cssf

Commission de Surveillance
du Secteur Financier

Annual report
2024

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The revolution we are witnessing in US economic policy and the questioning of multilateralism are an important wake-up call for Europe. We may be moving away from globalisation and see increased fragmentation. Medium term, we may see new trade blocks emerging like the BRICS countries, with 3.5 billion inhabitants vs 334 million in the US and 450 million in the European Union. We are facing unreliability, uncertainty and unpredictability. Europe will need to seriously strengthen its defence capacity, including cyber defence, which warrants huge financing, in addition to the need to finance the sustainable and digital transitions. This represents in excess of EUR 1,000 billion a year. And as we know, public money will not be sufficient to finance these transitions. This is definitely the moment to boost capital markets in the EU, and also to reverse the decline in Europe's competitiveness. EU and Luxembourg's capital markets will focus on deepening European integration, fostering sustainable finance, and embracing digital finance technologies like blockchain and tokenisation. Our ambition should be to strengthen our position as a leading financial centre by attracting international investors and talent and by providing innovative solutions for cross-border investments, which we have done in the past. In today's uncertain geopolitical environment, Luxembourg's political stability and predictability, combined with its AAA rating, are undoubtedly a strength.

Luxembourg is resolutely supporting the Savings and Investment Union (SIU), as a founding member of the European Union and its predecessors, the European Economic Community and the European Coal and Steel Community. Luxembourg has embraced the single market and cross-border working from day one, which has led to it becoming a major hub for banking, investment funds, securitisation and structured finance vehicles. As Luxembourg has gained from the single market, it has to gain from a deepening of the European integration and the SIU, the most important EU initiative to boost the EU economy. This involves enhancing the efficiency and attractiveness of European markets for businesses and investors and removing existing barriers. These were identified amongst others in the excellent Letta, Noyer, Draghi reports published in 2024, alongside proposals on how to remove these barriers and boost capital markets. Some are low hanging fruits, some are medium-term possibilities and some are not feasible, at least not in a foreseeable future, like harmonising taxation, social security or bankruptcy laws. I remind that Onno Ruding, former Dutch finance minister and chair of the so-called Ruding Committee proposed harmonising corporate taxation in the EU in 1992, i.e. 33 years ago. We cannot wait another 33 years to improve Europe's competitiveness and capital markets.

Let me mention several areas of focus, being conscious that there are more.

Securitisation

As Enrico Letta put it, "revitalising the securitisation market is crucial to channelling long-term savings into productive assets". There will be an EU initiative to reinvigorate securitisation. After a comprehensive overhaul of the 2004 securitisation law in 2022, a further update will be necessary aimed at boosting securitisation and securitisation vehicles. The CSSF is supporting this initiative. Securitisation is important for the CMU and SIU, for many reasons: it transforms illiquid assets into investable securities, it frees capital and stimulates lending, it supports non-bank finance and capital markets growth. It has suffered from complex and fragmented regulation in Europe, besides the trauma of the 2008 global financial crisis.

Savings products and occupational pensions

EU citizens save more than US citizens. The problem is that Europeans keep one third of their savings in cash and deposits (i.e. in excess of EUR 11 trillion), compared to only 10% in the US. If Europeans had the same ratio of deposits to investments as Americans, up to EUR 8 trillion could be redirected to long-term, market-based investments, which is key for the SIU. Some EU countries have been successful at directing savings to investments benefitting the real economy, like Sweden with its Investeringssparkonto - Investment Savings Account (ISK), and we should learn from these experiences. I see at least three conditions for a wide adoption of such an investment product:

- it should be simple, easy to explain;
- it should be linked to tax advantages, with tax declaration being simplified; and
- as the Swedish experience has shown, the product only really took off after important awareness campaigns by the government, banks and other actors.

Another boost to capital markets would undoubtedly be occupational pensions, or second pillar pension schemes. They can be mandatory, or voluntary. In Sweden and in the Netherlands, the vast majority of blue- and white-collar workers would be covered by occupational pension schemes. Benefits would typically be defined in collective bargaining agreements. In Sweden, occupational pension companies have invested EUR 280 billion in capital markets, or 50% of the GDP. This is very topical in Luxembourg, where the government is seeking to reform the pension system.

I welcome the so-called "Finance Europe" initiative, launched by seven EU countries including Luxembourg earlier this year. Finance Europe is a label for investment wrapper products, such as accounts, funds or insurance-based investments, meeting certain criteria. The products invest at least 70% in European (EU and EEA) assets. This is complementary to the European Commission's plans to develop pan-European savings and investment products. The label would apply to a range of assets including listed and unlisted equities, ELTIFs, UCITS, AIFs and bonds. Tax benefits, that will be crucial, will have to be defined at national level, and there is a minimum holding period currently foreseen of five years.

Sustainable Finance

The Intergovernmental Panel on Climate Change (IPCC) has demonstrated the urgency to act against climate change in six scientific reports published to date. This cannot be achieved solely through public money. Private capital must be mobilised to finance the transition within an ambitious timeframe set by the European Commission. Unfortunately, current regulation is complex and difficult to understand for both professionals and investors, sometimes with unclear or conflicting definitions, and this has led to a loss of trust. This confusion has also favoured greenwashing and has been exploited by those who believe sustainability and return on investment are incompatible. For long-term investments, like pension funds, we should remember the fiduciary duty not to invest in assets delivering short-term performance when we can reasonably expect their value to decrease over time due to environmental or other ESG concerns. The European Commission has recognised the need to amend some of its regulation, and time will be of the essence. I would strongly support turning the SFDR from a disclosure regime into a labelling regime. This would make it simpler, especially for retail investors, and remove confusion in the asset management industry. The change must be accompanied by clear communication, also lacking today, of the sustainability strategies, explaining what transition is, what impact is and what engagement is.

I have mentioned simple savings products to boost retail investment. There could be an ESG retail investment product, either as a separate product or an ESG version of an existing Finance Europe or similar label. Explainability and confidence will be key.

Digital Finance and Innovation

Digital finance technologies such as blockchain and distributed ledger technology (DLT) can improve market efficiency and create new opportunities for asset classes. A number of asset managers are looking at tokenising fund units. With its four blockchain laws, to be complemented if necessary, Luxembourg has a robust regulatory framework and should serve as a pilot for the EU in this area. The CSSF stands ready through its Innovation hub and specialists in various areas of supervision to accompany supervised entities with guidance and workshops.

Regulation and supervision

Differences in transposing directives into national law have been mentioned in many reports as an issue for markets to function efficiently. This can take various forms, a too lax transposition or application (regulatory dumping or race to the bottom), or at the other side of the spectrum, gold plating. All must be eliminated.

I welcome the fact that the preferred instrument is now regulations directly applicable in all EU Member States rather than directives. This is however not enough, and it will take time to replace the current directives by regulations.

In the meantime we should continue to support the excellent work done by the European Supervisory Authorities on regulatory convergence and creating a single rulebook, as well as eliminating different reporting requirements and formats. Luxembourg and the CSSF will continue to support all these initiatives aimed at removing regulatory inefficiencies.

I welcome the European Commission's approach of being agnostic about the means of eliminating friction due to supervision as long as it is eliminated. EU regulators should cooperate closely, e.g. through colleges of regulators for larger firms operating in several jurisdictions, both in the EU and outside of the EU.

2024 marked the tenth anniversary of the Single Supervisory Mechanism, one of the most important milestones of European integration. It has resulted in a much more resilient European banking supervision.

Simplification and burden reduction

The deepening of capital markets and of the SIU, and the strengthening of the EU's competitiveness, can only be achieved if Europe quickly moves forward with the European Commission's ambitious simplification and burden reduction agenda. The CSSF has provided input to consultations at various levels. If the exercise is to be successful, we must:

- reduce the number of level one and level two instruments, which also implies trusting each other more so that we can move from a rule-based to a more principle-based regulation;
- eliminate confusing or conflicting regulation, as well as regulation that has not achieved its goal;
- take into account competitiveness with third countries;
- consider proportionality and risked-based approach;
- consider using new technologies, digital tools, standardised reporting, one-stop portals and data-driven approaches;
- identify and eliminate national barriers in contradiction to basic EU freedoms; and
- avoid viewing simplification and burden reduction as a one-off exercise, but rather view it as a dynamic and recurrent process.

Simplification does not mean de-regulation. It is only by upholding high standards applied that the EU and Luxembourg can withstand macro-economic turbulences and preserve their attractiveness whilst ensuring financial stability, one of the CSSF's primary objectives.

Financial education

The OECD and national surveys have consistently shown low levels of financial literacy, even in sophisticated financial centres like Luxembourg.

However, financial literacy is the best way to protect consumers against ever more sophisticated frauds, that are often carried out through social media and with the help of influencers, using new asset classes like crypto-assets. Financial literacy is also important to protect consumers against the loss of purchasing power, especially in periods of low interest rates.

Moreover, the SIU will only be successful if consumers have a minimum level of financial education, incentivising them to invest part of their savings into the real economy.

Various initiatives do exist, and we should exchange best practices and roll out initiatives for kids, young adults entering professional life, adults and pensioners.

The CSSF has drafted a revised national strategy including a number of specific proposals. A systematic roll-out of existing and new initiatives, e.g. at primary and high schools, will be key.

I want to conclude this foreword by thanking the CSSF staff for their committed and steadfast work in this challenging environment throughout the year, vital to consumer and investor protection as well as the integrity and stability of the Luxembourg finance centre.

Claude Marx
Director General

I. Governance and functioning of the CSSF

1. Governing bodies and Committees

1.1. CSSF Board

The powers conferred upon the Board notably include the annual adoption of the CSSF's budget and the approval of the financial statements and of the management report of the CSSF's Executive Board, which are submitted to the Board before being presented to the Government for approval. The Board also sets the general policy as well as the annual and long-term investment programmes which are submitted to it by the Executive Board before being submitted for approval to the Minister of Finance. The Board is not competent to intervene in the CSSF's prudential supervisory matters.

CSSF Board composition

Chairwoman	Maureen Wiwinius
Members	Daniel Croisé Yasmin Gabriel Jerry Grbic Jean-Paul Olinger Andy Pepin Pascale Toussing Serge Weyland
Secretary	Danièle Berna-Ost

1.2. Resolution Board

The Resolution Board is the internal executive body of the CSSF in charge of the resolution function, i.e. the duties and powers conferred on the CSSF as the resolution authority by the Law of 18 December 2015 on the failure of credit institutions and certain investment firms (BRRD Law), Regulation (EU) No 806/2014 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 Resolution Fund (SRM Regulation) and their implementing measures.

Resolution Board composition

Chairman	Romain Strock
Members	Anne-George Kuzuhara Gaston Reinesch Claude Wampach Karin Guillaume
Secretary	Nicole Lahire

Left to right: Françoise Kauthen, Claude Wampach, Claude Marx, Marco Zwick, Jean-Pierre Faber

1.3. Council for the Protection of Depositors and Investors

The Council for the Protection of Depositors and Investors (CPDI) is the internal executive body of the CSSF in charge of managing and administering the Fonds de garantie des dépôts Luxembourg (FGDL) and the Système d'indemnisation des investisseurs Luxembourg (SIIL). Its duties and powers are assigned to it by Part III of the BRRD Law. Its functioning is governed by the provisions of Section 4-2 of the Law of 23 December 1998 establishing the CSSF. The CPDI is the designated authority referred to in point (18) of Article 2(1) of Directive 2014/49/EU of 16 April 2014 on deposit guarantee schemes.

Council for the Protection of Depositors and Investors composition

Chairman	Claude Wampach
Members	Anne-George Kuzuhara Gaston Reinesch Karin Guillaume
Secretary	Isabelle Gil

1.4. Executive Board

The senior executive authority of the CSSF is the Executive Board, composed of a Director General and four Directors. It develops the measures and takes the decisions it deems useful and necessary for the fulfilment of the CSSF's mission and its organisation. Moreover, it sets up a five-year "target agreement" with the Minister of Finance. The Executive Board is responsible for the reports and proposals it must submit to the Board and the Government as part of its responsibilities.

Executive Board composition

Director General	Claude Marx
Directors	Françoise Kauthen Jean-Pierre Faber Marco Zwick Claude Wampach

1.5. Consultative Committee for Prudential Regulation

The Government may seek the advice of the committee, established by the Law of 23 December 1998 establishing the CSSF, concerning any draft law or grand-ducal regulation as regards regulations in the area of the supervision of the financial sector falling within the competence of the CSSF. The CSSF's Executive Board seeks the opinion of the committee on any draft CSSF regulation other than those related to statutory audits and the audit profession. Members of the committee may also seek its advice concerning the implementation or application of prudential regulations overall or on specific questions.

Consultative Committee for Prudential Regulation composition

Executive Board of the CSSF	Claude Marx (Chairman) Françoise Kauthen Jean-Pierre Faber Marco Zwick Claude Wampach
Members	Christian Dohmen Jerry Grbic Corinne Lamesch Camille Seillès Vincent Thurmes Serge Weyland
Secretary	Danièle Berna-Ost

1.6. Consultative Committee for the Audit Profession

The Government may seek advice from the committee, established by the Law of 18 December 2009 concerning the audit profession, on any draft law or grand-ducal regulation related to statutory audits and the audit profession subject to the oversight of the CSSF. The CSSF's Executive Board seeks the opinion of the committee on any draft CSSF regulation related to statutory audits and the audit profession. Members of the committee may also seek its advice concerning the implementation or application of the legislation regarding the public oversight of the audit profession overall or on specific questions.

Consultative Committee for the Audit Profession composition

Executive Board of the CSSF	Claude Marx (Chairman) Françoise Kauthen Jean-Pierre Faber Marco Zwick Claude Wampach
Members	Christelle Bousser Laurence Demelenne Corinne Lamesch Thierry Flamand Andy Pepin Daniel Ruppert Anne-Sophie Theissen Hugues Wangen
Secretary	Danièle Berna-Ost

1.7. Consultative Committee for Resolution

The Government may seek advice from the committee, established by the BRRD Law, on any draft law or grand-ducal regulation as regards regulations in the resolution field falling within the competence of the CSSF. The Resolution Board seeks an opinion of this committee on any draft CSSF regulation relating to resolution. Members of the committee may also seek its advice concerning the implementation or application of the regulations on resolution overall or on specific questions.

Consultative Committee for Resolution composition

Resolution Board	Romain Strock (Chairman) Karin Guillaume Anne-George Kuzuhara Gaston Reinesch Claude Wampach
Members	Jean-Louis Barbier Doris Engel Claude Eyschen Antoine Le Bars Nico Picard Vincent Thurmes
Secretary	Nicole Lahire

1.8. Permanent and ad hoc expert committees

The expert committees assist the CSSF in analysing the development of the different financial sector segments, give their advice on any issue relating to their activities and contribute to the drawing-up and interpretation of the regulations relating to the specific areas covered by the respective committees. In addition to the permanent committees, ad hoc committees are formed to examine specific subjects.

The permanent expert committees are currently the following.

- **Anti-Money Laundering Committee**

Permanent external members:
The Luxembourg Bankers' Association (ABBL), Association of Luxembourg Compliance Officers (ALCO), Association of the Luxembourg Fund Industry (ALFI), Association Luxembourgeoise des Professionnels du Patrimoine (ALPP), Luxembourg Association for Risk Management (ALRiM), The Institute of Internal Auditors Luxembourg (IIA), Institut des réviseurs d'entreprises (IRE), Administration de l'enregistrement, des domaines et de la TVA (AED), Commissariat aux Assurances (CAA), Financial Intelligence Unit (FIU), Ministry of Finance, Ministry of Justice, Luxembourg District Prosecutor's Office

- **Investment Fund Managers (IFM) Committee**

CSSF members:
Marco Zwick (Chairman), Pascal Berchem, Géraldine Bouvy, Michel Friob, Kristel Gilissen, Paul Hansen, Alain Hoscheid, Laurent Van Burik, Benoît America (Secretary)

External members:
Ravi Beegun, Hermann Beythan, Stéphane Brunet, Ruth Bültmann, Olivier Carré, David Claus, Jacques Elvinger, Jean-Marc Goy, Emmanuel Gutton, Emmanuel-Frédéric Henrion, Alain Kinsch, Corinne Lamesch, Charles Muller, Claude Niedner, Virginie Ng Wing Lit-Boulot, Björn Preiß, Marilyn Rinck, Philippe Ringard, Tudor Sambritchi, Pierre Schleimer, Thomas Seale, Denise Voss, Pierre Weimerskirch

Observer: Maureen Wiwinius

- **Capital Markets Committee**

CSSF members:
Françoise Kauthen (Chairwoman), Marc Limpach, Paul Wiltzius (Secretary)

External members:
Julie Becker, Philippe Hoss, Nicki Kayser, Christian Kremer, Henri Wagner

- **Audit Technical Committee**

CSSF members:
Frédéric Tabak (Chairman), Agathe Pignon, Anne Wirard, Pedro Da Costa, Mathieu Antoine (Secretary)

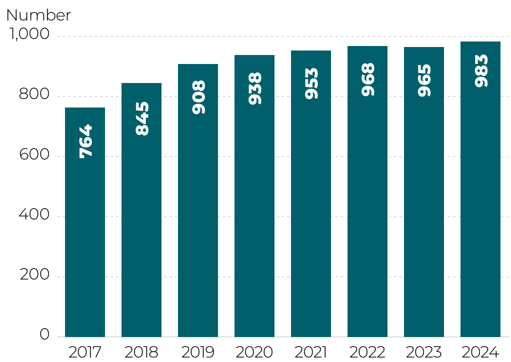
External members:
Nicolas Bannier, Ludovic Bardon, Yohan Blaise, Bettina Blinn, Christelle Bousser

2. Human resources

2.1. CSSF staff

In 2024, the CSSF continued its recruitment efforts. After a slight decrease in 2023, the organisation saw an increase of 18 agents in 2024, including 51 new hires. Simultaneously, 33 agents left the CSSF during the year, bringing total headcount to 983 as at 31 December 2024 (+1.86% as compared to the end of 2023). This equals 896.53 full-time equivalents (+1.55%).

Movements in staff numbers



The number of agents with work-time arrangements amounted to 283 as at 31 December 2024, representing 28.79% of the CSSF's total staff.

Work-time arrangements

Types of work-time arrangements	Number of agents	in %
Part-time work	221	78.09%
Parental leave	52	18.38%
Unpaid leave	10	3.53%
Total	283	100.00%

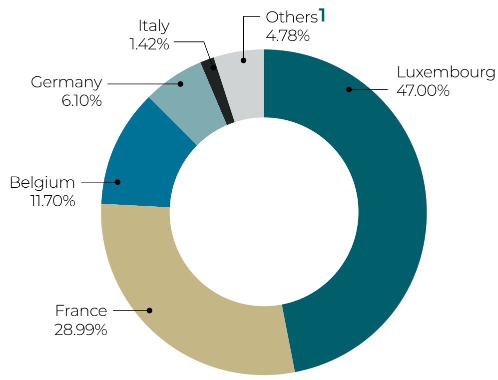
As regards parental leave, it is worth noting that the split leave of eight hours per week, equivalent to a 20% reduction in weekly working time, is the most popular choice among CSSF agents, representing 55.77% of all granted parental leaves.

On 7 June 2022, the CSSF introduced teleworking options, allowing its agents to work from home up to two days per week on a quarterly basis. On average, 84.84% of the eligible agents opted for this arrangement. An evaluation conducted in 2023 revealed high satisfaction among both agents and superiors regarding the remote use of the CSSF's tools and the flexibility of working from home. Agents value the improved work-life balance, while superiors highlight that team dynamics are maintained and that this flexibility enhances daily operations. Most of the teams have agreed to have one designated day per week when all team members are on-site, which is also well-received.

In 2024, the recruitment efforts targeted experienced profiles in order to bolster the banking, investment fund and IT departments. During the year, 384 recruitment interviews were conducted. Additionally, 344 written tests, 302 language tests and 244 reasoning tests/questionnaires on work preferences were carried out as part of these hiring procedures.

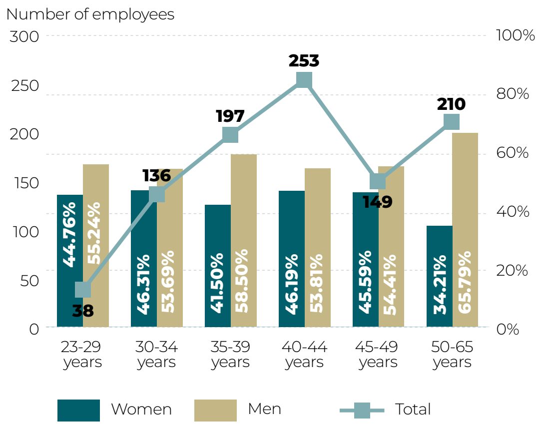
CSSF agents comprise 18 different nationalities, the Luxembourg nationality being the most represented with 47% of total staff.

Breakdown of staff by nationality



The average age of the CSSF staff members slightly increased from 41.87 years as at 31 December 2023 to 42.48 years at the end of 2024 (+0.61 years).

Breakdown of staff by age and gender



Women accounted for 44.15% of total staff while men made up 55.85% as at 31 December 2024. Among the 163 agents with hierarchical responsibility, 52 were women (31.90%) and 111 were men (68.10%).

1 Portugal (0.81%), Spain (0.71%), Austria (0.61%), the Netherlands (0.51%), Romania (0.51%), Greece (0.41%), Bulgaria (0.31%), Poland (0.31%), Ireland (0.20%), Finland (0.10%), Slovakia (0.10%), Sweden (0.10%) and Switzerland (0.10%).

CSSF hierarchy structure

	Women	Men	Total
Director General	0	1	1
Director	1	3	4
Director Resolution	0	1	1
Head of department	11	18	29
Deputy head of department	20	21	41
Head of division	20	67	87
Total	**52**	**111**	**163**
In %	31.90%	68.10%	100.00%

2.2. Training

The CSSF has consistently prioritised the training of its agents to equip them with the skills needed to navigate the challenges in the context of continuous regulatory developments and methodology changes in an ever-evolving environment.

The CSSF utilises an extensive internal and external training catalogue that covers a wide range of topics, from the technical aspects of the business functions and regulatory watch to IT, management and leadership skills. This catalogue also includes language training and personal development courses, and recognised professional certifications in various areas. Additionally, the CSSF provides both a general and a personalised onboarding programme for new hires, who must also complete a customised theoretical and practical training programme during their internship[2] at the CSSF.

Agents now participate in both remote and on-site training courses. Face-to-face training is systematically preferred for transversal training courses with small audiences to foster exchanges among participants. CSSF agents completed a total of 22,722 continuing training hours, averaging 23.42 hours per agent (compared to 24,044 training hours, averaging 25.39 hours per agent, in 2023). This ensures a high level of competence and professionalism within the CSSF.

Building on the sustainable finance training programme initiated in 2022, the CSSF developed a new training programme, in 2024, to enhance the agents' knowledge depending on their needs and profile. The training programme includes various training modules, such as courses on sustainable development, specialised ESG training sessions and certified training for experts in the field.

At the end of 2024, the CSSF organised several training sessions on generative AI for all of its staff members. This training marks the first step of a comprehensive learning path on AI that will be developed in 2025.

In addition to Luxembourgish language courses, the CSSF has been offering French, German and English online courses since 2024. The CSSF encourages all interested agents to enrol in these training sessions on the dedicated platform to improve their language skills or to learn a new language. Online learning enables agents to progress at their own pace and according to their schedule, while tracking their development.

Since the launch of the Leadership training course in 2022, eight sessions have been organised. Out of 159 agents, 94 managers completed the training programme, with 47 in 2024.

The CSSF continued its efforts in Lean Management training and enhanced its offerings to achieve a new level of continuous improvement, taking into account the increased digitalisation and automation, as well as the AI implementation within the CSSF. In 2024, three training cycles including three internal training modules (M1-Basics of Lean Management, M2-Visual Management and M3-The 5S) were completed. This resulted in 24 White Belt certifications (14 in 2023), two Yellow Belts (three in 2023) and one Orange Belt (none in 2023). The Green Belt - Lean Expert certification cycles are ongoing with eight Lean Experts completing their training programme. A new Black Belt programme was developed and piloted by one CSSF agent. Given the exceptional results of this operational excellence training programme, the latter will be renewed in 2025 with four new agents. Today, approximately 15% of CSSF staff has been trained in Lean Management.

2.3. Organisation chart

The organisation chart of the CSSF is available on the CSSF's website (About the CSSF > General organisation > Documentation > Publications).

2 Training and integration period for newly hired agents during which they have the status of civil servant trainees. The purpose of the internship is to prepare these new agents for the specific requirements of their role within the CSSF, by providing the necessary knowledge and familiarising them with the relevant internal procedures.

3. IT infrastructure of the CSSF and information exchange

3.1. Strengthening digital strategy and sovereign cloud

In 2024, the CSSF pursued the implementation of its "CSSF 5.0" strategy which focuses on digital innovation, technological resilience and operational performance. In this context, structural AI partnerships were consolidated, allowing the CSSF to elaborate advanced services, in 2025, in a sovereign environment that is secured and compliant with public-service requirements.

3.2. Improving user experience on CSSF products

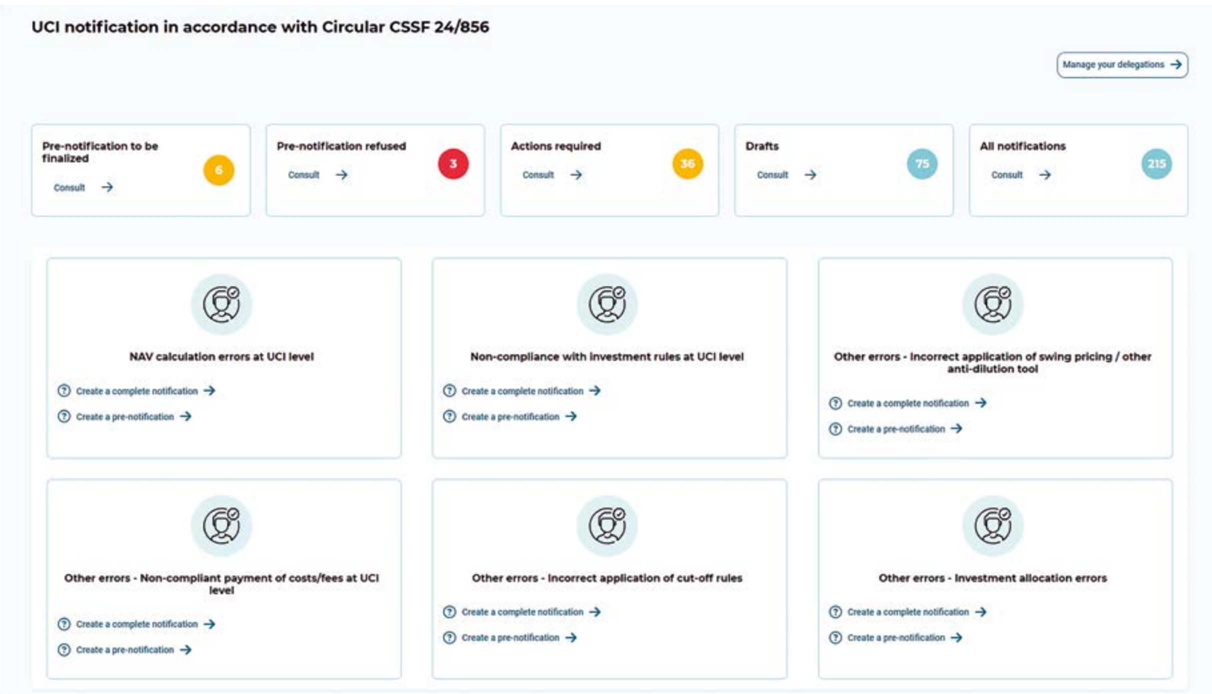
In 2024, as part of the development of its eDesk exchange portal, the CSSF made the strategic decision to integrate user experience (UX) and user interface (UI) into eDesk to increase the performance of its procedures in terms of accessibility, intuitiveness and usability. The main objective is to harmonise the eDesk procedures, to simplify the interaction between eDesk users and digital solutions, placing the professionals' needs and expectations at the centre of the design process.

UX/UI is no longer a mere aesthetic or technical feature. Today, it represents a global approach, focusing on the in-depth understanding of the users' expectations, behaviour and motivations.

Creating a structured "design system" was essential to harmonise all the products and to optimise the development processes. This reference framework centralises the graphic components, the interface rules and the UX/UI best practices, thus offering a common framework to the CSSF design and development teams. Through this system, a visual and functional consistency can be applied to the new products, whilst accelerating production with reusable and standardised items.

A certain number of existing procedures still have to be adapted to integrate this design system.

Aware of the importance of this challenge, the CSSF set up a dedicated team, composed of qualified specialists that provide support during the different phases of an UX/UI project, from user search to visual design, including also functional optimisation.



The following eDesk procedures are set up with the new design:

- internalised settlement reporting (CSDR - Art. 9);
- DORA registers and incident reporting (preparation for Operational Resilience);
- annual declaration for *réviseurs d'entreprises agréés* (approved statutory auditors);
- UCI notification in accordance with Circular CSSF 24/856;
- U1.1 - Financial reporting and PRIIPs/KID;
- ESMA data collection on costs linked to UCITS and AIFs;
- sectoral digital surveys (AML/CFT, climate risk, cybersecurity).

3.3. Prospects for 2025

The year 2025 will be marked by:

- the deployment of new eDesk interfaces integrating the "design system" into critical procedures;
- the implementation of a smart regulatory search tool;
- the further development towards a data-driven supervisory authority model.

4. Social and environmental responsibility within the CSSF

The "Real Estate and Facility Management" department (REFM) is in charge of ensuring the proper functioning of the CSSF's infrastructures on a daily basis, as well as the technical and logistics management of the two main CSSF buildings, i.e. the "Aubépines" building, owned by the CSSF, and the rented "Moonlight" building. An REFM team composed of 25 staff members ensures the proper running of these two buildings, which host around 1,000 agents every day.

The team's missions cover a wide variety of activities, ranging from technical maintenance, repair coordination, supervision of regulatory controls, furnishing of office spaces to the logistical organisation of internal events. In 2024, many projects were launched or pursued to improve the quality of the workspaces, the safety of facilities or the staff's well-being.

Among the key projects, the management of calls for tenders for the adaptations to be brought to the "Aubépines" building as a continuation of the 'new way of work' applied to the "Moonlight" building, the scheduling of the modernisation of the offices and of the shared spaces, the installation of ergonomic furniture and the acoustic optimisation of the work spaces are worth mentioning.

The REFM department is also a major player as far as the CSSF's ESG (Environmental, Social and Governance) strategy is concerned. A certain number of concrete initiatives were carried out in 2024:

- installation of a photovoltaic system of 30 kWp on the roof of the "Aubépines" building, with a roll-out in 2025, in order to reduce the CSSF's energy costs and carbon footprint;
- finalisation of the replacement of 1,500 conventional neon tubes with LED tubes, leading to a significant electricity consumption reduction;
- installation of charging stations (2 x 11kW) for the staff members' electric vehicles;
- resolution of the thermal power deficit during cold spells via the planned installation of a new heat exchanger, in cooperation with the Ville de Luxembourg;
- recycling of 4.7 tons of paper hand towels, allowing a CO_2 reduction of more than 2 tons.

The department also contributed to the improvement of the internal catering by establishing a new dedicated committee and modernising the floral decoration. A refurbishment of the kitchenettes is planned in 2025 to create a more friendly and functional work environment.

Security and responsiveness in emergency situations are key priorities of the REFM department. In 2024, the CSSF counted 113 first-aiders (11.5% of the personnel) and 108 persons in charge of building evacuation (11.7%). Their role is essential to assist the security agents when managing building evacuations and emergency situations.

The continuous training of REFM staff members strengthens their technical expertise and their capacity to efficiently meet the CSSF's needs. It also ensures a professional, secured and sustainable work environment.

The availability and commitment of the staff members who volunteered for first aid training classes and building evacuation functions are particularly noteworthy, as this contributes to strengthening the resilience and security of the CSSF.

5. CSSF library

The CSSF library is a reference library which has been part of the Luxembourg libraries' network bibnet.lu since 2009. It is specialised in banking and financial law as well as in financial economy. It contains around 5,000 books and around 50 periodicals and update publications. The library also has a certain number of specialised electronic databases.

All the books in the library are listed in the general catalogue of the bibnet.lu network. The unified search engine of the collections of the network (www.a-z.lu) enables an easy search of the books available in the CSSF library and in all Luxembourg libraries.

The library is open to the public on prior request and by appointment on working days.

6. Budget and annual accounts of the CSSF - 2024

6.1. CSSF budget

Budget planning is an integral part of a multi-year financial planning of the CSSF, enabling the follow-up of the organisation's long-term financial development

The 2024 budget was approved by the Board of the CSSF in December 2023 and the 2024 annual accounts on 1 April 2025.

The CSSF's "Finance" division closely monitors the budget and prepares regular reports for the Executive Board. At the end of each financial year, an analysis is conducted to detail the discrepancies between the budgeted and actual figures.

The key factors that have influenced the 2024 budget are the following:

- control of operating costs despite a particularly disrupted economic and geopolitical context;
- a grant of a EUR 17.5 million operating subsidy to support the CSSF's digitalisation efforts.

6.2. CSSF annual accounts - 2024

BALANCE SHEET AS AT 31 DECEMBER 2024

Assets	EUR
Fixed assets	**52,865,142.97**
Intangible fixed assets	**2,462,192.59**
Development costs	1,279,030.00
Payments on account and intangible assets in progress	1,183,162.59
Tangible fixed assets	**50,402,950.38**
Land and buildings	43,554,289.72
Other fixtures, fittings, tools and equipment	6,411,873.12
Payments on account and tangible assets in progress	436,787.54
Current assets	**150,952,032.38**
Debtors	**9,713,664.05**
Trade debtors with a residual term of up to one year	8,558,684.47
Other debtors with a residual term of up to one year	1,154,979.58
Cash at banks, in postal cheque accounts, cheques in hand	**141,238,368.33**
Prepayment and accrued income	**9,755,651.51**
BALANCE SHEET TOTAL (ASSETS)	213,572,826.86

Own capital and liabilities	EUR
Own capital	**136,085,008.34**
Results brought forward	97,925,200.97
Result for the financial year	38,159,807.37
Provisions	**31,643,891.01**
Other provisions	31,643,891.01
Liabilities	**45,843,927.51**
Amounts owed to credit institutions	**38,304,052.74**
with a residual term of up to one year	4,800,627.30
with a residual term of over one year	33,503,425.44
Debts on purchases and provision of services	**3,426,647.60**
with a residual term of up to one year	3,426,647.60
Other debts	**4,113,227.17**
Tax debts	303,270.04
Social security debts	2,315,804.37
Other debts with a residual term of up to one year	1,494,152.76
BALANCE SHEET TOTAL (OWN CAPITAL AND LIABILITIES)	213,572,826.86

PROFIT AND LOSS ACCOUNT AS AT 31 DECEMBER 2024

	EUR
Net turnover	**178,514,202.78**
Other operating income	**27,759,627.33**
Raw materials and consumables and other external charges	**16,372,989.82**
Raw materials and consumables	487,636.07
Other external charges	15,885,353.75
Staff costs	**135,219,967.85**
Wages and salaries	128,134,674.26
Social security costs	4,698,803.69
relating to pensions	483,511.38
other social security costs	4,215,292.31
Other staff costs	2,386,489.90
Value adjustments	**5,126,957.71**
on formation expenses and tangible and intangible fixed assets	4,734,457.71
on elements of current assets	392,500.00
Other operating charges	**10,904,043.93**
Interest and other financial charges	**490,063.43**
Other interest and financial charges	490,063.43
Result for the financial year	**38,159,807.37**

Réviseur d'entreprises agréé (approved statutory auditor): PricewaterhouseCoopers

II. The European dimension of the financial sector supervision

1. Supervision of banks

1.1. Single Supervisory Mechanism (SSM)

In 2024, the CSSF participated in all 14 meetings of the SSM Supervisory Board and contributed to 2,174 decisions concerning individual supervised entities within the framework of the SSM. The CSSF also contributed at a technical level to the work of a large number of working groups set up by the ECB.

The top three SSM priorities identified for 2024-2026 are (i) strengthening resilience to immediate macro-financial and geopolitical shocks, (ii) remedying shortcomings in governance and the management of climate-related and environmental risks, and (iii) progressing in digital transformation and building robust operational resilience frameworks.

Further information on the SSM activities is available in the ECB Annual Report on supervisory activities 2024[1].

1.2. Regulatory developments

Following the endorsement of the CRR3/CRD VI banking package by the European co-legislators at the end of 2023, work on the review by lawyer-linguists and the finalisation of CRR3 and CRD VI continued throughout the first half of 2024. Ultimately, on 19 June 2024, the new banking package was published in the Official Journal of the European Union.

The endorsement of these legal texts confirms the implementation of the final elements of the Basel III framework in the EU and in particular the provisions relating to:

- the introduction of an output floor to reduce excessive variability of banks' capital requirements calculated with internal models;
- the implementation of the final elements of the Basel III framework in the areas of credit risk, market risk and operational risk;
- the strengthening of the provisions related to Environmental, Social and Governance risks (ESG risks);

1 www.bankingsupervision.europa.eu/press/other-publications/annual-report/html/ssm.ar2024~700cba1314.en.html

- the minimum harmonising conditions for the establishment of branches of third-country banks;
- the update of the fit and proper assessment framework applicable to members of management bodies and key function holders of institutions.

The majority of the new CRR3 rules apply from 1 January 2025 with the exception of certain transitional provisions. With regard to the market risk rules and the Fundamental Review of the Trading Book (FRTB), their date of application in the EU has been postponed to 1 January 2026.

The provisions of CRD VI must be transposed by the Member States by 10 January 2026 at the latest. In general, its content will be applicable from 11 January 2026 apart from the provisions on third-country branches applicable one year later, i.e. from 11 January 2027.

Moreover, the banking package includes some mandates for the EBA to strengthen the supervisory framework, provide clarity to the industry and ultimately ensure a level playing field. These mandates, which are in the form of implementing technical standards (ITS), regulatory technical standards (RTS) or guidelines, will be carried out by the EBA in the years following the date of entry into application of the banking package.

2. Supervision of financial markets

2.1. European Securities and Markets Authority - ESMA

At the level of ESMA, the CSSF actively contributes to the work of the Data Standing Committee, the Risk Standing Committee and its sub-group, the Financial Stability and Risk Monitoring Working Group (FRWG), as well as the Investment Management Standing Committee (IMSC) and its sub-group, the Operational Working Group on Supervisory Convergence (OWG), which are composed of experts of the national competent authorities of Member States, assisted and coordinated by ESMA agents.

With respect to collective management, work, in 2024, mainly focused on topics relating to depositary obligations, stress testing of money market funds, ESG criteria, review of the UCITS Eligible Assets Directive as well as to European long-term investment funds (ELTIFs). In addition, the amendments to Directives 2011/61/EU and 2009/65/EC by Directive (EU) 2024/927 encompassed work concerning liquidity management tools, loan-originating alternative investment funds, reporting and costs related to investments in UCITS and AIFs. Besides the organisation of a peer review on depositary obligations, the following publications are noteworthy:

- on 6 March 2024, publication of an update of its Guidelines on stress test scenarios (ref. ESMA50-43599798-9011) under Regulation (EU) 2017/1131 on money market funds. These guidelines were implemented via Circular CSSF 24/857 published on 24 April 2024;
- on 22 April 2024, publication of an Opinion (ref. ESMA34-1300023242-167) presenting new draft RTS to be developed under Regulation (EU) 2015/760 on European long-term investment funds (ELTIF) amended by Regulation (EU) 2023/606. The European Commission adopted the RTS on 19 July 2024 by amending ESMA's project;
- on 7 May 2024, publication of a Call for Evidence (ref. ESMA34-1270380148-1032) in the context of the technical advice to be submitted to the European Commission on the review of Directive 2007/16/EC on UCITS eligible assets;

- on 14 May 2024, publication of the Final report (ref. ESMA34-472-440) presenting its Guidelines on funds' names using ESG or sustainability-related terms. These guidelines were implemented via Circular CSSF 24/863 published on 21 October 2024;

- on 8 July 2024, publication of a press release (ref. ESMA71-545613100-2561) informing market participants of the same-day publication of, on the one hand, a Consultation Paper (ref. ESMA34-1985693317-1095) concerning the RTS to be developed in order to determine the characteristics of liquidity management tools (LMTs) available to AIFMs managing open-ended AIFs and to UCITS, and, on the other hand, a Consultation Paper (ref. ESMA34-1985693317-1097) regarding guidelines to be developed on the selection and calibration of LMTs by UCITS and AIFMs managing open-ended AIFs;

- on 14 November 2024, ESMA announced the launch of its data collection exercise for a one-off report on costs linked to investments in UCITS and AIFs, that ESMA must submit, in accordance with Directive (EU) 2024/927, to the European Parliament, the Council and the Commission by October 2025;

- on 12 December 2024, publication of a Consultation Paper (ref. ESMA34-1985693317-1085) on RTS to be developed in order to determine the requirements with which loan-originating AIFs must comply to maintain an open-ended structure.

All the publications of ESMA are available on the website www.esma.europa.eu.

III. Macroprudential supervision of the financial sector

The CSSF actively contributes to the supervision of macroprudential risks that may affect the Luxembourg financial sector's stability. From an institutional point of view, it sits in various committees and working groups, such as, at national level, the Systemic Risk Committee (Comité du Risque Systémique - CdRS) which is the authority in charge of coordinating the macroprudential policy in Luxembourg, and, at international level, the European Systemic Risk Board (ESRB).

The ESRB is the authority in charge of the macroprudential oversight at European level. Its remit covers financial stability issues with respect to the whole financial system. The ESRB analyses the dependencies, interconnectedness and contagion mechanisms between sub-sectors of the economy. The work of the ESRB complements that of the Financial Stability Board (FSB) at international level. As the designated macroprudential authority, the CSSF takes part in the work of the ESRB by participating in its committees and working groups. The ESRB issues recommendations and opinions which may in return affect practices in the financial sector in Luxembourg. In 2024, it is worth noting the publication of the annual report *EU Non-bank Financial Intermediation (NBFI) Risk Monitor 2024*.

Throughout 2024, the situation of the real estate market, the related risks for the Luxembourg banking sector and the protection of borrowers remained the major focus of the macroprudential supervision. Following the beginning of a period of falling interest rates, transactions on the residential real estate market picked up in 2024; however, a very moderate growth in the economic activity continued to weigh on the commercial real estate and construction sectors.

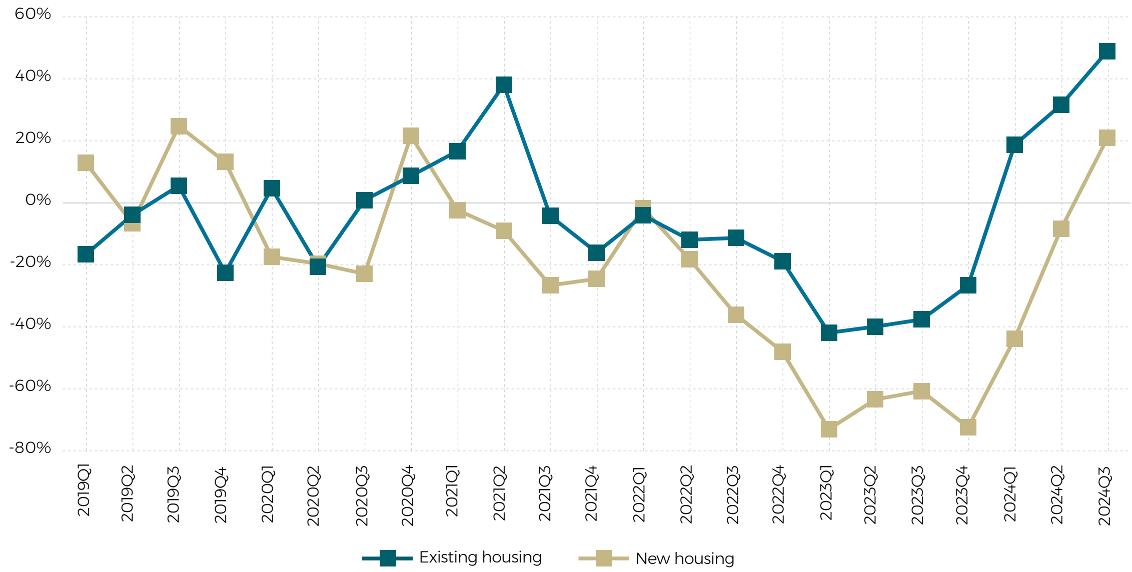
In 2024, the housing market in Luxembourg started a recovery phase. The number of transactions in the sector of existing housing significantly increased over the year, but the level of transactions in the sector of new housing remained well below its average historical values. As regards the price of residential real estate, the decline recorded in 2023 gradually eased during 2024. Year-on-year, prices fell by 11.2% in the first, by 8.4% in the second and by 1.7% in the third quarter of 2024[1]. As for rents, they continued their upward trend during the twelve months preceding the same third quarter and increased on average by 1.7%[2]. Consequently, the price-to-rent ratio stabilised to a level comparable to that of 2020.

1 Source: Statec

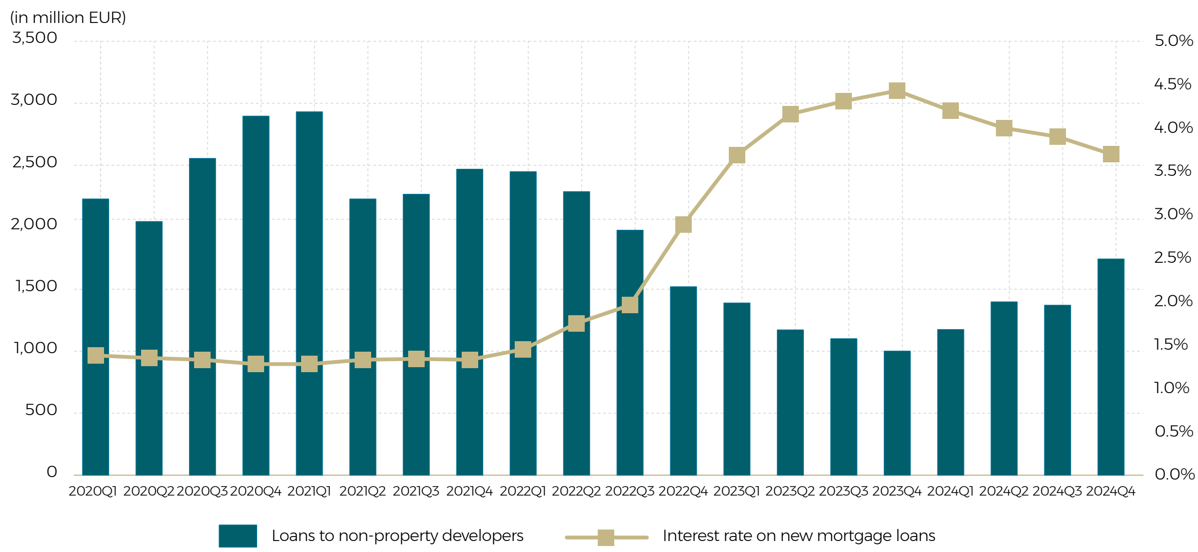
2 Source: OECD

The volumes of financing gradually recovered after the dip in the fourth quarter of 2023. This recovery took place in the context of more attractive interest rates offered by Luxembourg banks, contributing to the partial improvement of the potential buyers' borrowing capacity. In 2024, new loans increased by 22% compared to 2023. Total mortgage loans granted in relation to residential real estate amounted to EUR 5.7 billion in 2024, up from EUR 4.7 billion in 2023[3].

Development of real estate transactions in Luxembourg (annual growth, in %)[4]



Mortgage loans granted in relation to properties located in Luxembourg and interest rates[5]



3 Source: Loans to non-property developers, BCL statistical reporting, table 11.9

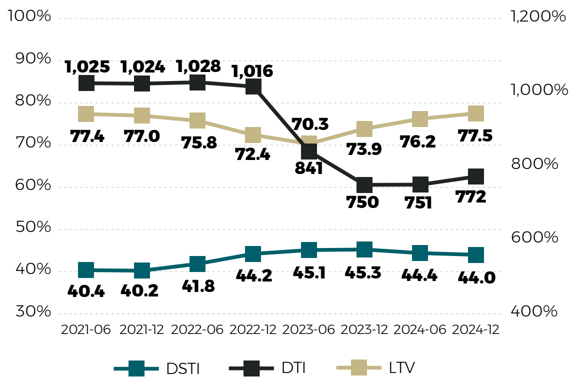
4 Source: Eurostat

5 Source: Loans to non-property developers, BCL statistical reporting, tables 11.9 and 3.1

In terms of new loans, the average debt-to-income (DTI) ratio slightly increased in 2024, whereas the average loan-to-value (LTV) ratio returned to its 2021 level[6]. While the average DTI ratio was higher than 1,000% in 2021 and 2022, it dropped significantly as from 2023 and amounted to 772% in the second half of 2024, due, among others, to monetary policy tightening in the euro area and the consequent reduction in the borrowing capacity. As regards the LTV ratio, its average value decreased to reach 70.3% in the first half of 2023 and afterwards increased to 77.5% in the second half of 2024. Moreover, the rise of the average LTV ratio was more pronounced in the buy-to-let segment than for first-time buyers. Finally, the percentage of loans granted with an LTV ratio above 90% remained stable at 30% over 12 months.

In the context of a gradual decrease of interest rates, the debt-service-to-income (DSTI) ratio of new loans dropped to 44% during the second half of 2024. Unlike the positive development of the debt burden, the average maturity of new residential mortgage loans recorded an upward trend, rising from 22.6 years in the second half of 2023 to an average of 23.4 years in the second half of 2024. Similarly to the DSTI ratio, the average loan-service-to-income (LSTI) ratio also decreased during the period under review, going down from 36.0% in the first half of 2023 to 34.6% on average in the second half of 2024.

Borrower-based indicators[7]



Alongside the decrease in overall indebtedness compared to income[8], the share of new loans associated with an LSTI ratio above 40% declined in the total of new loans in 2024. In the second half of 2024, 10% of new loans were granted to households that will have to spend more than 40% of their income to cover the mortgage debt burden. By way of comparison, this share was 17% in the first half of 2023.

Despite interest rates that remained high in 2024, only 1.9% of the residential mortgage loans were non-performing loans as at 31 December 2024[9]. Certain economic stabilisers in particular helped preventing or mitigating economic difficulties, such as housing support measures implemented by the Luxembourg government. At the end of December 2024, 31.4% of the mortgage loans granted by banks to households were variable rate loans and less than 2% were bridge loans[10]. It should be noted that the share of variable rate loans in the total of mortgage loans in Luxembourg continued to decline over the last years[11].

6 CSSF reporting in accordance with Circular CSSF 18/703; relates to loans granted for the purchase of residential real estate in Luxembourg and the real estate collateral of which is also located in Luxembourg

7 CSSF reporting in accordance with Circular CSSF 18/703; relates to loans granted for the purchase of residential real estate in Luxembourg and the real estate collateral of which is also located in Luxembourg. The figures for the second half of 2024 are preliminary

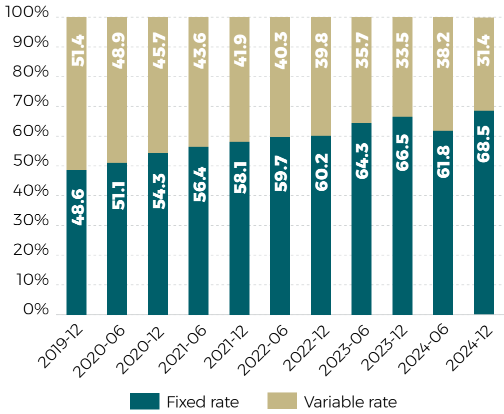
8 In 2023 (date of the last available value), household indebtedness amounted to 176% against 182% in 2021 and 2022. Source: ECB and Eurostat ESA 2010

9 FINREP Reporting

10 CSSF reporting in accordance with Circular CSSF 18/703; relates to loans granted for the purchase of residential real estate in Luxembourg and the real estate collateral of which is also located in Luxembourg

11 CSSF reporting in accordance with Circular CSSF 18/703; relates to loans granted for the purchase of residential real estate in Luxembourg and the real estate collateral of which is also located in Luxembourg

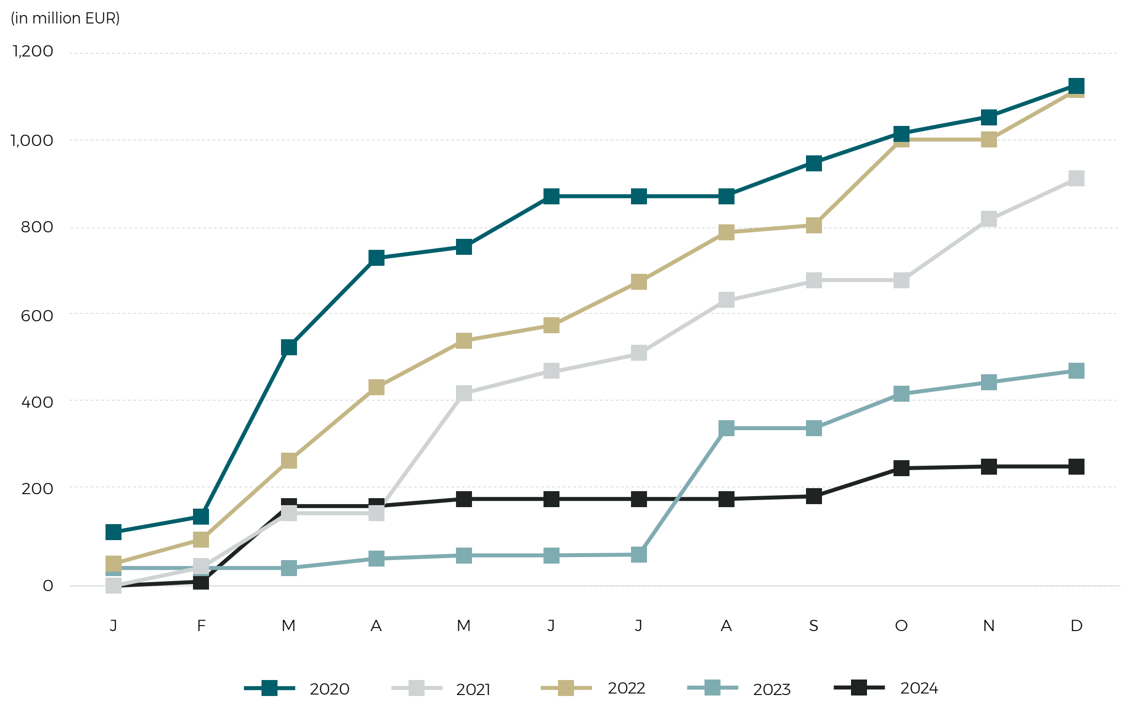
Distribution of variable and fixed rate loans for mortgage loans with mortgage guarantees located in Luxembourg (outstanding at the end of the period)[12]



In view of the challenges that the commercial real estate market currently faces, the supervision of this sector remained essential in 2024. The monitoring of systemic risks deriving from the commercial real estate market by the supervisory authorities from Luxembourg was, for that matter, deemed as "fully compliant" by the ESRB in the framework of the first part of its assessment of the answers by the national supervisory authorities to Recommendation ESRB/2022/9 on vulnerabilities in the commercial real estate sector in the EEA[14]. As this recommendation is addressed to different authorities in charge of financial stability, a working group created within the CdRS formulated the official response of Luxembourg to the first part of Recommendation ESRB/2022/9 and will continue its work on the other parts of this recommendation.

With respect to commercial real estate, the total volume of transactions in 2024 was once more well below that of the preceding years, reaching EUR 268 million, down by 45% compared to the previous year.

Cumulative transaction volume of investment in commercial real estate in Luxembourg[13]



12 CSSF reporting in accordance with Circular CSSF 18/703; relates to loans granted for the purchase of residential real estate in Luxembourg and the real estate collateral of which is also located in Luxembourg

13 Source: MSCI Real Capital Analytics (RCA)

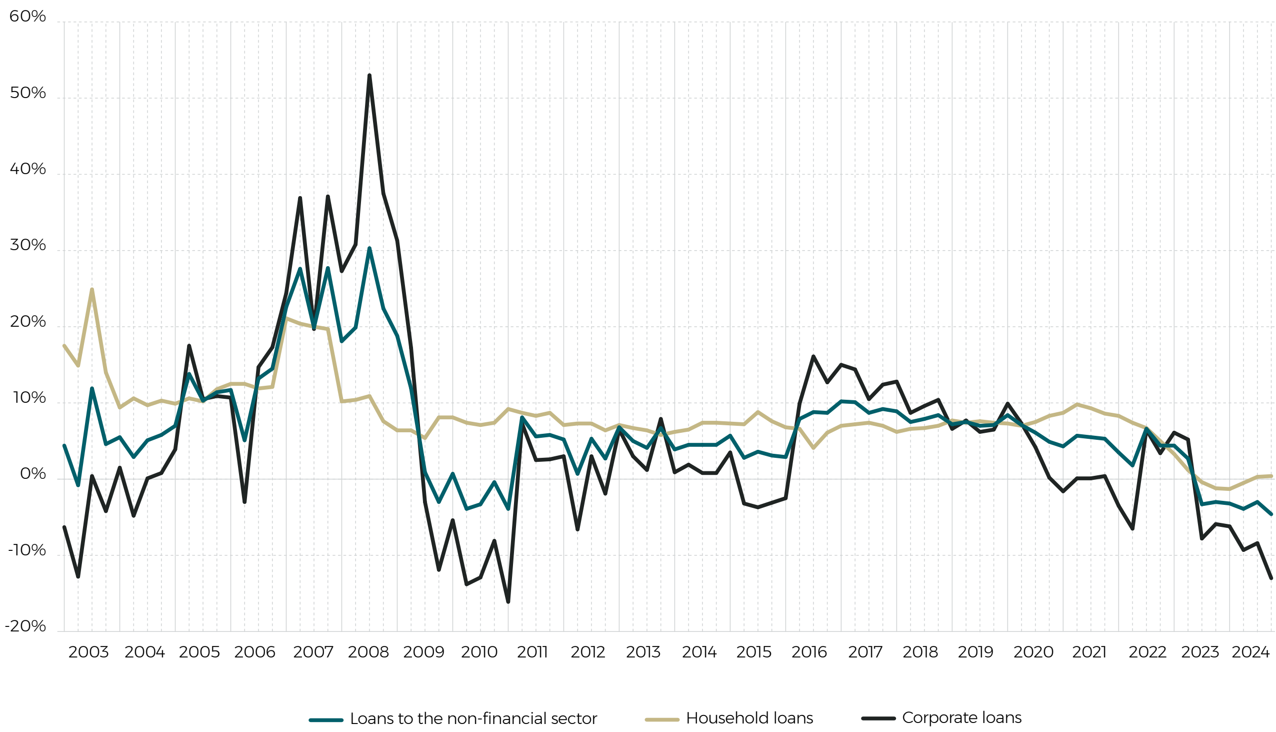
14 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023Y0201(01)

The macroprudential measures implemented over the last years did not undergo a fundamental change in 2024. For the real estate sector, they consist of the 15% minimum threshold[15] on risk weights applied by banks using the internal rating-based approach as well as of CSSF Regulation No 20-08 introducing differentiated loan-to-value limits. However, the temporary adaptation of some limits was deemed necessary given the adverse economic developments in 2023 and 2024. Temporary derogation was applied from 22 May 2024 until 30 June 2025 to buy-to-let credits. Banks may grant individual credits with an LTV ratio above 80% without nevertheless exceeding 95%, as long as the aggregate amount of credits benefiting from this derogation represents no more than 10% of the annual aggregate amount of the buy-to-let credits.

Moreover, pursuant to the Law of 23 December 2016 transposing Directive 2014/17/EU of 4 February 2014 on credit agreements for consumers relating to residential immovable property, the CSSF expects banks to implement at the loan origination a robust sensitivity analysis for all variable/revisable interest rate loan agreements financing residential immovable properties. An interest rate margin of at least 200bps should be applied. However, given the status of the business cycle, the minimum expected margin was temporarily reduced to 100bps between 16 May and 31 December 2024.

In 2024, in consultation with the BCL and following the CdRS recommendations, the CSSF also maintained the countercyclical capital buffer at 0.5% in order to ensure, firstly, the resilience of the banking sector and, secondly, a positive buffer level to be released in case of materialisation of cyclical risks. At the end of 2024, the ratio of credit to GDP reached 85.2% compared to 93.2% in 2023.

Loans to the non-financial private sector – growth rate year-on-year[16]



15 Opinion and recommendation of the Systemic Risk Committee with respect to the risk weight applied to all retail exposures (non-SME) secured by residential property in Luxembourg (CRS/2016/004) and Circular CSSF 16/643

16 Source: BCL

Finally, as illustrated in the table below, five banks were designated as systemically important institutions in Luxembourg. This designation process took place during the year 2024 in the framework of the annual identification of systemic banks in Luxembourg according to the EBA methodology (EBA/GL/2014/10). An additional capital requirement is applied as from January 2025 to the banks concerned, which represent 24% of total assets of the Luxembourg financial sector, in order to reduce their probability of default, given the negative externalities that their default could generate. Capital requirement for the identified banks remained unchanged compared to the previous year.

Concerning the Luxembourg investment fund sector, the CSSF imposed a macroprudential measure, pursuant to Article 25 of the AIFMD, effective as from 29 July 2024[17] and consisting of a yield buffer for GBP LDI (Liability Driven Investment) Funds to ensure maintaining resilience to a minimum of 300 basis points interest rate variation (further details are available in Section 2 of Chapter X "Supervision of investment fund managers and UCIs").

Denomination	Buffer rate applicable as at 1 January 2024	Buffer rate applicable as at 1 January 2025
Banque et Caisse d'Épargne de l'État, Luxembourg	0.5%	0.5%
Banque Internationale à Luxembourg	0.5%	0.5%
BGL BNP Paribas	1.0%	1.0%
Clearstream Banking S.A.	0.5%	0.5%
Société Générale Luxembourg	0.5%	0.5%

17 https://www.cssf.lu/en/Document/macroprudential-measures-for-gbp-liability-driven-investment-funds/

IV. The international dimension of the CSSF's mission

1. Basel Committee on Banking Supervision

The CSSF participates in the work of the Basel Committee, the main sub-committees (Policy and Standards Group, Supervisory Cooperation Group and Risks and Vulnerabilities Assessment Group) and some expert groups which are particularly relevant for banking supervision in Luxembourg. These groups are dedicated to the fight against money laundering and terrorist financing, accounting, credit and large exposures, liquidity, subjects covering operational aspects such as digitalisation, or complementing measures aiming at combating the effects of climate change.

In 2024, the Basel Committee fully played its role as exchange and coordination platform between national banking supervisory authorities. The exchanges focused on national developments with cross-border components and concerned the main leading trends such as digitalisation, interaction between global financial sector players or climate change, and their associated risks.

In April 2024, the supervisors from around the world met in Basel to celebrate the Basel Committee's 50th anniversary. On this occasion, the Committee published a revised version of the *Core principles for effective banking supervision*. This revision includes the strengthening of the internal governance arrangements, a better accounting for operational resilience and new risk dimensions, including those linked to information technology and environment and climate protection.

On 4 February 2025, during a meeting of the oversight body of the Basel Committee (GHOS - Governors and Heads of Supervision), the members unanimously reaffirmed their expectation to implement Basel III in full and consistently.

The Basel Committee's publications and information on its mission and organisation are available on the website www.bis.org.

2. International Organization of Securities Commissions

The CSSF participates in the work of the International Organization of Securities Commissions (IOSCO) via the main (sub-) committees and other working groups, such as the Financial Stability Engagement Group (FSEG) and its sub-group, the Financial Stability Coordination Group (FSCG), Committee 5 on Investment Management, the Assessment Committee and the European Regional Committee, which play a crucial role in the context of the development and monitoring of the implementation of internationally recognised standards relating to the regulation of securities markets. The CSSF chairs the Assessment Committee since November 2024.

In 2024, besides the 49^{th} annual conference which was held in Greece, IOSCO's work mainly focused on the topics addressed by the FSEG and Committee 5.

In 2024, the FSEG continued its collaboration with the Financial Stability Board (FSB) on financial stability issues (including the resilience of non-bank financial intermediation - NBFI). Moreover, the work of Committee 5 on liquidity risk in investment funds continued throughout 2024, covering in particular liquidity risk management in open-ended UCIs. On 11 November 2024, IOSCO published, in this context, a consultation report seeking feedback on its proposals for a review of the 2018 Liquidity Risk Management Recommendations and for the provision of complementary guidance to support effective implementation of the revised recommendations. The consultation period ended on 11 February 2025.

On 30 January 2024, IOSCO published its third edition of the *Investment Funds Statistics Report* which includes aggregated data to assess the industry size, gross leverage, financial leverage, liquidity risk, and counterparty risk within relevant investment funds around the world.

Moreover, in spring 2024, IOSCO's Committee 5 launched a working group on the assessment (including targeted exchanges with the industry) of a review of IOSCO's principles for the valuation of collective investment schemes (2013) and hedge funds (2007).

Within the context of a working group at the FSB to strengthen the resilience of NBFI, the CSSF also participated in the data pilot project to improve both the authorities' and the FSB's ability to monitor the vulnerabilities related to liquidity risk in open-ended funds.

IOSCO's publications and information on its mission and organisation are available on the website www.iosco.org.

3. The MiFIR third-country national regime

In 2024, the CSSF continued analysing files submitted by third-country (i.e. non-EU/EEA) firms in relation to the provision of cross-border investment services to clients in Luxembourg under the national third-country regime authorised under Regulation (EU) No 600/2014 (MiFIR). This regime, as well as the conditions to be met by firms to make use of it, are described at length in Circular CSSF 19/716. Circular CSSF 20/743, which complements Circular CSSF 19/716, clarifies the criteria that firms need to take into account to make their own assessment of whether their services are considered to be provided in Luxembourg (principle of territoriality).

In conjunction with Circular CSSF 19/716 as amended by Circular CSSF 20/743 and in particular the national third-country regime under MiFIR, the CSSF has continued to follow up on the equivalence of the regimes of Canada, the Swiss Confederation, the United States of America, Japan, the Hong Kong Special Administrative Region of the People's Republic of China and the Republic of Singapore laid down in CSSF Regulation No 20-02, the equivalence of the United Kingdom of Great Britain and Northern Ireland laid down in CSSF Regulation No 20-09, as well as the equivalence of the People's Republic of China and of Australia laid down in CSSF Regulation No 22-04.

V. Financial innovation

The year 2024 proved to be particularly rich in terms of innovative regulations affecting the financial sector. Although crypto-asset issues have been relevant with the application of MiCAR[1], they have been outweighed by the increased interest in artificial intelligence (AI) and the adoption of the related regulation[2].

The transition to a more digital finance is underway, forcing supervised entities to make strategic decisions while contemplating how to make this transition as least disruptive as possible to the day-to-day running of their businesses. A good digital strategy also implies the need to prepare staff adequately for the use of new technologies, leading to new processes and even new financial products, by upgrading their skills. For AI-enabled projects, it may also be necessary to call on new resources with specific technical skills. Yet, even though one can expect AI to have an impact on business functions, humans remain fundamental, particularly to monitor the results produced by AI and the execution of more complex processes. In this sense, AI will mainly be used to "increase" human capabilities. This is particularly true for the financial sector, due to the strict requirements on risk management and governance aspects.

- **The Innovation Hub as a single point of contact**

In 2024, the Innovation Hub, as part of its missions, provided assistance and guidance internally to the CSSF and to external entities in order to support the digital transition of the financial sector.

As the single point of contact of the CSSF, the Innovation Hub strengthened ties with established FinTechs and players while continuing to foster open dialogue on topics related to financial innovation, including regulatory treatment of emerging products, services and business models, to answer questions and to connect applicants with the relevant departments of the CSSF by organising and facilitating meetings or by coordinating the processing of cross-cutting files.

Thus, the Innovation Hub was solicited, in 2024, by 52 project entities that are looking for either guidance or concrete support in the registration, authorisation or extension of authorisation.

The Innovation Hub assists many start-ups that contact it within the framework of projects that are still at an early stage of development. This allows guiding them through the regulatory framework applicable to them and on how they can best interact with the regulator when the project

1 Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937

2 Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence and amending Regulations (EC) No 300/2008, (EU) No 167/2013, (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1139 and (EU) 2019/2144 and Directives 2014/90/EU, (EU) 2016/797 and (EU) 2020/1828 (Artificial Intelligence Act)

matures, i.e. when the legal memorandum and proof of concept are established. This proactive interaction allows, in turn, the Innovation Hub to keep up to date with the latest developments in the Luxembourg financial market and to align, where necessary, its internal priorities with the relevant themes.

The Innovation Hub also organised a number of workshops, enabling authorised entities to present their digital strategy projects at various stages of development.

- **Crypto-assets**

In 2024, MiCAR came into force in two stages: on 30 June 2024 for issuers of stablecoins, i.e. issuers of e-money tokens (EMTs) and asset-referenced tokens (ARTs), and on 30 December 2024 for all the other provisions.

The CSSF continued work on the implementation of MiCAR, which defines an authorisation and prudential supervision framework for crypto-asset issuers and crypto-asset service providers falling within its scope. This work has been carried out both internally and through participation in the development and review of a number of standards and guidelines (over 50 regulatory technical standards, implementing technical standards and guidelines under MiCAR) through participation in the European regulators' working groups and committees.

It should be noted that a great deal of work was initiated in 2024 by ESMA in order to facilitate prudential convergence between national competent authorities on the aspect of processing applications from entities wishing to obtain authorisation as a crypto-asset service provider (CASP). In this context, reference is made to the supervisory briefing drawn up by ESMA[3] for national competent authorities (NCAs), published in a shortened version to provide orientation to market participants, which "aims to assist NCAs in the practical application of requirements in the Market in Crypto Asset Regulation (MiCAR) to the authorisation of crypto asset service providers (CASPs) and to promote harmonised authorisation practices throughout the Union."

3 Ref. ESMA75-453128700-1263

In February 2024, in anticipation of the implementation of MiCAR during the year, the CSSF invited entities, whether new, registered or supervised by the CSSF, considering sending a notification or submitting an authorisation file to provide CASP services or to issue ARTs or EMTs, to contact it as soon as possible to engage in a preliminary dialogue.

In addition, pages dedicated to MiCAR[4] and CASPs[5] have been created on the CSSF website, containing all the useful information relating to this new regime, as well as the regulatory texts in force (e.g. delegated regulations on technical standards, CSSF circulars) and forms, which will be published gradually.

- **Tokenisation – security tokens**

As regards the issuance of tokens representing financial instruments, the CSSF met with a number of established financial sector players working on very advanced projects with the aim of issuing units of investment funds or other financial instruments natively, i.e. directly on the blockchain. Some of these initiatives are now in production or about to be.

Also of note is the passage of the "Blockchain IV Law"[6] in the financial year 2024, which focuses in particular on amending the Law of 6 April 2013 on dematerialised securities to expand the options for issuing and holding distributed ledger technology (DLT) securities. The Blockchain IV Law introduces the possibility of using a control agent who maintains an issue account for dematerialised securities. These securities will be held by account keepers on securities accounts maintained within the distributed ledger.

4 https://www.cssf.lu/en/markets-in-crypto-assets-mica-micar/
5 https://www.cssf.lu/en/crypto-assets-service-providers-casp/
6 Law of 20 December 2024 amending the amended Law of 6 April 2013 on dematerialised securities, the amended Law of 5 April 1993 on the financial sector and the amended Law of 23 December 1998 establishing a financial sector supervisory commission

• **RegTech**

Many projects submitted to the Innovation Hub covered, once again, the very diverse category referred to as RegTechs, i.e. entities whose objective is to provide tools to enable an entity supervised by the CSSF to meet regulatory, compliance and reporting requirements. These tools include the types of business models already encountered in previous years: know-your-customer solutions, analysis/supervision of (traditional or virtual asset-related) transactions, onboarding of remote clients, data governance, data aggregation and provision, and regulatory reports.

Although these RegTechs often do not need an authorisation for the financial sector, it is important for the Innovation Hub to meet them to be aware of these innovative solutions that simplify the traditional processes of the players of the financial sector [7].

• **Artificial Intelligence**

In June 2024, the CSSF and the BCL launched for the second time a joint survey to assess the use of artificial intelligence by entities in the Luxembourg financial sector.

The main objective of this survey is to understand the evolving use of the AI technology within the sector, in particular highlighting the growing interest and potential risks associated with generative AI technologies such as ChatGPT. As announced in the CSSF's 2023 Annual Report, this survey also covers the use of generative artificial intelligence by Luxembourg financial institutions, which extends the scope of this exercise compared to the first survey. A report relating to this survey should be published in the second quarter of 2025.

• **Dialogue with the industry**

The Innovation Hub has continued its initiatives to engage in dialogue with financial professionals and academics with the aim of acquiring specific knowledge, particularly technical knowledge, relating to the expectations of the financial sector players. Exchanges with stakeholders of the financial sector enable it to become aware of the concrete problems faced by the sector, to identify any regulatory obstacles or areas that could benefit from clarification by the regulator in relation to sector-specific laws, and to find solutions in a coordinated way.

The Innovation Hub, accompanied, where appropriate, by specialists from different CSSF departments, meets with the professional associations of the financial sector several times a year in order to provide a regulatory update, to allow them to ask questions and to have a free exchange on the observed issues and trends. Since their implementation, these sessions have become a key meeting place for the Luxembourg financial sector, proving to be mutually beneficial for both the regulator and the industry, in order to progress on important issues for the financial sector.

• **Challenges for 2025**

The Innovation Hub's work for 2025 will continue to consist of supporting the transition towards an increasingly digital finance. This will involve constant monitoring of developments in innovation and financial technologies, in particular with a view to identifying their impact on the Luxembourg financial sector as early as possible, providing certain clarifications on new activities, mitigating the risks in the context of the technologies in question, and defining, where necessary, the approach and concrete measures to be adopted. That being said, a number of priorities will need to be addressed.

In 2025, the implementation of the AI Act will be at the top of the CSSF's agenda, bearing in mind that in addition to the implementation work in the financial sector, notably through participation in a number of groups at European level, it will be necessary above all to acquire a good theoretical and practical understanding of this text and its implications for the financial sector. This will enable the CSSF to prepare adequately in terms of supervision.

7 It should be reminded that the Innovation Hub does not accept commercial requests from RegTech entities to sell their solutions to the CSSF.

VI. Sustainable finance

In 2024, the environmental, social and governance (ESG) as well as the sustainability-related issues were marked by a strengthening of regulations, an increased investor demand and the urgency for financial institutions to align with the global climate goals.

In this context, the CSSF launched several important initiatives aiming to promote sustainable finance in the financial sector. Its actions consisted in consolidating its supervisory priorities, increasing vigilance against greenwashing and improving the regulatory framework on sustainable finance.

One of the CSSF's priorities is to ensure compliance with the regulatory requirements relating to sustainable finance. In March 2024, the CSSF published its supervisory priorities focusing on transparency and disclosure, ongoing integration of sustainability risks in the investment processes as well as consideration of sustainability preferences under MiFID II.

Following the entry into force, in 2023, of the regulatory technical standards (RTS) supplementing the regulation on sustainability-related disclosures in the financial services sector (SFDR), the CSSF carried out checks of the SFDR disclosures at entity and product level. The CSSF also monitored the application of the implementing technical standards (ITS) on prudential disclosures on ESG risks, ensuring that banks communicate in a transparent manner on their climate-related financial risks. Moreover, the CSSF participated in ESMA's common supervisory action in 2024, in order to assess how financial institutions integrate sustainability criteria in their suitability assessment and product governance. To further ensure transparency, Circular CSSF 22/821 revised the long form report to add a section for sustainability disclosure requirements, thus highlighting the necessity for financial institutions to provide clear and consistent ESG information.

Throughout 2024, the CSSF incorporated climate-related and environmental risk criteria in its thematic inspections on governance, credit risk and ICAAP. ESG elements were also taken into consideration during inspections at depositary banks. Moreover, the CSSF included sustainability-related aspects in the assessment of the clients' investment preferences. Finally, since September 2024, the CSSF carries out on-site inspections concerning climate-related and environmental risk management at credit institutions.

In May 2024, the European Supervisory Authorities published a final report on greenwashing in the European financial sector, revealing the related risks and the need to enhance supervision. In response, the CSSF released a call for vigilance on greenwashing, calling on investors to critically assess the credibility of financial products in terms of sustainability. Notably, in November 2024, the CSSF published a press release to warn investors about greenwashing prevalence, insisting on the importance to critically assess sustainability claims linked to financial products. In order to increase investor awareness, the CSSF also created a dedicated section on the educational platform, Lëtzfin, providing resources to help investors identify and avoid bad practices.

Another key measure adopted by the CSSF to combat greenwashing is the application of ESMA's *Guidelines on funds' names using ESG or sustainability-related terms*. Following the entry into force of Circular CSSF 24/863 in November 2024, new funds must ensure that their names correspond with their ESG characteristics, while existing funds must comply with these requirements by May 2025.

The CSSF conducted several reviews to assess the issuers' preparedness for sustainability-related disclosure requirements. In February 2024, the CSSF notably published a gap analysis report examining the 2022 climate-related disclosures of issuers, highlighting areas for improvement in reporting practices and stressing the need for greater transparency. Later, in December 2024, the CSSF published a review on transition plans in sustainability reports, assessing how issuers prepared for climate-related risks and aligned their strategies with their long-term sustainability objectives. These initiatives not only show the CSSF's commitment to improve the quality and reliability of non-financial disclosures but also play a key role in guiding issuers as some of them prepare for enhanced disclosure requirements in the framework of the Corporate Sustainability Reporting Directive (CSRD).

Looking forward, the CSSF remains firmly determined to maintain sustainable finance as one of its core supervisory priorities while adapting to the development of the European regulatory framework. As the discussions on key legislative developments move forward, such as the Omnibus proposal and the upcoming SFDR review, the CSSF will closely monitor the regulatory developments and will ensure their effective implementation. At the same time, the CSSF will continue financial education initiatives to help investors and market players grasp the risks and opportunities associated with sustainability. By exercising vigilance with regard to greenwashing, the CSSF remains committed to promoting clear and reliable sustainability disclosures, thus contributing to a transparent and trustworthy financial ecosystem.

VII. Supervision of banks

1. Banking supervision practice

1.1. Organisation of the supervision

Responsibility for direct microprudential supervision in the strict sense depends on the type of credit institutions, as illustrated in the table below.

Competent authorities by type of credit institutions established in Luxembourg

Type of credit institution	Competent authority	Number	
		2023	2024
Significant institutions incorporated under Luxembourg law	ECB	27	27
Less significant institutions incorporated under Luxembourg law	CSSF	47	43
Branches of a significant institution	ECB	20	19
Branches of a less significant institution	Supervisory authority of the head office	10	11
Branches of an institution headquartered in an EU Member State outside of the SSM	Supervisory authority of the head office	2	2
Branches of a non-EU institution	CSSF	13	13
Total		119	115

Prudential supervision in the strict sense includes the supervision of solvency, liquidity and internal governance. It does not include the other areas of supervision that fall under the competence of the CSSF, namely:

- the supervision of compliance with the professional obligations regarding anti-money laundering and combating the financing of terrorism (AML/CFT);
- the supervision of regulations for consumer protection: MiFID, laws on mortgage credits and consumer credits;
- the supervision of regulations relating to market integrity: European Market Infrastructure Regulation (EMIR), Securities Financing Transactions Regulation (SFTR), Benchmark Regulation (BMR) and covered bonds legislation;
- the supervision of the obligations deriving from sectoral laws on UCIs, including, in particular, the obligations related to the function of depositary bank of UCIs;

- the supervision of obligations deriving from other European or national regulations, like the Law on payment services PSD2, SEPA, Instant Payment Regulation, Directive NIS[1], DORA[2] and the Law on payment accounts;
- since 30 December 2024, the supervision of the activities of credit institutions covered by the European regulation on virtual asset markets, known as MiCA.

As regards the areas of supervision referred to above, the CSSF agents also actively participate in working groups which meet at European and international level.

1.2. Priorities with respect to prudential supervision and banking risks

The CSSF defines its priorities for the supervision of credit institutions falling within its remit on an annual basis. In order to use resources as efficiently as possible, the determination of the supervisory priorities follows a risk-based approach considering the main risks and major vulnerabilities of the Luxembourg banking centre, as well as the supervisory priorities defined by the ECB, the EBA and the ESRB.

In 2024, the priorities of the CSSF for the banking supervision were the following.

1.2.1. Risks related to money laundering and terrorist financing

Money laundering and terrorist financing (ML/TF) are risks inherent in the activities of international financial centres such as Luxembourg. At the level of banks, the wealth management activities involving international customers are particularly exposed to such risks. Within the CSSF, the control of these risks remained focused on the effectiveness of AML/CFT and Targeted Financial Sanctions (TFS) control measures in 2024.

1.2.2. Credit risk, real estate market risk and cyclical risk

In 2024, the CSSF continued to closely monitor the banks' asset quality, and interacted with banks to identify and limit vulnerable credit portfolios, against a backdrop of tighter financial conditions, weaker economic activity and a more uncertain macro-financial environment.

The CSSF has introduced more frequent granular reporting, particularly in the areas of residential real estate (RRE) and commercial real estate (CRE) credit risks, in order to monitor risk trends more closely. At the same time, it ensured that the identified risks were properly managed, so as to limit the impact of any deterioration in the credit portfolios.

1.2.3. Risks related to information and communication technology (ICT)

The banks' increasing digitalisation and growing dependence on ICTs highlight the importance of appropriate management of ICT-related risks. Banks must reconcile the modernisation of their infrastructures with the need to ensure their security and resilience, including in the event of operational or fraudulent incidents. Compliance with DORA is to be viewed in this context.

Consequently, the CSSF continued to support banks in their digital transformation projects through regular meetings during large-scale migration projects or by analysing their outsourcing notifications. It also continued to receive and analyse all incident notifications, from major ICT incidents to significant cyber threats. Finally, the CSSF helped banks to understand and prepare for the implementation of DORA, which comes into force on 17 January 2025.

The CSSF also took part in the SSM cyber resilience stress test[3].

1 Directive (EU) 2016/1148 of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union, as reformed by Directive (EU) 2022/2555 of 14 December 2022

2 Regulation (EU) 2022/2554 on digital operational resilience for the financial sector

3 https://www.bankingsupervision.europa.eu/press/pr/date/2024/html/ssm.pr240726~06d5776a02.en.html

1.2.4. Risks related to climate change and environmental degradation

In 2023, the CSSF requested a sample of 15 banks, among the less significant banks and branches of non-EU banks which it directly supervised, to carry out a self-assessment of compliance with Circular CSSF 21/773 on the management of climate-related and environmental risks. This exercise was repeated in 2024 with a new sample of 14 banks and individual recommendations were subsequently provided to these participating banks.

Moreover, the CSSF performed a horizontal review of the information contained in the long form reports with respect to disclosure of information on sustainable development, in accordance with SFDR. The CSSF shared the key observations with the ABBL. The CSSF, applying a risk-based approach, selected a sample of banks for which a full off-site review of their SFDR-related disclosures was carried out in 2024. The CSSF shared the individual observations with the relevant banks.

1.3. Supervision of significant institutions

At the end of 2024, 46 banks established in Luxembourg were directly supervised by the ECB, either because they fulfilled the criteria to qualify as significant institution (SI) at solo or consolidated level, or because they were part of a group considered as significant. These banks represented 71.4% of the total assets of banks established in Luxembourg.

Supervision of SIs is exercised by Joint Supervisory Teams (JSTs) composed of staff members from the ECB and from the national competent authorities. At the end of 2024, the CSSF was a member of 26 JSTs for as many banking groups. A total of 26 CSSF supervisors were directly involved in this supervisory framework.

SIs established in Luxembourg by category

SSM status	Number of banks	In % of assets
Significant banks, group head in Luxembourg	3	10.2%
Significant banks, subsidiaries of an SI	27	40.0%
Branches of an SI	19	31.4%
Sub-total SIs	*46*	*71.4%*
Total Luxembourg banking sector	**115**	**100.0%**

The SSM's supervisory approach is described in detail in the ECB's *Supervisory Manual*[4].

1.4. Supervisory review and evaluation process (SREP)

Since 2015, a common SREP methodology has been applied to less significant institutions (LSIs). It is based on the EBA Guidelines on SREP (EBA/GL/2022/03) and on the methodology applied to SIs by the ECB, while taking into account the principle of proportionality.

In general, the SREP is carried out annually based on a large range of quantitative and qualitative information sources, among which the prudential reporting and internal reports provided by the bank, the long form report[5], the reports of on-site inspections, the ICAAP[6] and the ILAAP[7] as well as the different stress tests. The SREP is applied to credit institutions in a proportionate manner, having regard to the nature, scale and complexity of their activities and risks and, if relevant, their situation within the group.

4 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisory_guides202401_manual.en.pdf

5 Circular CSSF 22/281 (as amended by Circular CSSF 24/865 and CSSF 23/845)

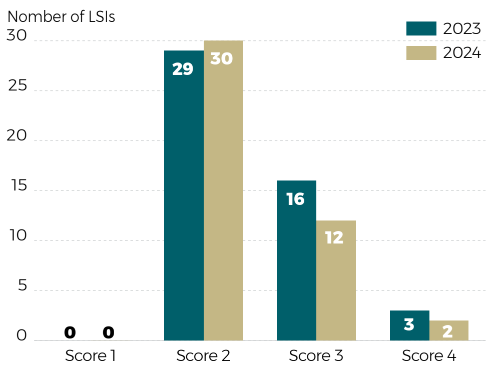
6 Internal Capital Adequacy Assessment Process

7 Internal Liquidity Adequacy Assessment Process

The operational risk and the credit risk were subject to an in-depth assessment within the SREP in 2024, in accordance with a multi-annual audit plan. In addition to the risks impacting solvency, the SREP covered institutions' liquidity risk by taking into account the ILAAPs and the stress test results.

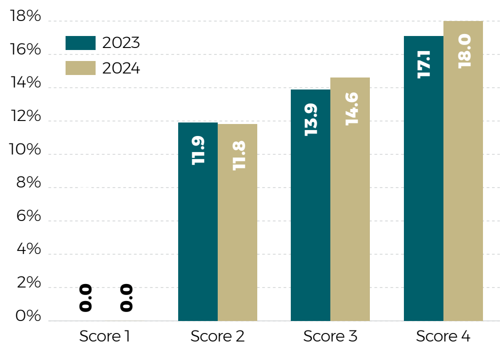
The distribution of overall SREP scores, which vary on a scale of 1 (low risk for the viability of the institution) to 4 (high risk for the viability of the institution), improved slightly from 2023 to 2024 with an average of 2.36 for all LSIs in 2024.

Breakdown of the SREP scores



The applicable own funds requirements under the CRR should appropriately cover the incurred risks, including in adverse conditions. Where the results of the stress tests indicate that an institution's capital position would become vulnerable or even non-compliant with the minimum standards, the CSSF requires additional own funds in the form of Pillar 2 Guidance (P2G) to ensure that the institution remains appropriately capitalised. The P2G supplements the capital requirements that the CSSF imposes on banks in accordance with the relevant European rules. The following graph shows the average total capital requirements for banks according to their SREP rating.

Own funds requirements (P1+P2R+buffers+P2G) in % by SREP score



As regards all LSIs, on average, Pillar 1 (P1) and Pillar 2 (P2R) capital requirements, combined capital buffers and the P2G cumulatively amount to 12.86% (12.92% in 2023).

In addition to the interventions aiming at the adequacy of the amount of capital, the CSSF took some qualitative supervisory measures in 2024. As in the past, these measures mostly focused on strategic planning by requiring, for example, restrictions for certain activities as well as better management of operational risk (including the strengthening of internal and prudential reporting and IT risk).

1.5. Authorisations

The CSSF mainly intervenes in four banking-related authorisation processes.

1.5.1. Authorisation of new credit institutions

Since the introduction of the SSM, the ECB is exclusively competent for the authorisation of new credit institutions in all SSM countries. The competence for the authorisation of branches of non-EU credit institutions remains at national level.

However, the CSSF is still the entry point for the submission of all the authorisation files. Upon receipt of an application, the CSSF analyses it in order to verify compliance with the legal and regulatory requirements, focusing in particular on compliance with the AML/CFT regulation. In the case of Luxembourg credit institutions, the CSSF drafts a proposal, after the examination of the file, and submits it for decision to the ECB. As regards branches of non-EU credit institutions, the authorisation is granted by the CSSF.

In 2024, the CSSF worked on three authorisation requests for new credit institutions and branches of non-EU banks. One authorisation was granted by the ECB and one by the CSSF. The examination of the remaining file will continue in 2025.

1.5.2. Authorisation for acquisitions of qualifying holdings

Like the authorisation of a new institution which requires prior examination of the file by the CSSF, the subsequent acquisitions of holdings that reach or exceed 10% of the capital or of the voting rights or which makes it possible to exercise a significant influence over the institution targeted (qualifying holdings) are also examined by the CSSF and authorised by the ECB (or by the CSSF for acquisitions of holdings in non-EU credit institutions with a branch in Luxembourg), in accordance with the applicable legal and regulatory requirements.

In 2024, the CSSF examined 17 qualifying holding files, 11 of which led to an authorisation by the ECB (or the CSSF) during the year. The examination of the remaining ongoing files will continue in 2025.

1.5.3. Authorisation of directors and managers of banks

In 2024, the CSSF dealt with 134 files regarding the nomination of new directors and authorised managers in Luxembourg credit institutions. The examination of these files aims at verifying the compliance of the candidates, notably in terms of good repute, professional experience and availability, with the legal and regulatory requirements (including AML/CFT legislation). Following the examination of the files by the CSSF, the nominations in SIs are forwarded to the ECB for authorisation, whereas the nominations in LSIs and third-country branches are directly authorised by the CSSF.

1.5.4. Authorisation of financial holding companies

For financial holding companies subject to a procedure for approval or for exemption from approval under the CRD framework, the procedures implemented by the CSSF aim to clarify the role and responsibilities of these parent undertakings in accordance with the consolidated prudential requirements. Depending on the situation, the CSSF examines these files independently or with another competent authority.

In 2024, the CSSF (as consolidating supervisor) received one request for exemption from approval which has been approved. Moreover, the CSSF, as competent authority of the Member State where the financial holding company is incorporated, participated with the competent authority for the consolidated supervision in joint decision-making with respect to another request for exemption from approval which has been approved.

1.6. Investor protection

The CSSF's action covers, inter alia, depositary bank activities for Luxembourg-domiciled UCIs and activities governed by MiFID. The CSSF's supervision aims to verify that banks observe all legal and regulatory provisions relating thereto on an ongoing basis. It is based on a set of information, including in particular the long form report, the reports drawn up by the internal control functions and the on-site inspections performed by the CSSF teams.

As regards MiFID, a number of questionnaires were sent to banks, mainly at ESMA's request, concerning for example the cross-border provision of investment services and activities to retail clients or the application of MiFID sustainability requirements. Other off-site supervisory actions were also carried out, such as the follow-up to MiFID on-site inspections carried out by the CSSF at banks, the follow-up to recommendations previously issued as part of common supervisory actions initiated by ESMA, or the review of marketing communications used by or under the control of certain banks in connection with their cross-border activities.

It is important to remember that the CSSF works in close collaboration with ESMA and other national supervisory authorities in order to promote a harmonised supervisory framework, focused on the protection of investors in general and of retail investors in particular.

The lessons learnt from this supervision are reflected in the SREP and, where applicable, in letters addressed to banks.

As regards depositary banks, it should be borne in mind that prior to starting any depositary business activities for Luxembourg-domiciled UCIs, an administrative authorisation has to be obtained from the CSSF. Any subsequent significant changes to the elements underlying the initial authorisation as a UCI depositary (e.g. extension of the initial authorisation to other investment vehicles or any significant change in the operational model) is also subject to the CSSF's authorisation. In 2024, the CSSF processed one such authorisation.

1.7. Payment services

Under the European regulation on payment services (PSD2), the CSSF analysed, in 2024, the following reports, submitted by credit institutions in their capacity as payment service providers (PSPs):

- monthly statistical data on fraud relating to different payment means which are collected by the BCL based on the operational collaboration between the BCL and the CSSF;
- annual updated and comprehensive assessment of the ICT and security risks relating to payment services;
- 125 notifications in connection with 41 major operational or security incidents that the CSSF shared with the EBA and the BCL;
- self-assessment reports[8] on compliance of the security measures with the regulatory technical standards on strong customer authentication and common and secure open standards of communication (RTS on SCA&CSC).

The CSSF carried out checks of the credit institutions' websites to determine whether they publish, where applicable, the quarterly statistics on the availability and performance of the dedicated interface and the interface(s) used by their payment service users according to Article 32(4) of the RTS on SCA&CSC.

Finally, in the context of the new Regulation (EU) 2024/886 on instant payments, which came into force on 8 April 2024 and of which a first set of obligations must be complied with by banks from 9 January 2025, the CSSF has worked closely with the BCL and the ABBL to monitor the implementation of the regulation and to provide answers to the many questions raised by credit institutions. In 2025, the CSSF will continue to monitor credit institutions' compliance with the regulation in question.

1.8. Cooperation in banking supervision

As a large number of banking groups is present in the Luxembourg financial sector through subsidiaries, the CSSF regularly participates, as host supervisor, in colleges, including colleges organised by supervisory authorities from non-EEA countries. In addition to the colleges, periodical bilateral meetings take place between the CSSF and the Swiss supervisory authority, the FINMA. Cooperation with the Chinese and US authorities is mainly done via the participation in supervisory colleges organised by these authorities. It should be borne in mind that since 2014, within the framework of the SSM, coordination between authorities for Luxembourg subsidiaries and branches of banking groups with their group head in a Member State participating in the SSM has been carried out through JSTs.

In 2024, the CSSF organised one supervisory college concerning an LSI for which it exercised the ultimate consolidated prudential supervision at European level.

One of the main objectives of the colleges dealing with prudential supervision is the performance of a Joint Risk Assessment based on which the colleges assess the capital adequacy of the banking groups and their subsidiaries against the incurred risks, as well as their liquidity situation. Following this assessment, the members of the college take a Joint Decision on Capital and Liquidity (for EEA colleges) which is communicated to the banking groups and their subsidiaries.

In 2024, in accordance with the European rules on cooperation between AML/CFT authorities, the CSSF organised eight college meetings as home authority and participated, as host authority, in 30 college meetings organised by authorities of other EU Member States. The purpose of these colleges is to promote the exchange of information between authorities and effectively coordinate their AML/CFT framework controls for banking groups with cross-border activities.

The CSSF also closely collaborates with the foreign supervisory authorities within the context of the consultations provided for by the European directives and in all circumstances in which cooperation is needed.

8 According to Circular CSSF 22/281

Finally, the CSSF cooperates with the national judicial and law enforcement authorities as well as with the Commissariat aux Assurances in accordance with Article 2 of the Law of 23 December 1998 establishing a financial sector supervisory commission ("Commission de surveillance du secteur financier") and Articles 9-1 and 9-1a of the Law of 12 November 2004 on the fight against money laundering and terrorist financing. Moreover, the CSSF consults the intelligence unit in the context of the procedures for authorisation and qualifying holdings, if deemed necessary.

1.9. Stress testing

Stress tests are exercises aiming to identify sources of risks and vulnerabilities which banks may face and to determine their impact on banks.

The CSSF is involved in stress tests at three levels:

- at EU level, the CSSF assists the EBA in the development of the methodology of its EU-wide stress test relating to solvency which is carried out every two years;
- at SSM level, the CSSF assists the ECB in its annual stress test exercise, in the development of a methodology and during the performance of the stress test. In 2024, the ECB carried out, for the first time, a cyber resilience stress test of 109 significant banks within the SSM. The aim of this exercise was to assess how banks would react to and recover from a serious but plausible cyber security incident. The CSSF provided its technical expertise in relation to three significant banks having their group head in Luxembourg;
- at national level, the CSSF carries out solvency tests and other stress tests or sensitivity analyses on an annual or half-yearly basis.

The results of the solvency tests are a source of information to (i) compare, judge and, where appropriate, challenge the results of the stress tests carried out internally by banks in the framework of their ICAAP, (ii) help assess the solvency risk of the institutions, and (iii) help assess the situation and future capital requirements of a bank as a preventive approach. The results of the stress tests form a starting point for the determination of the LSIs' capital levels under Pillar 2 (Pillar 2 Guidance - P2G). A similar approach is adopted as regards liquidity.

The aggregated results of these stress tests are also presented to international organisations such as the IMF or the OECD which regularly request the CSSF's point of view on the stability of the Luxembourg banking sector. In 2024, the CSSF extended the scope of its stress tests to include the interaction of solvency and liquidity.

1.10. Intra-group credit risks

One of the main risks monitored by the CSSF is related to the significant exposures of Luxembourg banks to banking entities of their group.

The Luxembourg banking sector is primarily composed of subsidiaries and branches of large international banking groups which carry out activities of private banking and/or custody of financial assets in Luxembourg. These activities generate excess liquidity which is either maintained in Luxembourg as liquidity buffer (often deposited with the BCL) or lent to the parent company.

In total, intra-group exposures represented 34% of the assets of the Luxembourg banking sector at the end of 2024. In line with the European rules in this regard and Article 56-1 of the Law of 5 April 1993 on the financial sector, these exposures often represent a multiple of a bank's own funds. In these cases, the CSSF follows and controls compliance by the banks with the legal conditions provided for in the above-mentioned Article 56-1.

2. Developments in the banking sector in 2024

2.1. Development in the number of credit institutions

With 115 entities authorised at the end of the financial year 2024, the number of banks decreased by four entities as compared to 31 December 2023.

Two banks started their activities in 2024.

Denomination	Start date of the activity	Type of activities
Banco Inversis S.A., Luxembourg Branch	15/02/2024	Custodian banking
Banco Votorantim S.A., Luxembourg Branch	01/10/2024	Trade finance

Since the end of 2023, six banks have been deregistered from the official list.

Denomination	Date of deregistration	Reason
Commerzbank AG, Filiale Luxemburg	31/12/2023	Cessation of activities
East West United Bank S.A.	07/02/2024	Dissolution and judicial liquidation
Credit Suisse AG Luxembourg Branch	27/03/2024	Cessation of activities
CACEIS Investor Services Bank S.A.	31/05/2024	Merger by acquisition with CACEIS Bank, Luxembourg branch
Banque Havilland S.A.	01/08/2024	Withdrawal of the authorisation
Credit Suisse (Luxembourg) S.A.	21/10/2024	Merger with UBS Europe SE, Luxembourg Branch

2.2. Development in banking employment

As at 31 December 2024, the number of employees in Luxembourg credit institutions[9] amounted to 26,150, compared to 26,254 as at 31 December 2023. In 56% of banks, employment increased whereas in 34% of them it decreased.

Compared to the figures of end December 2023, the distribution of employment according to men and women remained almost unchanged with 56% men and 44% women.

2.3. Development of balance sheet and off-balance sheet items

The balance sheet total remained relatively stable compared to 2023 (+0.9%). The slight growth from EUR 928.9 billion to EUR 937.5 billion went hand in hand with, on the assets side, a rise in loans and advances to credit institutions and in fixed-income transferable securities, which offset the decrease in loans and advances to central banks. On the liabilities side, the growth in amounts owed to customers (financial intermediaries) was partly counterbalanced by a fall in amounts owed to credit institutions and central banks.

9 Figures at the lowest level of consolidation available

Aggregate balance sheet total – in million EUR[10]

ASSETS	2023	2024	Variation
Loans and advances to central banks	154,039	126,597	-17.8%
Loans and advances to central governments	3,347	3,206	-4.2%
Loans and advances to credit institutions	369,193	385,727	4.5%
Loans and advances to customers	240,896	247,262	2.6%
Fixed-income securities	124,845	138,687	11.1%
Variable-yield securities	7,456	7,051	-5.4%
Fixed assets and other assets	29,151	28,919	-0.8%
Total	**928,928**	**937,450**	**0.9 %**

LIABILITIES	2023	2024	Variation
Amounts owed to central banks	6,233	380	-93.9%
Amounts owed to credit institutions	298,202	281,982	-5.4%
Amounts owed to customers	457,490	485,024	6.0%
Amounts owed represented by securities	69,871	71,846	2.8%
Liabilities (other than deposits) held for trading	7,378	5,937	-19.5%
Provisions	3,542	3,771	6.5%
Subordinated liabilities	3,182	2,879	-9.5%
Other liabilities	17,798	18,206	2.3%
Own capital	65,232	67,425	3.4%
Total	**928,928**	**937,450**	**0.9%**

As regards off-balance sheet exposures, the Luxembourg banking sector granted loan commitments and financial guarantees amounting to EUR 160.0 billion as at 31 December 2024 (+6.1% over a year).

2.4. Development in the profit and loss account

In 2024, the 4.4% increase in net interest income over a year greatly contributed to the 8.8% rise in profit before provisions and taxes which reached EUR 9,782 million. Due to the slight decreases in general expenses and provisions compared to 2023, net profit for the financial year 2024 increased by 10.0% compared to 2023, amounting to EUR 7,239 million. It should be noted that 89% of the banks ended the year 2024 with a positive net result (85% in 2023).

In 2024, net interest income generated by banks increased by 4.4% compared to 2023, despite declining interest rates during the second half of 2024. The net interest income of 54% of the banks grew over this period.

Net fee and commission income increased by 9.4% year-on-year. This rise concerned 77% of the banks and more specifically banks providing wealth management services for private and institutional customers, including investment funds. For the latter banks, the average value of deposited assets, used for the calculation of commissions, increased by 7.9% in 2024 compared to 2023.

Other net income, which includes various elements that are by nature very volatile and generally non-recurring, fell by 16.8%.

General expenses decreased by 0.1% year-on-year. This drop is primarily attributable to the contributions of Luxembourg banks to the Single Resolution Fund. As the Single Resolution Fund reached its minimum target level of 1% of the amount of the covered deposits of all the credit institutions of the Banking Union in 2023, no further contribution was requested in 2024.

The above-mentioned developments led to a cost-to-income ratio of 46%, against 48% in 2023. As at 31 December 2024, among the 115 banks in Luxembourg, 13 banks registered negative results.

10 Figures at the lowest level of consolidation available

Development in the profit and loss account – in million EUR[11]

	2023	Relative share	2024[12]	Relative share	Variation	
					in volume	in %
Net interest income	10,301.1	59.2%	10,754.1	59.2%	453.0	4.4%
Net fee and commission income	5,774.0	33.2%	6,318.3	34.8%	544.3	9.4%
Other net income	1,318.8	7.6%	1,097.9	6.0%	-221.0	-16.8%
Banking income	**17,393.9**	**100%**	**18,170.3**	**100.0%**	**776.3**	**4.5%**
General expenses	-8,399.6	48.3%	-8,388.0	46.2%	11.6	-0.1%
of which: staff costs	*-3,581.1*	*20.6%*	*-3,575.0*	*19.7%*	*6.1*	*-0.2%*
of which: general administrative expenses	*-4,818.5*	*27.7%*	*-4,813.0*	*26.5%*	*5.5*	*-0.1%*
Result before provisions	**8,994.3**	**51.7%**	**9,782.2**	**53.8%**	**787.9**	**8.8%**
Net creation of provisions	-804.0	4.6%	-787.6	4.3%	-16.4	-2.0%
Taxes	-1,606.7	9.2%	-1,755.5	9.7%	-148.8	9.3%
Net result for the financial year	**6,583.6**	**37.8%**	**7,239.1**	**39.8%**	**655.5**	**10.0%**

Development in the profit and loss account over 10 years – in million EUR[13]

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024[14]
Net interest income	4,066	4,496	4,717	4,886	4,994	5,384	5,061	4,891	6,799	10,301	10,754
Net fee and commission income	4,101	4,720	4,602	4,706	4,975	5,132	5,038	5,943	5,899	5,774	6,318
Other net income	2,217	2,262	3,038	2,166	1,841	1,550	1,401	1,899	1,287	1,319	1,098
Banking income	**10,384**	**11,478**	**12,357**	**11,758**	**11,809**	**12,067**	**11,501**	**12,733**	**13,985**	**17,394**	**18,170**
General expenses	5,005	5,942	6,040	6,253	6,737	7,285	6,893	7,637	7,822	8,400	8,388
of which: staff costs	*2,624*	*3,065*	*3,109*	*3,161*	*3,265*	*3,545*	*3,016*	*3,165*	*3,234*	*3,581*	*3,575*
of which: general administrative expenses	*2,381*	*2,878*	*2,931*	*3,092*	*3,473*	*3,740*	*3,876*	*4,472*	*4,587*	*4,819*	*4,813*
Result before provisions	**5,379**	**5,535**	**6,317**	**5,505**	**5,071**	**4,782**	**4,608**	**5,097**	**6,163**	**8,994**	**9,782**
Net creation of provisions	327	577	757	956	712	441	922	257	1,430	804	788
Taxes	799	85	820	827	714	637	595	819	785	1,607	1,755
Net result for the year	**4,253**	**4,874**	**4,740**	**3,721**	**3,645**	**3,703**	**3,091**	**4,021**	**3,947**	**6,584**	**7,239**

11 Figures at the lowest level of consolidation available

12 Preliminary figures

13 Figures at the lowest level of consolidation available. Since 2021, the scope of the data of the Luxembourg banking sector has been based on the banks active at the reference period, excluding their foreign branches and their subsidiaries, in order to better represent the level of national activity. Consequently, the December 2020 figures have been revised to take account of the change of scope.

14 Preliminary figures

2.5. Solvency and liquidity ratios

The banks of the Luxembourg financial centre continued to register high prudential ratios. The average capital ratio total of the banking sector decreased from 23.8% to 23.0% during 2024, and remained largely above the regulatory threshold (exclusive of variable buffers) set at 10.5%.

Elements of own funds[15]

	2023		2024	
	Amount *(in million EUR)*	**Relative share**	**Amount** *(in million EUR)*	**Relative share**
Own funds	50,912.30	100.00%	50,373.35	100.00%
Common Equity Tier 1 capital (CET1)	46,633.10	91.60%	46,621.07	92.55%
Additional Tier 1 capital (AT1)	1,577.70	3.10%	1,553.95	3.08%
Tier 2 capital (T2)	2,701.60	5.30%	2,198.33	4.36%

Risk-weighted exposure amounts

	2023		2024	
	Amount *(in million EUR)*	**Relative share**	**Amount** *(in million EUR)*	**Relative share**
Total risk exposure amount	**213,626.10**	**100.00%**	**218,979.10**	**100.00%**
Risk-weighted credit risk, counterparty risk and dilution risks and free deliveries	189,579.20	88.70%	193,085.38	88.18%
of which: Standardised Approach (STA)	*138,868.90*	*65.00%*	*142,456.36*	*65.05%*
of which: Internal Ratings-Based approach (IRB)	*46,588.60*	*21.80%*	*46,343.08*	*21.16%*
Total operational risk exposure amount	19,998.70	9.40%	21,449.21	9.80%
Capital ratio	**23.80%**		**23.00%**	
Common Equity Tier 1 capital ratio (CET1 ratio)	21.80%		21.29%	

15 Figures at the lowest level of consolidation available

- **Liquidity Coverage Requirement (LCR)**

As at 31 December 2024, the weighted average of the LCR of Luxembourg banks and Luxembourg branches of banks having their registered office outside the EU amounted to 244% as compared to 249% at the end of December 2023. The minimum regulatory threshold is set at 100%.

At aggregate level, there was a significant concentration of the liquid asset buffer within Level 1 assets. The short-term deposits made with the BCL still represented the major part of Luxembourg banks' liquid assets.

- **Net Stable Funding Ratio (NSFR)**

The weighted average of the NSFR of Luxembourg banks and Luxembourg branches of banks having their registered office outside the EU amounted to 155% as at 31 December 2024, as compared to 154% at the end of December 2023. The minimum regulatory threshold is set at 100%.

- **Asset encumbrance ratio**

Luxembourg banks have a low asset encumbrance ratio. As at 31 December 2024, this ratio amounted to 5.27% (6.20% in 2023) on weighted and aggregate basis, showing that most of the Luxembourg banks' assets were unencumbered. Only eight banks had an asset encumbrance ratio exceeding 15% due to their business model. This was especially the case of banks issuing covered bonds. In accordance with the rules in force, these banks were subject to additional reporting requirements.

VIII. Supervision of PFS and mortgage credit intermediaries

1. Investment firms

1.1. Development of investment firms in 2024

1.1.1. Development in the number of investment firms

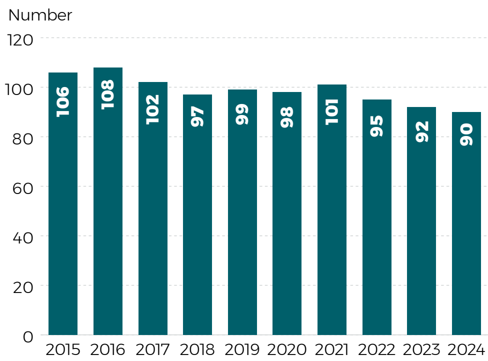
During the year 2024, the number of investment firms decreased to 90 entities as at 31 December 2024 (against 92 entities at the end of 2023). This number includes 82 Luxembourg entities and eight branches of investment firms from other EU/EEA Member States.

One entity was authorised as an investment firm in 2024, against four new entities in 2023. In addition, two branches of EU/EEA investment firms were established in Luxembourg during 2024.

Five entities gave up their investment firm status during the year (seven in 2023) for the following reasons:

- cessation of regulated activities (one entity);
- merger by acquisition (one entity);
- voluntary liquidation (two entities);
- closing of an EU/EEA investment firm branch established in Luxembourg (one entity).

Development in the number of investment firms



In terms of IFD/IFR classification[1], about one third of the 82 Luxembourg investment firms registered on the official list as at 31 December 2024 were "class 2" investment firms while the rest of the population were "class 3" investment firms. No "class 1" investment firm was identified on that date.

1 IFD: Directive (EU) 2019/2034 of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU

IFR: Regulation (EU) 2019/2033 of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014

1.1.2. Development in employment

After a significant decline in 2023, the total number of investment firm employees remained stable over the course of 2024, rising from 1,830 people as at 31 December 2023 to 1,836 people at the end of December 2024. The downward impact of the deregistrations from the official list and, to a lesser extent, of staff reductions at a limited number of investment firms, was offset by higher staffing levels at a few players. The headcount remained virtually unchanged year-on-year for most investment firms.

Employment in investment firms

Year	Number of investment firms	Total staff
2015	106	2,278
2016	108	2,285
2017	102	2,271
2018	97	2,115
2019	99	1,688
2020	98	1,776
2021	101	1,903
2022	95	1,958
2023	92	1,830
2024	90	1,836

It should also be noted that, as at 31 December 2024, about half the investment firms were very small insofar as they had 10 or fewer employees.

1.1.3. Development of balance sheets and net results

The provisional balance sheet total of all investment firms established in Luxembourg reached EUR 1,210 million[2] as at 31 December 2024, against EUR 1,050 million as at 31 December 2023, i.e. an increase of 15.2%. This increase is largely attributable to a few players reporting a significant rise in their balance sheet total and is only marginally offset by the decline in the balance sheet total of a limited number of investment firms.

Investment firms also recorded a positive development in their net results over a year. Indeed, provisional net results amounted to EUR 103.8 million[3] as at 31 December 2024, against EUR 53.2 million as at 31 December 2023, representing a significant 95.3% increase. This progress is largely due to the significant year-on-year increase in net income for a number of players. Most investment firms reported only slight variations, both upwards and downwards, with no overall impact. It should be noted that 74% of the investment firms ended the year 2024 with a positive net result (against 69% in 2023).

Development of the balance sheet total and of the net results of investment firms

(in million EUR)	2023	2024	Variation in %
Balance sheet total	1,050	1,210	+15.2%
Net results	53.2	103.8	+95.3%

1.2. Prudential supervisory practice

1.2.1. Compliance by investment firms with the quantitative standards

- **Capital base**

In accordance with Article 20 and Articles 24-1 to 24-9 of the Law of 5 April 1993 on the financial sector, authorisation as investment firm is subject to the production of evidence showing the existence of minimum capital base. This capital base[4] consisting of subscribed and paid-up share capital, relevant share premiums, legally formed reserves and profits brought forward, after deduction of possible losses for the current financial year, must be permanently available to the investment firm and invested in its own interest.

Based on the financial data that investment firms are required to provide to the CSSF on a monthly basis, the CSSF monitors, in particular, ongoing compliance with these minimum capital base conditions. In 2024, the CSSF did not intervene at investment firms for non-compliance with the legal provisions relating to capital base.

2 The branches established in Luxembourg by investment firms originating from other EU/EEA Member States and included, since 2009, in the total number of investment firms are not included in these figures.

3 Same comment as in the above footnote no 2

4 In accordance with Article 20(5) of the Law of 5 April 1993 on the financial sector, subordinated borrowing or profits for the current year are not to be taken into account for the determination of the minimum capital base of a professional of the financial sector.

- **Capital ratios**

The entry into force, in 2021, of the IFD/IFR changed, among others, the investment firms' capital ratio requirements pursuant to Article 56 of the Law of 5 April 1993 on the financial sector.

This new prudential regime defines the own funds composition and the methods to calculate own funds requirements under Parts Two and Three of the IFR. Investment firms are required to comply with these requirements at all times and to notify the CSSF of non-compliance, where applicable.

In 2024, the CSSF intervened at three investment firms for non-compliance with the capital ratio.

Moreover, the CSSF intervened at another entity for non-compliance of its capital instruments with the applicable regulatory and prudential requirements.

- **Concentration risk**

Since the entry into force of the IFD/IFR, investment firms have been subject to the provisions relating to concentration risk under Part Four of the IFR.

In 2024, the CSSF did not intervene at investment firms in the framework of the applicable regulations.

- **Liquidity requirements**

Investment firms must have sufficient liquidity pursuant to Article 43 of the IFR which introduced liquidity requirements. In accordance with this article, investment firms are required to hold a minimum of one third of their fixed overheads requirement of the previous financial year[5] in liquid assets.

The CSSF imposed a fine on an investment firm in 2024 for non-compliance with the liquidity requirements and for non-compliance with an injunction issued by the CSSF against the investment firm in 2023.

1.2.2. Introductory visits

Introductory visits are made on the premises of investment firms that recently received their authorisation and, where appropriate, of existing investment firms that received an authorisation to carry out a new activity in addition to existing authorisations. The purpose of these missions is to verify that the contemplated business plan is being followed and that the systems and infrastructures are correctly implemented. In 2024, the CSSF visited two investment firms.

1.2.3. Specific audits

Article 54(2) of the Law of 5 April 1993 on the financial sector states that the CSSF may request a *réviseur d'entreprises agréé* (approved statutory auditor) to carry out a specific audit at a financial professional in relation to one or more specific aspects of the activities and operations of the institution. The ensuing costs are to be borne by the professional concerned. The CSSF did not formally use this power in 2024.

2. Specialised PFS

2.1. Development of specialised PFS in 2024

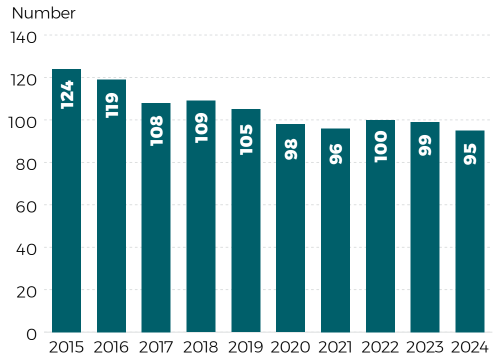
2.1.1. Development in the number of specialised PFS

During the year 2024, the number of specialised PFS decreased and reached 95 entities (against 99 entities at the end of 2023).

In 2024, one entity was authorised as specialised PFS (against four in 2023). Five entities gave up their status of specialised PFS during the year (same in 2023).

5 Calculation in accordance with the provisions of Article 13(1) of the IFR

Development in the number of specialised PFS



Among the specialised PFS, the statuses of corporate domiciliation agent and professional providing company incorporation and management services are the most prevalent with 77 and 80 entities, respectively, authorised under these statuses as at 31 December 2024 (against 80 and 83, respectively, in 2023), followed by the status of registrar agent with 71 entities authorised at the same date (idem in 2023).

2.1.2. Development in employment

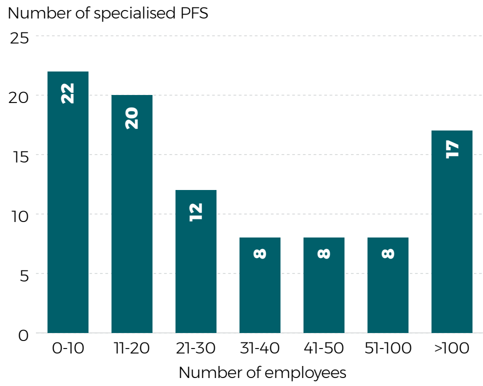
During 2024, the number of people employed by all specialised PFS rose by 144 to a total of 7,402 people, representing an increase of 2.0% as compared to the end of 2023.

Development in employment of specialised PFS

Year	Number of specialised PFS	Total staff
2015	124	3,787
2016	119	3,972
2017	108	4,008
2018	109	4,480
2019	105	5,183
2020	98	5,476
2021	96	5,949
2022	100	6,852
2023	99	7,258
2024	95	7,402

As at 31 December 2024, 17 specialised PFS employed over 100 people (against 18 entities at the end of 2023) and 22 specialised PFS employed 10 or fewer people (against 25 entities at the end of 2023).

Breakdown of the number of employees per specialised PFS



2.1.3. Development of balance sheets and net results

Over a one-year period, specialised PFS recorded an overall decrease of EUR 41.56 million (0.7%) in their balance sheet and an increase of EUR 65.67 million (+48.9%) in their net results.

Development of the balance sheet total and of the net results of specialised PFS

(in million EUR)	2023	2024	Variation in %
Balance sheet total	6,368.45	6,326.89	- 0.7%
Net results	134.27	199.93	+ 48.9%

2.2. Prudential supervisory practice

In the context of the prudential supervision of specialised PFS, the CSSF verifies compliance by specialised PFS with the quantitative and qualitative standards.

2.2.1. Capital base

In accordance with Article 20 and Articles 25 to 28-10 of the Law of 5 April 1993 on the financial sector, authorisation as specialised PFS is subject to the production of evidence showing the existence of minimum capital base for a PFS authorised as a legal person, or own assets for a PFS authorised as a natural person.

In 2024, the CSSF identified cases of non-compliance with the legal provisions in this respect by five entities (against six entities in 2023).

Their situation was regularised in a satisfactory manner.

2.2.2. Compliance of the day-to-day management and corporate governance

In 2024, the CSSF intervened 15 times (idem in 2023) due to situations of non-compliance in the day-to-day management of specialised PFS, notably linked to insufficient presence and/or effective involvement of one of the two managers in the day-to-day management of the entity or to the need for reorganisation of the entity's administrative or management body composition.

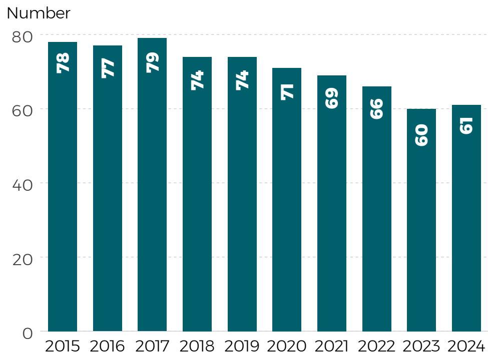
3. Support PFS

3.1. Development of support PFS in 2024

3.1.1. Development in the number of support PFS

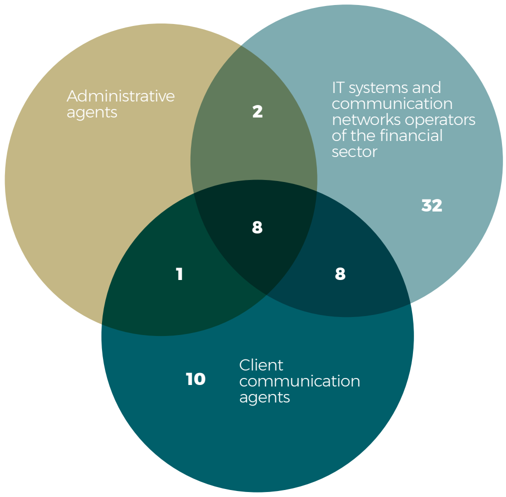
The number of support PFS was 61 as at 31 December 2024. Following two mergers (one of which involved three support PFS), this number dropped to 58 on 1 January 2025.

Development in the number of support PFS



Three new support PFS were authorised in 2024. Two support PFS gave up their authorisation.

Breakdown of support PFS by status



As administrative agents are ipso jure authorised to carry out the activities of client communication agents, there is no entity that only has the status of administrative agent.

3.1.2. Development in employment

The number of support PFS staff increased from 7,710 people at the end of 2023 to 7,954 people as at 31 December 2024, representing a 3% growth. This slight increase is due in particular to the fact that one of the new support PFS authorised in 2024 alone employed 171 people as at 31 December 2024.

Development in support PFS employment

Year	Number of support PFS	Total staff
2015	78	9,218
2016	77	9,185
2017	79	9,656
2018	74	9,931
2019	74	10,005
2020	71	8,987
2021	69	8,951
2022	66	8,704
2023	60	7,710
2024	61	7,954

3.1.3. Development of balance sheets and net results

The total balance sheet of support PFS reached EUR 1,447.1 million as at 31 December 2024, compared with EUR 1,382.2 million at the end of the previous year, i.e. an increase of 4.7%. This slight increase is notably due to the fact that three of the new support PFS authorised in 2024 had a combined balance sheet of EUR 48.9 million as at 31 December 2024.

The net results grew by 22.5%, from EUR 65.9 million as at 31 December 2023 to EUR 80.8 million as at 31 December 2024. This increase is mainly the result of the fact that two of the new support PFS authorised in 2024 generated a combined net result of EUR 6.6 million as at 31 December 2024. Another support PFS recovered EUR 4.2 million in value adjustments as part of restructuring operations.

3.2. Prudential supervisory practice

3.2.1. Circular CSSF 24/850

The year 2024 was marked by a significant development in the field of prudential supervision, with the publication of Circular CSSF 24/850, which defines new practical rules for the preparation and annual submission of the descriptive report and self-assessment questionnaire by support PFS. It also clarifies the role of *réviseurs d'entreprises agréés* (REAs), notably with regard to the management letter and the separate report to be drawn up on an annual basis.

Circular CSSF 24/850 introduces fundamental changes to the prudential supervisory tools. It repeals Circular CSSF 12/544 and replaces the risk analysis report (RAR) with a risk-based self-assessment questionnaire tailored to the activities of support PFS. It also simplifies the descriptive report, with the aim of improving the effectiveness of supervision while respecting the principle of proportionality. This evolution is crucial for adapting supervision to the recent regulatory developments and to the particularities of support PFS.

As part of the implementation of Circular CSSF 24/850, the CSSF organised two dedicated conferences in 2024 to present the main changes introduced by this circular to support PFS and their *réviseurs d'entreprises agréés*, and to clarify the new requirements and facilitate their adoption by the relevant parties.

The CSSF reminds the REAs that one of the key objectives of the circular is to clearly define their role and mission in the context of the accounting closing, while ensuring that they respect the scope of the planned audits. In particular, the management letter must focus exclusively on weaknesses and points needing improvement identified during the statutory audit. Accordingly, the CSSF emphasises that exceptions identified within the framework of the separate report should not be included in the management letter. This distinction is intended to avoid any confusion between the two documents, and to ensure a structured and targeted approach to dealing with the observations made.

Observations included in the management letter must, in the REA's professional judgement, be of sufficient importance to require the attention of the persons in charge at the PFS and the CSSF.

A crucial aspect for the REAs is to ensure that the submitted documents scrupulously respect the formats required by the CSSF. Where specific templates are provided by the CSSF, the documents must be drawn up on the basis of these templates.

The separate report must be submitted in two distinct formats:

- Excel format: the file must be protected according to the specifications defined by the CSSF (CL-13), thus guaranteeing data security and integrity;
- PDF format: this document must bear the digital signature of the partner in charge of the mandate with the audit firm. If not feasible, it can be sent by post with a handwritten signature (CL-14).

Compliance with these requirements is essential for an efficient submission that complies with the standards set by the CSSF.

3.2.2. Impact of the European Commission's work (NIS2[6], DORA)

The CSSF reminds that although support PFS are defined as professionals of the financial sector (PFS) under the Law of 5 April 1993 on the financial sector, they are not considered as "financial entities" within the meaning of Regulation (EU) 2022/2554 of 14 December 2022 on digital operational resilience (DORA). Thus, the requirements of DORA, which apply to financial entities, do not apply to support PFS.

However, as indicated in the CSSF's 2023 Annual Report, certain support PFS, due to the nature of the services offered, are indirectly affected by DORA as ICT third-party service providers for the entities falling within the scope of this regulation. The support PFS concerned must therefore comply with the requirements incumbent upon them as ICT third-party service providers. By way of example, these support PFS must adapt their customer contracts to incorporate the mandatory contractual clauses in accordance with Article 30 of DORA. They must also be able to provide their customers with the information required for due diligence in the process of selecting and evaluating ICT third-party service providers.

In parallel, although support PFS are not directly subject to DORA, they are and will remain subject to very similar obligations in terms of ICT and security risk management in accordance with Circular CSSF 20/750 and/or the NIS2.

As part of the national transposition of the NIS2, the CSSF has held regular discussions with the High Commission for National Protection and the Institut Luxembourgeois de Régulation. The aim of these discussions was to achieve effective coordination between the competent authorities under the NIS2, in order to ensure harmonised implementation of the provisions at national level.

Moreover, the CSSF also continued its regular collaboration with the Finance & Technology Luxembourg association. These exchanges focused, for example, on the interaction between the national supervisory framework for support PFS and the European supervisory framework for critical ICT third-party service providers.

6 Directive (EU) 2022/2555 on measures for a high common level of cybersecurity across the Union

3.2.3. Qualification of activities and authorisation applications

The qualification of activities under the Law of 5 April 1993 on the financial sector is often the first contact between an entity and the CSSF. It allows determining whether a business activity falls within the scope of the aforementioned law and, consequently, requires an authorisation. The CSSF processes on average several tens of qualifications of activities and related questions per year. When the CSSF qualifies an activity as activity subject to the law, it informs the entity thereof and the authorisation procedure starts.

In 2024, the CSSF received four applications for authorisation as support PFS and one application for the extension of authorisation. One application for authorisation is currently being processed, while the other three applications for authorisation and the application for the extension of authorisation are in the pre-examination stage. Two other applications for authorisation received in 2023 were processed in 2024.

3.2.4. Introductory visits

Introductory visits are made on the premises of support PFS that recently received their authorisation and, where appropriate, of support PFS that received an authorisation to carry out a new activity in addition to existing authorisations. The purpose of these missions is to verify that the contemplated business plan is being followed and that the systems and infrastructures are correctly implemented. In 2024, the CSSF visited one support PFS.

3.2.5. Capital base

In accordance with Article 20 and Articles 29-1 to 29-6 of the Law of 5 April 1993 on the financial sector, authorisation as support PFS is subject to the production of evidence showing the existence of minimum capital base for a PFS authorised as a legal person.

In 2024, the CSSF identified one entity (against two entities in 2023) that did not comply with the legal provisions in this respect by one entity.

4. Mortgage credit intermediaries

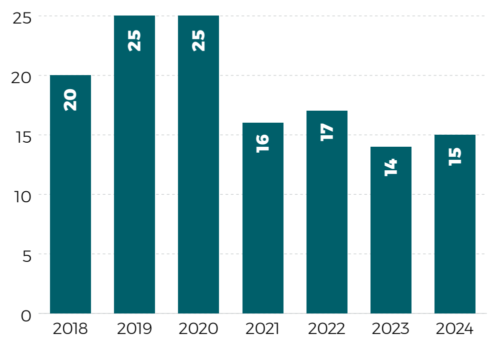
Mortgage credit intermediaries are defined in points (14) and (15) of Article L. 226-1 of the Consumer Code:

- "mortgage credit intermediary" means a natural or legal person that is not acting as a creditor or notary and not merely introducing, either directly or indirectly, a consumer to a creditor or mortgage credit intermediary, and that, in the course of their business or profession, for remuneration, which may take a pecuniary form or any other agreed form of financial consideration:
  - presents or offers mortgage credit agreements to consumers;
  - assists consumers by undertaking preparatory work or other pre-contractual administration tasks, other than as referred to in letter (a), in respect of mortgage credit agreements; or
  - concludes mortgage credit agreements with consumers on behalf of the creditor;
- "tied mortgage credit intermediary" means any mortgage credit intermediary that acts on behalf of and under the full and unconditional responsibility of:
  - only one creditor;
  - only one group; or
  - a number of creditors or groups of creditors that do not represent the majority of the market.

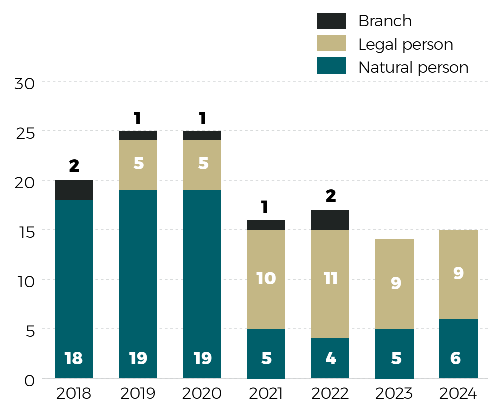
During the financial year 2024, the number of mortgage credit intermediaries increased to 15 entities (compared with 14 entities at the end of 2023).

In 2024, one entity (compared with three in 2023) obtained an authorisation as a mortgage credit intermediary. No entity gave up its authorisation during the year (compared with six entities in 2023).

Development in the number of mortgage credit intermediaries



Six mortgage credit intermediaries were natural persons (compared with five in 2023), nine were legal entities (idem in 2023) and there were no branches in Luxembourg of foreign mortgage credit intermediaries (idem in 2023).



Among the 15 mortgage credit intermediaries in 2024, four (idem in 2023) were tied mortgage credit intermediaries within the meaning of point (15) of Article L. 226-1 of the Consumer Code, and one mortgage credit intermediary (idem in 2023) was also authorised as an investment firm.

IX. Supervision of payment institutions, electronic money institutions and virtual asset service providers

1. Regulatory framework and supervisory practice

The Law of 10 November 2009 on payment services imposes authorisation, exercise and supervisory conditions on payment institutions and electronic money institutions that provide payment services or that issue electronic money.

The CSSF's prudential supervision aims to verify that payment institutions and electronic money institutions subject to its supervision continuously observe the legal, regulatory and contractual provisions relating to their organisation and operation. The objective is to ensure the protection of payment service users and electronic money holders as well as the stability of the financial system. In this regard, the CSSF attaches particular importance to the establishment, by these institutions, of stable and functioning mechanisms for safeguarding the funds of payment service users and electronic money holders.

Moreover, the CSSF is continuing its actions in order to ensure the deployment by payment institutions and electronic money institutions of compliant IT solutions that secure the transactions and the access to payment accounts as well as of fraud mitigation measures relating to the different means of payment in accordance with the relevant European rules.

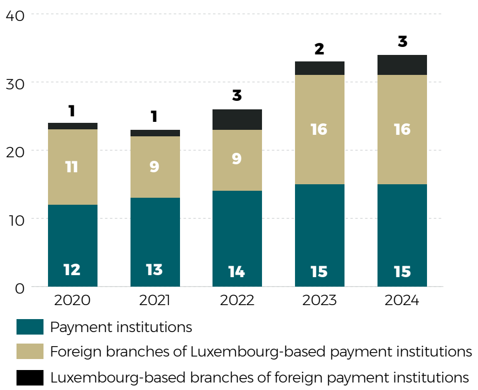
2. Development of payment institutions and electronic money institutions in 2024

2.1. Development of the number of payment institutions and electronic money institutions

2.1.1. Payment institutions

With 15 entities as at 31 December 2024, the total number of institutions listed in the register remained stable compared to 31 December 2023. Moreover, there were 16 branches established in other EU Member States by four of these authorised institutions as well as three branches established in Luxembourg by payment institutions authorised in other EU Member States.

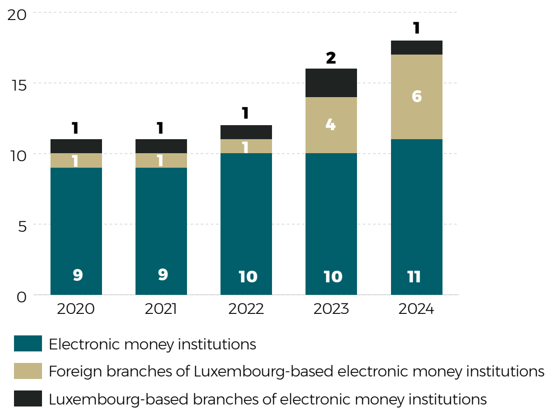
Development of the number of payment institutions



2.1.2. Electronic money institutions

As at 31 December 2024, two new electronic money institutions were listed in the public register of electronic money institutions, while one institution was removed from the register following its bankruptcy. This brings the total number of institutions in the register to 11 (10 in 2023). Moreover, there were six branches established in other EU Member States by three of these institutions and one branch established in Luxembourg by an electronic money institution authorised in another EU Member State.

Development of the number of electronic money institutions



2.2. Payment services provided

The Annex to the Law of 10 November 2009 on payment services lists the payment services that payment institutions and electronic money institutions may be authorised to provide. As at 31 December 2024, the institutions authorised to provide each of these services were broken down as follows:

Number of institutions authorised by payment service

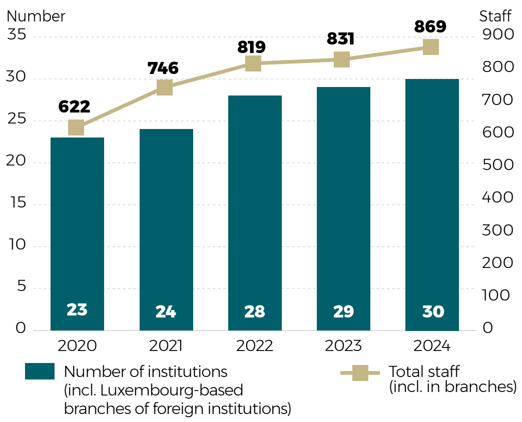
Payment service	Number of institutions
1 - Cash placement on a payment account	0
2 - Cash withdrawal from a payment account	1
3 - Execution of payment transactions, including transfers of funds	16
4 - Execution of payment transactions where the funds are covered by a credit line	3
5(a) - Issuing of payment instruments	7
5(b) - Acquiring of payment transactions	15
6 - Money remittance	6
7 - Payment initiation service	2
8 - Account information service	1
Issuing, distribution and redemption of electronic money	11

These services are provided in Luxembourg and on the territory of other EU Member States through the establishment of branches, by engaging one or several agents and by way of free provision of services.

2.3. Development in staff numbers within payment institutions and electronic money institutions

In 2024, the number of staff employed by payment institutions, electronic money institutions and branches established in Luxembourg of payment institutions or electronic money institutions authorised in other EU Member States increased by 4.5%, reaching 869 positions in Luxembourg as at 31 December 2024.

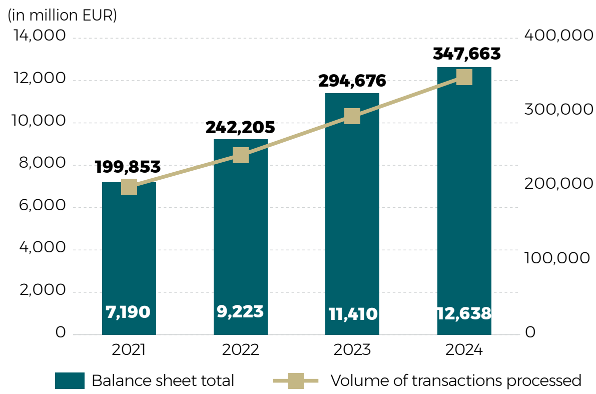
Development in staff numbers within payment institutions and electronic money institutions



2.4. Development of the balance sheet total and of the volume of transactions processed by payment institutions and electronic money institutions

The balance sheet total of payment institutions and electronic money institutions amounted to EUR 12.6 billion as at 31 December 2024, representing an increase of 11% compared to the end of 2023. In addition, these institutions processed an overall volume of payment transactions of about EUR 348 billion in 2024, i.e. an increase of 18% compared to the end of 2023.

Development of the balance sheet total and of the volume of transactions processed by payment institutions and electronic money institutions (in million euros)



3. Prudential supervision of payment institutions and electronic money institutions

As part of its risk-based prudential supervision, the CSSF notably ensures compliance by payment institutions and electronic money institutions with the safeguarding requirements of funds of payment service users and electronic money holders, the requirements on central administration, on the sound and prudent management of these institutions, including maintaining an adequate capital base, as well as the requirements relating to payment security.

As regards, in particular, the supervision for the purposes of the fight against money laundering and terrorist financing, reference is made to Chapter XXI of this report.

The CSSF intervenes at these institutions through interviews with the members of the management and supervisory bodies and with the internal control functions, as well as through observation or injunction letters.

In this context, the CSSF notably points out the exchanges relating to:

- the implementation of sound internal governance arrangements within the institutions, including in particular well-established and clearly documented decision-making processes within the supervisory and management bodies, the establishment and follow-up of permanent, independent and efficient internal control functions, as well as governance arrangements in place in Luxembourg prior to any launch of a new product, market or service;

- the internal control framework ensuring the sound and effective mechanisms for safeguarding the funds of payment service users and electronic money holders and in particular the oversight and reporting processes established by these institutions;

- the governance arrangements, particularly the ongoing monitoring of the services provided and the service providers and the measures taken when defects/weaknesses are identified in accordance with the requirements of Circular CSSF 22/806 on outsourcing arrangements;

- the continuous reassessment and necessary enhancement of the institutions' human and technical means in response to growth, development of new activities or new markets and/or extension of their payment and electronic money services;

- the governance and risk management measures taken by institutions to manage IT and security risks.

4. Supervision of virtual asset service providers

The virtual asset service providers (VASPs) still fall within the scope of the Law of 12 November 2004 on AML/CFT and remain subject to the professional obligations defined in the law and in its implementing measures.

In accordance with the legal provisions in force in the context of the VASP regime, the CSSF's role vis-à-vis these providers is limited to registration, supervision and enforcement for AML/CFT purposes only. For further details on VASPs, reference is made to point 1 of Chapter XXI "Financial crime".

X. Supervision of investment fund managers and UCIs

1. Key figures for 2024

1.1. Investment fund managers (IFMs)

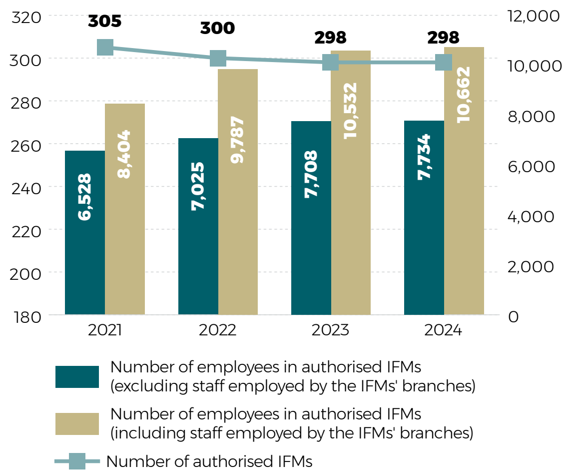
298

authorised IFMs as at 31 December 2024

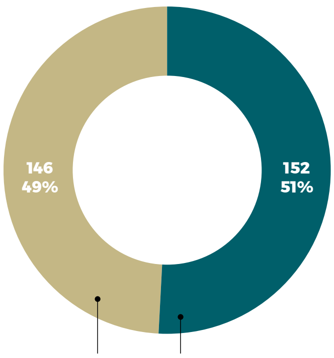
EUR 7,206.3 bn

assets under management, of which 81% managed by authorised IFMs

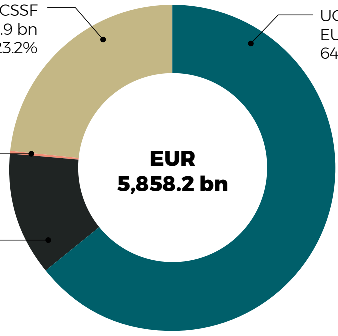
Evolution of the number of authorised IFMs and of their employees



Breakdown of authorised IFMs by category



Breakdown of assets managed by authorised IFMs by product type



1.2. Undertakings for collective investment (UCIs)

3,143
UCIs registered on the official list as at 31 December 2024

13,599
fund units

EUR 5,820 bn
net assets

1.3. Prudential supervision

53
on-site inspections at IFMs, covering 20% of the total assets managed by authorised IFMs

498
interventions related to off-site supervision of UCIs

6
sanctions imposed on IFMs following an on-site inspection

1.4. AML/CFT

16
AML/CFT colleges for Luxembourg IFMs fulfilling the conditions defined in the EBA guidelines on AML/CFT colleges

67
face-to-face meetings

15
AML/CFT on-site inspections

4,169
off-site supervision measures

1,300
participants in the virtual AML/CFT conferences on collective management

2. Major events in 2024

2.1. Development of UCIs in a context of inflation drop, stabilisation of the monetary policy and high geopolitical risks

The year 2024 was marked by an intense geopolitical context (ongoing conflict in Ukraine, conflict between Israel and Hamas, tensions between China and the United States of America, tensions in the Middle East) and by growing economic uncertainties due to Donald Trump's winning a second term as the U.S. President in November (expecting to affect customs duties, migration policy and foreign policy). It also saw a decline in inflation that reached levels in line with the monetary policy objectives, resulting in interest rates becoming stable and then starting to decrease in the United States of America as well as in Europe. This stabilisation, followed by monetary easing, impacted the investment fund activity, especially the real estate market segment and, more generally, asset reallocation.

2.1.1. Stabilisation of real estate investment funds

The slowdown in the real estate market (which started in 2022) continued in 2023 and 2024 in a context of the rise, followed by the stabilisation, of interest rates at high levels and due to relatively tight credit conditions. Following significant decreases in 2023, residential real estate prices recorded a slight improvement at European level in 2024.

After a relative stagnation in 2023, the segment of real estate funds managed by Luxembourg AIFMs picked up again and reached EUR 314 billion of total net assets at the end of 2024, a 7% rise compared to the previous year. This increase partly resulted from positive capital movements. The supervision of these funds covers, among others, the leverage risk, the valuation risk and the liquidity risk.

Based on the available data, the leverage risk in real estate funds remained quite low as the values were rather within the lower range of levels observed at European level[1]. These numbers did not increase in 2024, despite ESMA's clarification, in 2023, on the necessity to apply a look-through approach to the leverage calculation[2].

In a context of stabilisation or recovery of real estate prices, the valuation risk, stemming from the use of model-based valuations, seems to remain limited according to the information collected by the CSSF.

Pursuant to the CSSF's work, the liquidity risk continued to be relatively low as the majority of real estate funds are closed-ended and because, for open-ended ones, the reported liquidity mismatch is on average small, thanks to the availability of liquidity management tools, including in particular the possibility to defer redemptions based on market liquidity. Moreover, they are largely held by institutional investors with longer-term investment targets.

In order to strengthen liquidity risk monitoring and notably the use of liquidity management tools, the CSSF put in place, in July 2024, a quarterly notification system for a restricted sample of investment fund managers active in real estate funds aiming to monitor the following elements:

- the number of redemptions subject to a deferral pursuant to the funds' pre-contractual documents and the actual duration of these deferred redemptions and their development;
- the termination process of closed-ended funds at maturity in the cases where the termination must be deferred due to market conditions;
- the possible cases of default, debt renegotiation or restructuring also due to adverse market conditions. The preliminary results indicated that redemption deferrals were frequently used but remained limited (the redemption amounts subject to a deferral represented around 3% of total net assets of the sampled open-ended funds).

1 Cf. TRV Risk Analysis- Assessing risks posed by leveraged AIFs in the EU published by ESMA on 30 January 2024 (https://www.esma.europa.eu/sites/default/files/2024-01/ESMA60-1389274163-2572_TRV_article_-_Assessing_risks_posed_by_leveraged_AIFs_in_the_EU.pdf)

2 Q&A on the Application of the AIFMD (https://www.esma.europa.eu/document/qa-application-aifmd)

2.1.2. Asset reallocation

The year 2024 was marked by capital movements that favoured fixed-income securities, considering the high short-term interest rate levels.

Following the same dynamic as that observed in 2023, net assets of money market funds increased by 20%, from EUR 495 billion at the end of 2023 to an all-time high of EUR 593 billion in December 2024.

Capital movements in bond funds which were close to nil in 2023 significantly increased in 2024 due to the stabilisation of the monetary policy with capital inflows amounting to EUR 75 billion (+5.9% compared to total net assets), unlike equity funds which recorded a negative variation in capital movements of EUR 67 billion (-3.7% compared to total net assets) over the year.

2.2. Environmental, Social and Governance (ESG)

On 3 May 2024, the European Commission published a summary report of its public and targeted consultations on the SFDR review. On 18 June 2024, the European Supervisory Authorities also published a *Joint Opinion on the assessment of SFDR* and, on 24 July 2024, ESMA issued an *Opinion on the functioning of the Sustainable Finance Framework*, outlining potential improvements to the current regulatory framework, such as introducing a European product categorisation system relying on clear and objective criteria, prioritising the use of the EU Taxonomy, simplifying the existing regulatory framework to enhance investor understanding, and ensuring consistency within the broader sustainable finance framework. The CSSF welcomes these recommendations and actively participates in the preliminary work at EU level.

On 14 May 2024, ESMA published its *Final Report on Guidelines on funds' names using ESG or sustainability-related terms.* The translations of these guidelines in all official EU languages were published on ESMA's website on 21 August 2024. The purpose of the guidelines is to specify the circumstances where funds' names using ESG or sustainability-related terms are unfair, unclear or misleading, in order to protect investors from greenwashing. The guidelines establish minimum standards, including requirements on asset allocation for funds using ESG or sustainability-related terms in their names. On 21 October 2024, the CSSF published Circular CSSF 24/863 integrating these guidelines into the Luxembourg regulatory framework. On 13 December 2024, ESMA published questions and answers on the practical application of these guidelines regarding the treatment of green bonds, the interpretation of meaningful investment in sustainable investments for funds using sustainability-related terms and the interpretation of the definition of controversial weapons under these guidelines.

On 4 June 2024, ESMA, jointly with the EBA and EIOPA, published its final report on greenwashing. This final report follows the *Progress Report on Greenwashing* published by the European Supervisory Authorities in May 2023. The primary objective of this final report is to investigate the role of supervision in mitigating greenwashing risks. The final report also provides details of how supervision could be gradually enhanced across key sectors of the sustainable investment value chain.

In terms of supervisory actions, the CSSF updated its sustainable finance supervisory priorities on 22 March 2024. As part of its supervisory actions, the CSSF continued monitoring compliance of IFMs and financial products with the sustainability-related provisions as laid down in SFDR, the SFDR RTS and the Taxonomy Regulation.

In 2024, the CSSF participated with national competent authorities across the EU in a Common Supervisory Action (CSA) on transparency and the integration of sustainability risk in the investment fund sector. The objective of this CSA was to investigate how IFMs comply with the provisions of SFDR and with the implementing measures on the integration of sustainability risks. The CSA followed a two-step process: the first phase, launched in 2023, focusing more closely on greenwashing risks and, the second phase, launched in 2024, on the integration of sustainability risks and factors in the organisational arrangements of IFMs and on the transparency disclosures applying to IFMs and products.

In terms of supervisory actions, the second phase of the CSA having been finalised, work is currently underway at ESMA to finalise its conclusions, aiming to promote convergence in the supervisory practices among the competent authorities.

2.3. The IMF's FSAP mission in Luxembourg

On 7 June 2024, the IMF published its report on the financial system stability assessment of Luxembourg[3] following consultations with the Luxembourg authorities in October 2023 and January 2024. The Financial Sector Assessment Programs (FSAPs) assess the stability of the financial system as a whole and not of individual institutions.

The assessment concluded that the Luxembourg authorities made progress in following up on recommendations from the 2017 FSAP.

The stress tests found the investment funds resilient to severe shocks, while identifying a few potentially weak entities. Under plausible adverse scenarios, investment funds can handle significant liquidity shocks with minimal amplification risk, and the contagion effect related to a withdrawal of banking deposits by investment funds to meet redemptions does not pose a risk to the banking sector. Moreover, the IMF's report indicates that although most public debt constant net asset value MMFs (public debt CNAV MMFs) and low volatility net asset value MMFs (LVNAV MMFs) can withstand shocks of interest rates up to 300 basis points, greater shocks could highlight vulnerabilities in some funds.

Finally, the IMF requested greater monitoring concerning the growing connections of other financial intermediaries with investment funds and the related data gaps.

2.4. Publication and implementation of Circular CSSF 24/856

On 28 March 2024, the CSSF published the new Circular CSSF 24/856 on the protection of investors in case of an NAV calculation error, an instance of non-compliance with the investment rules and other errors at UCI level. This publication concluded the work on the reform of Circular CSSF 02/77 subject to consultations with the investment fund industry, aiming notably to incorporate into the new circular many regulatory developments that have occurred since the publication of Circular CSSF 02/77 in 2002 as well as the CSSF's experience gained since then. The new Circular CSSF 24/856 entered into force and repealed Circular CSSF 02/77 on 1 January 2025.

In the framework of the implementation of Circular CSSF 24/856, the CSSF published a new FAQ document on 24 December 2024 which contains a series of questions from the FAQs regarding the old Circular CSSF 02/77, as these questions are still relevant with respect to the new circular. Furthermore, the new FAQ document introduces new questions concerning, among others, the scope of Circular CSSF 24/856, the application of tolerance thresholds to closed-ended UCIs and the non-compliant payment of costs and fees at UCI level.

Lastly, in the framework of the implementation of Circular CSSF 24/856, the CSSF replaced the notification forms that were in place in accordance with Circular CSSF 02/77 by new forms, and seized the opportunity to introduce a secured transmission channel via the eDesk platform or, alternatively, an automated submission via API (S3 protocol).

3 Luxembourg: Financial Sector Assessment Program - Financial System Stability Assessment

2.5. Liability Driven Investment Funds (LDI Funds)

Three Luxembourg AIFMs are active in the segment of LDI Funds denominated in GBP.

As documented in the 2022 and 2023 Annual Reports of the CSSF, given the turmoil during the "mini-budget" crisis, the CSSF has taken measures aiming at the implementation of an enhanced level of resilience (yield buffer for resilience to average rate variations of 300 to 400 basis points).

Following a series of interactions with the Central Bank of Ireland and ESMA, and a consultation launched on 23 November 2023[4] to formalise and specify the measures initially taken, the CSSF imposed a macroprudential measure, under Article 25 of the AIFMD as transposed into Luxembourg law by Article 23 of the 2013 Law, which took effect on 29 July 2024[5] and which consists of a yield buffer for GBP LDI Funds to maintain resilience to a minimum of 300 basis points interest rate variation.

Moreover, the CSSF continued monitoring GBP LDI Funds through notably a dedicated reporting template developed together with the European and British authorities concerned.

2.6. Thematic review on costs and fees

As part of the prudential supervision of UCIs, the CSSF continued its reviews and analyses of the levels of costs and fees charged to UCIs.

In this context, the CSSF launched again in 2024 a thematic analysis targeting a limited number of IFMs managing UCIs with an abnormally high level of costs and fees compared to market practice for similar funds, notably with a view to asking IFMs to take corrective measures in the best interest of investors.

Similarly to the thematic survey in 2023, the main findings emerging from this analysis were:

- the acknowledgement by the IFMs of abnormally high levels of costs and fees charged to certain funds they manage;
- insufficient reviews performed of the level of fees charged to the funds they manage for most of the IFMs concerned;
- a lack of efficient measures and/or inadequate measures to remedy the situation for the UCIs concerned by these high levels of costs and fees before the intervention of the CSSF;
- the delayed implementation of corrective measures by the IFMs/funds in the majority of the cases analysed.

Based on these findings, the CSSF performed a close check of the IFMs concerned in order to ensure that the necessary corrective measures (e.g. significant decrease in fees following the renegotiation of contracts, liquidation, merger) are implemented to remedy the situation in the best interest of investors within a short timeframe.

2.7. Thematic review on valuation

As part of the prudential supervision of UCIs, the CSSF carried on its reviews and analyses of aspects related to the valuation of less liquid and illiquid assets in UCIs.

In this context, the CSSF launched in 2023/2024 a thematic review targeting a limited number of IFMs managing UCIs holding less liquid and illiquid assets with a view to requesting additional information on the valuation procedures and policies implemented throughout the holding period of these assets as well as on the valuation methodologies used for these assets and the related reviews and controls.

4 https://www.cssf.lu/en/2023/11/cssf-communication-on-gbp-liability-driven-investment-funds-consultation/

5 https://www.cssf.lu/en/Document/macroprudential-measures-for-gbp-liability-driven-investment-funds/

2.8. Follow-up to Circulars CSSF 21/788, CSSF 21/789 and CSSF 21/790 (closing documents)

In 2024, the CSSF continued its follow-up work regarding Circulars CSSF 21/788, CSSF 21/789 and CSSF 21/790.

As regards UCIs, this work concerned, in particular, the following elements:

- the analysis of the information and responses received through the reports required under Circular CSSF 21/790 using a risk-based approach, and the continued integration of these elements into the prudential supervisory practices, including notably exchanges/interventions with certain players/entities to clarify some points and to request corrective actions or measures in the event of deficiencies or shortcomings identified (cf. point 4 below);
- the publication, on 18 December 2024, of the document *Self-Assessment Questionnaire, Separate Report and Management Letter for Funds - CSSF Feedback Report*[6] addressed to the industry, including the observations and the related improvement recommendations of the CSSF regarding documents covered by Circular CSSF 21/790 and the different topics included therein;
- the review and ad hoc updates of certain questions in these reports, applicable for the financial years ending from 31 January 2025 onwards and the related guidance (e.g. tooltips), such as described in the CSSF's communiqué of 3 February 2025[7], considering the industry's feedback and the regulatory developments, including updates related to the entry into force of Circular CSSF 24/856 on the protection of investors in case of an NAV calculation error, an instance of non-compliance with the investment rules and other errors at UCI level (repealing Circular CSSF 02/77 on 1 January 2025).

3. Prospects for 2025

3.1. Common Supervisory Action by ESMA on compliance and internal audit functions

In February 2025, ESMA announced the launch of a new Common Supervisory Action (CSA) with the national competent authorities on compliance and internal audit functions of IFMs. The methodology used in the framework of this CSA as well as the scope, the supervisory expectations and the timeline were developed by ESMA in order to ensure a common supervisory approach.

The 2025 CSA will examine to what extent investment fund managers have established effective compliance and internal audit functions with the adequate staffing, authority, knowledge, and expertise to perform their duties under the AIFM and UCITS Directives. Around 30 IFMs will be selected to participate in this CSA.

More specifically, it will cover, among others, the relevant policies, procedures and measures of compliance and internal audit functions, the delegation of these functions, their authority and independence, the reports to senior management and the functioning of internal plans to carry out these functions.

It is the fifth CSA that ESMA and the national competent authorities have launched on asset management, the first four covering UCITS liquidity risk management, supervision of costs and fees in UCITS, valuation-related provisions in the framework of the UCITS and AIFM Directives and integration of sustainability risks and disclosures.

6 https://www.cssf.lu/en/Document/cssf-feedback-report-self-assessment-questionnaire-separate-report-and-management-letter-for-funds/

7 https://www.cssf.lu/en/2025/02/uci-reports-foreseen-by-circular-cssf-21-790-for-year-ends-31-january-2025-28-february-2025-and-31-march-2025-now-available-in-edesk-and-information-on-main-updates/

3.2. Environmental, Social and Governance (ESG)

Preliminary work at EU level on the SFDR review started in 2024. The upcoming challenges of this review will consist in further simplifying the regulatory framework, making it more understandable for investors and ensuring consistency within the broader sustainable finance framework.

As from 21 May 2025, the ESMA *Guidelines on funds' names using ESG or sustainability-related terms* will apply to all existing funds. The CSSF expects market participants, regardless of whether they are disclosing under Article 6, 8 or 9 of SFDR, to carry out a self-assessment of the applicability of these guidelines to the products they manage and to ensure compliance of funds' names with these guidelines.

As detailed in point 2 above, the conclusions and recommendations of the CSA on transparency and integration of sustainability risk in the investment fund sector will be communicated by ESMA in 2025. This will be followed by a communication from the CSSF on the results of this CSA.

3.3. Thematic review on costs and fees

As part of the prudential supervision of UCIs, the CSSF will continue its reviews and analyses of the levels of costs and fees charged to UCIs. In the course of 2025, it plans to launch a new thematic analysis on this topic, based in particular on the information collected through the self-assessment questionnaires for UCIs, as provided for in Circular CSSF 21/790.

3.4. Follow-up to Circulars CSSF 21/788, CSSF 21/789 and CSSF 21/790

In 2025, the CSSF will continue its follow-up work to Circulars CSSF 21/788, CSSF 21/789 and CSSF 21/790.

As regards UCIs, this work will focus, in particular, on the following areas:

- the review of the information and responses received through these reports using a risk-based approach, including the new ad hoc questions and sections introduced for the financial years ending as from 31 January 2025;
- the transversal thematic review of closing documents, with a view to monitoring the findings and providing the related feedback to the industry;
- the review of the frequency of the separate report drawn up pursuant to a risk-based approach and the prudential supervision requirements, as well as the practical implementation of the defined approach;
- the continued development of functionalities allowing an efficient use and management of the documents in eDesk.

4. Prudential supervisory practice

The CSSF's prudential supervision aims to ensure that IFMs and UCIs subject to its supervision continuously observe all legal, regulatory or contractual provisions relating to their organisation and operation, with the objective to ensure investor protection and stability of the financial system.

Prudential supervision is exercised notably via:

- off-site supervision based on the analysis of the periodic financial information, annual reports, other reports (including the reports of the *réviseurs d'entreprises agréés* (approved statutory auditors)) and regular or ad hoc information received by the CSSF;
- on-site supervision, i.e. on-site inspections carried out by the CSSF agents at the offices of supervised entities.

4.1. Off-site supervision of UCIs

4.1.1. Supervision based on closing documents of UCIs

In the framework of the review of annual reports and of management letters as well as of the reports required under Circular CSSF 21/790, i.e. the self-assessment questionnaire (SAQ) and the separate report (SR) to be submitted annually by UCIs, the CSSF intervened with certain funds and/or their IFMs.

These interventions aimed notably at addressing the deficiencies noted by the *réviseurs d'entreprises agréés* in the annual reports, management letters and in the separate reports, as well as the deficiencies noted in relation to the information provided in the UCIs' SAQs.

In 2024, in the context of the review of the above-mentioned documents, the CSSF sent 498 letters and emails with a view to analysing in particular the deficiencies raised by the *réviseurs d'entreprises agréés*, following up on the measures implemented and/or requiring corrective measures in order to remedy these deficiencies, including the compensation of UCIs and/or investors. Besides these formal interventions, the CSSF also intervened in a number of cases via telephone and by organising meetings to clarify or deal with certain irregularities.

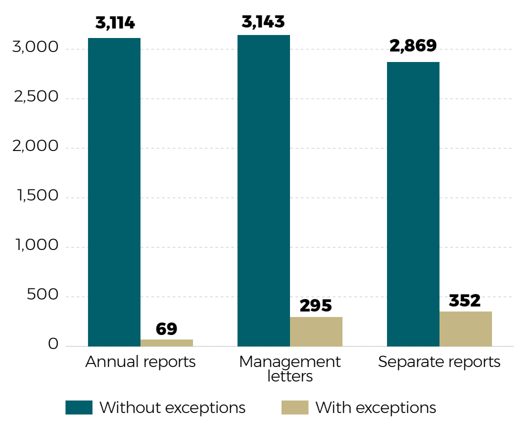
The CSSF's interventions concerned, inter alia, investment valuation, compliance with investment restrictions and policies, costs/fees charged to funds, NAV calculation, reconciliations performed by the administrative agent or depositary bank, governance, AML/CFT arrangements as well as disclosure in the funds' annual reports.

Following these reviews and interventions, the CSSF may impose sanctions on UCIs and/or their IFMs in the event of non-compliance with the applicable legal, regulatory or contractual provisions.

Finally, as part of its review of the above-mentioned closing documents, the CSSF also identified cases of non-compliance with investment rules and NAV calculation errors at the level of several UCIs which had not been identified by the management bodies, the IFMs and/or the service providers and which were subsequently addressed in accordance with the provisions of Circular CSSF 02/77.

The following chart highlights, per type of closing document, the number of documents received in 2024 in which one or several exceptions were noted, in particular, by the *réviseur d'entreprises agréé* and which were subject to a review and/or intervention by the CSSF.

Number of closing documents with or without exceptions noted in 2024

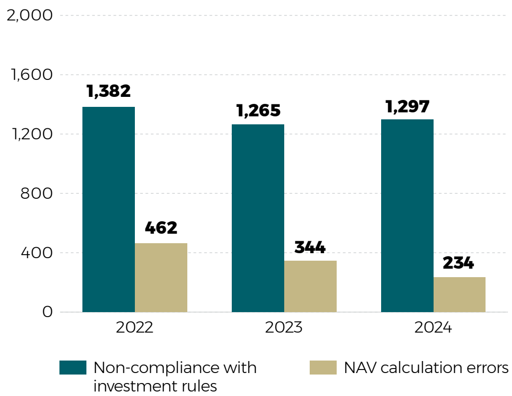


In 2024, the CSSF also received 3,325 SAQs. As indicated under point 2.8 above, the aforementioned interventions on the closing documents also covered the information included under the different sections of the SAQ.

4.1.2. NAV calculation errors and non-compliance with investment rules

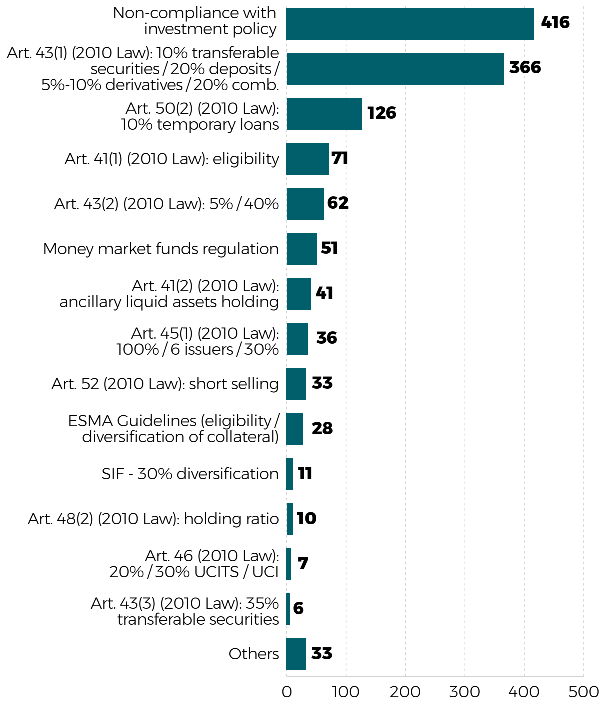
In 2024, the CSSF received 1,531 declarations on the basis of Circular CSSF 02/77, compared with 1,609 declarations in 2023, representing a decrease of 4.85%.

Evolution of the number of NAV calculation errors and instances of non-compliance with investment rules reported to the CSSF over the last three years



As in previous years, the simplified procedure provided for in Circular CSSF 02/77 could be applied in most cases of NAV calculation errors and non-compliance with investment rules. As regards the compensation procedures for investment funds and investors that exceed the thresholds laid down in Circular CSSF 02/77 ("normal procedures"), the CSSF received 107 notifications in 2024, against 148 in 2023, which represents a 27.70% decrease.

Breakdown of the instances of non-compliance with investment rules in 2024



Failure to observe the legal limits of diversification, holding and borrowing in UCITS was the main source of non-compliance with investment rules with 654 cases in 2024 (727 cases in 2023, i.e. -10.04%), followed by 416 cases of breaches of investment policy limits/rules defined in the sales documents (362 cases in 2023, i.e. +14.92%) and 71 cases of legal constraints breaches as regards asset eligibility (58 cases in 2023, i.e. +22.41%). The CSSF was also informed of 156 instances of non-compliance that concerned different types of rules.

It is worth mentioning that 110 out of 416 cases of breaches of investment policy limits/rules concerned the European regulation on sustainable finance disclosures (SFDR).

Compensation in relation to correction of NAV calculation errors or instances of non-compliance with investment rules[8]

(in EUR)	Investors		
	2022	2023	2024
Total amount of compensation following NAV calculation errors	21,187,863.80	49,601,054.10	11,810,270.57
Total amount of compensation following non-compliance with investment rules	8,318.00	50,802.40	2,060.56
(in EUR)	UCIs/Sub-funds		
	2022	2023	
Total amount of compensation following NAV calculation errors	26,901,611.60	14,109,720.70	8,571,914.50
Total amount of compensation following non-compliance with investment rules	5,383,677.70	7,403,712.60	4,085,118.45

In 2024, the total compensation paid out to investors and to UCIs/sub-funds declined compared to 2023. Overall, the total amount of compensation still remained moderate as compared to the total amount of assets under management.

8 The data as at 31 December 2024 are incomplete as the final compensation amounts have not yet been finalised for some files. Moreover, in order to allow a comparison with previous years, the data relating to 2023 and 2022 have not been adjusted either, and are based on the data published in the previous annual reports.

4.2. Off-site supervision of IFMs

4.2.1. Supervision based on closing documents of IFMs

The CSSF points out that the closing documents must allow the CSSF to have a proper understanding of the work carried out by the different control functions of the IFM. Thus, the compliance and internal audit reports must help to grasp the activity of these functions over the period under review and also to recognise their findings as well as their recommendations to the management body/management committee. It should be noted that the use of templates for the reports developed notably by professional associations must not prevent the IFM from completing the model with the IFM's relevant and specific data.

The latest pluriannual plan concerning the review of the IFMs' closing documents led to the following findings:

- structure of control reports that is too complex and that does not allow identifying the problems and work carried out by these functions;
- absence of
  - approval of the control functions reports by the management body of the IFM;
  - transparency concerning the results of the control investigations;
  - identification of problems, shortcomings and irregularities during the period under review;
  - clarification regarding the degree of severity of the observations or the remediation plan implemented by the IFM;
  - follow-up to the recommendations issued in the previous periods;
  - details on the compliance monitoring plan implemented by the IFM including the monitored activities, the risk assessed for each activity and the timetable set for carrying out the monitoring.

As regards the internal audit function reports, the CSSF observed a quality difference between the reports from specialised firms to which the function was delegated and those drawn up by the internal audit function of the group to which the IFM belongs, where appropriate.

As regards the financial reports, it should be noted that the data from the audited annual report were, on a recurring basis, not in line with those reported by the IFM in the context of the final G 2.1 reporting. The CSSF would like to remind IFMs to ensure data consistency.

4.2.2. Application of the regulation on sustainability-related disclosures in the financial services sector (SFDR)

Following the data collection in 2023 relating to the SFDR requirements applicable to IFMs, the CSSF intervened with 175 IFMs in order to request clarification or to inform of deficiencies in the information received.

The lack of consideration of the sustainability risk at the level of the second line of defence was a commonly observed shortcoming. Indeed, the compliance plans or the risk management processes were not always appropriately updated to integrate this risk.

Moreover, the portfolio management procedure laid down in point 477 of Circular CSSF 18/698 was not always modified to sufficiently describe the policies relating to the integration of sustainability risks in the investment decision-making process. The CSSF also expects that, where portfolio management is delegated, the IFM keeps a portfolio management procedure describing how *dirigeants* receive the required information on the implementation of investment policies and strategies and on risks.

As regards the principal adverse impacts of investment decisions on sustainability factors (PAIs), the documentation on whether or not PAIs are taken into consideration must be published on the IFM's website. The CSSF would like to remind that the IFMs which voluntarily opted to take into consideration PAIs are bound by the same requirements as the IFMs which are automatically subject to the publication requirements in accordance with Article 4(3) and (4) of SFDR. The tables under Annex 1 of Regulation (EU) 2022/1288 supplementing SFDR must be duly filled in and the information therein must cover all the activities of the IFM. As regards investment funds, all the funds managed by the IFM must be included irrespective of their classification (Article 6, 8 or 9 of SFDR) and of their management method (internal or delegated). All the stated figures, measures taken, planned measures and defined targets must relate to all the activities of the entity.

Finally, the CSSF would like to remind that conflicts of interest and remuneration policies must include the sustainability risk.

4.2.3. Conflicts of interest policy and register

In 2024, the CSSF continued its reviews of the IFMs' conflicts of interest policies and registers, especially the compliance by the IFMs concerned with points 377 and 381 of Circular CSSF 18/698. These analyses highlighted deficiencies regarding the conflict of interest management approach adopted by some entities.

Although the policies were deemed acceptable overall, the CSSF noted however that the description of situations likely to trigger conflicts of interest remained sometimes too general and inadequately adapted to the specific activities of the entities concerned. Likewise, the procedures to be followed and measures to put in place to identify, manage and mitigate these conflicts were repeatedly described in a manner that is too brief or were sometimes missing.

Moreover, it should be borne in mind that the conflict of interest analysis must cover all the relevant relations, particularly those with counterparties, delegates or depositaries. The conflicts of interest risks must be integrated in the internal processes and controls with such precision so as to ensure efficient prevention and management of these situations.

The CSSF wishes to remind in particular that intra-group outsourcing agreements may lead to different conflicts of interest likely to affect the IFMs' independence and prompting them to favour the interests of the group over those of funds and investors. It also points out the importance of the measures to put in place to mitigate these conflicts.

As regards the conflicts of interest register, shortcomings were also observed in terms of comprehensiveness as well as clarity of the indicated information. Some IFMs only noted a small number of actual or potential conflicts of interest, while the content of the register did not always allow a clear identification of the nature and impact of the listed situations. In this context and as a reminder, the register should contain at least the elements listed in point 381 of Circular CSSF 18/698 and be kept up to date in order to reflect the development of the identified risks within the entity.

Lastly, the analysis of the conflicts of interest registers with a sample of 51 IFMs highlighted an average of 31 conflicts of interest whereas the median was 22.

4.2.4. Implementation of the regulations on cross-border distribution of UCIs (CBDF Regulations)

In the context of the CBDF Regulations, notably Regulation (EU) 2019/1156 of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings (CBDF Regulation), and Circular CSSF 22/795 (CBDF Circular) of 31 January 2022 on the application of ESMA guidelines on marketing communications (ESMA34-45-1272), the CSSF must provide ESMA every two years with a report covering, inter alia, the most frequent infringements observed based on the ex post verification of a sample of marketing communications.

In the context of Article 4 of the CBDF Regulation and Article 13 of Commission Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088, the CSSF carried out ex post verifications of a sample of marketing communications in 2024. The CSSF's observations concerning the most frequent infringements were included in the report sent to ESMA. These observations will be shared with the IFMs in the course of 2025.

In this respect, the CSSF's observations were mostly similar to those of the previous campaign:

- marketing communications as such must always be clearly identifiable;
- the information presented in the marketing communications must be consistent with the information published in the fund's documents and the marketing communications must be neither more precise than the fund's documents, nor too general, in particular as concerns investment policies and risk description.

4.2.5. Colleges for the supervision of significant IFMs at EU/international level

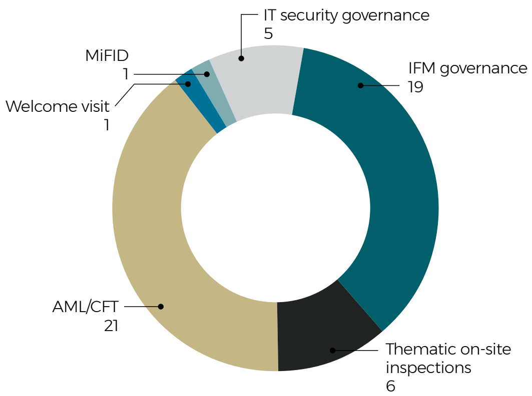
In 2024, the CSSF participated in six colleges concerning significant IFMs at EU/international level. The objectives of these colleges are, among others, to assess the IFMs' incurred and emerging risks at national and/or international level, and to foster information exchange between national and European authorities.

4.3. On-site supervision

The "UCI on-site inspections" (OPC CSP) department carries out in-depth reviews of the IFMs' business models and governance, AML/CFT inspections, thematic on-site inspections as well as welcome visits aiming at ensuring that the recently authorised IFMs comply with the requirements of their authorisation. The "Prudential supervision and risk management" department performs thematic on-site inspections on risk management and money market funds.

AML/CFT on-site inspections are described in point 1.2. of Chapter XXI "Financial crime".

Number and themes of the on-site inspections performed in 2024 at IFMs

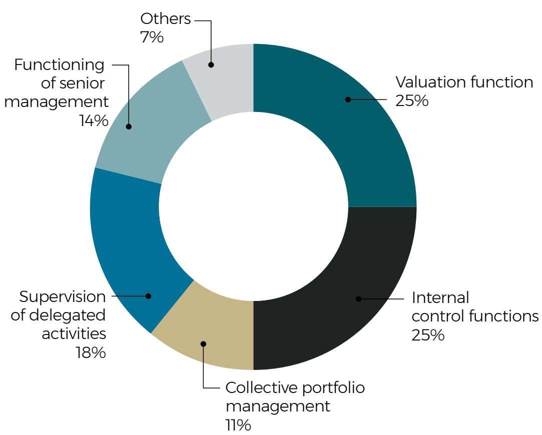


The entities inspected in 2024 managed about 20% of the total assets under management at Luxembourg IFMs. Twenty-nine of these entities managed assets amounting to over EUR 10 billion.

The CSSF also carried out nine on-site inspections at UCI service providers, which break down as follows:

- five inspections at depositary banks;
- three inspections at professional depositaries of assets other than financial instruments;
- one inspection at a UCI administrator.

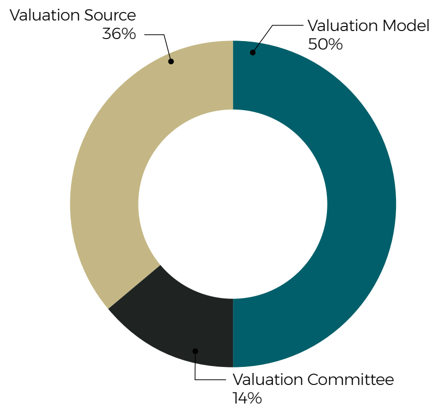
Main categories of observations following on-site inspections carried out at IFMs in 2024



• Observations in relation to the asset valuation function

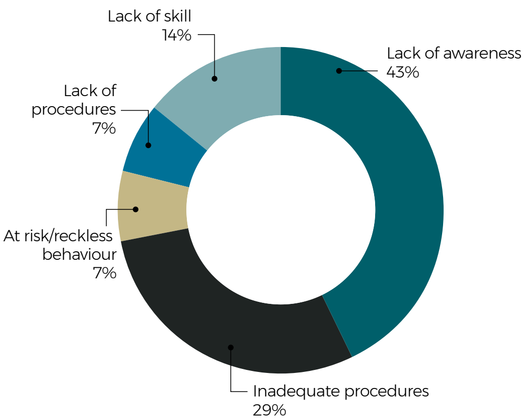
During 2024, the CSSF noted shortcomings at six inspected IFMs in relation to the valuation function. Half of these shortcomings concerned deficiencies in the valuation models used, 36% of these deficiencies related to the review of source data allowing valuations and 14% of the shortcomings were linked to the composition and functioning of the valuation committees.

Weaknesses related to the valuation function observed following on-site inspections carried out at IFMs in 2024



Moreover, the CSSF pointed out that the shortcomings observed were mainly due to a lack of knowledge of the regulatory provisions, to specific weaknesses in the IFMs' procedures and to deficiencies in the qualification and training of the persons in charge of the valuation function.

Main reasons for the weaknesses observed in relation to valuation



In this regard, the CSSF emphasises the regulatory requirements of Commission Delegated Regulation (EU) No 231/2013 and, in particular Article 68 which provides that, where models are used to value the assets "the reason for the choice of the model, the underlying data, the assumptions used in the model and the rationale for using them, and the limitations of the model-based valuation shall be appropriately documented".

Article 71 of this Commission delegated regulation states that the AIFM must ensure that all assets held by an AIF are fairly and appropriately valued, document the valuation methods and implement a review process for the individual values of assets where there is a risk of an inappropriate valuation with appropriate checks and controls to guarantee the accuracy of the valuations.

In its report of May 2023 following a common supervisory action on asset valuation, ESMA also identified several areas of improvement, among which:

- improvement of the documentation and validation of valuation policies;
- integration of stress tests in the valuations;
- independence of the valuation function;
- early detection of valuation errors and transparency for investors; and
- valuation of less-liquid assets, particularly for private equity and real estate funds.

In this context, the CSSF recommends that the IFMs enhance the documentation, validation and independence of their valuation processes. It advises also to include valuations adapted to the stress tests as well as error detection mechanisms to ensure transparency and reliability of the asset valuations.

- **Findings observed in the supervision and management of ESG risks**

In 2024, the CSSF still identified shortcomings linked to ESG criteria during the governance and thematic inspections. Four IFMs were concerned by these observations.

These shortcomings focused on two areas:

- insufficient supervision: the IFMs did not correctly supervise their delegates responsible for the portfolio management function, thus preventing them from detecting non-compliance of the said delegates with the sustainable investment criteria in accordance with the SFDR Directive;
- incomplete risk management process: the processes implemented by the IFMs concerned did not cover all the sustainability risks defined in SFDR, notably those linked to potential negative impacts on the value of investments, such as climate risks related to transition or physical factors. These risks were not included in the overall management of funds.

Moreover, the CSSF noted a material difference between the public sustainability commitments for one IFM and its actual practices, which could be perceived as an attempt to misrepresent itself as being environmentally responsible thus causing investors to have unrealistic expectations.

Finally, the controls and analyses carried out by the IFM were insufficient due, among others, to a lack of formal analyses, in-depth research on the environmental and social impact, and of necessary verification mechanisms to ensure lasting compliance with the objectives set.

In response to the findings and given the importance of the subject, the CSSF launched new ESG thematic inspections in late 2024 to guarantee that the IFMs comply with the regulatory requirements on ESG criteria.

- **Findings observed in relation to the due diligence obligation of IFMs**

The CSSF would also like to point out the importance of the due diligence obligations with which the IFMs must comply in accordance with the regulatory provisions in force, notably Article 26 of CSSF Regulation No 10-04 and Article 18 of Commission Delegated Regulation (EU) No 231/2013.

To fulfil these obligations as specified in point 493 of Circular CSSF 18/698, the IFM must:

- ensure that the investment decisions are based on quality research: this research must be qualitative and quantitative, reliable and regularly updated;
- make sure that the execution of these decisions is in line with the objectives, the investment strategy and the risk limits of the managed UCIs, guaranteeing the investors' expectations are met.

The IFM must comply with:

- the high standard of due diligence required under Article 18 of Commission Delegated Regulation (EU) No 231/2013, involving rigorous monitoring of investments, thorough knowledge of assets and the establishment of appropriate due diligence policies;
- the due diligence obligations laid down in Article 26(2) of CSSF Regulation No 10-04 which requires UCITS to invest in assets of which managers possess appropriate knowledge and understanding.

The CSSF would like to remind that these obligations apply without exceptions, including where the portfolio management function is delegated, ensuring that the due diligence and compliance standards are strictly observed at all times.

All in all, these requirements aim to guarantee a diligent and transparent management, pursuant to the regulatory expectations in order to protect the interests of investors and to maintain their confidence in the management of UCIs.

- **Categories of observations reported in the files that led to an administrative sanction between 2020 and 2024**

The analysis of the administrative sanctions imposed between 2020 and 2024 shows that the IFMs were reprimanded mainly for the shortcomings in the following categories:

- supervision of delegated activities: 58%
- governance and internal control: 48%
- portfolio management function, particularly the due diligence obligation and the supervision of best execution: 32%.

XI. Supervision of securitisation undertakings

1. Development of authorised securitisation undertakings in 2024

In 2024, the CSSF received one application for registration on the official list of authorised securitisation undertakings subject to the Law of 22 March 2004 on securitisation. Following the deregistration of one securitisation undertaking during the year, 28 securitisation companies were registered on the official list of authorised securitisation undertakings as at 31 December 2024 (idem at the end of 2023).

The balance sheet total of authorised securitisation undertakings exceeded EUR 44.4 billion at the end of 2024, i.e. an increase of EUR 14.8 billion against 2023. This increase is mainly due to the fact that the notional amount of new issues significantly exceeds that of matured or prematurely redeemed issues, and that the securitisation undertaking newly registered on the official list had already proceeded with issues as an unauthorised securitisation undertaking.

The submitted application files reveal that securitisation transactions mainly consist in repackaging transactions in the form of structured products issues linked to various financial assets, notably equity indices or baskets of shares, as well as in securitisation of debt, loans and other comparable assets. The repackaging transactions are mainly synthetic securitisation transactions in respect of the risk transfer technique.

In general, the securities issued by securitisation undertakings are bonds and subject to foreign law. It is also possible for some securitisation undertakings to issue warrants.

To date, no application file for a securitisation fund has been submitted to the CSSF. Neither has the CSSF received any application file for a fiduciary-representative under Luxembourg law, even though the Law of 22 March 2004 on securitisation has established a specific legal framework for these independent professionals in charge of representing investors' interests.

2. Development in the regulatory framework

The CSSF points out that, according to Article 14 of the Law of 22 March 2004 on securitisation and the related comments on the articles, the corporate object of a management company subject to the provisions of the aforementioned law must be limited to the management of securitisation funds, or may be extended to the management of UCIs or pension funds, respectively, provided that the criteria laid down in this regard are met. Any other activity, such as holding and managing ownership interests, financial instruments or real estate assets, or any other commercial or industrial activity, is incompatible.

As regards Regulation (EU) 2017/2402 of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised (STS) securitisation (the "Securitisation Regulation"), significant changes are in store for 2025.

Between October and December 2024, the European Commission initiated a consultation on the functioning of the EU regulatory securitisation framework, and is expected to publish a legislative proposal, in the second quarter of 2025, to revise the securitisation framework in order to stimulate private financing and strengthen the competitiveness of Europe's financial markets.

On 13 February 2025, ESMA launched a consultation on the revision of the disclosure framework for private securitisation under the Securitisation Regulation. The consultation proposes a simplified disclosure template for private securitisation aiming to enhance proportionality in information-sharing processes while ensuring that competent authorities retain access to the essential data needed for effective oversight. This proposal for a simplified template follows on from ESMA's previous consultation, during which industry stakeholders advocated for a simplified template for private securitisation. Following the consultation, which closes on 31 March 2025, ESMA will determine in close collaboration with the European Commission whether adjustments to the technical standards, particularly with regard to the information to be provided for private securitisation, can be implemented prior to the review of the regulation itself.

XII. Supervision of pension funds

1. Development of pension funds in 2024

1.1. Major events in 2024

In 2024, two pension funds subject to the Law of 13 July 2005 on institutions for occupational retirement provision in the form of pension savings companies with variable capital (SEPCAVs) and pension savings associations (ASSEPs) were deregistered from the CSSF's official list of pension funds. Consequently, nine pension funds subject to the Law of 13 July 2005 were registered on the CSSF's official list as at 31 December 2024.

The year 2024 was mainly marked by the addition of new pension schemes to existing pension funds and by several national transfers to other insurance products. Thus, during the year, the CSSF authorised 19 new pension schemes within existing pension funds and six new pension funds were notified in accordance with Article 11 of Directive (EU) 2016/2341 of 14 December 2016 in order to carry out a cross-border activity on behalf of a sponsoring undertaking established in another EU Member State.

In 2025, the CSSF expects a slight increase in the number of cross-border pension schemes in the pension fund sector.

1.2. Pension funds activities

The pension funds supervised by the CSSF manage one or several pension schemes set up by Luxembourg companies or, for one of them, by foreign companies for their employees.

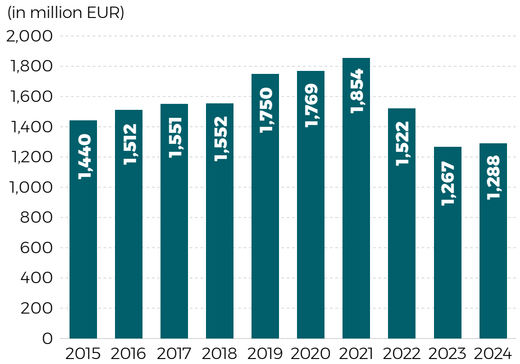
As at 31 December 2024, one pension fund managed cross-border pension schemes. It provides services to sponsoring undertakings in Germany and Portugal.

Out of the nine pension funds registered on the official list, eight have adopted the legal form of a pension savings association and one has adopted the legal form of a pension savings company with variable capital.

1.3. Development of pension fund gross assets

At the end of 2024, gross assets of pension funds amounted to EUR 1,288 million against EUR 1,267 million at the end of 2023. This represents a slight increase by 1.7% from 2023.

Development of pension fund gross assets



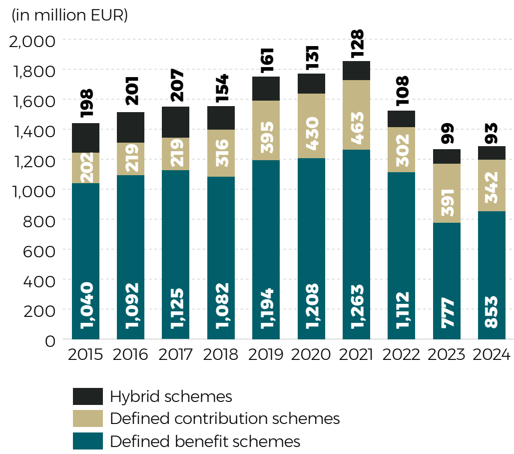
The gross assets of cross-border pension schemes amounted to EUR 19 million at the end of 2024 against EUR 23 million as at 31 December 2023.

1.4. Development of gross assets according to the type of pension scheme

As at 31 December 2024, the overall gross assets of pension funds broke down as follows:

- 66% in defined benefit schemes (EUR 853 million);
- 34% in defined contribution schemes and hybrid schemes (EUR 435 million).

Breakdown of gross assets between defined benefit schemes, defined contribution schemes and hybrid schemes

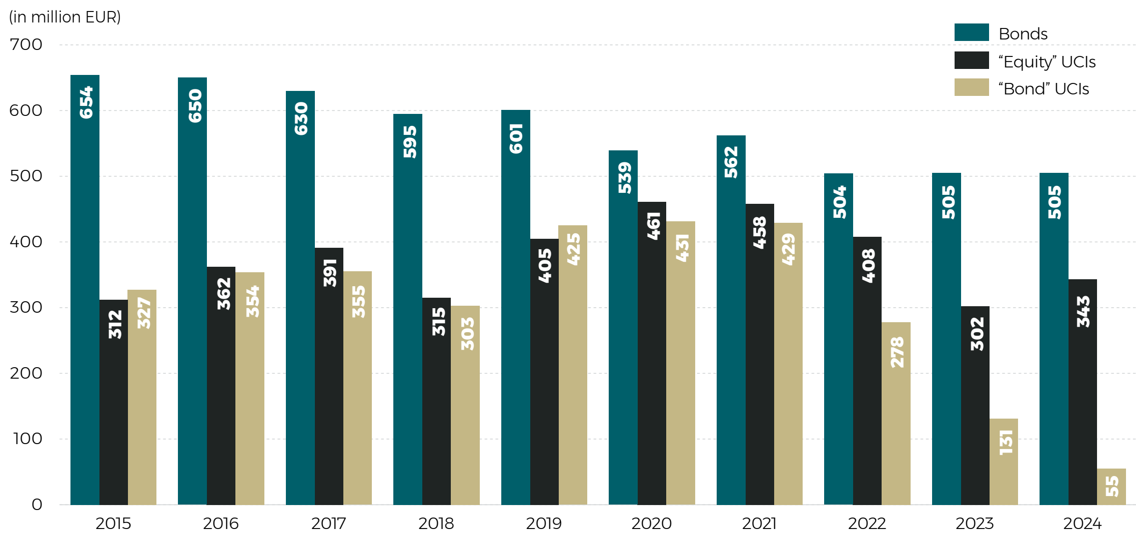


1.5. Allocation of gross assets of pension funds

As at 31 December 2024, the gross assets of pension funds broke down as follows:

- EUR 565 million, i.e. 44% of the total gross assets in investment funds, including:
  - 61% (i.e. EUR 343 million) exposed to the equity market;
  - 10% (i.e. EUR 55 million) exposed to the bond market;
  - 29% (i.e. EUR 167 million) in mixed funds, money market funds, real estate funds and funds with alternative investment policies;
- EUR 505 million, i.e. 39% of the total gross assets, in bonds:
- EUR 218 million, i.e. 17% of the total gross assets, in other assets, money market instruments, equity and liquid assets.

Allocation of gross assets of pension funds

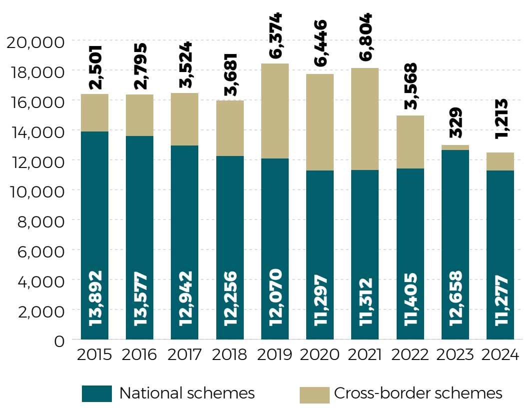


1.6. Development in the number of pension fund members

At the end of 2024, the pension funds had 12,490 members against 12,987 at the end of 2023.

An analysis of the population of the members of pension funds supervised by the CSSF shows that the proportion of international members (1,213 members as at 31 December 2024) increased again compared to the previous year. This increase is due, in particular, to the launch of several cross-border pension schemes in 2024.

Development in the number of pension fund members



2. Development of liability managers in 2024

The official list of professionals authorised to act as liability managers for pension funds subject to the Law of 13 July 2005 amounted to seven as at 31 December 2024.

XIII. Supervision of securities markets

1. Prospectuses for securities

In 2024, the CSSF recorded a slight increase of about 5% in the number of approvals of prospectuses for securities published under Regulation (EU) 2017/1129 of 14 June 2017 (Prospectus Regulation). This progression is part of a more general trend observed at European level, where a similar growth has been recorded, as per the data available on ESMA's Prospectus Register. This trend results from an increase in both base prospectus and standalone prospectus approvals. It should be noted that, according to the data published on the Prospectus Register, the CSSF was ranked again first among European authorities in charge of approving prospectuses for securities in 2024.

Since its entry into force on 21 December 2024, Regulation (EU) 2023/2631 of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds (Regulation on European Green Bonds) requires the issuers concerned to provide detailed reports, in particular a pre-issuance factsheet and, subsequently, a yearly allocation report and an environmental impact report. In this context, the e-Prospectus application, allowing depositors to file their prospectus with the CSSF, has been adapted to enable issuers of green bonds to comply with their notification obligation towards their competent authority by indicating directly in e-Prospectus where the different documents were published.

It should also be noted that, although the number of EU green bonds is still relatively small, 22% of the base prospectuses approved by the CSSF in 2024 contained environmental, social or governance components.

2. Enforcement of information published by issuers

Within the context of its mission of supervising securities markets, the CSSF is in charge of examining the information published by issuers of securities, generally referred to as "enforcement". This review consists in ensuring that the financial information drawn up and published by the issuers under its supervision complies with the applicable accounting standards. Moreover, the CSSF also reviews the sustainability-related information of the issuers referred to in the Law of 23 July 2016 on disclosure of non-financial information and diversity information by certain large undertakings and groups, transposing Directive 2014/95/EU of 22 October 2014 (NFRD Law).

Beyond the legal and regulatory requirements, the examination of the financial and sustainability-related information contributes to the investors' protection and confidence in the financial markets.

2.1. Enforcement of financial information

In its communiqué dated 13 February 2025, the CSSF presented the results of its 2024 enforcement campaign on the 2023 financial information published by issuers of securities. The main findings of these examinations referred to issues concerning the application of the international financial reporting standards (IFRS), which had been identified by the CSSF as priorities for this campaign.

Shortcomings were thus detected during the performance of non-financial asset impairment tests with respect to the requirements set out in IAS 36 *Impairment of Assets*, as regards the allocation of assets, the use of overly optimistic financial forecasts or the absence of sufficiently relevant sensitivity analyses.

As concerns the fair value of investment property, the valuation techniques used were, in general, compliant with IFRS 13 *Fair Value Measurement*, whereas disclosed information on unobservable inputs, such as discount rates, were often insufficiently detailed and the quantitative sensitivity analyses incomplete.

Further shortcomings were identified in the preparation of interim financial statements in accordance with IAS 34 *Interim Financial Reporting* and with regard to the disclosures required by IFRS 8 *Operating Segments*, where unclear data may mislead the users of the financial statements.

Finally, despite an overall improvement in the compliance with the ESMA Guidelines on Alternative Performance Measures, vague definitions or an inconsistent use of specific terminology could still be found.

2.2. Sustainability information enforcement

For issuers subject to the obligation to publish sustainability-related information, the 2024 campaign focused on two major aspects: a thematic review on the implemented climate transition plans, the findings of which were published on 20 December 2024, and the review of information disclosed as required under Article 8 of Regulation (EU) 2020/852 of 18 June 2020 (Taxonomy Regulation).

As regards the transition plans, the objective of the review was also to shine a light on the challenges faced by issuers, notably in defining climate-related goals, identifying decarbonisation levers, allocating resources and monitoring emissions.

Concerning information linked to Article 8 of the Taxonomy Regulation, despite the progress, certain difficulties still persisted, notably as regards the assessment of the eligibility of certain specific activities.

2.3. Challenges and priorities for 2025

On 5 December 2024, the CSSF published the themes and issues that will be the subject of specific monitoring during the review of the financial statements and sustainability reports published by issuers for 2024. As regards financial information, the focus will be on liquidity considerations and on issues linked to significant estimates and judgements.

In respect of sustainability reports, the year 2024 was marked by the work on implementing the requirements of the CSRD of 14 December 2022 for a significant number of issuers and the CSSF. In addition to the complexity of this work, it should also be mentioned that, within the context of debates at EU level to loosen the requirements, the draft law transposing CSRD was not adopted. Thus, on 26 February 2025, the Omnibus package proposed major changes not only at the level of the entities subject to the CSRD and the application deadlines but also at the level of the information to be provided. In 2025, both the EU and the Luxembourg legislative process relating to its transposition will have to be closely monitored to be able to adjust to the new requirements. This monitoring is all the more necessary as the major revision of a European directive which has just been implemented is a rather exceptional process which may pose a number of specific practical challenges for the issuers concerned.

3. Supervision of issuers

In order to guarantee a high level of investor protection, the CSSF notably ensures, in the framework of its mission as competent authority under the Law of 11 January 2008 on transparency requirements for issuers (Transparency Law), that the issuers disclose periodic and ongoing information as required by said law.

3.1. ESEF requirements

The CSSF continues monitoring the requirements relating to the ESEF format set out in Delegated Regulation (EU) 2019/815 under which issuers are required to prepare their annual financial reports. In general, the markups of IFRS consolidated financial statements as laid down in Article 4 of said regulation, as well as the markups of the other parts of the annual financial reports for the issuers incorporated in a Member State (as provided for in Article 5) were correct. It should however be noted that the structure of a certain number of files transmitted was not fully compliant. The CSSF would like to point out that ESMA's *ESEF Reporting Manual*, updated in July 2024, provides guidance on this topic, and is requesting issuers to comply with it.

3.2. Clarifications on CSRD

The CSSF has taken note of the proposal for an Omnibus I Directive adopted by the European Commission aimed at, notably, simplifying the EU rules on corporate sustainability reporting defined in the CSRD. The issuers concerned are kept informed of the consequences arising from these changes on the requirements of the Transparency Law via a Newsfeed sent through the CSSF's eRIIS (electronic Reporting of Information concerning Issuers of Securities) online portal.

3.3. European Single Access Point (ESAP)

The work on the establishment of a European Single Access Point organised at EU level continues with the active participation of the CSSF. Preparatory discussions have also been initiated with different national players on this subject.

3.4. Notifications of major holdings

The CSSF observed increasing shortcomings related to compliance with the Transparency Law obligations as regards notifications of major holdings by holders and issuers, in particular as concerns notification deadlines. As this information is important for market transparency, these obligations must be complied with and are subject to specific monitoring by the CSSF.

4. Market abuse

4.1. Suspicious transaction and order reports (STORs)

In 2024, the CSSF received 36 suspicious transaction and order reports (STORs) under Article 16 of the Market Abuse Regulation from the market operator and other professionals established in Luxembourg, representing a significant decrease in the number of STORs compared to the preceding year (64 STORs). The STORs received from Luxembourg professionals concerned suspicions of insider dealing, suspicions of market manipulation or suspicions combining insider dealing and market manipulation, all of which related to transactions in equity securities (shares).

In parallel, the CSSF received 20 STORs from its foreign counterparts, which mainly concerned suspicions of insider dealing and a few cases of suspicions of market manipulation in relation to transactions in equity or debt securities.

For the first time, the 2023 survey on financial crime launched on 19 February 2024 included a certain number of questions relating to market abuse, and more specifically to STOR obligations, addressed to IFMs. The CSSF analysed the responses received to this survey and observed a rather positive overall result, not only in terms of objective (awareness), but also in terms of result (relevance and/or compliance). The CSSF's supervisory action will be repeated for the 2024 CSSF financial crime survey.

4.2. Cooperation and exchange of information with foreign supervisory authorities

In 2024, the CSSF opened around 50 inquiries relating to requests for assistance from its foreign counterparts, mainly under IOSCO's Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information and under the Multilateral Memorandum of Understanding providing a general framework for cooperation arrangements and exchange of information between competent authorities and ESMA.

The majority of these requests related to inquiries into insider dealing and market manipulation carried out by the requesting foreign authorities. The other requests related to inquiries into diverse subjects (including MiFID – unauthorised activities).

XIV. Supervision of market infrastructures

1. CSDR and the supervision of central securities depositories

In accordance with Article 1(1) of the Law of 6 June 2018 on central securities depositories and implementing Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (CSDR), the CSSF is the competent authority in charge of exercising the duties under CSDR for the authorisation and supervision of the central securities depositories (CSDs) established in Luxembourg.

As at 31 December 2024, two entities were authorised as CSD in Luxembourg under CSDR, one of which has an authorisation in accordance with Article 16 of CSDR (provision of core CSD services), and the other one holds the three available CSDR authorisations, i.e. the one under Article 16, the authorisation to maintain an interoperable link under Article 19 and the authorisation to provide, under its banking authorisation, ancillary banking services for CSD participants under Article 54. Within the CSSF, there is a dedicated team responsible for the supervision of CSDs (with and without banking authorisation).

At the end of 2023, the CSSF received one application for authorisation to exercise CSD activities (Article 16 of CSDR). The file review process in accordance with CSDR is ongoing.

Regarding the supervision of authorised CSDs, the CSSF must perform once a year a review and an evaluation in accordance with Article 22 of CSDR and, in addition, an assessment in accordance with Article 60 of CSDR for the CSD authorised to provide banking services[1] under Article 54. These annual exercises are combined with the continuous supervisory work under CSDR (as well as under the CRR/CRD package for the entity holding a banking authorisation).

During the year 2024, the monthly and annual reports of settlement fails required under Article 7 of CSDR were transmitted by the authorised CSDs on time and without major technical problems.

Within the framework of the reporting by settlement internalisers (Article 9 of CSDR), all entities that were required to submit a report (about a hundred), submitted their reporting, on a regular basis, as required by the regulation. As at 31 December 2024, 127 entities were required to submit a report against 108 entities as at 31 December 2023.

1 It should be noted that these review frequencies will partially change in the future with the implementation of Regulation (EU) 2023/2845 (CSDR Refit) and the related RTS.

2. EMIR

In the framework of Regulation (EU) 648/2012 of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (European Market Infrastructure Regulation - EMIR), the CSSF contributes, through different ESMA working groups, to the development of implementing measures regarding EMIR and to ESMA publications in order to promote common positions between competent authorities in the application of EMIR.

The CSSF is the competent authority in Luxembourg to ensure compliance with some provisions of EMIR by financial counterparties, except for those subject to the supervision of the Commissariat aux Assurances, and by non-financial counterparties as defined by the Law of 15 March 2016 on OTC derivatives, central counterparties and trade repositories.

Thus, the CSSF received about 7.5 million reports per day from trade repositories for a total of approximately 1.3 billion reports since the entry into force of the amendments to EMIR by way of Regulation (EU) 2019/834 (EMIR Refit) in 2024. As of 31 December 2024, these reports concerned 11,292 counterparties established in Luxembourg which were divided between 56 banks, 8,207 funds, 551 other counterparties subject to prudential supervision, and 2,478 non-financial counterparties which do not fall within the scope of the CSSF's prudential supervision. On the same date, these entities were exposed to more than 800,000 transactions. The banks had 81,386 open transactions, the funds 565,129, the other financial counterparties 55,942 and the non-financial counterparties 120,038. The notional amount for all these transactions was about EUR 7,000 billion.

As of 29 April 2024, the new technical standards under EMIR Refit reporting entered into force and required entities executing derivatives to report their derivatives in the new XML format with additional fields. Moreover, the entities had been granted a delay of 180 days in order to update the former transactions (legacy trades) (deadline ending on 26 October 2024). For the purpose of ensuring that the market becomes compliant within the required timeframe, the CSSF contacted the players with the most legacy trades, mid-September and mid-October. The CSSF also published a communiqué on 7 October 2024 in order to remind the market of this obligation. The CSSF monitored compliance of the counterparties during 2024 and is continuing this review in 2025.

Another obligation which came into force on 29 April 2024 is the obligation for the entities responsible for reporting to notify the CSSF in the event of (a) any misreporting caused by flaws in the reporting systems that would affect a significant number of reports, (b) any reporting obstacle preventing the report submitting entity from sending reports to a trade repository within the deadline referred to in Article 9(1) of Regulation (EU) No 648/2012, and (c) any significant issue resulting in reporting errors that would not cause rejection by a trade repository in accordance with Commission Delegated Regulation (EU) 2022/1858. The CSSF received notifications regarding this obligation from 94 different counterparties between the entry into force of EMIR Refit and the end of 2024, highlighting in part the compliance issues encountered at the start of EMIR Refit. These notifications are processed, on an ongoing basis, by the CSSF via direct interaction with the notifying entities if necessary.

At the end of 2024, the CSSF took part, along with other national competent authorities, in ESMA's Data Quality Indicators (DQI) exercises. In this context, it contacted entities exceeding levels of issues regarding the quality of the data agreed between ESMA and the national competent authorities, and requested them to take corrective actions. In addition, as part of its supervisory activities, the CSSF monitored the reports rejected by the trade repositories for Luxembourg counterparties. These exercises will continue throughout 2025.

Most of the issues regarding data quality raised in 2024 with reporting counterparties or entities responsible for reporting established in Luxembourg or in other Member States could be resolved quickly. These problems include the lack of control over (i) the amounts reported, which may result in the submission of excessive amounts, (ii) the currencies reported (for example, reporting amounts in euros by assigning another currency such as JPY), (iii) the signs associated with the valuations (for example, a valuation of EUR 1,000 instead of EUR -1,000). Other problems concerned the failure to close transactions when an entity ceased its activities, incorrect reporting by the entity responsible for reporting, and the failure to submit 'UNCL' messages in field 3_11 for non-collateralised transactions.

On 24 December 2024, Regulation (EU) 2024/2987 of 27 November 2024 (EMIR3) came into force with certain obligations applicable immediately and others requiring RTS or ITS with deferred implementation during 2025. The changes include the introduction of the Active Account Requirement (AAR), changes to the methods for calculating clearing thresholds and their amounts, the replacement of the concept of equivalence decisions for clearing exemptions by a simpler framework in which no exemption can be granted if one of the counterparties is located in certain third countries, and for non-financial counterparties subject to the clearing obligation (NFC+) that are part of a group whose intra-group transactions are exempt from the reporting obligation, the introduction of the obligation to have their derivatives positions reported on a weekly basis in aggregate form by their EU parent undertaking. EMIR3 specifies that where reported data contains systematic manifest errors, appropriate sanctions should be adopted.

In 2025, the CSSF intends to continue its work on EMIR, focusing on improving data quality in general and on the preparation and the implementation of EMIR3 in particular.

EMIR allows benefitting from intragroup exemptions according to Article 4(2), Article 9(1) and Article 11(5) to (10). In 2024, the CSSF accepted the requests received after appropriate review.

Moreover, the CSSF received further notifications informing it that clearing thresholds had been exceeded for financial (FC+) or non-financial (NFC+) counterparties, according to the obligations provided for in Articles 4a and 10 of EMIR.

Throughout the year, the CSSF worked with ESMA and the other competent authorities to develop and implement data quality indicators (DQI).

3. Transparency of securities financing transactions

In the framework of Regulation (EU) 2015/2365 of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (Securities Financing Transaction Regulation - SFTR), the CSSF contributes, through different ESMA working groups, to the development of implementing measures regarding SFTR and to ESMA publications in order to promote common positions between competent authorities in the application of SFTR. In accordance with Article 1 of the Law of 6 June 2018 on transparency of securities financing transactions, the CSSF is the national competent authority regarding SFTR for financial counterparties apart from those subject to the supervision of the Commissariat aux Assurances, as well as for non-financial counterparties.

Most of the data quality problems raised in 2024 to reporting counterparties or entities responsible for reporting established in Luxembourg or in other Member States could be resolved quickly.

In 2025, the CSSF intends to pursue its activities in this field, to implement the data quality indicators developed and to continue its data-driven supervision of SFTR obligations.

Throughout the year, the CSSF worked with ESMA and the other competent authorities to develop and implement data quality indicators (DQI), with a view to launching joint exercises in 2025.

XV. Supervision of information systems

This chapter deals with the supervision of information systems of financial professionals, including mainly credit institutions, investment firms, specialised PFS, payment institutions and electronic money institutions. As regards the specific supervision of support PFS, reference is made to point 3. of Chapter VIII "Supervision of PFS and mortgage credit intermediaries".

1. Major events in 2024 and challenges for 2025

1.1. Digital resilience

The year 2024 was, as the previous year, marked by the preparations for the entry into application of the Digital Operational Resilience Act (DORA)[1] on 17 January 2025.

The CSSF continued to work as part of the ESAs' Joint Committee Sub-Committee on Digital Operational Resilience (JC-SC DOR) throughout 2024 and assisted the three ESAs in fulfilling their policy mandates under DORA and related tasks. The JC-SC DOR managed to deliver all DORA policy mandates on time. The final deliverables are currently either under review by the European Commission or in the three-month scrutiny period by the European Parliament.

The CSSF also participated in the JC-SC DOR preparatory work for the gradual development of a pan-European systemic cyber incident coordination framework (EU-SCICF)[2] to support an effective Union-level coordinated response in the event of a major cross-border cyber incident or related threat that could have a systemic impact on the EU financial sector. The EU-SCICF framework has been active since 17 January 2025 and the work of the newly created EU-SCICF Forum will focus in 2025 on its further operationalisation and maturity.

At a national level, on 1 July 2024, the Luxembourg "DORA law" was published in the Official Journal[3] and has also been applicable since 17 January 2025. The DORA law provides the competent national authorities responsible for ensuring the application of DORA (i.e. the CSSF and the CAA) with the supervisory and investigative powers necessary for the performance of their duties and provides for an appropriate system of sanctions. It transposes into Luxembourg law the DORA directive, which makes specific amendments relating to digital resilience and ICT security to the European directives on the financial sector. The DORA law thus carried out a targeted adaptation of a series of national laws relating to the financial sector. These amendments were necessary to ensure, in the interest of legal certainty, that these national laws are consistent

1 Regulation (EU) 2022/2554 of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 (DORA)

2 Based on Article 49(1) of DORA and as envisaged by the Recommendation of the European Systemic Risk Board (ESRB) of 2 December 2021 on a pan-European systemic cyber incident coordination framework for relevant authorities (ESRB/2021/17)

3 https://legilux.public.lu/eli/etat/leg/loi/2024/07/01/a271/jo

with the DORA regulation as regards the application of operational digital resilience requirements currently dispersed across the various existing sector-specific laws.

The CSSF participated in several conferences and events organised by industry associations to interact with, and help supervised entities prepare for the entry into application of DORA. In the same vein, the CSSF performed, in the second half of 2024, a survey covering all supervised entities falling into the scope of DORA, to assess their readiness for the upcoming DORA regulation, to capture the main challenges the entities encounter and to raise awareness of those financial entities that were late in their preparations.

Internally, the CSSF set up a framework and tools for the reception and communication of ICT-related incidents, available since 17 January 2025, as well as for the reception and forwarding of the register of information, as required under DORA, available from 1 April 2025.

The year 2025 will continue to be a year dedicated to DORA implementation both at the level of the CSSF and the supervised entities, with the CSSF performing first checks on DORA compliance for specific elements throughout the year.

The TIBER-LU[4] programme was launched in 2021 under the oversight of the BCL and the CSSF, as the national implementation of the TIBER-EU framework[5]. A total of eight tests were completed since 2022 (or are close to be completed), including two cross-border tests. On average, these extensive cybersecurity tests last more than a year, with usually 12 weeks of active attack simulation. Such a commitment from the volunteering entities provided them with valuable experience and areas of improvement for better preparedness in case of real cyber-attacks. In particular, the largest room for improvement was observed for internal systems hardening and detection capacity, while the security of the external perimeter was the most robust area.

In addition to the TIBER-LU tests fieldwork, the CSSF agents participated in working groups at European level, including one aiming to update the TIBER-EU framework, in line with the requirements related to the Threat Led Penetration Tests (TLPT) of DORA. Consequently, the BCL and the CSSF will update the TIBER-LU framework in 2025.

Further details as regards the new Directive NIS2 on measures for a high common level of cybersecurity across the Union, repealing Directive (EU) 2016/1148 (Directive NIS1), which entered into force on 16 January 2023 and for which the national transposition applies from 18 October 2024, are available in point 3.2.2. of Chapter VIII "Supervision of PFS and mortgage credit intermediaries".

1.2. Artificial intelligence

The AI Act is a horizontal legislation (i.e. it applies to all sectors, including the financial sector) which follows a risk-based approach. The AI Act imposes stricter rules on AI systems classified as "high risk" and on General-Purpose AI systems (GPAI), including systems using generative AI (GenAI), with systemic risk.

The AI Act also introduces a new governance framework, where national authorities are responsible for overseeing and enforcing rules for AI systems, while the EU level (in particular the newly established AI Office within the EU Commission) is responsible for governing General-Purpose AI models.

The AI Act will apply two years after its entry into force on 2 August 2026, except for the following specific provisions:

- February 2025: application of the rules regarding prohibited AI practices, as well as the definitions and the provisions related to AI literacy;
- 12 months after entry into force (August 2025): application of the obligations for General-Purpose AI and the rules on governance;
- 36 months after entry into force (August 2027): application of the obligations for AI systems that classify as high-risk because they are embedded in regulated products, listed in Annex I (list of Union harmonisation legislation).

4 https://www.cssf.lu/en/2021/11/tiber-lu/

5 https://www.ecb.europa.eu/paym/cyber-resilience/tiber-eu/html/index.en.html

The CSSF contributes locally and internationally to various working groups for the implementation of this regulation. At national level, the CSSF also contributes to the reflections on the draft law implementing the AI Act in Luxembourg. In addition, the CSSF participates in various working groups at EU level aiming at clarifying the application of the AI Act in the financial sector and fostering convergence for the supervision of the use of AI by supervised entities.

In parallel, the CSSF launched an AI survey to understand the use of AI by entities of the Luxembourg financial sector. Compared with the previous study on the subject, the scope of entities covered has been extended to include investment firms and authorised investment fund managers. Furthermore, support PFS have also been covered via a similar study carried out separately.

1.3. Distributed Ledger Technologies (DLT) and crypto assets

Together with its Innovation Hub[6], the CSSF continues its technology watch regarding the use of distributed ledger technologies (DLT) in the financial sector and will continue to do so in the context of the MiCA application.

The MiCA regulation introduced new rules to regulate the cryptocurrency ecosystem in Europe. Cryptocurrency exchanges that previously operated without formal licensing are now required to obtain an official license to operate legally.

During 2024, the CSSF has noted an increase of DLT projects from regulated entities, especially initiatives regarding tokenization of assets.

1.4. PSD2 requirements relating to payment security and access to payment accounts

In 2024, the CSSF participation in the EBA and ECB working groups continued and the main focus was the analysis of the European Commission's legislative proposal for the revised PSD2, which is now under discussion at the level of the Council of the EU, with different compromise texts from the presidencies.

The revised PSD2 will be split into two different instruments:

- the third Payment Services Directive (PSD3) that will deal in particular with the authorisation process for payment institutions (which now also includes electronic money institutions) and the prudential regime;
- the Payment Services Regulation (PSR) that will deal essentially with rules (and related penalties) for payment service providers (PSPs) and users.

Emphasis was also placed on the Instant Payments Regulation, in view of the entry into force on 9 January 2025 of the obligation for PSPs to accept incoming instant credit transfers in euro.

Among the analyses carried out at the EBA and ECB level, it is worth mentioning the analysis of the major incidents reported under PSD2 (security and/or operational incidents) in 2024 and the analysis of payment fraud data collected under the ECB regulation on payments statistics[7].

6 See also Chapter V "Financial innovation"

7 2024 Report on payment fraud: https://www.eba.europa.eu/sites/default/files/2024-08/465e3044-4773-4e9d-8ca8-b1cd031295fc/EBA_ECB%202024%20Report%20on%20Payment%20Fraud.pdf

2. Supervision of information systems in practice

Supervision includes verifying that supervised entities comply with the legal and regulatory framework, with the direct (or indirect) aim of maintaining or improving the activities' professionalism and resilience, focusing on the technologies used and on the ICT and cyber risk management framework of the supervised entities.

In the context of the off-site supervision of the information systems, the CSSF processed 519 requests in 2024 (-6% as compared to 2023), i.e.:

- 40 applications for authorisation or for the extension of authorisation (IT-related part) for different types of entities (credit institutions, electronic money institutions, payment institutions, PFS);
- 479 requests for advice or notifications or regularisation (-5% as compared to 2023) relating to IT projects submitted by supervised entities (most of them concerned outsourcing, remote access, security of online services or major system changes and specific IT issues). About 37% of the requests for advice or notification originated from credit institutions, 24% from management companies and 19% from specialised PFS.

As regards ICT-related incident notifications, a total of 220 notifications were received in 2024, reflecting an increase of around 90% compared to 2023 and of around 65% from the previous record in 2021. This rise is attributed to several factors, including the major global CrowdStrike outage in the third quarter of 2024, which affected entities across various sectors. Additionally, more incident notifications were submitted in the context of the Circular CSSF 24/847, which came into effect in early 2024.

The majority of reported ICT-related incidents stem from non-malicious causes and are generally referred to as ICT operational incidents. These operational incidents primarily result from human errors and system failures, with the latter being the most prevalent. Most system failures originate from third-party service providers. The CrowdStrike outage underscored the interconnectedness and interdependency of the financial sector.

Approximately 25% of the incidents reported in 2024 were linked to malicious actions. While the number of reported social engineering-related incidents has declined compared to the average of previous years, it remains the most common attack vector over the past four years cumulated, with increasingly sophisticated methods. The most frequently reported attack vector in 2024 was Denial of Service, primarily targeting key third-party service providers and indirectly impacting financial entities. Service availability disruption remains the most common consequence of ICT-related incidents. About 12% of reported incidents were later reclassified by entities as non-major due to the limited impact of the incidents.

As regards the on-site supervision of the information systems, the on-site inspections aiming to cover the IT risk are described in more detail in point 1.12. of Chapter XVIII "Instruments of supervision".

XVI. Supervision of the remuneration policies

The CSSF ensures compliance with the requirements regarding governance and remuneration in the financial sector. The procedures and arrangements implemented by the entities with respect to remuneration form an integral element of robust internal governance arrangements which ensure that risks are managed in an efficient and lasting manner. In 2024, the CSSF continued its review of the remuneration policies and practices within credit institutions and investment firms in order to ensure compliance with the legal and regulatory requirements.

In the context of the higher ratio notifications from credit institutions for the purpose of paying variable remuneration exceeding 100% of the fixed component, the CSSF noted, once again, an improvement in meeting the requirements, in particular, thanks to ever more comprehensive notifications being provided by credit institutions.

However, some institutions still fall short of fully meeting all the requirements regarding higher ratio notifications. In this respect, the main grievance lies in the disregard for the respective roles and powers of the different bodies of the credit institution during the approval process and the lack of sufficiently precise information provided by credit institutions to their shareholders. In 2024, the CSSF observed again that the documents provided by credit institutions did not always clearly demonstrate that the achievement of the environmental, social and governance (ESG) objectives had been taken into account when determining the higher ratio amounts.

Consequently, the CSSF continues to ensure compliance with the procedure set out in Article 38-6(1)(g) of the Law of 5 April 1993 on the financial sector and clarified in Circular CSSF 15/622. During the analysis of future higher ratio notifications, it will also pay particular attention to ESG compliance, especially by credit institutions which were previously reminded of the importance thereof.

Moreover, the CSSF pursues its efforts to ensure compliance with the remuneration requirements through targeted reviews on selected topics and based on a sample of credit institutions and investment firms. Thus, in 2024, it launched a thematic review on variable remuneration of staff engaged in control functions, the analysis of which will continue in 2025. A further thematic review on the processes of identification of material risk takers (MRTs) within credit institutions and investment firms is planned for 2025.

In addition to the recurring annual exercises, the CSSF contributed, in 2024, to the EBA's benchmarking exercise on the gender pay gap. The data collected for Luxembourg, covering a sample of 14 credit institutions and four non-SNI IFR investment firms, revealed the following elements:

- the average gender distribution among all staff was 57.82% men and 42.18% women. This distribution was more uneven among MRTs who were 79% men;
- apart from one non-SNI IFR investment firm, all entities had more men than women among their MRTs;
- on average, the first two quartiles (i.e. the staff in the lower half of the remuneration levels) showed an almost equal gender breakdown, whereas the last quartile of remuneration included 74% of men and 26% of women;
- the average gender pay gap among all the personnel and all the MRTs was 21% and 23%, respectively. However, this gap varied widely among the entities;
- gender pay gap in the first three quartiles was very low (-2% to 3%), while it grew to 19% in the last quartile.

The CSSF also contributed to the EBA's annual benchmarking exercise on remuneration policies and practices for the financial year 2023. No significant failure to comply with the applicable regulations was observed on this occasion, indicating the entities' good understanding and application of these regulations. Although some errors reducing the data quality were identified, they were corrected following exchanges with the entities concerned.

Finally, the CSSF pursued its annual benchmarking exercise of the remuneration practices at national level. In this context, it noted that credit institutions distributed variable remunerations at a lower level than in the previous years, averaging 37% of the fixed component of the remuneration in 2024 for the performance year 2023 (against 44% in 2023 and 45% in 2022). The proportion of the variable remuneration paid out in financial instruments averaged 36% (against 28% in 2023 and 40% in 2022) and the deferred part of variable remuneration averaged 37% (against 30% in 2023 and 39% in 2022).

XVII. Public oversight of the audit profession

1. European cooperation

Established by Regulation (EU) No 537/2014, the CEAOB (Committee of European Auditing Oversight Bodies) is the framework for cooperation between the different public audit oversight authorities in the EU. Among its members are the representatives of the European national authorities, the European Commission and ESMA. Representatives of the EEA national authorities as well as the EBA and EIOPA also participate in the meetings as observers.

The CSSF is an active member of the CEAOB. It chairs the inspection sub-group and is a member of the other sub-groups and of the regulatory colleges for the Big 4[1].

1.1. Specific activities relating to current topics

As part of the implementation of the Corporate Sustainability Reporting Directive (CSRD), the CEAOB published guidelines on limited assurance on sustainability reporting in September 2024. These have been designed to provide assistance and facilitate a common understanding of some of the key aspects of the limited assurance engagement requirements in the absence of relevant international assurance standards fully covering the CSRD requirements.

More detailed information is available on the website of the CEAOB[2].

1.2. Comment letters relating to standard setting proposals

The CEAOB provided its point of view on the following topics:

- IAASB – Exposure Draft on the proposed narrow-scope amendments as a result of the revisions to the definitions of listed entity and public-interest entity in the IESBA Code (April 2024);
- IAASB - Exposure Draft on the revision of ISA 240 relating to fraud (June 2024);
- IAASB - Consultation paper on the proposed strategy and work plan for 2024/2027 (May 2023);
- IESBA – Exposure Draft on using the work of an external expert (May 2024);
- IESBA – Exposure Draft on international ethics standards for sustainability assurance (May 2024).

1 PwC, KPMG, Deloitte, EY

2 https://finance.ec.europa.eu/regulation-and-supervision/expert-groups-comitology-and-other-committees/committee-european-auditing-oversight-bodies_en

1.3. Other publications

In 2024, the CEAOB also published:

- the common audit inspection methodology relating to the revised ISA 600 on group audits;
- the report on the statistical and qualitative study of the activity of the CEAOB members with respect to investigations and sanctions.

2. Legal, regulatory and normative framework of the audit profession

In 2024, the CSSF continued its contribution to the work on the transposition of Directive (EU) 2022/2464 of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. Draft law No 8370, submitted on 29 March 2024, has not yet been passed, as the European Commission proposed an Omnibus directive aimed at simplifying sustainability legislation in order to boost the competitiveness of European businesses.

This initiative aims to reduce and simplify sustainability reporting obligations, notably by reducing the scope of the CSRD, postponing deadlines, simplifying the European Sustainability Reporting Standards (ESRS) and relaxing assurance requirements.

The European Commission has therefore proposed to remove the possibility of switching from a limited assurance requirement to a reasonable assurance requirement, and also to remove the deadline for adopting the limited assurance standard, which was set at 1 October 2026.

However, the European Commission has undertaken to publish guidelines on limited assurance during 2026.

3. Quality assurance review

3.1. Scope of application

By virtue of the Law of 23 July 2016 concerning the audit profession (Audit Law), *réviseurs d'entreprises agréés* (approved statutory auditors) and *cabinets de révision agréés* (approved audit firms) are subject to a quality assurance review of the audit engagements, organised according to the terms laid down by the CSSF in its capacity as oversight authority of the audit profession.

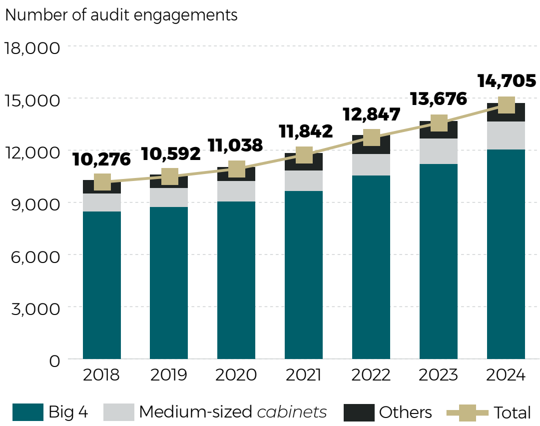
The population of *cabinets de révision agréés* and *réviseurs d'entreprises agréés* that carry out statutory audits is as follows, as at 31 December 2024:

- 51 *cabinets de révision agréés*, 13 of which audit PIEs[3];
- three approved independent *réviseurs* (auditors), none of which audits PIEs.

Based on the data collected through the Annual Declarations for the year 2024, the statutory audit engagements break down as follows between *cabinets de révision agréés* and independent *réviseurs d'entreprises agréés*:

- 82% of the engagements were carried out by the Big 4;
- 11% of the engagements were carried out by medium-sized audit firms[4];
- 7% of the engagements were carried out by the other audit firms and independent *réviseurs*.

Development of market share in statutory audit[5]



3 Public-interest entity

4 Firms that carry out over 100 statutory audit engagements (as at 31 December 2024, five firms were concerned)

5 Source: Annual Declarations collected by the CSSF

3.2. Activity programme for 2024

The CSSF set down a multiannual programme for the control of *cabinets de révision agréés/réviseurs d'entreprises agréés* which aims at observing the legal quality assurance review cycle, being three years for firms that audit PIEs and six years for the other ones. This programme was based on the information transmitted by firms and *réviseurs* through the Annual Declarations relating to their activity.

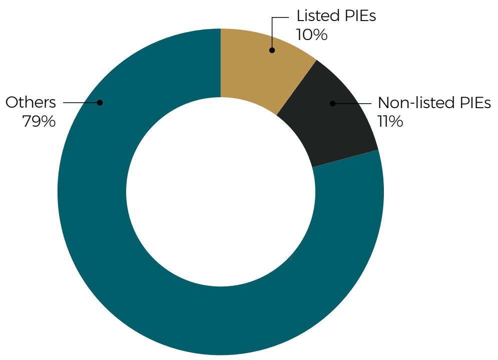
Under the 2024 programme, 13 firms were reviewed, eight of which audit PIEs and 11 are members of an international network. The quality assurance reviews focused on:

- the review of firms' quality management systems in accordance with International Standards on Quality Management 1 and 2 (ISQM);
- the review of a sample of audit files relating to statutory audit engagements of the financial years 2023 and 2022.

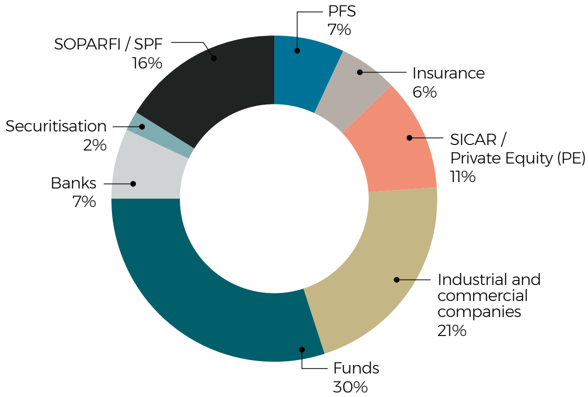
The 13 reviewed audit firms reported[6] a total of 12,179 audit engagements, including 405 in relation to PIEs. Under the 2024 review programme (including specific follow-ups), 170 mandates were reviewed, 36 of which concerned PIEs.

The quality assurance reviews started in January 2024 and were carried out by 10 CSSF inspectors with professional audit experience and expert knowledge in the business areas of the financial centre. These reviews represented a total of 10,394 hours.

Breakdown of audit files reviewed by the CSSF in 2024 per entity type



Breakdown of audit files reviewed by the CSSF in 2024 per sector



It should be noted that for the investment fund sector files, a specific inspection was implemented in addition to the individual review of the audit files. This inspection consists notably of a review of internal controls within the firms in relation to the holding and independent valuation processes of portfolio securities and derivative financial instruments.

3.3. Main issues identified during the 2024 quality assurance reviews

3.3.1. Review of quality management systems

In 2024, the CSSF's review of the firms' quality management system focused mainly on:

- the "Relevant ethics requirements" component;
- the "Ressources" component (including human, intellectual and technological resources as well as service providers);
- the monitoring and remediation process.

With regard to the "Relevant ethics requirements" and "Resources" components, firms have generally implemented the objectives required by the international standard on quality management without defining additional objectives. The associated quality risks are consistent between firms and are derived directly from the objectives, with the larger firms having a greater level of granularity in the risks.

6 Based on the statements of *cabinets de révision agréés* as at 31 December 2024.

In terms of responses to these quality-related risks, the CSSF noted a greater disparity in the nature, timing and extent of these responses in the firms. It should be noted that their respective networks, for the most part, established quality management system requirements which had an impact on the way in which the firms have developed their approach.

Some networks have required responses that include policies, procedures, operational controls and compliance controls, while others have opted for an approach that mainly includes second-level controls aiming to ensure that controls are properly performed by the operational staff. The CSSF is of the opinion that this second approach alone is not sufficient to reduce quality-related risks.

For the components under review, the CSSF identified the following areas for improvement:

- for non-audit services performed for audit clients, with an emphasis on PIEs clients, the CSSF invites firms to monitor these services throughout their performance in order to reduce breaches of ethics rules resulting from the provision of prohibited services. The CSSF reiterates that identified breaches relating to PIEs must be communicated to audit committees and reported in the audit opinion in accordance with Regulation (EU) No 537/2014;

- the CSSF calls on firms to increase staff awareness regarding the importance of annual confirmation of compliance with independence rules in order to reduce breaches of ethics rules, including those relating to the holding of financial instruments in controlled entities or related entities;

- for all ethical breaches identified, the CSSF recommends that firms refine their analysis of the root causes in order to implement corrective measures;

- the CSSF encourages firms that use service centres within their network to review their risks and the responses to them, as well as the monitoring activities carried out, in order to better integrate these services into their quality management system.

Regarding the monitoring process, the CSSF observed that the extent of monitoring activities was proportional to the size of the firm. In medium-sized and large firms that are part of networks, these monitoring activities combine continuous monitoring with periodic monitoring.

Ongoing monitoring, which is generally the responsibility of the operational staff and the risk management, involves ensuring that risk responses are implemented and operating effectively.

Periodic monitoring is carried out by a dedicated team that check, on a sample basis, the effectiveness of operational and compliance controls or inspect completed engagements. Other types of monitoring may also be added, such as inspections of ongoing engagements or monitoring of quality indicators.

For this monitoring process, the CSSF wishes to draw the attention of firms to certain points:

- monitoring activities must cover all the components of the quality management system. However, it is accepted that responses to risks are covered on a rotational basis;

- as regards periodic monitoring, the CSSF draws the firms' attention to the fact that the testing must ensure that the response is operating as intending, taking into account all the attributes of the response. Therefore, simply ensuring that the response has been implemented is not enough;

- the CSSF was not always able to relate the exceptions identified during the testing to the conclusion that there were no findings or indications of a potential deficiency in the quality management system. Indeed, the documentation does not provide any assurance that these exceptions have been reviewed and addressed.

3.3.2. Audit files

The selection of audit files and financial statement items for quality assurance review is based on a risk-based approach, while including certain elements of unpredictability.

The following graphs summarise the main observations made during the 2024 quality inspections.

Main observations issued on the files

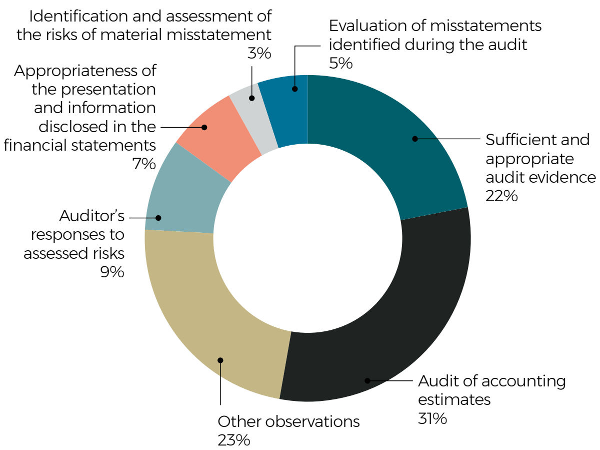
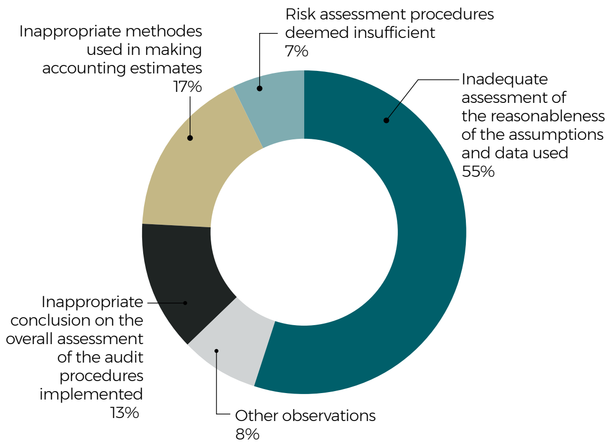


Figure 1: Audit of accounting estimates (AE)



With regard to accounting estimates, the CSSF most often identified deficiencies in the fair value measurement of assets held in the private equity sector, which accounts for a large proportion of business in Luxembourg, since the fair value valuation assertion is one of the riskiest in terms of auditing in this sector.

The CSSF has still identified problems in the valuation of other assets such as intangible assets (in particular goodwill), deferred tax assets and work-in-progress inventories, particularly in the audit of companies in the construction sector.

Given the importance and recurrence of these points, the CSSF proposes to review them in Figure 1.

The deficiencies identified in the collection of evidence are detailed in Figure 2.

The less frequent observations grouped together under “Other observations” concern the following auditing standards in particular:

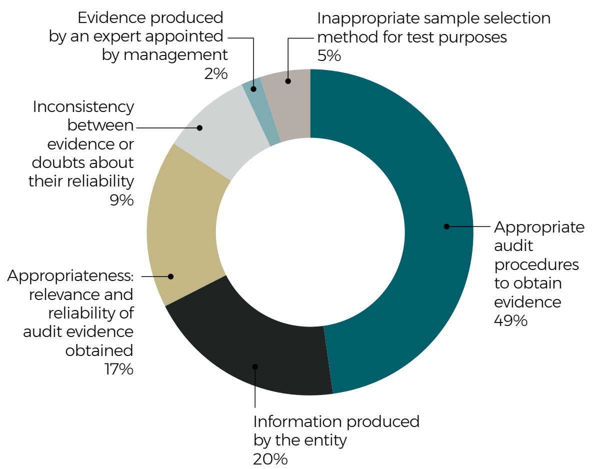
- external confirmations;
- group audits;
- overall objectives of the independent auditor and the conduct of an audit in accordance with ISA standards;
- modifications to the opinion in the independent auditor’s report;
- forming an opinion and reporting on financial statements

Applying ISA 540 once again poses a challenge for auditors. The assessment of accounting estimates, which often requires the exercise of professional judgement and a thorough understanding of the underlying assumptions and models, involves varying degrees of uncertainty, subjectivity and complexity. In addition, obtaining sufficient and appropriate audit evidence for these estimates is sometimes difficult, especially when the data is uncertain or based on future projections. Throughout the audit process, the auditor must use critical thinking and professional judgement to define the appropriate procedures and assess the information to be collected, particularly in light of the degree of uncertainty and complexity associated with the accounting estimate.

To remedy this situation, the CSSF recommends that auditors:

- ensure the appropriateness of the valuation method used by management, and in particular its compliance with the recommendations of the International Private Equity and Venture Capital Valuation (IPEV), where these are mentioned in the valuation principles of the audited entities;
- ensure the reliability of the data and the relevance of the assumptions used by management;
- remove any limitations contained in the conclusions of the valuation experts’ reports used in their audit.

Figure 2: Sufficient and appropriate audit evidence



The findings identified by the CSSF relate to ISA 500 "Audit Evidence" and ISA 330 "The Auditor's Responses to Assessed Risks", paragraphs 25 to 27 of which deal with the sufficiency and appropriateness of audit evidence gathered by the auditor.

The audit procedures performed are not always sufficient to address the assertions for which the auditor intends to gather audit evidence or, are even, in some cases, deemed insufficient. The auditor also too often relies on information produced by the entity without first ensuring its reliability.

The CSSF calls on the auditor to be more critical when it comes to the information intended to be used as audit evidence, and when drawing conclusions on the sufficiency and appropriateness of the audit evidence gathered.

4. Monitoring of preventive measures

In 2024, the CSSF carried out specific follow-ups for two professionals for which material weaknesses were noted in the previous financial years. Under these specific follow-ups, four mandates were reviewed (no PIE). These reviews represented a total of 153 hours.

As a result of these reviews, one professional's specific follow-up was closed.

During the 2024 activity programme, the following conclusions were addressed to the firms and *réviseurs d'entreprises agréés* based on the 10 finalised quality assurance reviews:

- a training plan was given to one *réviseur d'entreprises agréé*;
- one *réviseur d'entreprises agréé* was subjected to a specific follow-up.

5. Overview of the population of *réviseurs d'entreprises* in Luxembourg

5.1. Access to the profession

5.1.1. Activities of the Consultative Commission for the Access to the Audit Profession

The Consultative Commission's task is, among others, to verify the theoretical and professional qualification of the candidates for the access to the audit profession in Luxembourg, as well as that of the service providers from other Member States wishing to exercise the activity by way of free provision of services.

The commission met seven times in 2024 and analysed the files of 159 candidates, against 131 in 2023.

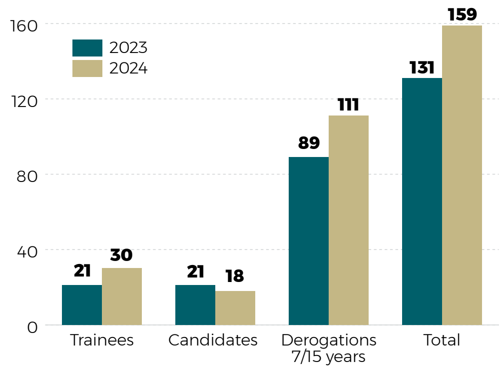
In 2024, the access to training was refused to 11 candidates (7%) as the number of subjects still to be completed based on their administrative certificate was greater than four.

There are three categories of candidates:

- trainee *réviseurs d'entreprises*;
- foreign candidates;
- candidates applying for an exemption based on their professional experience of either 7 or 15 years.

Graduation ceremony

Development in the number of application files submitted to the Consultative Commission



84% of the candidates came from the "Big 4". As regards the nationality, most of the candidates came from France (20%), followed by Belgium (11%), Germany (10%) and Luxembourg (9%). The remaining 50% originated from various other countries.

5.1.2. Examination of professional competence in 2024

The CSSF administrates the examination of professional competence in accordance with Articles 5 and 6 of the Grand-ducal Regulation of 14 December 2018 determining the requirements for the professional qualification of *réviseurs d'entreprises*.

Based on the decision of the examination jury, the CSSF granted the title of "*réviseur d'entreprises* (statutory auditor)" to 23 out of the 67 candidates registered for the written and oral exams of the examination of professional competence.

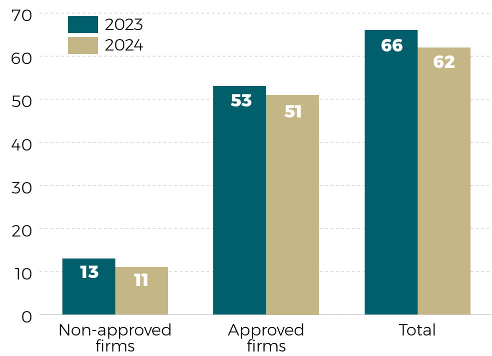
5.2. Public register

The public register of *réviseurs d'entreprises agréés*, *cabinets de révision agréés* and third-country auditors and audit entities is available on the CSSF website (https://audit.apps.cssf.lu).

5.2.1. National population as at 31 December 2024

- **Development in the number of *cabinets de révision* (audit firms) and *cabinets de révision agréés***

The total number of *cabinets de révision* and *cabinets de révision agréés* amounted to 62 as at 31 December 2024, against 66 as at 31 December 2023.



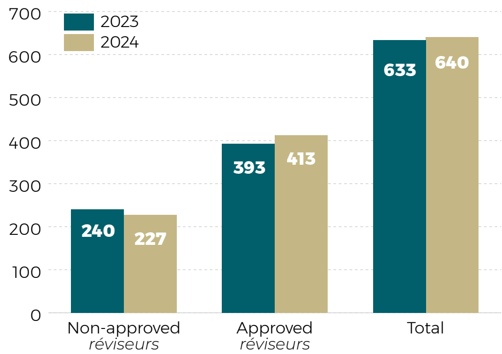
The following firms were approved in 2024:

- AUDITPRO PARTNERS S.À R.L.
- Afileon Lux WP S.A.S

In 2024, four firms gave up their approval and have also abandoned the title of "*cabinet de révision* (audit firm)" and two *cabinets de révision agréés* returned their title.

- **Development in the number of *réviseurs d'entreprises* and *réviseurs d'entreprises agréés***

The total number of *réviseurs d'entreprises* and *réviseurs d'entreprises agréés* amounted to 640 as at 31 December 2024, against 633 as at 31 December 2023.



In 2024, the CSSF granted the title of "*réviseur d'entreprises* (statutory auditor)" to 31 people and approved 38 *réviseurs d'entreprises*. However, 18 *réviseurs d'entreprises* abandoned their approval.

The population consisted of 69% men and 31% women. The average age of the *réviseurs* was 46.32 years for women and 46.70 years for men.

- **Development in the number of candidates for the audit profession**

The total number of trainee *réviseurs d'entreprises* amounted to 74 as at 31 December 2024, against 70 as at 31 December 2023, which is a 5% increase. The population consisted of 57% men and 43% women. The average age of the trainees was 34.38 years for women and 35.45 years for men.

The number of candidates exempted based on their professional experience of either 7 or 15 years in the financial, legal and accounting areas amounted to 281 as at 31 December 2024, against 221 as at 31 December 2023, i.e. a 27% increase. The population consisted of 67% men and 33% women. The average age of these candidates was 35.77 years for women and 36.58 years for men.

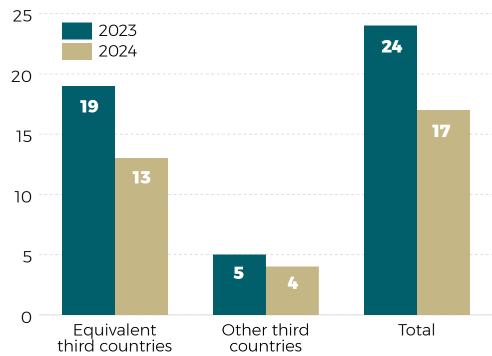
It should be pointed out that 77% of the population of trainees came from the Big 4.

5.2.2. Third-country auditors and audit firms

The number of third-country auditors and audit entities that provide an auditor's report on the annual or consolidated financial statements of a company incorporated outside an EU Member State, whose securities are admitted to trading on the regulated market of the Luxembourg Stock Exchange, decreased in 2024. Indeed, six entities did not renew their registration during the financial year as their activities no longer fell within the scope of the amended Directive 2006/43/EC.

The public register listing all registered third-country auditors is available on the CSSF website.

Breakdown of registered third-country auditors



6. Cooperation agreements

The CSSF did not sign any new cooperation agreement in 2024. The agreements previously concluded are available on the CSSF website.

XVIII. Instruments of supervision

1. On-site inspections

On-site inspections are in-depth investigations which provide a better understanding of the functioning and activities of the supervised entities and allow the assessment of the risks to which these entities are exposed and their compliance with the laws and regulations. In general, on-site inspections are proposed, on an annual basis, by the supervisory departments which have developed a dedicated risk-based approach to determine which professionals must undergo an on-site inspection. Subsequently, an annual planning is established and validated by the Executive Board of the CSSF. Any change, insertion or deletion in this annual planning must be subject to a formal validation.

The "On-Site Inspection" (OSI) department is in charge of conducting on-site inspections of banks[1], payment institutions, electronic money institutions, UCIs as well as their management companies[2], investment firms, specialised PFS, support PFS, virtual asset service providers and financial market participants. Moreover, the OSI department coordinates on-site inspections of Luxembourg significant banks with the "On-Site & Internal Model Inspections" department of the ECB with respect to the topics addressed by the SSM.

On-site inspections relating to IT are carried out by a specialised team within the "Supervision of information systems and support PFS" department. The subjects covered during these inspections as well as the main weaknesses identified are detailed in point 1.12. below.

To fulfil all its tasks, the OSI department's staff remained stable with 80 agents, representing 75.6 full-time equivalents, as at 31 December 2024. A team composed of eight agents, representing seven full-time equivalents as at 31 December 2024, of the "Supervision of information systems and support PFS" department that is specialised in IT on-site inspections has to be added to this figure.

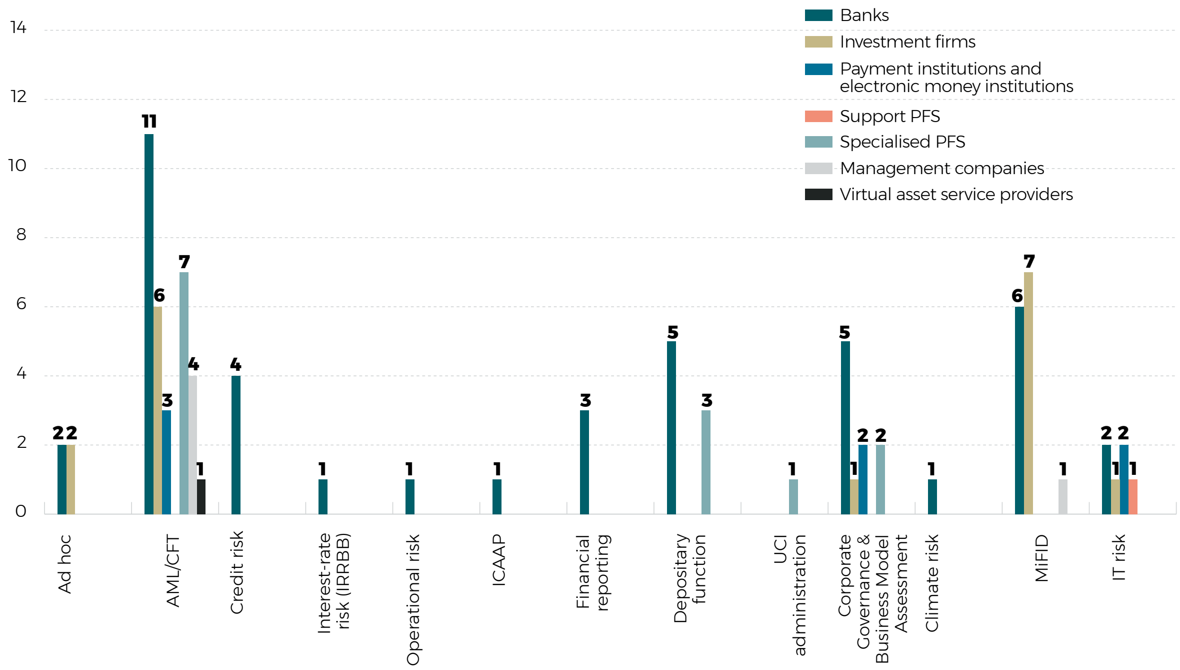
The teams in charge of on-site inspections are set up based on the nature, scale and scope of the missions and usually involve the agents of an on-site inspection department and, in certain cases, off-site supervisory departments.

Each on-site inspection results in the drafting of an internal report on the controls performed and the weaknesses identified during the mission by the team in charge of the mission. The observations are then shared with the professionals during a fact validation meeting. Generally, on-site inspections are always followed by an observation letter that is

1 This includes on-site inspections of less significant banks which are not directly subject to the SSM and AML/CFT, MiFID, depositary bank, UCI administration and EMIR on-site inspections of significant and less significant banks as these topics are not directly covered by the SSM. The inspections of credit institutions regarding authorisations to use internal models for own funds requirements are excluded from the scope of activities of the OSI department. These inspections are carried out by a dedicated team within the Banking departments.

2 Only for MiFID and AML/CFT and for the activity of transfer agent and individual management.

Breakdown of the on-site inspections carried out in 2024 by topic and type of entity (excluding UCI departments)



sent to the inspected professional. In the event of more serious failures, the CSSF analyses whether it needs to launch an injunction procedure or a non-litigious administrative procedure in order to impose an administrative sanction pursuant to the sectoral laws in force. The administrative sanctions and prudential enforcement measures are described in detail in point 2. of this chapter.

In accordance with the Grand-ducal Regulation of 23 December 2022 relating to the fees to be levied by the CSSF, a lump sum is billed for every on-site inspection relating to a specific topic. This lump sum amounts to EUR 25,000 for banks, to EUR 10,000 for the other entities and to EUR 1,500 for agents acting on behalf of a payment institution or electronic money institution.

In 2024, 133 on-site inspections were conducted by the CSSF departments:

- 47 of these inspections were performed by the UCI departments and are set out in point 4.3. of Chapter X "Supervision of investment fund managers and UCIs";
- 80 of these inspections were carried out by the OSI department (cf. points 1.1. to 1.11. below);
- six of these inspections were carried out by the "Supervision of information systems and support PFS" department (cf. point 1.12. below).

1.1. Ad hoc on-site inspections

Ad hoc on-site inspections are intended for the investigation of a given situation or a specific, sometimes worrying, issue related to the professional. This particular situation of the professional has in principle already been observed in the context of the off-site prudential supervision. Such missions may either be planned or occur unexpectedly. The nature and scale of ad hoc inspections may vary significantly and, consequently, determine the composition and size of the on-site inspection teams.

In 2024, four ad hoc on-site inspections were performed. In addition, two ad hoc on-site inspections which had started earlier continued in 2024. They concerned, in particular, governance and anti-money laundering and countering the financing of terrorism issues. The ad hoc team also supported one "MiFID" on-site inspection.

1.2. "Anti-money laundering and countering the financing of terrorism" (AML/CFT) on-site inspections

AML/CFT on-site inspections are described in detail in point 1.2. of Chapter XXI "Financial crime" which relates more particularly to the CSSF's supervision with respect to AML/CFT.

1.3. "Credit risk" on-site inspections

The purpose of "Credit risk" on-site inspections is to verify the soundness and prudence of credit risk management within credit institutions. They are performed based on the credit risk methodology prepared by the ECB.

In 2024, the CSSF carried out four missions on credit risk in Luxembourg at less significant banks. Moreover, as regards significant banks within the SSM framework, the CSSF carried out one inspection in Luxembourg and participated in one inspection abroad.

Inspection teams also took part in two "deep dive" inspections, one at a significant bank and another at a less significant bank.

During the on-site inspections, the CSSF identified several weaknesses, as detailed below.

With regard to the risk appetite statement, the CSSF noted that the defined risk indicators and thresholds may not be adapted to the risks incurred and may not assess the institution's capital capacity to absorb credit losses. Furthermore, these indicators lacked forward-looking elements and did not foresee the monitoring of the institution's overall credit exposure limit.

In addition, the resources allocated to the risk management function were sometimes insufficient, with limited local involvement compared to the tasks delegated and carried out at group level. This limitation sometimes led to a lack of direct and easy access to credit-related data stored at group level.

In the case of intra-group outsourcing, notably in the case of branches whose parent company is located in a third country, the CSSF noticed that the local supervision was insufficient and often inadequate, frequently lacking relevant Key Performance Indicators (KPIs) and monitoring of the KPIs provided for in the Service Level Agreement (SLA). Furthermore, the update of the outsourcing risk assessments was incomplete, as some elements were either not assessed or not detailed enough.

The CSSF found that the credit-granting process, especially in relation to real estate development, was not always based on a sufficiently in-depth analysis of the borrower's creditworthiness. In some cases, this analysis relied on outdated financial statements, and above all did not provide an overview of the debtor's solvency and cash flows. Furthermore, sensitivity analysis or critical review of the financial assumptions by the debtor were missing. In one case, the procedures incorrectly stated that the risk management function was responsible for credit approval.

The CSSF also identified weaknesses in the management of defaulted exposures, noting that an identical set of criteria was incorrectly used both for watchlist classification and for identifying exposures showing signs of unlikeliness to pay (UTP). Indeed, expert judgement was applied without clearly established and documented rules. From a quantitative perspective, the absence of risk criteria (apart from Days Past Due counting) was noted, as was the absence of indicators/ratios in the bank's systems to warn of a potential increase in credit risk (SICR/watchlist or UTP/default).

Regarding Lombard loans, the CSSF noticed, in some cases, a monthly monitoring frequency which was deemed insufficient. Furthermore, the margin call process was sometimes undocumented and not regularly reviewed, with methodological weaknesses preventing the timely initiation of margin calls. Additionally, the financial covenants in loan contracts were not monitored effectively. These points were also raised in the CSSF's FAQ of 29 March 2024.

Furthermore, the CSSF observed weaknesses in the SICR (Significant Increase in Credit Risk) assessment, both in terms of the quantitative approach (faulty calibration, use of a stand-alone absolute threshold, and PD threshold too high to trigger SICR) or the qualitative aspects (undocumented and with no real impact).

In respect of real estate collateral, whether for residential loans or real estate development financing, on-site inspections revealed weaknesses in their valuation, which were mostly carried out/decided by the first line of defence, thus failing to ensure the independence of the valuation process. Moreover, these were not always in line with the European valuation standards, nor were they sufficiently detailed to be able to assess the underlying assumptions. As regards real estate development, the valuation was sometimes based on the value of the share of land, bypassing commonly used market methods, such as the residual value method. In addition, it included climate and environmental risk factors that ultimately had no impact on the retained value. Finally, it was not documented in an approved valuation methodology.

With regard to the Expected Credit Loss (ECL) provisioning model, the CSSF observed that in some cases it did not take into account the high default rate associated with bridging loans, thereby underestimating the related impairment. In addition, a grouping of credit exposures based on the internal rating of the financial instrument was deemed inappropriate. The internal rating was based mainly on behavioural data, whereas bridge loans do not share all the same risk factors as standard residential loans. While traditional loans mainly carry solvency risk, bridge loans entail an additional major refinancing risk. Finally, ECL model governance showed weaknesses in the analysis, monitoring and validation.

As regards the individual provisioning of defaulted/stage 3 debtors, the CSSF also noted sometimes the application of flat-rate haircuts without any scenario analysis, back-testing or justification. This process was applied uniformly to both residential loans and real estate development exposures.

Following the review of a sample of credit files as part of several of these on-site inspections, the CSSF requested some reclassifications into forborne, stage 2 or stage 3/default, along with the application of additional provisions and related probation periods.

1.4 "Interest rate risk" on-site inspections

"Interest rate risk" or "Interest rate risk in the banking book (IRRBB)" on-site inspections aim to assess how interest rate risk arising from non-trading activities is managed and to assess the stress test results. They are performed based on the interest rate risk methodology prepared by the ECB.

In 2024, the CSSF carried out a mission of this type at one less significant Luxembourg bank. Moreover, as regards significant banks within the SSM framework, the CSSF carried out two on-site inspections abroad.

The shortcomings identified concerned in particular the following aspects:

- the management and the board of directors had not entrusted the risk management function with sufficient authority and stature to enable it to carry out independent analyses and give its opinion on possible deficiencies in the models developed by the group;
- the responsibility for identifying and quantifying the IRRBB was centralised within the group's treasury function, with no local review;
- the IRRBB model management process was not covered by an SLA;
- the subject was not adequately covered by the internal audit, and its reports contained conclusions that were insufficiently supported by documented analyses and tests.

1.5. "ICAAP" on-site inspections

The purpose of "ICAAP" on-site inspections is to control the internal capital adequacy assessment process. In the context of these missions, the CSSF verifies that the bank has set up an appropriate process to maintain an adequate level of capital in order to ensure continuity of its activities. The CSSF moreover ensures that the bank integrates the ICAAP into its decision-making and risk management processes and that it calculates the appropriate level of capital in the normative and economic perspectives, reflecting its risk profile. It verifies the adequacy of stress tests as well.

In 2024, the CSSF carried out an ICAAP mission at one less significant bank in Luxembourg.

The main observations were the following:

- incomplete procedural framework for ICAAP elaboration;
- absence of a multi-year business strategy capturing financial interests, liquidity elements and risk appetite beyond one year;
- incorrect or inaccurate information reported in the capital planning section of the reporting;
- absence of an economic view in the ICAAP report, making it impossible to verify that the capital was adequate to address economic risks;
- insufficient severity and completeness of stress test scenario assumptions.

1.6. "Financial Reporting" on-site inspections

The aim of the "Financial Reporting" on-site inspections is to verify the correct application of the regulatory requirements (governance, completeness, reconciliation) at the level of the FINREP, COREP or LAREX prudential reporting.

In 2024, the CSSF carried out three "Financial Reporting" on-site inspections at three less significant banks in Luxembourg.

The observed shortcomings mainly concerned the following elements:

- poor governance and implementation of the COREP and FINREP reporting requirements, with many manual adjustments difficult to trace back;
- inconsistent procedures and absence of several key stages in the preparation of the reporting;
- weaknesses in the LAREX monitoring by the risk management function, i.e. failure to document controls carried out, failure to inform the management in the event of problems, with also insufficient information on certain weaknesses in its annual report to the CSSF;
- misapplication of Article 390 of the CRR on the calculation of the LAREX exposure value;
- low level of involvement of the management and the board of directors in monitoring breaches of LAREX limits and related impacts.

1.7. "Operational risk" on-site inspections

"Operational risk" on-site inspections, excluding internal models and ICT risk, aim to verify how the operational risk is identified, controlled, managed and measured by credit institutions. They also include outsourcing-related inspections. They are performed based on the operational risk methodology prepared by the ECB.

In 2024, the CSSF carried out an inspection on the operational risk, including outsourcing, at one less significant bank in Luxembourg. Moreover, as regards significant banks within the SSM framework, the CSSF conducted one on-site inspection in Luxembourg.

The shortcomings identified concerned notably the following topics:

- incomplete outsourcing management framework: outsourced services and related tasks/responsibilities were not included in the outsourcing contracts, nor were monitoring indicators;
- insufficient progress in the implementation of data management requirements, in particular the aggregation of risk data and risk reporting;
- lack of harmonisation and rigour within the group's various banking entities as well as erroneous and non-harmonised customer data in the main banking system.

For the monitoring of outsourced activities, several indicators reported in the dashboard were poorly consolidated or incomplete, resulting in the transmission of erroneous information to the executive committee. When an indicator limit was breached, it was impossible to determine from the minutes of these committees what corrective measures had actually been applied, and the board of directors was sometimes not timely informed.

A lack of visibility over the incidents collected at group level and occasionally incomplete incidents reported to the executive committee were identified in the management of operational risk incidents.

1.8. "Depositary function" on-site inspections

In 2024, the CSSF carried out eight on-site inspections on the depositary function, five of which at banks and three at specialised PFS authorised as professional depositary of assets other than financial instruments.

As part of these inspections, the CSSF verified whether the supervised entities carry out the depositary function in compliance with the existing laws and regulations. These inspections covered, in particular, the procedures and controls implemented with respect to the process of acceptance of new mandates, the safekeeping of the various asset classes, including the operating models and due diligence processes and the supervision of delegated custodians, the specific oversight duties, including the risk assessment and the due diligence as regards the parties involved in UCI management, as well as the cash flow monitoring. These inspections also covered the review of compliance with the conflicts of interest management requirements that can occur either due to the organisation of the depositaries with respect to the various services provided to funds, or due to the possible link with IFMs.

As regards the safekeeping of the other assets, the CSSF identified several recurring weaknesses in the ownership verification for other assets. The observations focused mainly on the following subjects:

- **Review of the verification processes regarding the asset registrations within the IFMs**

The depositary must ensure that the IFM establishes and applies appropriate procedures to verify that the assets acquired by the AIF are appropriately registered in the name of the AIF, and to verify the consistency between the positions shown in the records of the IFM and the assets for which the depositary has established that the AIF holds the ownership. Specifically, the CSSF expects that, particularly in the context of investments in alternative asset classes, the processes for monitoring transactions and registering ownership of assets within the IFMs' organisation will be checked for suitability and effective implementation.

- **Determination of asset ownership based on external evidence**

Depending on the asset class concerned, the CSSF reiterates the need to establish and periodically confirm the registration of asset ownership based on external evidence such as extracts from third-party registers (land registers, trade registers, etc.).

- **Application of the look-trough principle**

The aim of the look-trough principle to be applied in the context of safekeeping duties is to ensure that these are not circumvented in the event of indirect investment in target assets through intermediate legal structures set up by the AIFM.

In practice, the CSSF expects depositaries to apply this principle on the basis of an analysis taking into account, in particular, the target assets as referred to in the AIF's investment policy, the holding chain and the control of these assets by the AIF, but also, depending on the complexity of the case, the AIF's management process in a broad sense, including the asset valuation and risk management process. Specifically, the review of the asset holding chain must identify the structures established by the AIFM or AIF and take into account all elements of direct and indirect control. The ultimate aim of this requirement is to ensure that the depositary's supervisory model for these AIFs is aligned with their management and administration process.

- **Monitoring of transactions on illiquid assets**

Regarding the duties of safekeeping of other assets and the oversight duties relating to the transaction settlement, the CSSF noted a recurring number of cases where the monitoring of transactions on illiquid assets had not been organised in such a way as to enable the depositary to verify the existence and compliance of the transactions prior to the remittance of the corresponding amount. This observation was made mainly, but not exclusively, in situations where cash accounts were not held with the depositary. In these circumstances, the transactions had not been subject to prior notification by the IFMs, and had been identified ex-post, and at the earliest through cash flow monitoring controls. The CSSF's expectations in this respect were clarified in a communication dated 24 July 2024.

Furthermore, with respect to the general principles governing the oversight duties, the CSSF recurrently notes that supervision of tasks under the direct responsibility of the IFMs does not systematically include a process for assessing the risks associated with the UCI strategy and internal controls within the IFM's organisation. Depositaries in particular are expected to assess the specific or complex elements of UCIs strategies in order to include them exhaustively in the scope of the ongoing supervision and periodical controls. Furthermore, the IFMs' control environment and their delegates must be, as the case may be, subject to an assessment providing assurance on its adequacy and effective implementation, i.e. an assessment that is not based only on descriptions provided in response to due diligence questionnaires. The results of this assessment must be taken into account to determine the methods to be applied (review of the IFMs' control results and/or independent control) for periodical controls.

In addition, in accordance with the communiqué of 18 July 2023 on the CSSF's expectations following ESMA's Common Supervisory Action on asset valuation, it is reminded, as regards the obligation relating to the control of the value of the units or shares, mainly relating to UCIs investing in illiquid alternative assets, that the depositary must:

- verify, as part of the due diligence on IFMs, that asset valuation policies and processes are established in compliance with the regulatory requirements;
- ensure, as part of the periodical controls, that valuation policies and procedures are effectively implemented.

As regards certain aspects of governance, recurring points for improvement have been identified, notably in relation to the process of acceptance of new mandates and delegation. In particular, the initial analysis of the risks associated with new mandates is expected to be established on the basis of a minimum of qualitative information on aspects of ownership control and asset valuation within the IFMs' organisation.

In the event of delegation of the oversight and cash flow monitoring tasks, the CSSF expects a preliminary analysis of the envisaged arrangements to ensure that they are limited to support tasks complying with the criteria defined in the ESMA Questions and Answers published in 2022 (ESMA34-32-352 AIFMD; ESMA34-43-392 UCITS Directive).

1.9. "UCI administration" on-site inspections

The purpose of "UCI administration" on-site inspections is to ensure the proper implementation of the obligations arising from Circular CSSF 22/811 on the authorisation and organisation of entities acting as UCI administrators.

In 2024, the CSSF carried out one on-site inspection at a UCI administrator.

From this type of inspection, it is typically found that the delegation of tasks to other group entities is widely used for efficiency purposes, whether in relation to the NAV calculation or the maintenance of the UCI's unit/shareholder register. The CSSF reminds that the local entity must have contracts in place that comply with the applicable regulations and set out the administration services actually delegated, as well as each delegate's role and responsibility. In addition, the local entity is expected to ensure appropriate monitoring of delegated tasks, so that they remain under its control at all times. In addition, the CSSF expects due diligence carried out on the delegates to be adequate so as to cover the UCI administration tasks actually performed.

1.10. "Corporate Governance", "Business Model and Profitability Assessment" and "Climate risk" on-site inspections

In 2024, 10 "Corporate Governance" on-site inspections were carried out at credit institutions, payment institutions, electronic money institutions, investment firms and specialised PFS. In addition, within the SSM framework, the CSSF carried out or participated in two inspections of this kind at two significant banks, including one established in Luxembourg.

In 2024, the CSSF carried out one on-site inspection at a credit institution in relation to climate and environmental risk and carried out another inspection of that type at a significant bank established in Luxembourg within the SSM framework.

The main aim of on-site inspections relating to the climate and environmental risk is to assess the extent to which financial institutions have integrated climate and environmental risks into their governance and internal control arrangements. Through these inspections, the CSSF wishes to ensure that these institutions are aware of the climate and environmental risks to which they are exposed, and that they have integrated them proportionately into their strategy and their risk management framework.

The CSSF also performed one "Business Model and Profitability Assessment" on-site inspection at a significant bank abroad within the SSM framework.

These on-site inspections aim to verify the way an institution's business and risk strategies are linked while pursuing its medium and long-term financial interests. The main purpose of these missions is to better understand the sources of income and to identify vulnerabilities as regards profitability. Thus, a Business Model & Profitability Assessment is an in-depth assessment of the viability and sustainability of an entity.

The objective of "Corporate Governance" on-site inspections is to assess the quality of the governance framework set up by the professionals, taking into account the legal and regulatory requirements. Thus, the overall internal governance arrangements, the "head of group" function carried out by a Luxembourg entity over its subsidiaries or branches, the organisation and effectiveness of the internal control functions of an entity, the remuneration policies, the aggregation and reporting of risk data or in addition the outsourcing organisation, may be subject to such an inspection.

The "Corporate Governance" on-site inspections mainly concerned the functioning of the board of directors, the authorised management, their committees and the internal control functions, as well as their mutual collaboration.

The major weaknesses, by recurrence or severity, observed in 2024 at the level of the boards of directors and their specialised committees relate to the exercise of their responsibilities, and in particular shortcomings in terms of appointment, succession plan and individual and collective assessments of the entity's key function holders, as well as the failure to take potential and existing inherent conflicts of interest into account. In addition to these shortcomings, there was a lack of approval of the governance framework of the inspected entities, and in particular of their strategy, whether operational or risk-related, as well as a failure to implement and follow up on the recommendations of the internal control functions, the supervisor and the *réviseur d'entreprises agréé* (approved statutory auditor). Deficiencies were also identified, such as the lack of the board of directors' approval of key internal policies and procedures, the absence of a review of the internal control framework, and the failure to put in place a comprehensive, structured and up-to-date framework for the governance of the management body and internal control functions. In addition, critical gaps have been observed in the documentation of business strategies, as well as problems of completeness and consistency in establishing the risk appetite of certain inspected entities.

Finally, the observations made in respect of the management of conflicts of interest included an inadequate process for the identification, the recording and the management of such conflicts, as well as a lack of centralisation and insufficient mitigation measures.

The main shortcomings identified at the level of the authorised management and management committees concerned their responsibilities and their functioning, and in particular the lack of consideration and inadequate implementation of the measures to mitigate the weaknesses identified by the internal control functions, as well as the inadequate framework of the entity for outsourcing activities and the process for their monitoring.

In addition, shortcomings were observed in terms of lack of formalisation in the organisation of the management committees and in the exercise of the authorised management's responsibilities, particularly in terms of internal control and the monitoring of the decisions taken. Finally, weaknesses were observed in certain cases in terms of effective presence of the decision-making centre and the permanence of the authorised management in Luxembourg.

Significant shortcomings were observed in the compliance function. These mainly concerned the absence of capacity planning at the compliance function level, the inadequate planning of resources, and failure to take strong signals of resource shortages into account.

In addition, weaknesses were found in the completeness of the compliance risk assessments (some being based primarily on money laundering and terrorist financing risks, to the detriment of other compliance risks faced by supervised entities), and in the resulting compliance monitoring plan. The incompleteness of the reports issued by the internal control functions to the management bodies has also been repeatedly established.

As far as the risk management function is concerned, gaps were observed in the performance of the tasks of risk identification, assessment and measurement by the local risk management function, in the adequate definition of the approval process, and in the absence of veto rights, risk analysis and documentation by the credit committee of a supervised entity. Finally, deficiencies were identified in terms of the lack of exhaustive risk identification and the failure to produce key indicators and limits for controlling and managing risks, providing only a partial view of the risks incurred.

Several on-site inspections revealed gaps in the quality of the internal audit function's work, be it in regard to the definition of its scope of activity or the absence of a documented and comprehensive risk-based internal audit plan, resulting in insufficient control of the risks to which supervised entities are exposed.

Lastly, a lack of resources within the internal audit function was found, and in the case of entities belonging to a group, a lack of knowledge of the local regulatory requirements to ensure adequate coverage of the audit plan.

1.11. "MiFID" on-site inspections

The purpose of "MiFID" on-site inspections is to assess whether the implemented MiFID framework is in line with the legal and regulatory requirements as regards investor protection and the related organisational measures.

In 2024, the CSSF carried out 14 "MiFID" on-site inspections at credit institutions, investment firms and management companies authorised under Chapter 15 of the 2010 Law.

Eight out of the 14 inspections had a limited scope which allowed focusing on a MiFID theme or on a group of themes according to the risk assessment of the off-site supervisory departments. These inspections notably covered the organisational requirements governing the provision of investment services and activities, the product governance, the client categorisation, the suitability assessment of investment products or services, the principles of best execution of orders or the provision of information and reports to clients.

The following most important weaknesses, in terms of frequency or seriousness, were identified during the full or partial scope "MiFID" on-site inspections of 2024:

- deficiencies relating to the collection of MiFID information, the suitability or appropriateness assessment of the products and services proposed and the suitability report to be provided to the clients;
- deficiencies as regards the identification of conflicts of interest and insufficient arrangements to prevent or manage these situations;
- shortcomings relating to the identification and analysis of remuneration, commissions or benefits paid or received in connection with the provision of investment services;
- insufficiency of the measures in place regarding product governance at the level of the product manufacturing and distribution activities as well as at the level of information sharing among the relevant stakeholders;
- shortcomings identified in the controls performed by the internal control functions (linked, in particular, to the risk assessment and identification, the non-exhaustivity of the themes covered and insufficient formalisation of the controls carried out by the compliance and internal audit functions).

It should be noted that in 2024, the thematic scope of five out of the 14 inspections also covered the verification of the compliance of the framework put in place by the entities to integrate the sustainability principles into its product governance and suitability assessment processes for investment products or services.

1.12. "IT risk" on-site inspections

The "Supervision of information systems and support PFS" department includes a specialised team in charge of conducting IT on-site inspections at the supervised entities. In 2024, this team performed six on-site inspections at two credit institutions, one investment firm, two payment institutions and one support PFS. It also participated in on-site inspections, within the SSM framework, at two significant banks in Luxembourg and one significant bank abroad. Moreover, it cooperated with another CSSF team in carrying out one AML/CFT on-site inspection.

Following the significant changes introduced by Regulation (EU) 2022/2554 of 14 December 2022 on digital operational resilience for the financial sector (DORA), the CSSF has actively contributed to an ECB working group in order to update and harmonise the practices of IT on-site inspections within the SSM framework. As a reminder, DORA is applicable to EU financial entities from 17 January 2025.

The main shortcomings, in terms of frequency or seriousness, identified in 2024 during the "IT risk" on-site inspections concerned:

- IT security, including in particular the management of obsolete IT systems and their configurations in order to protect them from malicious events, the information security testing framework, the management and remediation of critical vulnerabilities as well as the monitoring of the events related to IT security;
- management of IT changes;
- management of logical access, with an excessive use of privileged generic accounts (e.g. for daily IT activities), privileged nominative access rights not restricted according to the principle of least privilege, accesses not subject to activity logging and to appropriate monitoring controls allowing identifying suspicious activities in due time and ensuring accountability for the activities performed, and access rights not subject to appropriate review;
- management of IT risks, with limited IT risk management activities (e.g. absence of an information asset mapping supporting the "business" functions and the "support" processes, absence of information asset classification according to criticality, absence of comprehensive and regular risk identification and assessment exercises, poor description of IT risks, unjustified assessment of the IT risk level, inadequate assessments of the controls, erroneous risk level calculation methodology, incomplete risk treatment plans and absence of IT risk monitoring and information reporting to the management), or a lack of independence and objectivity of the internal control function responsible for the management of IT risks;
- internal audit, notably with the absence of an adequate and formalised risk assessment to establish the internal audit plan, partial coverage of IT activities, weak quality of audit work with a lack of depth in the audit procedures or a very limited description of audit tests and their results, issues of competence to assess IT risks and inefficient follow-up of IT audit observations and corresponding corrective measures;
- non-compliance with the second Payment Services Directive (PSD2), concerning security measures and strong customer authentication;
- IT governance, in particular poor oversight by the management body over IT activities and related risks;
- outsourcing, in particular absence of a criticality assessment of the outsourced activities, incomplete contractual provisions (in particular with the parent companies) and insufficient monitoring of the performances and risks of the IT service providers.

2. Decisions as regards administrative sanctions and prudential enforcement measures taken in 2024

In 2024, the CSSF took the following decisions with respect to administrative sanctions and prudential enforcement measures. It should be noted that the total amount of fines imposed in 2024 amounted to EUR 11,076,929.

2.1. Credit institutions

In 2024, the CSSF imposed three administrative sanctions on credit institutions and one administrative sanction on a shareholder of a credit institution. Only sanctions published on the date when this report was drafted are detailed here[3].

A fine of EUR 3,000,000 was imposed on a credit institution for non-compliance with the AML/CFT professional obligations, pursuant to Article 2-1(1), Article 8-4(1), (2) and (3), and Article 8-5 of the Law of 12 November 2004 on AML/CFT.

A reprimand was issued against a credit institution based on Article 6(2) and (4), of the Law of 19 December 2020 on the implementation of restrictive measures in financial matters, and Article 8-4(2) of the Law of 12 November 2004 on AML/CFT, for failure to comply with the professional obligations relating to restrictive measures in financial matters.

3 In principle, sanctions are published by the CSSF, except where otherwise provided for by the sector-specific laws, the compliance with which is the responsibility of the CSSF.

Another reprimand was imposed on a credit institution pursuant to Article 6(4) of the Law of 19 December 2020 on the implementation of restrictive measures in financial matters, and Article 8-4(1) and (2)(b) of the Law of 12 November 2004 on AML/CFT, for failure to comply with the professional obligations relating to the implementation of restrictive measures in financial matters.

A shareholder of a credit institution was fined EUR 97,500 pursuant to Article 63-1(1)(c) and Article 63-1(2)(c) of the Law of 5 April 1993 on the financial sector for non-compliance with the notification requirement of Article 6(5) of that law, transposing Article 22(1) of Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

2.2. Investment firms

In 2024, the CSSF imposed four administrative fines (against three in 2023) on investment firms as legal persons.

Pursuant to the provisions of point (2) of Article 63-2a(1) and point (6) of Article 63-2a(4) of the Law of 5 April 1993 on the financial sector, the CSSF imposed an administrative fine of EUR 20,000 for non-compliance with the notification obligations laid down in Article 18(17) of this law, as the investment firm failed to inform the CSSF "without delay" of the changes in its structure of direct and indirect shareholders in 2022 and 2021.

Pursuant to the provisions of Article 63-2a(1) and (4) of the Law of 5 April 1993 on the financial sector, an administrative fine of EUR 45,000 was imposed on an investment firm for non-compliance with the prudential rules and professional obligations relating to the "MiFID II" framework, as defined in Directive 2014/65/EU of 15 May 2014 on markets in financial instruments and delegated acts, and transposed, where applicable, into national law.

Another investment firm was imposed an administrative fine of EUR 29,000 in accordance with the provisions of point (5) of Article 63-2b(1) of the Law of 5 April 1993 on the financial sector for repeated and persistent breach of the obligation to hold liquid assets in breach of Article 43 of Regulation (EU) 2019/2033, of the sixth indent of Article 63(1), of Article 63-2a(3) of the Law of 5 April 1993 on the financial sector for failure to act in response to an injunction issued by the CSSF, and of the first indent of Article 63(1) of the Law of 5 April 1993 on the financial sector for failure to comply with the applicable regulation by not immediately notifying the CSSF of non-compliance with the liquidity requirements in accordance with Article 44(1) of Regulation (EU) 2019/2033 of 27 November 2019 on the prudential requirements of investment firms (IFR) and its recital (28), taking into account the criteria defined in Article 63-4(1) of the Law of 5 April 1993 on the financial sector, in particular the gravity and duration of the breaches and the financial situation of the legal person responsible for the infringement.

Finally, an administrative fine of EUR 14,000 was imposed on an investment firm in accordance with Article 2-1(1) of the Law of 12 November 2004 on AML/CFT, and in accordance with Article 8-4(1), (2) and (3), of the same law for breaches of the AML/CFT professional obligations.

The CSSF used its right of injunction in accordance with Article 59 of the Law of 5 April 1993 on the financial sector in 10 cases (15 in 2023) for the following reasons:

- delays in the regularisation of recommendations issued by the external *réviseur* (auditor) of an investment firm;
- shortcomings identified in the completion of the self-assessment questionnaire relating to the 2023 financial year, submitted in accordance with Circular CSSF 24/853;
- serious deficiencies related to the legal and regulatory requirements concerning IT risk management;
- identification of a fairly large number of deficiencies in the closing documents relating to the 2021 and 2022 financial years and lack of clarity and precision in the information provided to the CSSF in this context;
- identification of a number of serious weaknesses based on corporate governance requirements;
- non-compliance with the regulatory deadline for the submission of the closing documents for the 2023 financial year;

- non-compliance with the regulatory deadline for the submission of the closing documents for the 2023 financial year and non-compliance with the legal requirements relating to the composition of the authorised management;
- shortcomings identified in the internal governance.

The CSSF also issued 12 injunctions pursuant to Article 8-2(1) of the Law of 12 November 2004 on AML/CFT (compared with 47 cases in 2023, including 37 for failure to submit suspicious transaction reports over several business years) for the following reasons:

- non-compliance with the applicable AML/CFT regulatory framework;
- AML/CFT shortcomings identified as regards the financial years closing on 31 December 2022 and on 31 March 2023, respectively;
- identification of gaps in the ML/TF risk assessment which was not fully compliant with Circular CSSF 11/529;
- non-compliance with all the applicable AML/CFT laws and regulations;
- deficiencies identified in the AML/CFT arrangements in place;
- significant and, in some cases, recurring breaches of the AML/CFT legal and regulatory requirements in relation to the financial years ending on 30 September 2022 and 30 September 2023.

Following the CSSF's request, the *Tribunal d'arrondissement de et à Luxembourg* (Luxembourg District Court) sitting in commercial matters, ordered, in 2024, the suspension of payments of an investment firm.

In 2024, the CSSF transmitted one report to the State Prosecutor pursuant to Article 23(2) of the Code of Criminal Procedure, one report pursuant to point (2) of Article 74-2(4) of the Law of 7 March 1980 on judicial organisation, and one report pursuant to Article 23(2) of the Code of Criminal Procedure and point (2) of Article 74-2(4) of the Law of 7 March 1980 on judicial organisation.

The CSSF reported 46 cases to the Prosecutor's Office, over the course of the year, regarding entities which claimed to be established in Luxembourg and offered investment services without authorisation. The number of these reports, mainly due to false websites aiming at scamming potential investors, has been increasing as compared to the 40 cases of the 2023 financial year following a decrease since 2021.

2.3. Specialised PFS

During 2024, the CSSF imposed administrative fines amounting to EUR 186,600 on three specialised PFS.

An administrative fine of EUR 27,000 was imposed on a specialised PFS pursuant to the provisions of Article 8-4(1) and Article 8-6(1) of the Law of 12 November 2004 on AML/CFT, following an on-site inspection of its AML/CFT regime.

Another administrative fine of EUR 152,100 was issued against a specialised PFS for non-compliance with the professional obligations relating to the establishment of a central electronic data retrieval system related to IBAN accounts and safe-deposit boxes (CRBA). This administrative fine was imposed by the CSSF pursuant to the provisions of Article 5(1)(a), and Article 5(2)(d) of the Law of 25 March 2020 establishing a central electronic data retrieval system related to payment accounts and bank accounts identified by IBAN and safe-deposit boxes, for breach of the professional obligations regarding the establishment of a CRBA, taking into account the criteria set out in Article 5(4) of this law, in particular the gravity and duration of the infringements, which were deemed very high considering the volume of the impacted data, the persistence of the breach since at least 2021 and the reminders sent to the entity, as well as the financial situation of the legal person held responsible for the breach.

An administrative fine of EUR 7,500 was also imposed on a specialised PFS pursuant to the provisions of the first and sixth indents of Article 63(1) as well as to Article 63(2) of the Law of 5 April 1993 on the financial sector, following non-compliance with a letter of injunction issued in accordance with Article 53(1) of this law following significant delays in the submission of the annual closing documents for the year 2022.

In 2024, the CSSF used its right of injunction in accordance with Article 59 of the Law of 5 April 1993 on the financial sector for five specialised PFS and once in accordance with Article 50(2)(e) of the Law of 12 July 2013 on alternative investment fund managers for the following reasons:

- delays in submitting the 2023 annual closing documents to the CSSF by three specialised PFS;
- shortcomings identified at two specialised PFS during on-site inspections with respect to compliance with the AML/CFT obligations;
- weaknesses observed at one specialised PFS during an on-site inspection regarding compliance with the depositary function obligations.

Finally, the CSSF transmitted one report for one specialised PFS pursuant to point (2) of Article 74-2(4) of the Law of 7 March 1980 on judicial organisation and one report pursuant to Article 23(2) of the Code of Criminal Procedure and including further information of point (2) of Article 74-2(4) of the Law of 7 March 1980 on judicial organisation.

2.4. Support PFS

In 2024, the CSSF imposed two administrative fines on two support PFS pursuant to the provisions of the sixth indent of Article 63(1) and the third indent of Article 63(2) of the Law of 5 April 1993 on the financial sector, as they failed to comply with the CSSF's injunctions. The entities were fined EUR 16,000 and EUR 4,250, respectively.

2.5. Payment institutions, electronic money institutions and virtual asset service providers

During 2024, the CSSF imposed two administrative fines of EUR 40,000 and EUR 68,000 on one electronic money institution and one payment institution, respectively. These fines were imposed in accordance with the provisions of Article 2-1(1) and Article 8-4 of the Law of 12 November 2004 on AML/CFT, for non-compliance the with professional AML/CFT obligations.

In 2024, the CSSF used its right of injunction in accordance with the provisions of the Law of 10 November 2009 on payment services in reference to weaknesses identified in respect of the establishment of robust internal governance arrangements by an electronic money institution.

2.6. Investment fund managers (IFMs) and investment funds

In 2024, the CSSF issued the following decisions with respect to sanctions and prudential enforcement measures:

- pursuant to the Law of 13 February 2007 relating to specialised investment funds:
- administrative fines of EUR 2,000 each imposed on the *dirigeants* (directors) of two SIFs for non-filing of the annual financial report or the management letter;
- pursuant to the Law of 15 June 2004 relating to the investment company in risk capital (SICAR):
  - administrative fines of EUR 500 each imposed on the *dirigeants* of two SICARs for non-filing of the annual financial report or the management letter;
- pursuant to the Law of 17 December 2010 relating to undertakings for collective investment:
  - administrative fines of EUR 3,000 each imposed on the directors of a UCITS for non-filing of the annual financial report;
  - an administrative fine of EUR 109,000 imposed, as a consequence of an on-site inspection, on an authorised IFM/AIFM for failure to comply with the legal provisions relating to the requirements to have sound administrative procedures and adequate internal control mechanisms, as well as of the supervision of delegates;
  - administrative fines of EUR 14,000 each imposed on two IFMs for non-compliance with the professional obligations related to the transmission of year-end documents;

   - an administrative fine of EUR 44,800 imposed, as a consequence of an on-site inspection, on an authorised IFM/AIFM for failure to comply with the applicable legal provisions regarding the supervision of delegates;

   - an administrative fine of EUR 45,900 imposed, as a consequence of an on-site inspection, on an IFM for failure to comply with the legal provisions, regarding the requirements to have sound administrative procedures and adequate internal control mechanisms, as well as the supervision of delegates, and the obligation to act with due diligence in the best interest of the managed undertakings for collective investment in transferable securities;

   - an administrative fine of EUR 56,500 imposed on an authorised IFM/AIFM for failure to comply with the requirements to have sound administrative procedures and adequate internal control mechanisms, as well as regarding the rules of conduct;

   - an administrative fine of EUR 696,547 imposed, as a consequence of an on-site inspection, on an authorised IFM/AIFM for failure to comply with the legal provisions, regarding the requirements to have sound administrative procedures and adequate internal control mechanisms, as well as the rules of conduct.

- pursuant to the Law of 12 July 2013 on alternative investment fund managers:

   - administrative fines imposed on three IFMs/registered AIFMs for non-compliance with the legal provisions relating to registration/authorisation conditions. These administrative fines amounted to EUR 16,790, EUR 6,370 and EUR 5,100, respectively;

   - administrative fines imposed on four IFMs/AIFMs for non-compliance with the registration conditions and breach of the legal provisions. These administrative fines amounted to EUR 23,120, EUR 20,330, EUR 18,580 and EUR 18,470, respectively;

   - an administrative fine of EUR 10,700 imposed, as a consequence of an on-site inspection, on an authorised IFM/AIFM for failure to comply with the applicable legal provisions regarding the supervision of its distribution network;

   - an administrative fine of EUR 23,000 imposed, as a consequence of an on-site inspection, on an authorised IFM/AIFM for failure to comply with the legal provisions regarding the requirements to have sound administrative and accounting procedures, as well as adequate internal control mechanisms, to the independence of external valuers and to the supervision of delegates;

   - an administrative fine of EUR 250,000 imposed on an authorised IFM/AIFM for non-compliance with several legal provisions, established following an assessment by the CSSF, concerning the professional obligations related to general requirements, organisational requirements, oversight of delegates, disclosure to investors, risk and liquidity management systems, conflicts of interest and valuation.

- pursuant to the Law of 12 November 2004 on AML/CFT:

   - administrative fines of EUR 10,000 each imposed on three IFMs/registered AIFMs and one SICAR for non-filing of the AML/CFT external report as required under Circular CSSF 21/788;

   - administrative fines of EUR 10,000 each imposed on six IFMs/registered AIFMs for non-filing of the questionnaire on financial crime;

   - an administrative fine of EUR 17,200 imposed on an authorised IFM/AIFM for failure to comply with legal provisions and CSSF Regulation No 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing;

- joint application of the Law of 17 December 2010 relating to undertakings for collective investment and the Law of 12 July 2013 on alternative investment fund managers:

   - an administrative fine of EUR 14,000 imposed on an authorised IFM/AIFM for non-compliance with the professional obligations regarding the transmission of year-end documents;

In 2024, with regard to prudential measures, the CSSF withdrew four SIFs from the official list of specialised investment funds, two UCITS from the official list of undertakings for collective investment, one SICAR from the official list of investment companies in risk capital, one IFM/registered AIFM from the official list of management companies authorised under Chapter 16 of the Law of 17 December 2010 relating to undertakings for collective investment, one IFM/AIFM from the list of management companies authorised under Chapter 15 of the Law of 17 December 2010 relating to undertakings for collective investment and from the list of authorised alternative investment fund managers, and one IFM/registered AIFM from the list of management companies authorised under Chapter 15 of the Law of 17 December 2010 relating to undertakings for collective investment.

2.7. Securities markets

The review of financial reports under the Transparency Law led the CSSF to issue, pursuant to Article 25 of that law, six administrative fines amounting to a total of EUR 110,000 due to delays in the disclosure and filing of four annual financial reports and two half-yearly reports. Two administrative fines, each amounting to EUR 10,000, were also imposed on issuers due to their failure to publish, in their annual reports, information required by the CSSF in the context of its mission of control of the financial information under the Transparency Law. The CSSF also issued six warnings in relation to information concerning major holdings (provided for in Chapter III of the Transparency Law), of which three concerned shortcomings in shareholder notifications and three concerned shortcomings in relation to the disclosure of notifications of major holdings by the issuer concerned. Lastly, an administrative sanction of EUR 34,180 was imposed on an issuer for failure to comply with the legal publication deadline imposed by Article 11(6) of the Transparency Law concerning several notifications of major holdings.

2.8. Audit profession

In 2024, the CSSF issued eight fines, six amounting to EUR 10,000, one amounting to EUR 17,092 and one amounting to EUR 18,000. These fines were imposed pursuant to the provisions of Article 43(1)(f) of the Audit Law, read in conjunction with Articles 40(2) and 43(2)(a) and (b) of the Audit Law, for non-compliance with the professional obligations relating to statutory audits, taking into account the criteria defined in Article 44 of this law.

The CSSF imposed a permanent prohibition on a *réviseur d'entreprises agréé* from carrying out statutory audits and/or signing audit reports, as well as his/her permanent deregistration from the public register. This sanction was issued in accordance with the provisions of Articles 40(2), 43(1)(h) and 43(2)(a), (b), (c) and (e) and of the Audit Law for professional misconduct and negligence leading to non-compliance with the professional obligations relating to statutory audits, taking into account the criteria defined in Article 44 of this law.

XIX. Resolution

The Law of 18 December 2015 on the failure of credit institutions and certain investment firms (BRRD Law), which notably transposes Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD), designates the CSSF as the resolution authority in Luxembourg[1]. The CSSF exercises the tasks and powers conferred on it as resolution authority through the Resolution Board, whereas the "Resolution" department (RES department) performs the day-to-day tasks related to these tasks. The Resolution Director, Mr Romain Strock, who chairs the Resolution Board, heads the RES department which counted 16 people as at 31 December 2024.

In line with the distribution of responsibilities, particularly between the Resolution Board and the Single Resolution Board (SRB), the RES department is in charge, among other things, at individual and group level, as concerns credit institutions and investment firms falling within the scope of the BRRD Law or Regulation (EU) No 806/2014 (SRM Regulation)[2], of submitting the following for decision to the Resolution Board:

- adoption of resolution plans and resolvability assessments;
- measures to address or remove impediments to resolvability;
- appointment of a special manager;
- assurance regarding a fair, prudent and realistic valuation of the assets and liabilities;
- application of simplified obligations or granting waivers, among others, to the obligation to draft a resolution plan;
- setting the minimum requirement for own funds and eligible liabilities, in particular its level;
- adoption of resolution decisions and application of resolution tools in accordance with the relevant procedures and safeguards;
- writing-down or conversion of relevant capital instruments;
- execution of the instructions issued by the SRB.

1 Following the transposition of Directive 2019/879/EU (BRRD2) amending the BRRD, the BRRD Law was updated on 21 July 2021.

2 The SRM Regulation (SRMR) was amended by Regulation (EU) 2019/877 (SRMR2).

Following the entry into force of Regulation (EU) 2021/23 of 16 December 2020 on a framework for the recovery and resolution of central counterparties, the Law of 20 July 2022 designates the CSSF as the resolution authority for central counterparties in Luxembourg in accordance with Article 3(1) of the Regulation. However, there are currently no central counterparties established in Luxembourg.

The RES department represents the CSSF as resolution authority within international fora, such as the SRB, the EBA and ESMA.

As far as ESMA is concerned, the CSSF is represented in the CCP Resolution Committee, a permanent subgroup of ESMA set up in 2023 and gathering the resolution authorities of central counterparties.

As far as the EBA is concerned, the RES department is represented in the Resolution Committee (ResCo) which is a permanent internal committee of the EBA, set up in January 2015, for the purposes of taking decisions and fulfilling tasks conferred on the EBA and the national resolution authorities under the BRRD. The voting members are the directors of the national resolution authorities within the EU. In addition, the RES department participates in the work of the Subgroup on Resolution Planning and Preparedness (SGRPP), which is a subgroup of the Resolution Committee.

With respect to the SRB, the Resolution Director participates in the plenary session of the SRB as well as in the extended executive session when topics concerning Luxembourg entities are being discussed. This was the case in 2024 for the adoption by the SRB, which met in extended executive session, of resolution plans of several banking groups which included Luxembourg banking subsidiaries and of resolution plans of Luxembourg banking groups or systemic banks.

Moreover, the agents of the RES department participate in the work of the following permanent working sub-committees of the SRB: Resolution Committee and its sub-structures, Fund Committee, Administrative and Budget Committee as well as Legal Network. The CSSF also participates in the SRB ICT Network.

The RES department continues its collaboration with the SRB for the drafting of resolution plans for Luxembourg significant banks under the competence of the SRB. In this context, frequent meetings, videoconferences and information exchanges take place with the representatives of the SRB, the CSSF's Banking Departments and the relevant banks. The RES department also participates, within the Internal Resolution Teams coordinated by the SRB, in drafting resolution plans for significant banking groups in the Banking Union which have Luxembourg subsidiaries.

In a cross-border context outside the SRB, the RES department is chairing two resolution colleges. Moreover, it continues to participate in the work, meetings and teleconferences of resolution colleges chaired by group-level resolution authorities from other EU countries.

The RES department also drafted a certain number of resolution plans for less significant banks under the direct responsibility of the Resolution Board.

In 2024, two CSSF-CODERES circulars were published on the following respective topics:

- the collection of information for the calculation by the SRB of the 2025 contributions to the Single Resolution Fund;
- the implementation of the EBA Guidelines on resubmission of historical data.

The RES department also updated the document Resolution Reporting Requirements (available on the CSSF's website).

Finally, members of the RES department assisted the representatives of the Ministry of Finance during the discussions within the EU Council as well as with the work on the transposition of European legislative texts, insofar as these texts concerned certain resolution-related aspects.

XX. Protection of depositors and investors

The Conseil de protection des déposants et des investisseurs (CPDI) is the internal executive body of the CSSF in charge of managing and administering the deposit-guarantee scheme financed by the Fonds de garantie des dépôts Luxembourg (FGDL) and the Système d'indemnisation des investisseurs Luxembourg (SIIL). The FGDL is an *établissement public* (public body) separate from the CSSF and established by Article 154 of the Law of 18 December 2015 on the failure of credit institutions and certain investment firms (BRRD Law). The missions of the CPDI are defined in Part III "Protection of depositors and investors" of the BRRD Law. The CPDI is assisted in the performance of its duties by the "Depositor and Investor Protection" department (PDI department) of the CSSF which counts 4.6 full-time equivalent jobs. In general, the PDI department performs the operational tasks of the FGDL and of the SIIL.

- **Activities of the CPDI and of the PDI department**

The CPDI met once in 2024 as the day-to-day decisions were taken by means of written procedure. Under its management, the PDI department's work included in particular:

- support to the FGDL's Management Committee in extending the syndicated credit line agreement entered into in 2022 until 10 November 2026, allowing the FGDL to meet its commitments in case its financial means are insufficient;
- management of the campaigns to reimburse the depositors of ABLV Bank Luxembourg S.A. (in liquidation), Fortuna Banque s.c. (in liquidation), East-West United Bank S.A. (in liquidation, cf. below), and Banque Havilland S.A. (in suspension of payment, cf. below);
- management of the call centre in order to allow depositors to contact the FGDL more easily within the context of the ongoing reimbursement campaigns in 2024;
- digitalisation via eDesk of the annual survey on the volume of covered claims in connection with investment business (ICS), which was previously sent via a form in Excel format;
- quarterly collection of data on covered deposits through four circulars and verification of the data received;
- contribution to the EBA's work relating to deposit guarantee schemes.

- **FGDL interventions**

On 7 February 2024, the *Tribunal d'arrondissement de Luxembourg* (Luxembourg District Court) ordered the judicial liquidation of East-West United Bank S.A., triggering the FGDL's intervention in order to compensate depositors for the unavailability of their deposits up to a maximum amount provided for in the BRRD Law, i.e. EUR 100,000 per person. As at 31 December 2024, the FGDL reimbursed an amount of EUR 337.

On 9 August 2024, the *Tribunal d'arrondissement de Luxembourg* (Luxembourg District Court) ordered the suspension of payment for the benefit of Banque Havilland S.A., triggering the FGDL's intervention once again. As at 31 December 2024, the FGDL reimbursed an amount of EUR 4.0 million.

As a reminder, the CSSF determined the unavailability of deposits at Fortuna Banque s.c. on 12 October 2023. Since October 2023, the FGDL has been reimbursing the covered deposits of depositors who transmitted the necessary information and whose eligibility was confirmed by the CPDI. In accordance with Article 176(8) of the BRRD Law, the depositors have ten years, following the date the unavailability of deposits has been determined, to request reimbursement of their deposits by the FGDL. As at 31 December 2024, the FGDL reimbursed an amount of EUR 8.1 million.

Within the context of the unavailability of deposits at ABLV Bank Luxembourg S.A. determined on 24 February 2018, no additional reimbursement was made in 2024. As at 31 December 2024, the total deposits reimbursed by the FGDL amounted to EUR 10 million.

- **Activation of the SIIL**

The SIIL comes into play in case a professional is unable to return funds or financial instruments in relation to investment business. The cover under the SIIL as governed by the BRRD Law is limited to EUR 20,000.

In 2024, the SIIL was activated twice in respect of the judicial liquidation of East-West United Bank S.A and the suspension of payment for Banque Havilland S.A. ordered by the *Tribunal d'arrondissement de Luxembourg* (Luxembourg District Court) in February and August 2024, respectively.

No compensation requests were received in 2024 from eligible customers of East-West United Bank S.A., Banque Havilland S.A. or Fortuna Banque s.c. (for which the SIIL was activated in 2023), Fuchs & Associés Finance S.A. (for which the SIIL was activated in 2023) or Anphiko Asset Management S.A. (for which the SIIL was activated in 2022).

- **Financing of the FGDL**

As at 31 December 2024, the FGDL had 84 member institutions as against 88 at the end of December 2023. In 2024, the FGDL raised EUR 27.5 million from member institutions as contributions for the buffer of additional financial means provided for in Article 180 of the BRRD Law and did not raise any contribution as provided for in Article 179 of the BRRD Law as the 0.8% target level of the covered deposits had been reached. In this respect and as a reminder, the FGDL raised 1.8 million in 2023. In addition, the FGDL also raised EUR 2.7 million as administrative contributions provided for in Article 154(12) of the BRRD Law (EUR 1.4 million in 2023), mainly in order to cover the costs related to the setting-up and maintenance of the credit line.

As at 31 December 2024, the FGDL's available financial means, including the buffer of additional financial means, thus amounted to EUR 552.2 million (EUR 516.3 million in 2023). Moreover, since November 2022, the FGDL has had a credit line granted by a syndicate of Luxembourg banks with a volume of EUR 1 billion, pursuant to Article 179(2) of the BRRD Law, and guaranteed by the Luxembourg State in accordance with the Law of 6 April 2022 on the granting of State guarantee for credit lines contracted by the FGDL. No use of the credit line was made in 2024.

Lastly, within the context of the judicial liquidation of ABLV Bank Luxembourg S.A. and following the filing of a statement of claim with the *Tribunal d'arrondissement de Luxembourg* (Luxembourg District Court), the liquidator paid the FGDL EUR 0.2 million in 2024 (EUR 9.8 million in 2023).

It is also noteworthy that the covered deposits rose by 0.5% over a year to EUR 37.5 billion as at 31 December 2024.

XXI. Financial crime

This chapter presents the CSSF's actions and main contributions to AML/CFT-related work at national, European and international level. It also sets out the key figures and major events of the AML/CFT supervision carried out in the different categories of supervised professionals, authorised or registered by the CSSF, in relation to their AML/CFT professional obligations and targeted financial sanctions. This chapter also highlights the significant national, European or international developments that occurred in 2024 in the areas of AML/CFT or targeted financial sanctions.

From a legislative point of view, the year 2024 was undeniably marked by the final adoption of the European AML/CFT legislative package by the Council of the European Union on 31 May 2024, and by Regulation (EU) 2023/1113, that had already been adopted in 2023. Moreover, the CSSF continued its involvement in the normative work within national, European or international bodies in 2024.

In this changing world, the CSSF's ambition is to facilitate the collection and processing of information provided by the professionals subject to its supervision while continuing to develop IT applications for this purpose, as was the case for the implementation of a new Application Programming Interface (API), used to ease the process of collecting data in the context of the annual Questionnaire on Financial Crime in 2024.

1. CSSF supervision for combating money laundering and terrorist financing

Controlling compliance with professional AML/CFT obligations is an integral part of the supervisory framework established by the CSSF. AML/CFT supervision is based on a control programme which combines off-site and on-site supervisory measures. To this end, the different departments and teams in charge of AML/CFT at the CSSF follow an ML/TF risk-based approach.

1.1. Off-site AML/CFT supervision

1.1.1. Credit institutions and central securities depositories (CSDs)

As every year, the CSSF requested all credit institutions and CSDs to answer the annual Questionnaire on Financial Crime in order to collect quantitative and qualitative data. The collected quantitative data is of utmost importance for the CSSF as it ties in directly with the AML/CFT supervision of credit institutions and with the statistical processing for national and international authorities.

Off-site AML/CFT supervision also includes a set of supervisory measures, such as the analysis of the long form audit reports drawn up by the *réviseurs d'entreprises agréés* (approved statutory auditors) and the analysis of the reports drawn up by the internal control functions of credit institutions and CSDs (compliance function and internal audit function).

Based on these measures, on the annual Questionnaire on Financial Crime and on the follow-up to the on-site inspections carried out by the CSSF, 168 observation letters were sent to credit institutions in 2024. The responses from the credit institutions to these letters provide the CSSF with an updated understanding of their AML/CFT control environment, which is important, for instance, for the exchanges during AML/CFT colleges.

Furthermore, the CSSF identified severe deficiencies in relation to a lack of consideration of certain high-risk countries, recurring delays in the periodic review process and inaccurate controls in the name screening process. The CSSF sent five injunction letters in this context.

Following the off-site reviews launched in the past years, in 2024, the CSSF issued a financial sanction against a credit institution for serious breaches of the AML/CFT and internal governance frameworks in relation to a limited number of files belonging to a group of related clients. It also imposed two reprimands for serious breaches of the name screening process on two credit institutions.

In 2024, the CSSF put in place a new AML/CFT college for a credit institution and organised eight AML/CFT college meetings in its role as lead supervisor out of a total of 17 colleges. It also participated in 30 AML/CFT college meetings organised by European authorities for 38 Luxembourg credit institutions, which makes the CSSF one of the most important actors as regards AML/CFT colleges activity in Europe. The European competent authorities for AML/CFT supervision are full members of the AML/CFT colleges organised by the CSSF. Other authorities also participate as observers, like the ECB for significant institutions or the FIU, subject to the agreement of all members.

The CSSF continued its exchanges with the Luxembourg banking sector, in particular through meetings and regular contacts with the compliance officers and the members of the management bodies and administrative bodies of the credit institutions. Thus, in 2024, 170 meetings relating specifically to AML/CFT aspects were organised. It is worth mentioning that these exchanges were complemented by an AML/CFT conference for credit institutions organised jointly with the ABBL, with the participation of the FIU and the Ministry of Justice, which was held on 6 February 2024. Two meetings by the Expert Working Group Compliance, organised with the ABBL and the FIU, were held in 2024 in order to exchange views on the development of the terrorist financing (TF) risk and on the implementation of the European regulation on instant credit transfers.

1.1.2. Investment firms

A dedicated team, counting three agents as at 31 December 2024 within the "Supervision of investment firms" department, deals with the aspects of the off-site AML/CFT supervision of investment firms.

In April 2024, the CSSF held an online conference on ML/TF risks for investment firms, with the participation of the Ministry of Justice and the FIU. The purpose of this conference was to remind the audience of the applicable regulations, to share observations and good practice on ML/TF risk assessment, customer risk assessment, name screening and transaction monitoring processes as well as cooperation with authorities. During this event, investment firms were also informed about the conclusions of the FATF's fourth mutual evaluation report of Luxembourg, which highlights the importance of the fight against terrorist financing and provides a number of statistical data and good practices related to the suspicious transaction reports sent to the FIU.

As every year, the annual Questionnaire on Financial Crime, which allows the CSSF to collect quantitative and qualitative data, was sent to investment firms in 2024. As a reminder, based on this data, the CSSF assigns an automatic ML/TF risk scoring to each investment firm. This scoring is then subjected to an expert judgement, taking into account all the on-site and off-site information available to the CSSF, leading to a final ML/TF scoring per investment firm. This final scoring allows establishing the CSSF's off-site and on-site AML/CFT supervisory programme in accordance with a risk-based approach. Indeed, these final ratings are in particular used as allocation key of the resources available (on-site and off-site) for AML/CFT supervision. The data from the questionnaire is also processed to detect potential weaknesses in the efficiency of the mitigation measures put in place by investment firms.

Off-site AML/CFT supervision includes, inter alia, the analysis of the long form audit reports or of the AML/CFT reports (as part of the revised long form report) drawn up by the *réviseurs d'entreprises agréés*. It also includes the analysis of the reports drawn up by the internal control functions (compliance function, internal audit function and risk control function). In this context, 23 observation letters and eight injunction letters were sent to investment firms with respect to the most important AML/CFT weaknesses identified in these reports. In particular, the letters related to the efficiency and proper functioning of the transaction monitoring systems, the weaknesses identified as regards customer identification or the shortcomings identified in the application of ongoing due diligence measures.

Moreover, the CSSF analyses the ML/TF risk self-assessments established by investment firms and the AML/CFT procedures where weaknesses were identified through off-site AML/CFT supervision. One observation letter was sent in this context.

In addition to the on-site inspections performed by dedicated teams, meetings with the Chief Compliance Officers of eight investment firms were held to discuss specific AML/CFT attention points, resulting, in particular, from the answers provided in the annual Questionnaire on Financial Crime (client structure, organisation of the compliance function, efficiency of the mitigation measures in place, etc.). It should be noted that these meetings entail a prior full review of the entity's AML/CFT policies and procedures. These meetings resulted in three observation letters and two injunction letters relating notably to insufficient resources within the compliance function, ML/TF risk assessments not compliant with Article 2-2 of the Law of 12 November 2004 on AML/CFT and Circular CSSF 11/529 on risk analysis regarding AML/CFT, AML/CFT policies not entirely in line with the obligations provided for in the above-mentioned law and in CSSF Regulation No 12-02 on the fight against money laundering and terrorist financing, or also shortcomings in the identification of the beneficial owners of *fiducies* (trusts) and similar legal arrangements.

The dedicated team is also in charge of the follow-up to the weaknesses identified during the on-site inspections carried out by the on-site inspection team at the investment firms. In this context, two observation letters were sent in relation to the customer ML/TF risk assessment and country risk assessment, the verification of the identity of certain beneficial owners of legal arrangements, the due diligence measures as regards predicate tax offence risk and the documentation frequency of the name screening alert controls.

Finally, as regards European cooperation and in the context of the *AML/CFT Colleges Guidelines* involving investment firms with subsidiaries or branches in other EU Member States, the CSSF, as lead supervisor, organised two AML/CFT college meetings in relation to two investment firms and put in place two new AML/CFT colleges for two other investment firms in 2024. It actively used the information exchange channels implemented with other authorities for three other investment firms. Moreover, the CSSF responded to information exchange requests from five AML/CFT colleges organised by the authorities of other Member States.

1.1.3. Specialised PFS

The staff dedicated to the off-site AML/CFT supervision in the "Supervision of specialised PFS" department remained stable with five agents.

As in previous years, the CSSF requested all specialised PFS to answer the annual Questionnaire on Financial Crime in order to collect quantitative and qualitative data. The collected data was integrated in the off-site AML/CFT supervision which is performed by applying a risk-based approach.

Twenty-nine observation letters were sent to specialised PFS with respect to shortcomings identified notably (i) in the reports issued in the framework of the closing documents for the year 2023, (ii) in the 2023 annual Questionnaire on Financial Crime, (iii) following face-to-face meetings at the premises of the CSSF, (iv) during initial control visits of the CSSF at newly authorised specialised PFS (the "welcome visit"), (v) during the follow-up process of on-site inspections and (vi) following the review of the AML/CFT procedures during the licencing process.

After reviewing the appointments proposed by the specialised PFS for the roles of compliance officer in charge of the control of compliance with the professional obligations (RC), compliance officer, and person responsible for compliance with the professional obligations (RR), a total of 19 acknowledgement letters were sent.

In 2024, six meetings with specialised PFS covered specific AML/CFT topics. Among the topics covered during these meetings, discussions concerned the activities of specialised PFS and the ML/TF risk to which they are exposed, the systems, training and resources put in place with respect to AML/CFT and compliance, the supervision of AML/CFT delegated tasks, where applicable, the involvement of members of the board of directors and/or of the board of managers in projects relating to AML/CFT and compliance, the cooperation with the authorities, etc. The fight against terrorist financing, the politically exposed persons (i.e. their detection, the case management and the exposure of specialised PFS to the risk of corruption) and the sanctions issued notably against entities and individuals in the context of the Ukraine conflict and the financing of the proliferation of weapons of mass destruction were also on the agenda of the meetings.

In 2024, AML/CFT controls were carried out during four welcome visits. These controls included, among other things, tests on the name screening tool, the review of AML/CFT files and the presentation by the specialised PFS of its ML/TF risk assessment, its risk appetite, its AML/CFT procedures and its transaction monitoring process.

As regards cooperation with the private sector, the CSSF held, in 2024, the third and fourth meetings with the working group dedicated to specialised PFS in collaboration with the FIU, the Luxembourg Association of Compliance Officers (ALCO), the Luxembourg Alternative Administrators Association (L3A), the Luxembourg Private Equity and Venture Capital Association (LPEA), the Luxembourg Association of Family Offices (LAFO) and the Luxembourg Association for Risk Management (ALRiM). The third meeting with the working group focused in particular on (i) the types of securitisation undertakings falling within the scope of the Law of 12 November 2004 on AML/CFT and the competent AML/CFT supervisory authorities, (ii) the issues arising from the evasion of the financial sanctions, the applicable lists and the necessity to report to the FIU, (iii) the update of the *Sub-Sector Risk Assessment on TCSP* for specialised PFS and (iv) the thematic review on shelf companies performed by the CSSF. The fourth meeting concerned (i) the regulatory technical standards based on Article 28(1) of Regulation (EU) 2024/1624, (ii) cooperation with the authorities, (iii) the responsibility of the RC and (iv) the update of the *Sub-Sector Risk Assessment on TCSP* for specialised PFS.

For the purpose of informing and educating supervised entities, the annual AML/CFT conference dedicated to specialised PFS was organised on 22 January 2024 with the participation of the FIU and the Ministry of Justice. A total of 341 participants attended the conference. It should be noted that mortgage credit intermediaries had also been invited.

1.1.4. Payment institutions and electronic money institutions

A specialised team in charge of the off-site supervision of ML/TF risk of payment institutions and electronic money institutions has been set up within the "Innovation, payments, market infrastructures and governance" department. It centrally manages the aspects of the AML/CFT supervision of payment institutions and electronic money institutions as well as of branches, agents and distributors established in Luxembourg of payment institutions or electronic money institutions authorised in other EU Member States.

As is the case for the other financial sector professionals, an annual Questionnaire on Financial Crime is sent to payment institutions and electronic money institutions as well as to the branches, agents and distributors established in Luxembourg of payment institutions or electronic money institutions authorised in other EU Member States. In addition to the data collected via this questionnaire, information is collected within the framework of the on-site and off-site supervision of these institutions. This data and information allow carrying out a risk assessment and a harmonised evaluation of these entities, having regard, in particular, to the risk level of their activities. They are also used to allocate the available (on-site and off-site) resources to AML/CFT controls, in accordance with the basic principle governing the risk-based supervision.

The key elements of the off-site supervision of the ML/TF risk include the analysis of the annual reports of the compliance function and the internal audit function, the work carried out by the *réviseur d'entreprises agréé* as part of the long form report, the analysis of the aforementioned annual Questionnaires on Financial Crime and, where relevant, a critical review of the ML/TF risk analyses and the AML/CFT policies and procedures of these entities, in particular, in the event of any material change having an impact on the provision of payment and electronic money services and/or the AML/CFT internal control arrangements in a broad sense.

Moreover, regular meetings and contacts are planned with the compliance officers and the members of the management and administration bodies of these entities in order to further examine certain aspects of their reports, to follow the regular developments of their activities (in conjunction with the significant technological progress in this area) and of their organisation as well as of their internal control arrangements and to raise appropriate awareness to the ML/TF risk.

The CSSF also assesses the ML/TF risk and the AML/CFT policies and procedures submitted in the application files of new payment institutions or electronic money institutions and monitors, where applicable, the AML/CFT remediation plans to be put in place by the institutions identified, notably in the framework of on-site inspections (on-site supervision).

1.1.5. Virtual asset service providers

With reference to the Law of 25 March 2020 amending the Law of 12 November 2004 on AML/CFT, any virtual asset service provider (VASP) established or providing services in Luxembourg, on behalf of or for its customers, is subject to compliance with all the professional AML/CFT obligations and must be registered with the VASP register established by the CSSF. With the entry into force of Regulation (EU) 2023/1114 on markets in crypto-assets, VASPs that are registered as at 30 December 2024 must remain registered within the register of VASPs established by the CSSF until 1 July 2026 or until they are granted or refused an authorisation pursuant to Article 63 of Regulation (EU) 2023/1114.

VASPs remain within the scope of the Law of 12 November 2004 on AML/CFT and remain subject to the professional obligations defined in this law and in its implementing measures.

In accordance with the legal provisions in force under the VASP regime, the CSSF's role *vis-à-vis* these providers is limited to registration, supervision and enforcement for AML/CFT purposes only.

As at 31 December 2024, 15 providers were registered as VASP (against 11 as at 31 December 2023), including 10 that were established in Luxembourg and five in another country.

In 2024, the CSSF deployed its internal procedures for the supervision of VASPs as well as the assessment and understanding of the ML/TF risk related to virtual asset services. To this end, it continued collecting statistical information, notably in relation to the customers and business volumes of the registered VASPs. Thus, by the end of 2024, a volume of around EUR 50 billion in virtual asset exchange transactions had been executed. These transactions mainly concerned activities in connection with Bitcoin, Ethereum and XRP processed by the registered entities. The entities offering virtual asset custody services held about EUR 4 billion in virtual assets in custody as at 31 December 2024.

As is the case for the other financial sector professionals, an annual Questionnaire on Financial Crime was sent to VASPs in 2024. The data and information collected via this questionnaire allow carrying out a risk assessment and a harmonised evaluation of these entities, having regard, in particular, to the risk level of their activities. They are also used to allocate the available (on-site and off-site) resources to AML/CFT controls, in accordance with the basic principle governing the risk-based supervision.

As for the other professionals, the key elements of the off-site supervision of the ML/TF risk include the analysis of the annual reports of the compliance function and, where applicable, the internal audit function, the quarterly collected quantitative data, the critical review of the ML/TF risk analyses and the AML/CFT policies and procedures of these entities, as well as the information collected during regular meetings and contacts with the compliance officers and the members of the management and/or administration body(ies) of the entities concerned.

In 2024, the CSSF continued its exchanges and meetings with the private sector in order to (i) raise its awareness of the new and future professional obligations such as, in particular, the obligations under the recast Regulation (EU) 2015/847 on the information accompanying transfers of funds (commonly referred to as the Travel Rule in the virtual asset ecosystem), (ii) clarify the CSSF's requirements and expectations with respect to AML/CFT, (iii) answer the questions of the industry as regards the provision of virtual asset services, and (iv) identify the practical difficulties encountered by the private sector. Moreover, the CSSF also exchanged with other national authorities on issues relating to virtual assets and VASPs.

1.1.6. UCI departments

As part of the UCI departments, the "UCI AML" department conducts off-site controls and organises, together with the other UCI departments, specific face-to-face meetings covering AML/CFT. Moreover, it analyses the answers provided by the IFMs and the products which have not designated a management company to the CSSF's annual Questionnaire on Financial Crime and the AML/CFT reports (CISERO) drawn up by the *réviseurs d'entreprises agréés* in accordance with Circular CSSF 21/788 (external AML/CFT reports).

On 19 December 2024, the CSSF organised a virtual AML/CFT conference in order to exchange with the supervised entities and to share feedback on the results of supervisory measures. Around 1,300 participants from the private sector attended the conference. The FIU also participated and shared its insights concerning the developments in the collective investment sector.

As part of the 2024 off-site supervision, 67 meetings specifically covered AML/CFT based on an annual control plan drawn up following a risk-based approach. The off-site supervision resulted in 255 observation letters as a result, in particular, of the analysis of AML/CFT reports of *réviseurs d'entreprises agréés* (Circular CSSF 21/788).

Moreover, the CSSF cooperated with various foreign supervisory authorities as part of its AML/CFT supervision of the entities of the collective management sector. Thus, the CSSF sent 35 international cooperation requests to foreign authorities. As part of the international cooperation and AML/CFT supervision of entities of the collective management sector, the CSSF organised, in 2024, 16 AML/CFT colleges in the context of the application of the AML/CFT rules of conduct issued by the European Supervisory Authorities.

Finally, the CSSF continued the activities of the Expert Working Group UCI AML set up in 2018 and transformed, in 2024, into a public-private partnership (PPP). In 2024, the PPP met seven times and focused on various themes, among which the digital RC report (SRRC), the CISERO report, blocked accounts and the establishment of the European Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA).

1.2 On-site AML/CFT supervision

AML/CFT on-site inspections are carried out at all the professionals supervised by the CSSF in order to assess that the quality of the AML/CFT framework is in line with the legal and regulatory requirements.

In 2024, the "On-site inspection" department carried out 32 AML/CFT inspections focusing more particularly on professionals whose sector of activities is exposed to a high inherent ML/TF risk according to the national ML/TF risk assessment and/or whose individual ML/TF risk is considered high. On-site inspections were hence carried out at credit institutions, and in particular at those providing private banking services, trade finance, or services to investment funds, at specialised PFS providing domiciliation or transfer agent services, at management companies performing the activity of transfer agent or individual discretionary portfolio management, at investment firms, at electronic money institutions, at payment institutions and at virtual asset service providers.

Twenty-one out of 32 inspections focused on one or several high-risk processes according to the risk assessment performed by the CSSF's off-site supervision departments. They covered, for instance, customer due diligence (notably at the time of the entry into business relationship), the name screening process, the governance arrangements and AML/CFT-related internal organisation, with a specific focus on the supervision of outsourced controls.

The most significant shortcomings in terms of frequency or seriousness identified in 2024 concern the following issues:

- lack in the controls framework aiming to ensure the efficiency of the name screening tools used by the professionals. The implementation of such controls would have allowed them, notably, to identify certain weaknesses observed during the AML/CFT inspections, such as delays in the update or integration of official lists, absence of certain names in the database used to perform the name screening controls, primarily due to the non-application of the four-eyes principle during data input;

- weaknesses regarding the processing of the alerts generated by name screening tools, such as delays in the processing of the generated alerts, a lack of second-level controls by the compliance function or a lack of formalisation of the reasons leading to the rejection of certain generated alerts;

- failure to take into account certain risk factors to determine the ML/TF risk level of customers, with the consequence that inappropriate due diligence measures were applied;

- deficiencies in the ongoing due diligence process applied to transaction monitoring, in particular, the incomplete analysis of certain transactions even though certain business relationships had already been the subject of suspicious transaction reports to the FIU or of requests by the FIU.
  As regards more specifically specialised PFS acting as trust and company service providers (TCSPs), the CSSF identified in certain instances, depending on the exact nature of the services provided, a lack of transaction monitoring;

- deficiencies with respect to customer files, in particular as regards information (and collection of corroborating documents according to the customer's risk level) on the source of the funds and the origin of wealth, but also as regards the verification of the beneficial owner's identity (in the case of some complex structures and low-capitalisation structures but heavily indebted to third parties) as well as the collection of a proof of registration or an excerpt from the register of beneficial owners. In the case of clients with complex structures (implying many intermediaries in offshore jurisdictions), the professionals did not always identify the rationale behind these structures to reasonably exclude the risk related to the laundering of money resulting from a predicate tax offence;

- weaknesses in the due diligence measures applied to intermediaries acting on behalf of multiple underlying clients (i.e. nominees), notably where those intermediaries are not supervised by regulatory authorities in jurisdictions considered as equivalent to Luxembourg from an ML/TF risk point of view;

- failure to meet the obligation to report, or to report without delay, any ML/TF suspicions or any associated predicate offence to the FIU;

- failure to meet the obligation to inform, without delay, the Ministry of Finance, of the application of restrictive measures;

- weaknesses in the controls performed by the compliance function thus not ensuring quality and comprehensiveness of the AML/CFT controls performed by the first line of defence;

- lack of supervision of AML/CFT controls delegated to a third entity, including where this entity is part of the same group as the professional. In this context, the CSSF also reiterated the importance of formalising, by way of a contract or an operating memorandum, the detail of the controls carried out by the delegate and the sufficient level of information that must be communicated to the professional to ensure efficient supervision. Where name screening controls were outsourced, the CSSF focused on the correct use of the EU/UN lists of sanctions by the delegate (in particular where the delegate is domiciled outside the EU) and on the contractual commitment of the delegate to report to the professional, without delay, any potential identification of a person subject to restrictive measures.

As in 2023, the CSSF carried out AML/CFT inspections at professionals proposing innovative services and activities, such as, in particular, payment institutions, electronic money institutions or virtual asset service providers which, in the light of the number of clients and also the mainly digital services, expose these professionals to new ML/TF risk typologies that generate a high inherent ML/TF risk for these business sectors. On the one hand, these missions have pointed out the importance of putting in place an adapted control environment, largely automated and based on efficient IT tools, allowing an appropriate and proportionate supervision for these new high-volume activities. However, significant deficiencies relating to name screening and transaction monitoring controls were identified at the professionals that do not have such control environments. On the other hand, the CSSF underlines the importance of the quality of the databases on which these automated controls are based. An incomplete or inaccurate client database (significant risk when customers perform themselves the input of their personal data remotely) will affect the AML/CFT arrangements (in particular, the name screening controls and customer risk assessment system).

For professionals in connection with platforms for online sale of goods, the CSSF notably noted that the AML/CFT risks linked to this type of service (i.e. counterfeiting risk or false identity risk) were not sufficiently considered.

Finally, the CSSF draws the attention of professionals to the importance of a correct and clear communication on the follow-up to the recommendations issued by the CSSF or the action plans established by a professional to remedy the deficiencies identified during the AML/CFT inspections. An appropriate cooperation with the CSSF requires total transparency on the status of any corrective measure (for example, a professional must not consider an issue as "closed" where a necessary IT development has been budgeted, but not yet implemented in a production environment).

Beyond money laundering, the AML/CFT inspections performed by the CSSF also targeted the fight against terrorist financing. In this context, the CSSF noted that the transaction monitoring did not always include specific rules for the detection of transactions linked to TF (for example, via keyword detection) or that professionals did not take TF risk sufficiently into account in the overall risk assessment of their activities. For certain clients, professionals did not sufficiently exploit the negative information available in the press, which should have led them to question the appropriateness of the business relationships (and to consider, where applicable, to file a suspicious transaction report with the FIU). The CSSF reiterates that specific attention must be paid to crowdfunding activities and to certain non-profit organisations that are exposed to a higher TF risk.

In 2024, a certain number of projects and discussions on AI and its potential use to increase the efficiency of AML/CFT controls were initiated (whether for name screening, transaction monitoring or customer identification verification when business relationships are established). The CSSF would like to remind professionals that they must maintain adequate control of the tool in order to be able to justify why alerts have been generated/not generated/automatically closed, to be in a position to verify the proper functioning of the tool and, more generally, to be in a position to demonstrate that AI can improve the quality of AML/CFT controls.

As regards more particularly the collective management sector, the "UCI on-site inspection" department carried out, in 2024, 15 inspections at (alternative) investment fund managers.

The missions completed during the year gave rise to the following major observations at certain entities:

- weaknesses regarding the obligation to detect persons, entities and groups subject to prohibitions or restrictive financial measures, as provided for in Articles 33 and 39(2) of CSSF Regulation No 12-02 (namely insufficient control frequency, lack of four-eyes principle to ensure correct data input, as well as, for distributors, in lower risk cases, the fact that beneficial owners and representatives were not added to the database thus leading to incomplete controls). In one case, the name screening software was set to a 99% fuzzy matching threshold. This setting does not take into account in a sufficient manner the risk of false negative matches due to issues like typos, etc. and therefore impairs the effectiveness of the name screening process. Indeed, in such cases, the risk of not detecting a relevant name screening alert is too high and does not correspond to the CSSF's expectations;

- weaknesses with regard to tax risk indicators, as required by Article 3 of the Law of 12 November 2004 on AML/CFT. These weaknesses related to alerts that had not been followed up on, to cases where the rationale for the tax structuring was not known and to plausibility checks that had not been carried out;

- weaknesses with respect to the scope and outcome of the compliance officer's regular controls and verifications, as set forth by Article 42(5) of CSSF Regulation No 12-02. In these cases, it could not be demonstrated to the CSSF that the verifications foreseen by the Compliance Monitoring Plan had actually been carried out and the results thereof.

In view of these recurrent weaknesses, the CSSF would like to point out its expectations regarding certain legal AML/CFT obligations:

- in terms of sanctions list name screening frequency, it needs to be ensured that screening occurs either on a daily basis or at least immediately upon every update of the EU, UN and Luxembourg sanctions lists, and that delta screening occurs upon every update of the database. The screening must be robust and take into account the fact that compliance with the requirements relating to restrictive measures must be based on results rather than on means. Hence, even though a four-eyes principle for the alert review is not mandatory, it needs to be ensured at least by way of sample testing under the responsibility of the second line of defence, that the alert review is done immediately for sanctions lists alerts regarding persons, entities and groups subject to prohibitions or restrictive financial measures, as provided for in Articles 33 and 39(2) of CSSF Regulation No 12-02 and in accordance with the Law of 19 December 2020 on the implementation of restrictive measures in financial matters. The CSSF noted an acceptable market practice of fuzzy matching thresholds of between 85% and 90%, however every professional must determine this threshold in view of its professional relationships, its activity and exposure to the risk of prohibitions and financial restrictive measures evasion;

- in case of outsourcing of AML/CFT obligations, the delivery of key performance indicators and an escalation process need to be in place for true positive hits, in particular, between the IFM and the registrar and transfer agents, for which the outsourcing agreement needs to go beyond a generic AML/CFT clause, as set forth by Article 37 of CSSF Regulation No 12-02;

- when implementing the Compliance Monitoring Plan, it needs to be documented who is responsible for each task (including sample sizes), when these tasks will be or were completed, and, upon completion, in the light of the results, whether follow-up actions are necessary, in accordance with Article 42(5) of CSSF Regulation No 12-02.

In 2024, a thematic review on the counter proliferation financing controls implemented by five investment fund managers under the supervision of the CSSF was conducted in accordance with the Law of 19 December 2020, on the implementation of restrictive measures in financial matters. The review focused on potential exposure of investment fund managers to proliferation financing risks at asset level, in particular with regard to dual-use goods (also referred to as "DUGs") or investments in vessels, shipping or other transportation means.

The purpose of the on-site review was two-fold. It aimed to gain a closer understanding of and assess the market's awareness of proliferation financing risks (which cover the illicit trade in goods related to nuclear weapons, other weapons of mass destruction, and conventional arms) and of proliferation financing sanctions evasion strategies, that the Democratic People's Republic of Korea (North Korea) and Iran could exert on the Luxembourg investment fund industry. Furthermore, it aimed at benchmarking market practice among the sampled Luxembourg investment fund managers.

In this context, the CSSF noted that best practice framework for Counter Proliferation Financing (CPF) included:

- having a separate section specifically for proliferation financing risks in the ML/TF risk assessment, as well as at the level of the AML/CFT policy/procedures;

- taking into consideration geographical proliferation financing indicators at the level of the country risk list including also such indicators as those provided by the Peddling Peril Index;

- integrating proliferation financing in the training for relevant staff, i.e. definition, threats, vulnerabilities and trends;

- making use of adverse media screening;

- in case of investment in vessels, conducting controls on ports and vessels (e.g. through vessels' automatic identification system (AIS) tracking);

- on a risk-based approach, ensuring that controls are in place at asset level based on Regulation (EU) 2021/821 of 20 May 2021 setting up the European Union regime for the control of exports, brokering, technical assistance, transit and transfer of dual-use goods.

During the annual AML/CFT conference for the collective management sector on 19 December 2024, the CSSF shared examples of high and medium-high risk findings of the recent on-site AML/CFT inspections.

The CSSF also detailed its testing procedures related to obligations in counter-terrorism financing – including procedural implementation, risk assessment, AML/CFT training, country risk lists, risk classification, ongoing monitoring, and cooperation with authorities – as well as predicate tax offences. The presentation also offered guidance on preparing for potential on-site inspections.

Work priorities and focus areas during future inspections will cover in particular:

- due diligence on investors as well as AML/CFT delegates in accordance with Article 3 of the Law of 12 November 2004 on AML/CFT. In accordance with Circular CSSF 17/650 as amended by Circular CSSF 20/744, the professional's due diligence must extend to the investors' tax obligations, which entails:
  - understanding and documenting the rationale for tax structuring;
  - performing plausibility checks and looking for inconsistencies;
  - in case of doubt, ensuring that the foreign tax authority is aware of the structure/transaction.
- accounts subject to AML/CFT blocking will be analysed to confirm the legitimacy of the blocking decision and to verify subsequent follow-up actions;
- AML/CFT supervision pursuant to Article 37 of CSSF Regulation No 12-02, which investment fund managers must perform a regular monitoring by obtaining sufficiently detailed key performance indicators (i.e. those received from register and transfer agents, containing a minima information on the results of name screening and transaction monitoring, number of PEPs and new high-risk clients) in accordance with Article 37(2) of CSSF Regulation No 12-02 and point 474 of Circular CSSF 18/698;
- cooperation with the authorities in charge of AML/CFT through suspicious activity/transaction reports, which need to be done without delay and be of good quality, i.e. contain complete account information and be accompanied by all supporting information and documents having prompted the report, in accordance with Article 5(1) of the Law of 12 November 2004 on AML/CFT.

2. Developments of the legal and regulatory financial crime framework

This section highlights the main legal, regulatory or normative texts adopted in 2024 at national, European or international level. It supplements the information included in other chapters of this Annual Report or in other CSSF publications issued during the year.

2.1. A new stage in Europe's AML/CFT framework: the European legislative package of 31 May 2024

On 19 June 2024, a set of reference texts, the "EU legislative package", was published in the Official Journal of the European Union. This legislative package is part of the Commission's commitment to protect the EU citizens and financial system from money laundering and terrorist financing. It represents a distinctive legal tool in the EU, consisting of four legislative instruments:

- a regulation establishing a new EU AML/CFT authority (Regulation (EU) 2024/1620, AMLAR);
- a regulation establishing uniform AML/CFT requirements directly applicable in all Member States starting from 10 July 2027 (Regulation (EU) 2024/1624, AMLR);
- a sixth AML/CFT Directive (Directive (EU) 2024/1640, AMLD6), replacing Directive 2015/849/EU currently in force (i.e. the fourth AML Directive as amended by the fifth AML Directive), and containing provisions that will be transposed into national law, such as rules on national supervisory authorities and financial

intelligence units in the Member States; and

- a revision of the 2015 EU Regulation on transfers of funds to ensure the traceability of transfers of crypto-assets (Regulation (EU) 2023/1113).

The European AML/CFT package thus represents a new step in the European AML/CFT legal arsenal, entailing significant changes on many fronts.

In the first place, three regulations will now be directly applicable, without transposition, in addition to a directive that will have to be transposed into national law by the Member States. This represents a strong message by the European bodies to reach maximum harmonisation of AML/CFT rules within the EU.

Then, these new texts will be supplemented by about 60 implementing measures, which will provide even more granular details on a significant number of topics, such as customer due diligence measures, rules on the outsourcing of certain AML/CFT tasks or the methodology to be used for the risk-related classification of obliged entities by the supervisory authority.

Finally, a new authority for AML/CFT (AMLA) will be established. AMLA will be competent for the financial and non-financial sectors, and be vested with regulatory, direct and indirect supervision, and sanctioning powers. AMLA will cooperate with the supervisory authorities and financial intelligence units of the Member States and will work in close cooperation with other EU institutions, such as Eurojust, Europol or the European Public Prosecutor's Office. This new authority will be based in Frankfurt. Non-financial sector entities will be subject to an indirect supervision as they will continue to be supervised by the national authorities or self-regulatory bodies, but this supervisory activity will be overseen by AMLA, notably through peer reviews. As regards the financial sector, AMLA will perform the direct supervision of certain selected obliged entities,and an indirect supervision of non-selected obliged entities.

The selection of the obliged entities that will qualify for direct AMLA supervision will be determined through a risk-based approach. AMLA will have the power to supervise them and, in particular, to conduct investigations and on-site inspections, and, where necessary, to impose administrative measures, pecuniary sanctions or periodic penalty payments on them. The national authorities such as the CSSF will assist AMLA in the implementation of the reviews on these entities.

The non-selected obliged entities will remain under the direct supervision of the national authorities, with, however, an indirect oversight of AMLA, as AMLA will periodically review the activity of these supervisors and may also request them to conduct investigations where there are indications of serious, repeated or systematic breaches, and to sanction the non-selected obliged entities. In cases of systematic failures of the supervisory measures established by EU law, AMLA may also initiate investigations against non-complying supervisors, and issue recommendations addressed to them, in order for them to take the necessary measures to comply with EU law.

The establishment of AMLA will thus put an end to the EBA's mandate in relation to its AML/CFT tasks and powers. The EBA will contribute to the transition towards AMLA, preparing the transfer of its current AML/CFT responsibilities to AMLA by the end of 2025.

2.2. Focus on the key elements of the new European regulation (AMLR)

The AMLR broadens the scope of obliged entities at EU level to include new players, such as Crypto-Asset Service Providers ("CASPs") or crowdfunding platforms.

The AMLR also specifies the due diligence measures to be implemented by obliged entities, with increased transparency requirements as concerns beneficial ownership and the obligation to collect precise data when applying due diligence measures to customers/beneficial owners. The scope of politically exposed persons has been extended and the frequency of the update of the KYC files set out in the AMLR depends on the risk related to the business relationship, without exceeding one year for higher AML/CFT risk customers and five years for all other customers. Enhanced due diligence measures will have to be applied for business relationships implying the management of assets exceeding EUR 5,000,000 for customers holding total assets exceeding EUR 50,000,000. Enhanced due diligence measures will also be required from CASPs for cross-border correspondent relationships.

Similarly, the AMLR imposes measures to fight against the risk of evasion of targeted financial sanctions by requiring obliged entities to verify whether the customer and/or the beneficial owners are subject to targeted financial sanctions. In the case of legal entities, the natural and legal persons that control the legal entity or hold more than 50% of the proprietary rights of that legal entity or majority interest in it, whether individually or collectively, must also be subject to this verification concerning targeted financial sanctions.

An entire chapter of the AMLR is dedicated to beneficial ownership transparency and details, for example, the rules to identify beneficial owners in the case of an express trust or a similar legal arrangement or within collective investment undertakings.

Beneficial ownership transparency is notably strengthened by stricter requirements for the reporting of discrepancies with the information contained in the beneficial ownership registers. Obliged entities will have to report any discrepancies they find between the information available in the beneficial ownership register and the information they are obliged to collect under the AMLR. The discrepancies will have to be reported without undue delay and, in any case, within 14 calendar days of their detection.

The AMLR also provides details on the outsourcing regime of AML/CFT tasks, reminding that the obliged entity remains fully liable for the execution of the outsourced tasks by the service provider. To this end, the AMLR provides a list of tasks that cannot be outsourced, such as the approval of the criteria for the detection of suspicious or unusual transactions and activities or the decision on the risk profile to be attributed to the customer.

2.3. Future guidelines and RTS based on the EU legislative package

Pursuant to the provisions of the AMLR and the AMLD, AMLA and the European Commission, with the cooperation of the EBA if necessary, will be tasked with the drawing-up of guidelines and RTS or ITS (62 texts) such as guidelines on money laundering and terrorist financing risks, trends and methods.

Moreover, on 12 March 2024, the EBA received a Call for Advice from the European Commission to develop draft RTS. The CSSF participated in the development of these draft RTS, notably as concerns the methodology for assessing the inherent and residual risk profile of obliged entities, as well as the frequency at which such risk profile must be reviewed, the risk assessment for the selection of entities under the direct supervision of AMLA, the customer due diligence measures, and the pecuniary administrative sanctions and other administrative measures and periodic penalty payments.

The CSSF invited the financial sector players to actively participate in the consultation process on these future standards and guidelines, launched in March 2025 with the first draft texts.

To ensure a proper understanding of the new requirements resulting from the EU legislative package, and to anticipate their implementation, the CSSF recommends that professionals consult the relevant texts and communications already published by the CSSF, in particular in its previous reports, newsletters or on its website[1].

1 https://www.cssf.lu/en/2024/06/the-new-aml-cft-regulation-the-sixth-aml-cft-directive-and-the-future-eu-aml-cft-supervisor/

2.4. Asset recovery

The provisions of Directive (EU) 2024/1260 on asset recovery and confiscation entered into force on 22 May 2024. The aim of this directive is to harmonise the measures taken by Member States and to strengthen cross-border cooperation on the tracing, identification, freezing, confiscation and management of assets deriving from criminal activities. These measures are key to an effective fight against money laundering.

Each Member State will have to (i) establish an asset recovery office and an asset management office, (ii) have the staff and financial and technical resources necessary for the proper execution of their tasks, and (iii) adopt a national strategy on asset recovery, which must be updated every five years. Member States must transpose these measures into their national legislation by 23 November 2026.

2.5. High-risk and non-cooperative countries

Taking into account the Financial Action Task Force's (FATF) public statements (cf. point 2.7. below), and upon having performed its own analysis, the European Commission amended its list of high-risk third countries having strategic deficiencies in their AML/CFT regimes in February 2024. This list is included in the Annex to Commission Delegated Regulation (EU) 2024/163 of 12 December 2023 amending Delegated Regulation (EU) 2016/1675, which is directly applicable in all Member States.

On that date, the list of high-risk third countries included 27 countries. Two countries, the Cayman Islands and Jordan, were removed from that list in 2024.

Pursuant to Article 3-2 of the Law of 12 November 2004 on AML/CFT, the professionals subject to AML/CFT obligations are required to use this list to implement enhanced customer due diligence measures and the associated countermeasures.

The EU list of non-cooperative countries and territories for tax purposes has been revised by the Council of the European Union and includes 11 countries since 18 October 2024. This list is composed of countries which have failed to comply with tax good governance criteria within a specific timeframe or countries which have refused to do so. The following countries were removed from this list in 2024: Antigua and Barbuda, the Bahamas, Belize, Seychelles and the Turks and Caicos Islands.

2.6. Financial restrictive measures

In addition to the financial embargoes already in place and modified in 2024 against, for example, Belarus or Syria, new directly applicable financial restrictive measures were issued by the EU owing to the situation in Guatemala.

Moreover, 2024, the third consecutive year of the Ukraine war, saw the adoption of several successive packages of new restrictive measures against the Russian regime. These packages include (financial) restrictive measures directed against new persons and entities deemed to be responsible for actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine, as well as sectoral measures targeting, in particular, the energy or transports sectors, the use of the financial messaging service, or the funding of political parties and foundations.

Anti-circumvention rules have also been implemented, for instance the obligation for EU parent companies to undertake their best efforts to ensure that their third-country subsidiaries do not take part in any activities resulting in an outcome that the sanctions seek to prevent.

For the first time, significant sanctions including travel bans, freezes of assets and trade restrictions were imposed on players accused of providing components for drones and microelectronic equipment for military purposes to Russia. Moreover, the EU extended its sanctions to several Iranian entities as a response to the provision of missiles and drones to Russia, and to other affiliated groups in the Middle East.

It should also be noted that the Ministry of Finance updated its 2016 Guidelines relating to the implementation of financial sanctions against certain persons, entities, bodies and groups within the framework of combating terrorism financing on 7 November 2024.

2.7. International AML/CFT developments: Financial Action Task Force (FATF)

In 2024, the three FATF plenary meetings provided an opportunity to address key topics related to the fight against money laundering, terrorist financing and proliferation financing. The national delegation, composed notably of members of the Ministry of Finance, Ministry of Justice, the FIU and representatives of the CSSF, participated in these FATF plenary meetings and working meetings in 2024.

The year 2024 was marked by the adoption of the last mutual evaluation reports of the FATF's fourth round of mutual evaluations. The reports of the FATF members India and Argentina are worth mentioning. All the outcomes per country are available at: https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Mutualevaluations/Assessment-ratings.html

- **Evolution of the FATF lists: high-risk and other monitored jurisdictions**

During the 2024 FATF plenary meetings, Kenya, Namibia, Monaco, Venezuela, Algeria, Angola, Côte d'Ivoire and Lebanon were added to the list of jurisdictions under increased monitoring by the FATF (commonly referred to as the "grey list") and the United Arab Emirates, Uganda, Gibraltar, Barbados, Jamaica, Türkiye and Senegal were withdrawn from that list.

The FATF also reiterated its concerns about the continued failure by the Democratic People's Republic of Korea (DPRK) to address the significant deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) regime and the serious threats posed by the DPRK's illicit activities related to the proliferation of weapons of mass destruction and its financing. The DPRK remains on the high-risk jurisdictions list subject to a Call for Action (commonly referred to as the "black list").

For a complete overview, please refer to the updates to the annex of Circular CSSF 22/822 published on the CSSF website[2].

The suspension of the Russian Federation's FATF membership is maintained.

- **Evolution of the FATF standards**

On 11 March 2024, the FATF updated its *Guidance on Beneficial Ownership and Transparency of Legal Arrangements* (Recommendation 25). The Guidance aims to assist jurisdictions and financial and non-financial sector players to better understand how transparency requirements apply to legal arrangements. It explains, in particular, the FATF's requirements to obtain adequate, accurate and up-to-date beneficial ownership information for express trusts and similar legal arrangements, and highlights the mechanisms to verify this information. The FATF will assess the implementation of these requirements during its upcoming round of mutual evaluations.

In July 2024, the FATF published the *Horizontal Review of Designated Non-Financial Businesses and Professions' (DNFBPs) Technical Compliance Related to Corruption*, a key subject for the FATF. The FATF has undertaken this Horizontal Review to assess the actions that FATF members have taken to apply important aspects of the FATF Recommendations to the DNFBPs and to identify the areas that FATF members must prioritise for further improvement.

This report shows an excellent score of 100% for Luxembourg, illustrating that it has put in place the necessary measures to apply the FATF Recommendations to the DNFBPs or "gatekeepers", i.e. notably lawyers, notaries, chartered accountants, real-estate agents, and trust and company service providers. As a matter of fact, in Luxembourg, a certain number of non-financial players are also required to implement all the preventive AML/CFT measures (required by the FATF Standards). Moreover, the report establishes that Luxembourg's supervisors have adequate powers and tools to implement supervisory programmes on the DNFBPs.

2 https://www.cssf.lu/en/Document/circular-cssf-22-822/

In 2024, the FATF also published the fifth update on the progress made by jurisdictions in implementing the FATF standards on virtual assets (VAs) and virtual asset service providers (VASPs). In this report, the FATF indicates that three quarters of jurisdictions (97 out of 130) are only partially or not compliant with the FATF's requirements on that specific topic. As already observed last year, this means that the implementation of the FATF standards on VASPs remains behind that of other financial sectors, implying that VAs and VASPs remain vulnerable to misuse.

The revision of the FATF standards on payments, notably the revision of Recommendation 16 on payment transparency, was again a major topic of discussion between the Member States and also with the private sector in 2024. The outcome of the negotiations that will have a major impact on future transfers (of funds or of certain crypto-assets) was the subject of a new public consultation in February 2025, which should allow the finalisation of this far-reaching revision project.

At the end of 2024, the FATF launched a public consultation on the revision of the standards on the risk-based approach and financial inclusion. The proposed revisions concern Recommendation 1 (Assessing risks and applying a risk-based approach) and its Interpretive Note, Recommendations 10 (Customer due diligence) and 15 (New technologies) as well as the glossary definitions, and are intended to develop the use of simplified measures in the risk-based approach, where they are appropriate, and to reflect technological advancements in non-face-to-face customer identification and transactions. The risk-based approach remains central to the AML/CFT arrangements recommended by the FATF.

2.8. Other publications at EU level related to financial crime

In December 2024, the EBA published its fourth report detailing the national competent authorities' (NCAs') approaches to AML/CFT supervision of banks. This new review focused on the AML/CFT supervision of 14 NCAs from nine EU/EEA Member States, and covered the progress made between 2023 and 2024.

In 2022, the EBA launched a central database named EuReCa to centralise the collection of information on material weaknesses, the financial institutions' serious AML/CFT deficiencies reported by the competent authorities. One of the main objectives of the implementation of EuReCa is to support the competent authorities' supervisory process while being in a position to extract information on ML/TF risks affecting the EU financial sector. Since May 2024, authorities must also report the material weaknesses related to natural persons, notably customers, beneficial owners or members of the board of an obliged entity, to EuReCa.

At the end of 2024, EuReCa included significant information related to 2,542 material weaknesses reported by 44 competent authorities and concerning 517 institutions.

On 4 July 2024, the EBA published its *Guidelines on information requirements in relation to transfers of funds and certain crypto-assets transfers under Regulation (EU) 2023/1113* ("Travel Rule Guidelines", EBA/GL/2024/11). These guidelines have been adopted in Luxembourg via Circular CSSF 25/879 and detail the information that must henceforth also accompany a transfer of crypto-assets, the steps crypto-asset service providers must take to detect missing or incomplete information, as well as the measures to take to manage ML/TF risks where a crypto-asset transfer lacks the required information.

The EBA carried out a fact-finding exercise on the risks and impact of the use of virtual IBANs (vIBANs) and published its findings and recommendations in a report dated April 2024. This report underlines the divergent views across NCAs and the financial sector, and the absence of a common definition at EU level, raising not only AML/CFT challenges, but also challenges related to consumer and depositor protection, authorisation and passporting, and regulatory arbitrage.

In January 2024, the EBA also revised its Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the ML/TF money laundering and terrorist financing risk associated with individual business relationships and occasional transactions ("The ML/TF Risk Factors Guidelines", EBA/GL/2021/02) by providing details on crypto-asset service providers (CASPs)/crypto-assets. Upon the adoption of the Law of 6 February 2025[3] at national level, these guidelines were adopted via Circular CSSF 25/878.

2.9. Fight against corruption at EU level and in Luxembourg

The EU has been party to the United Nations Convention against Corruption of 31 October 2003 (Merida Convention) since 2008. In Luxembourg, the Merida Convention was approved through the Law of 1 August 2007 approving the above-mentioned Convention and establishing a Committee on the prevention of corruption (COPRECO). COPRECO is a consultative and interministerial body whose mission is to assist the government in combating corruption. COPRECO contributes to the development and coordination of the national corruption prevention policies. It follows up on the international conventions related to corruption concluded by Luxembourg and ensures an adequate dissemination of corruption-related knowledge.

As a member of COPRECO, the CSSF participates in ad hoc COPRECO consultation missions and in Luxembourg's evaluations in relation to combating corruption by international/European bodies, such as the Council of Europe or the OECD.

The CSSF thus participated in the fourth phase of Luxembourg's evaluation by the OECD Working Group on bribery in international business transactions, the report of which was adopted during the Working Group's plenary meeting from 5 to 8 March 2024. In this report, the OECD notably recommended supervisors, such as the CSSF, to "continue and intensify its awareness-raising initiatives [...] on the risks of [bribery of foreign public officials] and money laundering predicated on this offence."[4] The CSSF will thus continue the awareness-raising initiatives on those risks with the sectors under its supervision in the future. As an example, the CSSF's participation in a conference of compliance officers of the Luxembourg financial sector on combating corruption, in November 2024, may be mentioned.

In 2024, the EU legislative process on the proposal for a directive on combating corruption continued[5]. This proposal for a directive establishes minimum rules with regard to the definitions and sanctions applicable to corruption offences across the EU and provides for preventive measures and rules to improve investigation and prosecution of corruption offences. The new directive will group the rules on combating corruption in the private and public sectors, contributing to improve the capacity to fight corruption.

3 https://legilux.public.lu/eli/etat/leg/loi/2025/02/06/a38/jo

4 https://gouvernement.lu/fr/actualites/toutes_actualites/communiques/2024/03-mars/20-rapport-ocde.html

5 Proposal for a directive of the European Parliament and of the Council on combating corruption, replacing Council Framework Decision 2003/568/JHA and the Convention on the fight against corruption involving officials of the European Communities or officials of Member States of the European Union and amending Directive (EU) 2017/1371 of the European Parliament and of the Council (COM/2023/234 final)

2.10. Major national AML/CFT-related publications

The Law of 4 December 2024 amending the Law of 12 November 2004 on AML/CFT the fight against money laundering and terrorist financing further formalises the Committee on the prevention of money laundering and terrorist financing ("ML/TF Prevention Committee"), established under the authority of the Minister responsible for the fight against money laundering and terrorist financing, currently the Ministry of Justice. The ML/TF Prevention Committee was previously established under the Ministerial Regulation of 9 July 2009. The ML/TF Prevention Committee is an essential element for a proper national coordination of AML/CFT work.

In addition to the circulars mentioned above, the CSSF also adopted the following AML/CFT circulars and FAQs in 2024:

- Circular CSSF 24/862 and Circular CSSF 24/859 on the replacement of the secure exchange channel for the notification and enforcement of court orders and repeal of Circular CSSF 13/566;
- Circular CSSF 24/861 amending Circular CSSF 19/732: Prevention of money laundering and terrorist financing: clarifications on the identification and verification of the identity of the ultimate beneficial owner(s);
- Circular CSSF 24/854: Guidelines for the collective investment sector on the AML/CFT Summary Report RC ("SRRC");
- Circular letter of February 2024: 2023 Questionnaire on financial crime;
- Circular CSSF 24/853 amending Circular CSSF 03/113, as amended: Practical rules concerning the role of the *réviseurs d'entreprises agréés* (approved statutory auditors) in investment firms;
- FAQ on AML/CFT asset due diligence obligations in accordance with CSSF Regulation No 12-02;
- FAQ on the AML/CFT Summary Report RC ("SRRC") on compliance with AML/CFT obligations in accordance with Circular CSSF 24/854;

As concerns risk assessment, the publication by the CSSF of its second *Private Banking Sub-Sector Risk Assessment* in February 2024 is also worth mentioning.

3. Cooperation at national level

In addition to its bilateral exchanges with other competent authorities, including the FIU, the Commissariat aux Assurances and the Administration de l'enregistrement, des domaines et de la TVA (AED), as well as with AML/CFT self-regulatory bodies, the CSSF was particularly involved, throughout 2024, in the work of the ML/TF Prevention Committee, the Committee on the prevention of corruption and the Monitoring Committee regarding financial sanctions.

XXII. Financial consumer protection

1. Financial consumer protection and financial education

1.1. Financial consumer protection and financial education at national level

As part of its financial education duty, the CSSF continued to develop its Lëtzfin[1] information portal which contains a broad range of information on personal finance. In addition, the presence of Lëtzfin on Facebook and Instagram was increased, notably with respect to sustainable finance, digital finance, and fraud prevention.

The CSSF also launched an awareness-raising campaign on greenwashing to protect financial consumers and promote financial education. In an environment where sustainable financial products play a key role in the ecological transition, greenwashing represents a major risk. Greenwashing is a deceptive practice whereby companies or products are presented as more sustainable than they actually are, thus misleading investors. This campaign follows up on ESMA's final report on greenwashing which underlines the necessity for a cooperation between regulators and consumers to address greenwashing occurrences. The main objective of the campaign was to encourage investors to question the allegations of green-labelled financial products, to verify the reliability of sustainability commitments and to look for information in order to contribute to a really responsible finance. The campaign consisted in a large digital dissemination, the creation of a dedicated section[2] on the Lëtzfin website and the publication of an instructional video.

Within the framework of the "Woch vun de Suen", CSSF's agents went into primary school classes to talk about money issues and to conduct an educational game. Several CSSF agents also participated in the activities organised in secondary schools, particularly as part of the "Fit for Life" programme initiated by the association Jonk Entrepreneuren.

As part of the World Investor Week initiated by IOSCO, Lëtzfin produced an animated video on the broad usage of "Buy now, Pay later" services. Despite offering a series of advantages, these services also come with risks, notably the potential for overspending beyond one's manageable financial limits.

Finally, an influencer marketing campaign was carried out to make young people aware of a certain number of frauds related to crypto-assets and other investments.

1 www.letzfin.lu

2 www.letzfin.lu/greenwashing

1.2. Financial consumer protection and financial education at international level

1.2.1. Task Force on Financial Consumer Protection of the OECD Committee on Financial Markets

The Task Force's work concerns particularly the G20/OECD High-Level Principles on Financial Consumer Protection totalling 12 since December 2022. In 2024, the Task Force endeavoured to disseminate the update of these principles and to translate them into the different national languages.

The work of the Task Force also focused on the update of its Recommendation on consumer protection in the field of consumer credit. Following an OECD round table, a questionnaire was sent to the members of the Task Force (including the CSSF) to assess the relevance of the update of this recommendation.

In 2024, the Task Force more specifically addressed the themes relating to the vulnerability of financial consumers and financial well-being. The CSSF was notably involved in the preparation of a report by the Task Force titled *Understanding and responding to financial consumer vulnerability*.

Moreover, the Task Force continued its work on financial sector frauds, digitalisation and sustainable finance.

In 2024, the Task Force also published the results of a survey whose objective was to identify the risks faced by consumers of financial products and services[3].

1.2.2. International Financial Consumer Protection Organisation (FinCoNet)

FinCoNet is an international organisation gathering supervisory authorities from 37 countries that are responsible for financial consumer protection. FinCoNet aims at fostering information exchange and cooperation between supervisory authorities in order to encourage proper conduct of the market and strong consumer protection in finance.

In 2024, FinCoNet published a series of documents on the protection of financial consumers, notably two Briefing Notes titled *Buy Now Pay Later: Risks for consumers and regulatory and supervisory approaches and Market conduct supervision in challenging times* as well as four Summary Reports titled *Market conduct supervision in challenging times, Risk-Based Approaches to Market Conduct Supervision, Conducting thematic reviews for market conduct supervision: Experiences and lessons learned* and *Supervision of crypto-assets*.

The CSSF, as a member of FinCoNet, also attended two international seminars. The first one was held on 18 March 2024 and concerned the protection of consumers' money to secure their future. The second seminar took place on 29 November 2024 and allowed regulators to exchange views on the topic of quality financial products and on the roles of product oversight and SupTech.

On 27 and 28 November 2024, FinCoNet held its annual general meeting which was hosted by the Superintendencia de Banca, Seguros y AFP (Superintendency of Banking, Insurance and Private Pension Fund Administrators) of Peru. The representatives of around 50 financial market regulators worldwide as well as of international organisations participated in the general meeting, in person or remotely.

1.2.3. OECD's International Network on Financial Education (INFE)

This international network created by the OECD seeks to promote and facilitate international cooperation between the different participants (policy makers, regulators, associations, etc.) involved in financial education. In 2024, 281 institutions from 134 countries were represented in the INFE. Among them, a total of 102 authorities, including the CSSF, have the status of full member.

The topics addressed by OCDE/INFE include digital financial literacy, short-term online credits and *Buy now, Pay later* products, financial well-being, financial literacy and sustainable finance, as well as the recent initiatives on the integration of financial literacy in school programmes.

3 https://www.oecd.org/en/publications/consumer-finance-risk-monitor_047b2ea6-en.html

1.2.4. IOSCO's Committee 8 on Retail Investors

The primary mandate of Committee 8 is to conduct IOSCO's policy work on financial education. Its secondary mandate is to advise the IOSCO Board on issues relating to investor protection and to work on the policy to be adopted in this field.

In 2024, IOSCO published consultation documents on the following topics: *Finfluencers*, *Digital Engagement Practices (DEPs)* and *Online Imitative Trading Practices: Copy Trading, Mirror Trading, Social Trading*.

Moreover, IOSCO's Committee 8 is in charge of the World Investor Week organisation.

1.2.5. Joint Committee's Consumer Protection and Financial Innovation Sub-Committee

The subgroup on financial education of the permanent Joint Committee of the European Supervisory Authorities on Consumer Protection and Financial Innovation continued its work whose objective is to promote the exchange of information, of experience and of the lessons learnt from financial education initiatives between national competent authorities. One workshop specifically focused on the presentation of concrete financial education initiatives and campaigns which are aimed at educating consumers and addressing the challenges of digital era communication.

2. Alternative dispute resolution

In 2024, the CSSF continued to fulfil its functions as entity competent for the alternative resolution of consumer disputes, which it takes on, in particular, pursuant to the provisions of the Consumer Code. In this respect, the CSSF does not only process requests for the alternative resolution of disputes made by consumers as such, but it also deals with disputes between financial sector professionals in order to provide an amicable resolution.

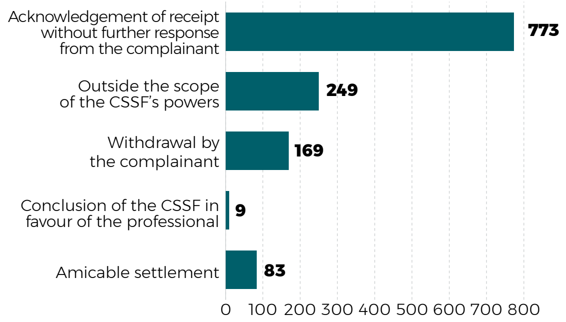
Article L. 432-4 of the Consumer Code provides that the entities qualified for alternative consumer dispute resolution must publish their annual reports. It also determines the information to be included in these reports.

In this chapter, the CSSF informs the public of its activities as qualified entity for alternative consumer dispute resolution, by providing, inter alia, the information required under the aforementioned Article L. 432-4.

2.1. Statistics regarding CSSF complaint handling in 2024

In 2024, the CSSF received 1,850 complaint files, of which 1,283 were closed in 2024.

Outcome of the CSSF's intervention/reasons for closing the files



Upon receiving a complaint, the CSSF generally responds with an acknowledgement of receipt which provides useful instructions for the complainant on how to resolve the dispute with the professional without further intervention of the CSSF. This acknowledgement of receipt indicates, among others, the full name of the manager in charge of handling complaints whom the complainant should contact at the entity concerned in order to reach an amicable settlement. It also includes the link to the CSSF's webpage where useful information on the alternative handling of complaints by the CSSF is available. Judging by the relatively high number of complaint files that have been settled following these first instructions by the CSSF, the CSSF's approach consisting in favouring the dialogue between the parties to the disputes from the beginning and not intervening systematically with the supervised entity concerned by a complaint, appears to bear fruit.

On this subject, it is worth mentioning that Directive 2013/11/EU of 21 May 2013 on alternative dispute resolution for consumer disputes provides that alternative dispute resolution entities may only decide to intervene with the professional concerned by a dispute if the complainant did, as a first step, contact that professional.

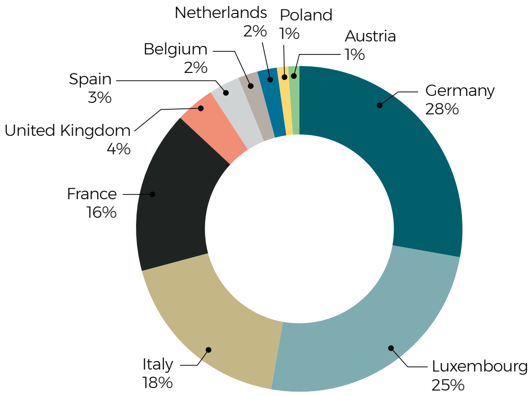
It should be noted that, in 2024, the CSSF took, on average, 70 days to close a duly examined file.

A total of 249 requests for the alternative resolution of complaints were inadmissible for the following reasons:

- complaints involving entities that are not subject to the CSSF's supervision (45%)[4];
- complainant had no legal capacity to act (18%);
- complaints falling within the scope of the insurance sector (16%);
- complaints relating to the commercial policy of the entity concerned by the complaint (7%);
- expiry of the one-year time limit for filing the complaint with the CSSF (6%);
- complaints concerning a non-financial product (5%);
- referral to another alternative dispute resolution body (2%);
- complaints already heard by a court (1%).

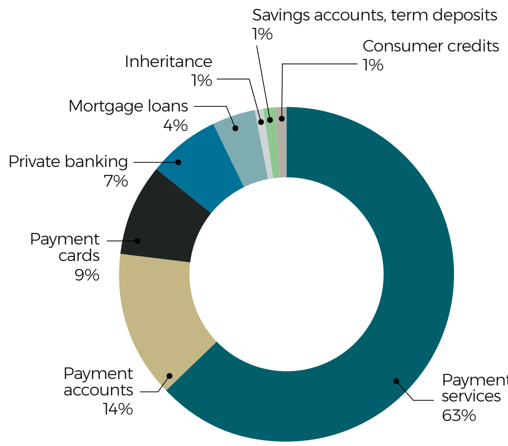
4 Excluding complaints concerning entities of the insurance sector.

Breakdown of the disputes according to the complainants' country of residence



There is a dominant part of complaints from Germany with 28% of the total, which is similar to 2023 (26%), closely followed by an increasing number of complaints from Luxembourg (25% in 2024 against 22% in 2023). It is also worth mentioning that the complaints received in 2024 originated from 62 different countries.

Breakdown of complaints according to their object



The breakdown of complaints according to their object remained stable compared to the previous years. The major share of complaints (63%) concerned problems linked to the use of electronic payment services. The share of complaints relating to payment accounts (14%) slightly decreased compared to the previous financial year (16% in 2023).

2.2. Complaints handled in 2024

In this section, the CSSF recounts some disputes resolved in 2024 which may be rich in lessons for both financial consumers and professionals.

2.2.1. Unauthorised use of a bank card

One of the complaints that was submitted to the CSSF concerned the unauthorised use of a bank card. The complainant insisted on the fact that, at the time the disputed withdrawals occurred on his account, he was not in possession of the bank card used to withdraw those amounts. That bank card had been sent by the bank at the complainant's address as a replacement for his expiring bank card.

The bank explained to the CSSF that the PIN code associated with the new bank card was sent per mail to the address of the complainant. The new bank card was then transmitted in a second mail a few days later. The complainant claimed that he did not receive any of the mails in question, as he had been absent from home for a prolonged stay abroad at the time he should have received them. In this context, the CSSF noted that the complainant indicated that someone may have intercepted or stolen these mails while he was absent.

The bank drew the attention of the CSSF to the provisions of its general terms and conditions governing the issuance and use of bank cards. These provisions set out that bank cards may be remitted per mail, and that the PIN code is provided in a separate mail. On this matter, the bank argued that it could not be held liable for an (hypothetical) theft of the mails sent to the complainant's address during his absence. In particular, the bank was of the opinion that the complainant had not taken all the necessary measures to organise his mail management during his absence.

The CSSF asked the bank to provide it with information on how it considered to have complied with Article 84(1)(a) of the Law on payment services, which requires banks issuing payment instruments to make sure that the personalised security credentials are accessible only to the entitled payment service user.

The CSSF also drew the bank's attention to the provisions of Article 84(2) of the aforementioned law, which provides that banks shall bear the risk of sending a payment instrument or any personalised security credentials relating to it to the payment service user. This means, in practice, that banks must ensure that the PIN codes sent to their customers are only available to these customers. Hence, when sending bank cards and PIN codes, banks must ensure that the bank cards and the PIN codes reach the appropriate person.

Considering the above, the CSSF asked the bank if it was willing to make a commercial gesture in favour of the complainant, without any prejudicial recognition. The bank finally accepted to refund the amount of the unauthorised payments to the complainant.

2.2.2. Execution of securities transactions in an execution-only arrangement

Certain customers seek the advice of their bank to manage their assets. Other customers manage their assets themselves, and the bank only carries out their instructions. This was the case for the complainants, a couple, who had concluded an execution-only contract with their bank, i.e. a contract in which the bank's activity is, in principle and under certain conditions, restricted to the execution of the market orders given by its customer.

The complainants had invested in bonds issued by a company that eventually faced payment difficulties with the result that it was unable to redeem the bonds. In this context, the complainants considered that their bank had caused a financial prejudice to them as it had not complied with its obligations as regards information, advice and prudence.

In their argumentation with the CSSF, the complainants underlined that the bank had suggested the purchase of high-risk bonds that did not meet their investment profile, which was a low-risk investment profile.

The bank argued that the contested investment decision had been taken by the complainants alone, under an execution-only arrangement, while neither an asset management mandate nor advisory services were agreed upon with the bank.

When analysing the evidence brought by the parties to the dispute, the CSSF first ascertained that none of the parties was in a position to provide a document establishing the complainants' exact risk profile at the moment of the contested investment. The CSSF also noted that the complainants had taken the decision to invest in the contested bonds offered by the bank on their own.

The question that arose in this case was to understand if, by executing the complainants' investment order, the bank had complied with its rules of conduct on execution-only, in accordance with the provisions of the Law of 5 April 1993 on the financial sector.

In accordance with Article 37-3(3) of the Law of 5 April 1993 on the financial sector, a bank must provide its customers with appropriate information on the financial instruments proposed. That information must include appropriate guidance on and warnings of the risks associated with the investment in these financial instruments in order for the customers to take informed investment decisions.

The CSSF noted that the bank was unable to demonstrate that it had provided the complainants with the information required under Article 37-3(3) of the Law of 5 April 1993 on the financial sector.

Moreover, the bank had executed the complainants' investment orders without verifying if the securities referred to in these orders were suitable for the complainants, for which, *per se*, the bank cannot be blamed, as the Law of 5 April 1993 on the financial sector authorises such actions by the bank where an execution-only agreement applies to the customer.

However, Article 37-3(6) of the Law of 5 April 1993 on the financial sector provides that in such situation the bank must clearly inform the customer of the fact that the bank does not have to assess the suitability of the instrument or of the service provided or offered for the customer when providing this service, and that, as a consequence, the customer does not benefit from the protection arising from the applicable rules of conduct.

In this case, the CSSF observed that the bank had not informed the complainants of the fact that it had no obligation to assess the suitability of the securities they had ordered to purchase and that, as a consequence, the complainants could not benefit from the rules of conduct protecting their interests.

Considering these circumstances, the CSSF argued that the bank did not comply with the provisions of Article 37-3(3) and (6) of the Law of 5 April 1993 on the financial sector at the time of executing the complainants' investment order. The CSSF thus asked the bank to make a commercial gesture in favour of the complainants, so that an amicable settlement could be reached for the parties involved in the dispute.

2.2.3. Phishing

As in the previous years, in 2024, the CSSF received complaints from customers who claimed to have been the victims of phishing scams which resulted in transactions of mostly significant amounts being executed through wrongful deception. Generally, these customers received a fraudulent message or call using a deceptive social engineering technique with the purpose of misleading them and stealing personal and confidential information from them.

In one of the cases, the complainant contacted the CSSF to challenge several transfers that had been made from her online bank account without her authorisation. The complainant blamed the bank for refusing to compensate her for the damage suffered.

The complainant explained to the CSSF that she had received a call on her mobile phone from a person claiming to be an employee of the company issuing the electronic identification means. This person informed the complainant that she may have been the victim of a fraud as he could see suspicious fund transfers on her account in favour of bank accounts located abroad. The alleged employee convinced the complainant to provide him with her personalised security credentials in order for him to block the suspicious transactions.

The complainant explained to the CSSF that she had followed the instructions of the person as she considered that she was in contact with the company providing the electronic identification means. In reality, the complainant fell into the trap of identity thieves who managed to steal her personal bank data by misleading her.

The complainant asked the bank for the reimbursement of the amounts involved in this fraud. However, as the disputed transfers had been executed using the personal security credentials of the complainant, the bank argued that these transfers had occurred as a consequence of the complainant's gross negligence. The bank also referred to the terms and conditions the complainant had accepted when opening the account, which provide that the complainant bears the full responsibility for the use of her online account and of the identification and security credentials which are strictly personal and non-transferable.

The CSSF finally considered that the complainant had acted with gross negligence as she communicated her personalised security credentials via telephone to a third party upon receiving an unsolicited phone call.

In this context, the CSSF reiterates that users of payment services are responsible for taking all reasonable steps to safeguard the security of their personalised security credentials. Personal security credentials must not be shared with others under any circumstances.

2.2.4. Forward contract

The CSSF received a complaint from a person who blamed his bank for having misinformed him within the context of the conclusion of a forward contract on currency transactions which had been agreed upon with the purpose of protecting his assets and for which the complainant requested compensation for the loss incurred when the disputed forward contract came to maturity.

The complainant explained to the CSSF that he wanted to protect his assets, mainly held in US dollars, from a US dollar depreciation against the yen. His bank suggested to use a forward contract and sent a simulation to indicate the instructions to follow to protect his assets from a US dollar depreciation.

Thus, the complainant gave instructions to his bank to buy US dollars, in accordance with the simulation received, which the bank then executed. After a certain period of time, the complainant requested the bank to provide him with a statement on the situation of his account. He was unpleasantly surprised to observe that he was registering a loss on this forward contract, while he was convinced to benefit from the situation considering the development of the US dollar.

At that moment, the complainant understood that the simulation provided by the bank was erroneous.

By following the instructions of his bank, the complainant had given instructions that were contrary to the instructions that would have been in his interest to protect against a US dollar fall.

Upon analysing the explanations and documents provided by the two parties, the CSSF noted that the complainant had disputed the purchase order nearly two years after its execution by the bank.

On this subject, the bank argued that, in accordance with the general terms and conditions accepted by the complainant, any complaint on the account statements must be filed at the latest within 30 days following the date they have been sent, or else they can no longer be challenged. The CSSF did not retain this argument of the bank. Indeed, the CSSF considered that the misconduct of the bank did not refer to an incorrect indication on the account statement, but to a bad advice on a contract to be concluded, and that the complainant was entitled to file his complaint with the bank after the expiry of the 30-day contractual period.

When examining the file, the CSSF moreover noted that the bank offered to take over the forward contract from the complainant as soon as it received his complaint. At that time, the complainant confirmed that he wanted to keep the forward contract even if this contract did not correspond to his initial intentions.

Finally, the CSSF requested the bank to compensate the complainant for the damage suffered as a result of the bad advice he had received, even if the complainant accepted to keep the forward contract until its maturity.

The bank then proposed a compensation which was proportionate to the damage suffered by the complainant at the time the forward contract reached its maturity. Nevertheless, the complainant refused the compensation by the bank as he considered that his loss was much more important than the compensation offered by his bank.

Finally, the CSSF ended its intervention as the parties did not agree on a solution that suited both parties.

2.2.5. Late execution of a market order

The CSSF received a complaint from a person requesting compensation from his bank for the damage he allegedly suffered following the late execution of his order to sell securities listed on the stock exchange. The complainant claimed that he managed to sell his securities only after a delay for which he was blaming his bank, at a lower price than he had wished to sell them originally.

The bank indicated to the CSSF that the complainant had not been able to sell his securities due to the inadvertence of the bank's market intermediary for which the bank could not bear any responsibility.

The CSSF was not satisfied with that explanation by the bank and was of the opinion that it is the sole responsibility of the bank to put at the disposal of its client the necessary means to carry out the stock exchange orders whenever the client wishes to do so, and that the bank could not pass on its liability on an intermediary which it had entrusted with certain delegated tasks.

The CSSF reminded the bank of the provisions of Article 37-3(1) of the Law of 5 April 1993 on the financial sector which states: "When providing investment services or, where appropriate, ancillary services to clients, credit institutions and investment firms shall act honestly, fairly and professionally in accordance with the best interests of their clients (...)."

In this case, the CSSF considered that the bank did not act in the best interests of its client, disregarding the above-mentioned provisions of Article 37-3(1) of the Law of 5 April 1993 on the financial sector.

As the CSSF concluded that there had been a misconduct by the professional, the compensation for the damage suffered by the customer had to be determined. The CSSF considered that the complainant was not in a position to prove an effective damage. Moreover, the information published by the main financial information agencies allowed the CSSF to come to the conclusion that the claimant could not have realised any profit at the time he wished to sell his securities as their price had plummeted since the opening of the stock exchange at the time the complainant wanted to sell his securities.

The CSSF closed this file arguing that, even if the bank did not act in compliance with Article 37-3(1) of the Law of 5 April 1993 on the financial sector, the complainant had not been able to prove that the faulty behaviour of the bank actually caused an effective financial damage. In the absence of a proven causality link between the bank's faulty behaviour and the damage claimed by the complainant, the CSSF could not agree with the complainant's claim for damages.

2.3. FIN-NET

FIN-NET was set up by the European Commission in 2001 with the purposes of promoting cooperation among national ombudsmen in financial services and providing consumers with easy access to alternative dispute resolution procedures in cross-border disputes in the area of financial services.

In 2024, the CSSF took part in two FIN-NET plenary meetings where FIN-NET members exchanged their views on some topical issues, including on a number of proposals for the amendment of Directive 2013/11/EU of 21 May 2013 on alternative dispute resolution for consumer disputes. The second directive on consumer credit and its expected impact on consumers and on the entities performing out-of-court dispute resolution have also been discussed.

Moreover, the FIN-Net members have been informed of the ongoing discussions within the European Council on the European Commission's proposal for a payment services regulation (PSR). The FIN-NET members showed a pronounced interest in the new measures on fraud prevention and in the liability issues arising from unauthorised payments.

One plenary meeting was primarily dedicated to the support that digitalisation and AI could provide within the context of financial customer complaints handling for the FIN-NET members.

3. Website comparing payment account-related fees

In accordance with the Law of 13 June 2017 on payment accounts, the CSSF launched, on 1 November 2018, a comparison website[5] relating to the fees charged for the most representative services linked to payment accounts. This website, which is updated on the first day of each month, lists the prices communicated to the CSSF by payment service providers supervised by the CSSF, meeting specific criteria defined by the Luxembourg legislator.

Payment service providers required to publish their prices on the comparison website are subject to two cumulative criteria: (i) have at least 25 agencies in Luxembourg and (ii) hold at least 2.5% of the deposits covered under the Law of 18 December 2015 on the failure of credit institutions and certain investment firms.

Payment service providers which do not meet these two conditions set by the legislator may, on their own initiative, request the CSSF for the publication of their prices on the comparison website.

Currently, the fees charged for the most representative services linked to payment accounts of the following five payment service providers are published on the CSSF's comparison website:

- Banque et Caisse d'Épargne de l'État, Luxembourg;
- Banque Internationale à Luxembourg;
- Banque Raiffeisen;
- BGL BNP Paribas;
- POST Luxembourg.

5 https://www.frais-compte-paiement.lu/en/

XXIII. Procedure for reporting breaches of financial sector regulations to the CSSF (whistleblowing)

1. Presentation of the reporting procedure

1.1. General information

Since the entry into force of Regulation (EU) No 468/2014 of 16 April 2014 (SSM Framework Regulation), a communication tool designed as an electronic form[1] available on the CSSF website and a dedicated email address (whistleblowing@cssf.lu) have been implemented at the CSSF in order to allow whistleblowers, i.e. any person acting in good faith and especially persons working or who have worked for an entity of the Luxembourg financial sector, to report to the CSSF, in a confidential and secure manner, potential shortcomings or breaches of applicable regulations committed by or within entities supervised by the CSSF (reports of breaches or whistleblowing)[2].

Information on the whistleblower's identity and on the reported facts, including the identity of any third parties who may be involved, is treated with utmost confidentiality by the CSSF. To this end, the CSSF's external reporting channels ensure the completeness, integrity and confidentiality of the transmitted information. Access to the transmitted information is limited to certain authorised CSSF agents (need-to-know principle) who are bound to respect professional secrecy pursuant to Article 16 of the Law of 23 December 1998 establishing a financial sector supervisory commission ("Commission de surveillance du secteur financier"), which refers to Article 458 of the Criminal Code.

Under the applicable legislation, every private sector entity (with 50 or more workers) must also propose channels and procedures for internal reporting and for follow-up.

1.2. Reminder of the legal context

1.2.1. Law on whistleblowing

Directive (EU) 2019/1937 of 23 October 2019 on the protection of persons who report breaches of Union law (Whistleblowing Directive) establishes rules and procedures for the protection against possible retaliation of individuals who report information on breaches of EU law in key policy areas they acquired in a work-related context. Breaches include both unlawful acts or omissions and abusive practices.

In Luxembourg, the Whistleblowing Directive was transposed by the Law of 16 May 2023[3] (Whistleblowing Law). Its scope of application extends the protection of whistleblowers to breaches of national law as a whole. Whistleblowers meeting the conditions of the law who report breaches of the rules of law, be they administrative or criminal, are therefore protected against any form of retaliation.

1 https://whistleblowing.apps.cssf.lu/index.html?language=en

2 A page providing details on the protection of whistleblowers is available on the CSSF website (https://www.cssf.lu/en/whistleblower-protection/).

3 https://www.cssf.lu/en/Document/law-of-16-may-2023/

Notwithstanding the entry into force of the Whistleblowing Law, the CSSF handles with the same degree of confidentiality the reports received from any person acting in good faith who wishes to report any shortcomings or breaches committed by or within entities subject to the supervision of the CSSF, including from natural persons who do not qualify for protection under the applicable legislation.

1.2.2. Special provisions applicable to the financial sector

- **Whistleblowing and Single Supervisory Mechanism (SSM)**

The obligation to set up a similar reporting mechanism as well as rules on the cooperation with national authorities with regard to the transmission and processing of reports at ECB level were introduced by Article 23 of Regulation (EU) No 1024/2013 of 15 October 2013 and Articles 36 to 38 of Regulation (EU) No 468/2014 of 16 April 2014.

Whistleblowers are requested to use the whistleblowing procedure in place at the ECB[4] to report breaches by significant banks within the meaning of the SSM[5]. Where the CSSF receives a report concerning a significant bank, or a report concerning the breach of regulations or decisions of the ECB by a less significant entity within the meaning of the SSM, it transmits this report to the ECB and informs the whistleblower thereof.

The ECB also treats all the reports confidentially in compliance with the EU data protection framework and ensures appropriate protection for the reporting party and the accused party.

- **Specific financial sector requirements arising from sectoral laws**

The Whistleblowing Law is supplemented by the specific financial laws which are already in force.

The rules applicable to the CSSF's external reporting channels can be found in the following sectoral laws:

- Article 58-1 of the Law of 5 April 1993 on the financial sector;
- Article 8-3 of the Law of 12 November 2004 on the fight against money laundering and terrorist financing, introduced by the Law of 25 March 2020;
- Article 58-10 of the Law of 10 November 2009 on payment services, allowing the CSSF to set up effective mechanisms to encourage reporting of breaches of Regulation (EU) 2015/847 to the CSSF;
- Article 149b of the Law of 17 December 2010 relating to undertakings for collective investment;
- Article 23 of Regulation (EU) No 1024/2013 (SSM Regulation) of 15 October 2013;
- Title 3 (Articles 36 to 38) of Regulation (EU) No 468/2014 of 16 April 2014 (SSM Framework Regulation);
- Article 36(7) of the Law of 23 July 2016 concerning the audit profession;
- Article 8 and Annex of the Law of 23 December 2016 on market abuse;
- Article 46 of the Law of 30 May 2018 on markets in financial instruments;
- Article 271-1 et seq. of the Labour Code, introduced by the Law of 13 February 2011 strengthening the means against corruption;
- Article 4 of the Law of 6 June 2018 on central securities depositories and implementing Regulation (EU) No 909/2014.

4 https://www.bankingsupervision.europa.eu/banking/breach/html/index.en.html

5 https://www.bankingsupervision.europa.eu/banking/list/html/index.en.html

The financial sector entities under the supervision of the CSSF are also subject to the provisions of the Whistleblowing Law which are supplemented by existing special provisions in the following sectoral laws:

- Articles 29-8, 38-12 and 38-16 of the Law of 5 April 1993 on the financial sector;
- Article 4(4) of the Law of 12 November 2004 on the fight against money laundering and terrorist financing, introduced by the Law of 25 March 2020;
- Article 149b of the Law of 17 December 2010 relating to undertakings for collective investment;
- Article 24(3) of the Law of 23 July 2016 concerning the audit profession;
- Article 3 of the Law of 6 June 2018 on central securities depositories and implementing Regulation (EU) No 909/2014;
- Article 10 of the Law of 16 July 2019 on prospectuses for securities.

2. CSSF's activity since the entry into force of the Whistleblowing Law

2.1. Increased visibility of the CSSF's external reporting channels

Since the entry into force of the Whistleblowing Law, the CSSF has observed a significant increase in the number of reports received, notably in 2023, when their number doubled as compared to 2022.

In general, the CSSF noted that the quality of the information provided has not been affected. Indeed, the entry into force of the Whistleblowing Law, as well as the communication by the whistleblowing office[6] and the national competent authorities began to bear fruit by offering potential whistleblowers the opportunity of expressing themselves safely.

2.2. A smoother cooperation between competent authorities

In accordance with the provisions of Articles 18 and 19 of the Whistleblowing Law, where a report does not fall within the CSSF's remit, it is transmitted in a confidential and secure manner to the relevant competent authority. The collected data may thus be transmitted to other national competent authorities or to competent EU bodies, offices or agencies.

In the last two years, the CSSF has been actively participating in the cooperation network that has been put in place between the national competent authorities referred to in Article 18 of the Whistleblowing Law, making communication and processing of the reports received more efficient and smoother.

2.3. Professional secrecy and feedback to the reporting person

Professional secrecy laid down in Article 458 of the Criminal Code to which the CSSF is subject[7] prohibits communicating the outcome of the analysis of a report to the informant, notwithstanding the provisions of the Whistleblowing Law on feedback.

However, the CSSF publishes (on a named or anonymous basis, according to the context and applicable law) certain measures and sanctions imposed on the entities, including those resulting from investigations carried out following a report, without providing the trigger event.

6 https://mj.gouvernement.lu/en/dossiers/2023/lanceurs-d-alerte.html

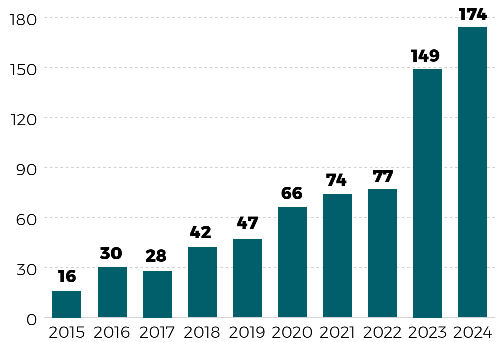
7 Cf. Article 16 of the Law of 23 December 1998 establishing a financial sector supervisory commission ("Commission de surveillance du secteur financier")

3. Statistical data for 2024

3.1. Number of reports received and communication channels

In 2024, the CSSF received 174 new reports via different official communication channels (contact form or dedicated email address) or others. This growth was more moderate than in 2023 (149 reports received in 2023 against 77 in 2022), confirming however an upward trend, even after the "boost" effect linked to the entry into force of the Whistleblowing Law.

Number of messages received[8]



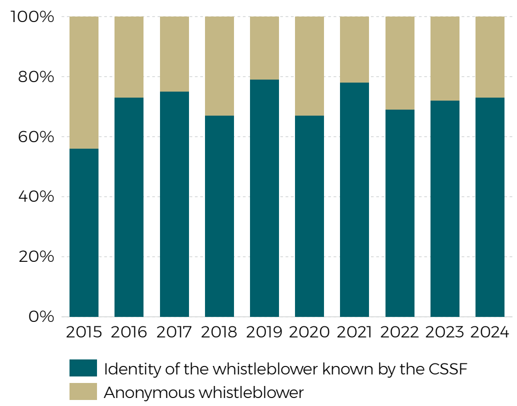
Although the relevance of the reports received remains variable, the CSSF notes nevertheless that the reporting mechanism allows, each year, collecting useful information and opening or providing input for ongoing investigations.

A significant portion of the messages received are communicated by means other than the CSSF's reporting procedure (for instance, via other email addresses of the CSSF). Apart from the fact that the communication through other channels may extend the processing time of the message, using the dedicated procedure allows above all ensuring the application of strict confidentiality rules necessary in the light of the sensitivity of the information transmitted. The CSSF insists on the importance and efficiency for the whistleblowers to transmit the information they wish to share by using the dedicated procedure available on the CSSF website[9].

3.2. Whistleblowers

In recent years, the share of anonymous reports decreased in favour of messages where informants are identified, confirming the existence of a certain trust in the CSSF within the Luxembourg financial sector. In 2024, this trend was reconfirmed.

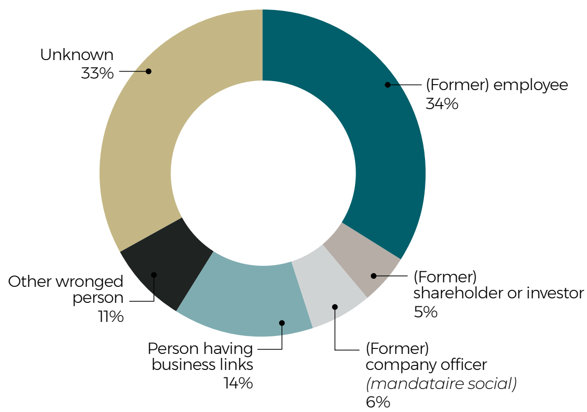
Identity of the whistleblowers



For the year 2024, the share of reports transmitted by employees (or former employees) of the financial sector increased as compared to 2023, reconfirming the general trend according to which reports are mainly transmitted by employees of the entities concerned.

It is noteworthy that the high percentage of unknown connections is closely correlated with the anonymity of a portion of the reports received.

Whistleblower's connection to the person concerned by the report



8 The messages received which are clearly not whistleblowing reports are not counted.

9 https://whistleblowing.apps.cssf.lu/index.html?language=en

3.3. Nature of the reported failures / breaches

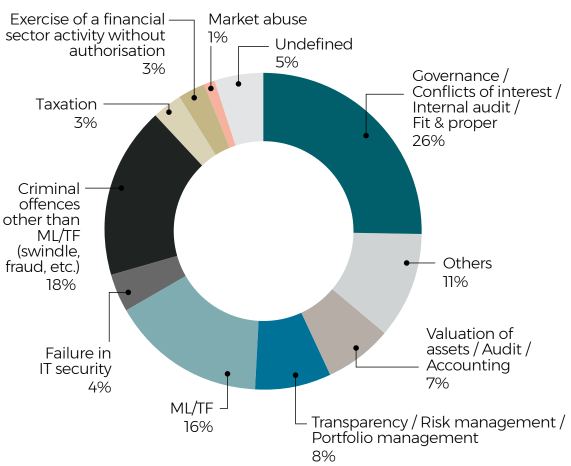
Around 25% of the reports received in 2024 concerned potential governance issues within supervised entities (for instance, reconsideration of the good repute and/or professional experience of *dirigeants* (managers), possible conflicts of interest, disruptions in the internal organisation of the entity). The CSSF observes that this type of report has remained dominant for several years.

Another large portion of the messages received concerned AML/CFT-related issues (around 16% for 2024), or at least included an element pertaining to this topic.

These last years, a significant portion of the reports concerned in fact potential criminal offences (about 18% for 2024). In this respect, it is reminded that the CSSF is not competent in this matter and that any information that may lead to the opening of a judicial criminal investigation may be communicated to the Prosecutor's Office of Luxembourg for analysis.

It should also be noted that the CSSF is not competent to deal with private disputes[10] and that it does not provide legal advice in this context.

Nature of the reported failures



3.4. Actions taken in response to the reports received

The CSSF thoroughly analyses each message received in the framework of its whistleblowing procedure in order to provide the most appropriate response to the information received. As previously indicated, the CSSF cannot inform each reporting person about the outcome of the analysis and about the actions taken, if any, considering the professional secrecy to which it is bound.

Nevertheless, in order to provide the public with an overview of the CSSF's potential responses, a summary of the decisions regarding the reports received since the implementation of the whistleblowing procedure is presented below.

Actions taken in response to the reports received

Response	% of total
Allegations do not fall in the scope of the CSSF's supervision (entity concerned not supervised, competence of another authority)	21%
Alleged failures that could not be confirmed or that proved to be false following an investigation or inquiry by the CSSF	14%
Information useful for an ongoing supervisory mission of the CSSF	14%
Insufficient information for the CSSF to conduct an investigation (for instance, whistleblower's silence)	10%
Opening of an investigation	10%
Others (for instance, facts not relevant or not serious)	7%
Information already known by the CSSF	6%
No territorial competence of the CSSF - coordination with the competent supervisory authority	6%
Referral to the Prosecutor's Office of Luxembourg (ML/TF, tax fraud, etc.)	4%
Publication of a warning	3%
Reported failures corrected by the professional without the CSSF's intervention	3%
Restoration of compliance by the professional concerned following the CSSF's inquiry	3%

10 Except for mediation conducted by the CSSF in the framework of customer complaints (cf. https://www.cssf.lu/en/customer-complaints/)

XXIV. European Account Preservation Order procedure

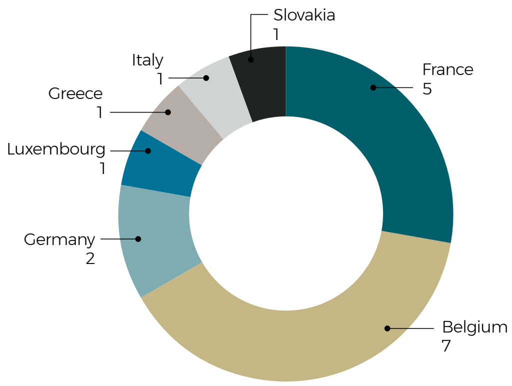
Regulation (EU) No 655/2014 of 15 May 2014 establishing a European Account Preservation Order procedure to facilitate cross-border debt recovery in civil and commercial matters, establishes an EU-level procedure that enables creditors to obtain a European Account Preservation Order preventing the subsequent enforcement of their claim from being jeopardised by the transfer or withdrawal of funds up to the amount specified in the order, held by or on behalf of the debtor in a bank account maintained in a Member State.

Consequently, where the creditor has obtained in a Member State an enforceable judgment, court settlement or authentic instrument which requires the debtor to pay the creditor's claim and the creditor has reasons to believe that the debtor holds one or more accounts with a bank in a specific Member State, but knows neither the name and/or address of the bank nor the IBAN, BIC or another bank number allowing the bank to be identified, the creditor may request the court with which the application for the Preservation Order is lodged to request that the information authority of the Member State of enforcement obtain the information necessary to allow the bank(s) and the debtor's account(s) to be identified, where applicable.

The CSSF was designated by the Law of 17 May 2017[1] as the information authority within the meaning of Article 14 of Regulation (EU) No 655/2014. In order to allow the CSSF to fully fulfil these functions, this law provides that the CSSF uses the method for obtaining information referred to in Article 14(5)(a) of the aforementioned regulation, namely the obligation for all banks in the Luxembourg territory to inform the CSSF whether a certain debtor holds an account with them.

In 2024, the CSSF received 18 requests to obtain account information under Article 14 of Regulation (EU) No 655/2014 from jurisdictions in the following Member States:

Breakdown of applications received by Member State



1 Law of 17 May 2017 on the application of Regulation (EU) No 655/2014 of 15 May 2014 establishing a European Account Preservation Order procedure to facilitate cross-border debt recovery in civil and commercial matters, amending the New Code of Civil Procedure and the Law of 23 December 1998 establishing a financial sector supervisory commission (Commission de surveillance du secteur financier), as amended

List of abbreviations

2010 Law	Law of 17 December 2010 relating to undertakings for collective investment
2013 Law	Law of 12 July 2013 on alternative investment fund managers
ABBL	Luxembourg Bankers' Association
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Manager Directive - Directive 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers
ALFI	Association of the Luxembourg Fund Industry
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
AMLA	Authority for Anti-Money Laundering and Countering the Financing of Terrorism
ART	Asset-Referenced Token
Audit Law	Law of 23 July 2016 concerning the audit profession
BCL	Banque centrale du Luxembourg - Luxembourg Central Bank
BRRD	Bank Recovery and Resolution Directive - Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms
BRRD2	Bank Recovery and Resolution Directive 2 - Directive (EU) 2019/879 of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC
BRRD Law	Law of 18 December 2015 on the failure of credit institutions and certain investment firms
CASP	Crypto-Asset Service Provider
CdRS	Comité du risque systémique - Systemic Risk Committee
CPDI	Conseil de protection des déposants et des investisseurs - Council for the Protection of Depositors and Investors
CRBA	Central electronic data retrieval system related to IBAN accounts and safe-deposit boxes
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation - Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories
CSSF	Commission de Surveillance du Secteur Financier - Luxembourg supervisory authority of the financial sector
DLT	Distributed Ledger Technology
DORA	Digital Operational Resilience Act - Regulation (EU) 2022/2554 of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation – Regulation (EU) No 648/2012 of 4 July 2012 on OTC derivatives, central counterparties and trade repositories
EMT	E-Money Token

ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro
FATF	Financial Action Task Force
FGDL	Fonds de garantie des dépôts Luxembourg - Luxembourg Deposit Guarantee Fund
FIU	Financial Intelligence Unit
FSB	Financial Stability Board
ICT	Information and Communication Technology
IFD	Investment Firms Directive - Directive (EU) 2019/2034 of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU
IFM	Investment Fund Manager
IFR	Investment Firms Regulation - Regulation (EU) 2019/2033 of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISA	International Standard on Auditing
ITS	Implementing Technical Standards
JST	Joint Supervisory Team
LSI	Less Significant Institution
MiCA	Markets in Crypto-Assets
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation - European Regulation on markets in financial instruments and amending Regulation (EU) No 648/2012
ML/TF	Money Laundering and Terrorist Financing
NAV	Net Asset Value
OECD	Organisation for Economic Co-operation and Development
PFS	Professional of the Financial Sector
PIE	Public-Interest Entity
PSD2	Payment Services Directive 2 - Directive (EU) 2015/2366 of 25 November 2015 on payment services in the internal market
REA	Réviseur d'entreprises agréé - Approved statutory auditor
RTS	Regulatory Technical Standards
SFDR	Sustainable Finance Disclosure Regulation - Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector
SFTR	Securities Financing Transactions Regulation - Regulation (EU) 2015/2365 of 25 November 2015 on transparency of securities financing transactions and of reuse

SI	Significant Institution
SICAR	Société d'investissement en capital à risque - Investment company in risk capital
SIF	Specialised Investment Fund
SIIL	Système d'indemnisation des investisseurs Luxembourg - Investor Compensation Scheme Luxembourg
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
STOR	Suspicious Transaction and Order Report
UCI	Undertaking for Collective Investment
UCITS	Undertaking for Collective Investment in Transferable Securities
UCITS Directive	Undertakings for Collective Investment in Transferable Securities Directive - Directive 2009/65/EC of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
VASP	Virtual Asset Service Provider

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