Monitoring of the production and circulation of banknotes and coins in Luxembourg; numismatic activities related to the production and commercialisation of collector coins;
- Activities related to the internal functioning of the BCL, including human resources management (recruitment, training, talent management), budget monitoring and accounting, operational and financial strategy, procurement, technical infrastructure maintenance and security;
- IT infrastructure management and IT systems security management;
- Collection of banking, monetary, economic and financial statistics, most notably to aid in the preparation of monetary policy decisions;
- Market, operations and risk analysis, in the context of an enhanced role of the BCL in the area of financial stability;
- Prudential liquidity supervision and oversight of payment and securities settlement systems;
- Conduct of internal and Eurosystem audit missions, external auditor relationship management, as well as internal risk analysis and control;
- Financial risk management including, in particular, the assessment of collateral used in monetary policy operations;
- Governor's office activities including, notably, the European and internal coordination unit and legal services;

- Monitoring of international economic developments, in the context of BCL's active participation in international financial institutions, and management of the BCL's bilateral relations;
- Communication: publications, event management, website management, as well as relations with the media and the public at large;
- Finally, activities of the EPCO (Eurosystem Procurement Coordination Office), aiming to coordinate public procurement programmes between multiple participating central banks in order to benefit from economies of scale.

The BCL's missions

The BCL contributes to defining and implementing the monetary policy of the Eurosystem

The primary objective of the Eurosystem is to maintain price stability and, thus, the purchasing power of the euro. In order to achieve this objective, the Governing Council has adopted a monetary policy strategy that includes a quantitative definition of price stability. The reference indicator is the Harmonised Index of Consumer Prices (HICP). Price stability is defined by the Governing Council as a year-on-year increase of the HICP of below, but close to 2% over the medium term. As the Governing Council works in the common interest of the euro area, price stability is defined with respect to the euro area as a whole and not to the inflation rates of individual countries.

In order to take decisions based on a vast set of information, the Governing Council conducts a two-fold analysis. First, it examines a broad range of economic and financial indicators that are likely to give indications on the future evolution of prices. This assessment is then cross-checked on the basis of a monetary analysis assessing credit and liquidity developments.

How does monetary policy affect the economy?

In order to reach its objective, the central bank does not exert a direct influence on prices, but rather via interest rates. Hence, the single monetary policy sets the level of interest rates at which the Eurosystem lends to commercial banks, which has an indirect impact on the interest rate applied by the commercial banks to their customers (individuals and businesses).

The setting of the level of interest rates has an important impact on the quantity of money in circulation and consequently, on inflation. Indeed, if the level of interest rates rises, credit tends to become more expensive, while at the same time, incentives to save become stronger. This allows reducing inflationary pressures via the lowering of aggregate demand.


Page 1/11
Currency
€250mm Danske
Monte dei Paschi
CPI & Starts -- Core
C1B 15:21 Limelight Cut
BN 15:21 FEDERAL FARM
FCB 15:21 +RONA 40 EPS
Add "IN HEADLINES" to focus

Eurosytem central banks have a wide range of monetary policy instruments at their disposal: the conventional instruments (open market operations, standing facilities and reserve requirements) are supplemented by the unconventional measures.

Within the group of conventional measures, the **Open market operations** consist of:

- *Main refinancing operations*, which aim to provide liquidity on a regular basis and which take place once a week for a one-week maturity. They normally signal the stance of monetary policy in the euro area;

- *Longer term refinancing operations* are conducted each month and have a three-month maturity;

- *Fine-tuning operations* can be executed on an ad hoc basis to manage the liquidity situation in the market and to steer interest rates. Their aim is to mitigate the effects on interest rates caused by unexpected liquidity fluctuations;

- *Structural operations* can be carried out by the Eurosystem through reverse transactions, outright transactions and issuance of debt certificates.

Furthermore, as part of the conventional measures, the Eurosystem offers **standing facilities**, which aim to provide and absorb overnight liquidity and set upper and lower limits to overnight market interest rates.

Two standing facilities are available to eligible counterparties on their own initiative:

- The *marginal lending facility*, which counterparties can use to obtain overnight liquidity from the NCBs against eligible assets. The interest rate on the marginal lending facility normally provides a ceiling for the overnight market interest rate;

- The *deposit facility*, which counterparties can use to make overnight deposits with the NCBs. The interest rate on the deposit facility normally provides a floor for the overnight market interest rate.

Finally, credit institutions in the Eurosystem are required to hold **minimum reserves** with their NCB. The purpose of the minimum reserve system is to stabilise money market interest rates and to create (or amplify) a structural liquidity shortage.

Since 2008 the central banks of the Eurosystem resort to unconventional measures in order to implement monetary policy: these include term auctions for different currencies, operations with longer term maturities and asset purchase programmes.

Photo: Front office at the BCL

The main payment and securities settlement systems used in Luxembourg

Payment systems:

- **TARGET2**: TARGET2 is a real-time gross settlement (RTGS) system for payments in euro. It is a common platform of the Eurosystem and allows for the harmonisation of services and the reduction of costs. The BCL oversees the decentralised components of TARGET2 in Luxembourg and participates in the joint oversight of the centralised components at the level of the Eurosystem.

- **STEP2**, operated by the Euro Banking Association (EBA), is a pan-European system of compensation for transfers and payment orders. The ECB is responsible for the oversight of this private system.

Securities settlement systems:

- **Clearstream Banking S.A. (CBL)** operates an international securities settlement system. CBL also acts as a central Luxembourg depository for securities deposited by counterparties as collateral for monetary policy operations. The BCL is responsible for the oversight of this system.

- **VP Lux S.à r.l.** operates a securities settlement system. VP Lux is also eligible for the settlement of securities deposited by counterparties as collateral for monetary policy operations. The BCL is responsible for the oversight of this system.

- **LuxCSD S.A.** operates a securities settlement system. The BCL and Clearstream International each hold 50% of the shares. LuxCSD is also eligible for the settlement of securities deposited by counterparties as collateral for monetary policy operations. The BCL is responsible for the oversight of this system.

The BCL manages foreign exchange reserves

The management of foreign exchange reserves is also a Eurosystem mission implemented by the national central banks. The BCL holds and manages a part of the ECB's foreign exchange reserves in gold and foreign currencies. Their amount is determined by a distribution key corresponding to the BCL's part in the ECB's capital, pursuant to the rules applicable to the Eurosystem. In addition, the BCL also manages its own reserves.

One objective of managing the ECB's foreign exchange reserves is to ensure that in case of need, the ECB can have access to a sufficient amount of liquidity to carry out interventions on the foreign exchange market. Security and liquidity are therefore basic requirements for reserve management. In the framework of this portfolio management, the first task of the BCL is to invest the foreign exchange reserves it was entrusted with by the ECB, within defined fluctuation margins and risk limits.

The BCL also offers reserve asset management and deposit services to third parties (central banks, monetary authorities, state institutions and international organisations).

The BCL contributes to the financial stability of the Luxembourg financial centre

The implementation of monetary policy is the first channel through which the BCL contributes to financial stability. Indeed, price stability, by anchoring people's inflation expectations and consequently reducing market volatility, contributes to financial stability.

The BCL is also responsible for the oversight of payment and securities settlement systems as well as payment instruments. The latter include in particular transfers, debit orders, payment cards and electronic money schemes. This oversight is important because it reconciles the efficiency objective, which aims to ensure the proper functioning of the market infrastructure, with the stability objective, which includes the prevention against systemic risk[2]. Hence, it helps ensure the security of the systems and the trust of users.

The BCL has been responsible for the supervision of global liquidity and of the individual liquidity position of each market operator, since the enactment of a law of 24 October 2008. Liquidity risk is the risk where capital market operations cannot be concluded or can only be concluded in poor conditions because of shallow markets or financial turbulences. The regulation of liquidity is particularly important for the central bank because it contributes to the prevention of market failures, thus limiting systemic risk.

The BCL also holds the national competence to grant, in exceptional circumstances, short-term loans to its counterparties.

Furthermore, the BCL maintains continuous contact with all actors of the financial centre, thereby contributing to both its development and its sound functioning. In particular, the BCL organises, or participates in, a certain number of committees and advisory bodies.

[2] Systemic risk is the risk where the inability of one participant to meet its obligations in a system will cause other participants to be unable to meet their obligations, thus threatening the entirety of the interconnected financial system.

Finally, in the course of the crises affecting the Eurozone since 2008, the BCL has obtained a more important role in financial stability and banking supervision, in particular through its participation in the work of several new bodies at European and national level (see box below).

Contribution of the BCL to the work on financial and banking supervision at European and national level

In the aftermath of the financial crises that struck the Eurozone from 2008 onwards, several important reforms were adopted by the European Union (EU) to strengthen consistency in banking and financial supervision and foster harmonised regulation and supervision.

Supervision of the financial system as a whole ("macroprudential" supervision)

In order to establish a unique set of coherent rules for the European financial sector and therefore, reinforce the supervision of the EU financial system as a whole (so-called "macroprudential" supervision), a European System of Financial Supervision (ESFS) was established end-2010.

This system includes, first of all, three European supervisory authorities endowed with legal personality. These authorities are responsible for the supervision pertaining to the banking sector (European Banking Authority (EBA)), the insurance sector (European Insurance and Occupational Pensions Authority (EIOPA)) and the markets (European Securities and Markets Authority (ESMA)). These authorities interact with the existing national supervisory authorities to foster a common working culture and consistent practices regarding financial regulation.

The BCL carefully follows the work of these authorities and participates in some of their working groups.

In addition, in order to ensure the macroprudential supervision of the EU financial system, the European Systemic Risk Board was also set up within the European System of Financial Supervision. This independent body, which is chaired by the President of the ECB, notably comprises the governors of the central banks of the European Union, who are all voting members. Its aim is to prevent or mitigate systemic risks by monitoring and analysing the risks threatening financial stability, by issuing early warnings in case of an intensification of systemic risks, and if needs be, by formulating recommendations regarding the measures to be taken to alleviate those risks.

At the national level, the law of 1 April 2015 established the *Comité du risque systémique* (CdRS) as the authority for macroprudential supervision in Luxembourg. The CdRS consists of four members: the government, represented by a member of the government with responsibility for the financial centre, the BCL, the *Commission de surveillance du secteur financier* (CSSF, financial supervision authority) and the

Commissariat aux assurances (insurance supervision authority). The CdRS is chaired by the government representative, whose substitute is the Director General of the BCL. The decisions are adopted unanimously. To ensure financial stability of the financial sector in Luxembourg, the CdRS can issue opinions, warnings and recommendations it deems necessary. The BCL is responsible of the CdRS secretariat. Therefore, it prepares opinions, warnings and recommendations and drafts the meetings' minutes. Moreover it can prepare analyses related to the committee's field of competence.

Supervision of individual financial institutions ("microprudential" supervision)

As part of the implementation of the European banking union and the establishment of a Single Supervisory Mechanism (SSM), the ECB has become responsible for the supervision of all euro area banks since November 2014. This supervision is carried out directly by the ECB for significant banks in the euro area and is entrusted to the national competent authorities for the other banks. Ultimately, the responsibility for the supervision of all euro area banks lies with the ECB. EU Member States that do not belong to the euro area are free to voluntarily join the SSM. Within the ECB, a Supervisory Board, composed of representatives from the ECB, national central banks and national supervisory authorities, is in charge of the preparation of the decisions regarding supervision. The final decisions are taken by the Governing Council of the ECB. The BCL is represented at the Supervisory Board and supports the Joint Supervisory Teams (JST) coordinated by the ECB.

Furthermore, to enable an orderly resolution of defaulted banks, with the lowest burden for taxpayers and the real economy, the Single Resolution Mechanism (SRM) was established at the beginning of 2016. It consists of a single set of common and uniform rules for the Eurozone, which is applied by the Single Resolution Board (SRB). The mechanism includes, in addition to the SRB, a Single Resolution Fund (SRF), which is funded by contributors from the banking system. The European resolution mechanism is completed by the national resolution authorities, which are in charge of the planning and of the adoption of resolution plans for banks not under SRM responsibility. In Luxembourg, the *Commission de Surveillance du Secteur Financier* (CSSF) has been designated as the responsible authority for the resolution at the national level. In order to complete this task an internal body has been created. It is the *Conseil de résolution* (resolution board), whose members are the Director General of the BCL, the *Directeur du Trésor* (Treasury Director), the Director of the CSSF responsible of bank supervision and one magistrate.

The Director General of the BCL is also a member of the *Conseil de protection des déposants et des investisseurs* (board of deposit and investor protection, CPDI), another internal body within the CSSF.

In addition, the Director General of the BCL is a member of the steering committee of the following two public institutions established in the same context: the *Fonds de Résolution Luxembourg* (Luxembourg resolution fund, FRL) as well as the *Fonds de garantie des dépôts Luxembourg* (Luxembourg deposit protection fund, FGDL).

The BCL is the issuing authority of banknotes in Luxembourg

Based on the national central banks' (NCBs') needs for banknotes, the ECB entrusts the NCBs with the task of producing a predefined quantity of banknotes. The production of a given denomination is generally assigned to one or several NCBs. Once the banknotes are produced, an allocation takes place between the NCBs according to their respective needs in terms of denomination and quantity.

The BCL is the authority in charge of issuing banknotes in Luxembourg; it issues banknotes according to the needs of the national economy.

In accordance with its organic law, the BCL also puts euro coins on the market in Luxembourg, the issuing authority of coins being the State of Luxembourg. Pursuant to an agreement with the State, the BCL is in charge of producing Luxembourg euro coins.

The banks withdraw or deposit euro banknotes or coins from or with the BCL according to their customers' needs. The BCL authenticates deposited banknotes and separates notes suitable for circulation from unfit notes that need to be destroyed.

The BCL participates in the Counterfeit Monitoring System (CMS), a European system aiming at monitoring counterfeit banknotes, by contributing to the detection of counterfeits.

The introduction of the new five euro banknote in 2013 coincided with the launch of a new series of euro notes, the so-called "Europa" series. These new banknotes include new and enhanced security features, offering better protection against counterfeiting and enabling the public to easily distinguish between genuine and counterfeit banknotes.

Detailed information on the new series of euro banknotes, including their security features, is available in the BCL's numismatic centre or on its website at **www.bcl.lu**.

Photo: Euro banknotes running through the BCL's sorting machine.

The BCL plays an important role in the fields of research, publications and communication

The BCL collects statistics, either from competent national administrations or directly from economic agents. The BCL also collects information on the evolution of financial markets from the financial centre's counterparties and cooperates closely with Luxembourg's statistical institute, l'*Institut national de la statistique et des études économiques* (STATEC).

Each year, the BCL releases several publications, analysing current economic and financial issues. In addition the BCL publishes its opinion on the draft law on State revenues and expenditures in order to evaluate the current and foreseeable developments in the area of fiscal policy.

The BCL's study and research activities foster the development of expertise in monetary, financial and economic issues.

The BCL also publishes an annual report, which is available in French and in English. The BCL's financial accounts are presented in the annual report.

Periodically, the BCL organises workshops with a view to promoting research activities on topics of interest for central banks. In 2011 the BCL Foundation was established. It aims to foster research and training in the BCL's research areas.

The BCL also regularly organises events. Under the aegis of the "Bridge Forum Dialogue" – an association chaired by the Director General of the BCL and aiming at connecting the European institutions established in Luxembourg with financial, economic and legal institutions and actors in Luxembourg – conferences are regularly organised, dealing with multidisciplinary topics related to current European developments. On request, the BCL welcomes visiting groups, pupils and students for presentations. The BCL also offers training seminars for teachers of economics.

Finally, the BCL's numismatic centre located at 43, avenue Monterey, Luxembourg-City (open from 10:30 am to 4 pm from Monday to Friday) features a permanent exhibition of selected pieces from the BCL's collection.

Photo: Set of collector coins (silver and gold).

The BCL provides services to the State…

The BCL is not the bank of the State. It is not, for example, in charge of servicing the State's debt, collecting tax payments or paying the salaries of civil servants. The Treaty on the Functioning of the European Union (TFEU) prohibits ESCB central banks from granting an overdraft or a loan to Member States.

However, the BCL issues coins on behalf of the State and acts as a fiscal agent for the State with regard to the International Monetary Fund (IMF). It is within this context that the State maintains current accounts and holds term deposits with the BCL.

… and to private individuals

As an issuing institution, the BCL reimburses euro banknotes and coins that have been mutilated or destroyed, as well as old Luxembourg francs, at the conversion rate fixed when the euro was introduced (LUF 40.3399). The BCL's website provides additional information about the reimbursement procedures.

Since 2002, in agreement with the Ministry of Finance, the BCL has developed a special service dedicated to numismatists. In addition to new euro coins conditioned to be collected, the BCL issues a number of numismatic products each year, which are available to the public in its numismatic centre located at avenue Monterey and online (**https://eshop.bcl.lu**).

The BCL's publications can be consulted on and downloaded from the website (**www.bcl.lu**, section "Publications"). The BCL's publications are also available in hard copy, while stocks last. They can be used and reproduced, as long as the source and date are mentioned and the information is neither modified, nor used for commercial purposes.

Photo: BCL auditorium on the 5th floor of the Monterey building.

The BCL participates in international cooperation

In addition to its active participation in the ESCB/Eurosystem committees, the BCL also participates in the work of several international institutions and maintains close contact with several central banks outside the ESCB.

At the European level, the Governor of the BCL, in his capacity of member of the Governing Council, is invited to participate in informal meetings of the ECOFIN Council comprising the Finance Ministers and Governors of the central banks of all EU Member States. The BCL is also represented in the meetings of the Economic and Financial Committee (EFC), made up of representatives of EU Treasuries or Finance ministries, EU Member State central banks, the European Commission and the ECB. The EFC follows the economic and financial situation of the Member States as well as EU developments and regularly reports back to the ECOFIN Council.

At the international level, the BCL participates in the work of the International Monetary Fund (IMF), the Bank for International Settlements (BIS), of which it is a shareholder, and the Organisation for Economic Co-operation and Development (OECD).

Moreover, the BCL has signed bilateral cooperation agreements with several central banks outside the ESCB concerning financial cooperation, technical assistance and training.

Joining the BCL

Joining the BCL

The BCL regularly advertises employment opportunities on its website **www.bcl.lu** and in the national press.

In addition, spontaneous job applications can be sent by email to **jobs@bcl.lu**.

The BCL also welcomes trainees and students during different periods of the year. Applications for traineeships and summer jobs can also be emailed to **jobs@bcl.lu**.

Reflecting the number of tasks conferred to the BCL, the range of profiles and skills required is quite broad. Depending on the open positions, the BCL recruits economists, lawyers, accountants, auditors, administrative assistants, IT experts, risk managers or other profiles. The quality of applications is assessed with regard to personal skills, motivation, educational background and professional experience – double degrees and PhD degrees are particularly appreciated.

The BCL offers a multinational and stimulating work environment, a great variety of tasks in the fields of economics and finance, and the opportunity to pursue a career in the national and European public interest.

Useful contacts

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L-2983 Luxembourg
Phone: (+352) 4774-1
Fax: (+352) 4774-4910

Numismatic centre
43, avenue Monterey
L-2163 Luxembourg
Phone: (+352) 4774-4774
Fax: (+352) 4774-4994

Opening hours
Monday to Friday 10:30 am - 4 pm

For further information **www.bcl.lu** and **www.ecb.int**

Or contact us

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