

BANKING, FINANCE AND INSURANCE COMMISSION

Annual report 2005

Pursuant to Article 48, § 1, 4^o, of the Law of 2 August 2002, the annual report of the Banking, Finance and Insurance Commission is drawn up by the Management Committee and approved by the Supervisory Board. In accordance with this provision of law, the Board ensures general supervision of the CBFA's operations. In respect of this task, the Supervisory Board does not take cognizance of the individual supervision dossiers. Unless otherwise stated, the period under review extends from 1 January to 31 December 2005.

The present annual report may be referred to as: "CBFA Annual Report 2005".

In addition to the present annual report, the Management Committee has drawn up a report ("CBFA MC Report 2005") which sets out the legal and regulatory changes as well as the activities of the Committee and the decisions it has made in individual cases during the period under review. The report of the Management Committee - which a number of footnotes refer to - is available in Dutch and French; it is not available in English.

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Foreword



Eddy Wymeersch, Chairman

For the CBFA, 2005 can be summarized by two watchwords, as it were: continuity of supervision and integration of the various forms of supervision.

Supervision is not the same across the board

First and foremost, there was no let-up in the supervision conducted by the CBFA. In addition, internal operation was strengthened. Prudential supervision and market supervision differ from each other in several ways: the first is directed towards identifying and, where necessary, dealing with risks; the second guarantees market integrity and ensures that market participants are properly informed. Besides supervision of the continuous stream of information, many interventions are concerned with actual operations: the public issue of securities, takeover bids, squeeze-outs, etc. There are also a number of differences in the tempo of formal decisions regarding supervision. Whereas the supervision of undertakings monitored prudentially normally implies a steady occurrence of control measures – regular reporting, inspections, dialogue, etc. – supervision of the financial markets is more subject to the dynamics of market events. Without prejudice to the follow-up of the continuous stream of information and to the monitoring of market integrity – the detection and follow-up of insider dealing, of market manipulation, etc. –, decisions in respect of the areas mentioned follow upon each other with a frequency and rapidity that is difficult to predict, and often give rise in the media and among the broad public to lively discussion. In contrast, the intensity of prudential supervision cannot be measured by the number of formal or explicit decisions taken in respect of an undertaking under supervision. The absence of news from the prudential sector generally indicates that things are properly on course: no news is generally good news. The situation is different regarding the financial markets, with the frequency of individual supervisory measures keeping pace with developments in the securities markets, for instance. Given that the markets enjoyed strong investor interest in 2005, the year was a busy one for the CBFA.

In the financial markets, a number of the most important operations of recent decades – particularly in the form of takeover bids – were brought to a conclusion. They have led to shifts in the economic landscape of Belgium. The role of the supervisor as independent and neutral referee is vital for the proper conduct of operations and has been fully respected by the market participants. New listings on both the regulated and the free market have broadened the range of securities on offer and here, too, the CBFA has ensured that the interests of investors have been protected by the provision of ample information. The same care characterizes its efforts to identify market abuse, an increasing number of instances of which are coming to light and are being dealt with appropriately.



Integrated supervision

One of the aims of the reform of 2002 was, in integrating the various types of supervision, to forge a more efficient supervisory apparatus. To that end, the lawmakers opted for a model based on integration of the various forms of financial supervision. This was achieved through the merging of the then Banking and Finance Commission (BFC) with the then Insurance Supervisory Authority (ISA) to form the present Banking, Finance and Insurance Commission (CBFA) at the beginning of 2004. The synergy envisaged was clearly in evidence last year.

The advantages of the integrated supervisory body have been most tangible in respect of prudential supervision: more particularly, that of banking and insurance. To achieve them, the various supervisory departments worked intensely together, harmonizing their techniques and, with respect for the specificity of the various categories of company, developing new supervisory techniques together. In 2005, the CBFA took major steps towards integrated supervision, gradually issuing prudential regulations applicable to both the banking and the insurance sectors: regulations to combat money-laundering, circulars regarding compliance, and rules for sound management in the outsourcing of activities of the two sectors, albeit with the necessary adjustment of detail. For groups that develop both banking and insurance activities, the integrated approach represents a point of coherence and is leading to a simplification of method. The approach is in line with the development in the market, whereby financial institutions are now increasingly integrating their offer of banking and insurance products.

Greater parallelism is gradually being displayed by the two sectors in the matter of legislation, too. A decree has been drafted to streamline the regime governing auditors (whom both banks and insurers are required to appoint), the basis being similar criteria for the two sectors. In implementation of a European directive, the legislation on insurance intermediaries has been thoroughly adapted and a parallel regulation has been designed for bank agents and brokers. The supervisory techniques will likewise be equalized and –in addition to economies of scale – will thereby subject the two sectors to equivalent regulation.

The legislation concerning supervision is still widely divergent and no thorough revision can at present be undertaken. In consequence of the changes to the prudential rules governing insurance undertakings – known in Europe as Solvency II – the insurance supervision law applying to insurance undertakings will have to be revamped. For the sake of coherence, it would be advisable to keep in mind the regulations that apply to the supervision of credit institutions. It is true that the regulations governing the two sectors will differ to the degree that their activities differ, but the underlying philosophies will increasingly converge. This will serve to remove regulatory distortions between the two sectors, avoid any regulatory arbitrage and serve better to streamline policy within integrated financial services groups, thereby contributing to more refined risk management.

This integration is also taking increasingly clearer forms in the daily work of financial supervision: the closer co-operation among the CBFA departments for banking and insurance supervision is being guided by an internal consultative committee in which those departments, together with the Prudential Policy Department, participate. Within that committee, questions to be submitted to the Management Committee for assessment are thoroughly prepared, concrete supervision initiatives harmonized and information exchanged about international developments or more complex cases. The CBFA thus acts as a single, integrated authority towards the undertakings it supervises.

The CBFA pursues a similar approach regarding the supervision of undertakings specialized in securities clearing and settlement. A number of major international players in this respect are established in Belgium, necessitating especial attention as regards both bank supervision and the effect on financial stability. The CBFA supervises those undertakings from the angle of prudential supervision, and the National Bank of Belgium (NBB), in charge of oversight, looks especially at the aspects of stability and supervision of the payment and settlement systems. Given that the undertakings in question are essential links for the proper operation of the securities markets, there is a link to the department dealing with those markets.

The integrated supervision scheme permits important segments of prudential and market supervision to be dealt with in-house. The necessary co-ordination with the NBB requires to remain fully ensured, both regarding risk monitoring and regarding the efficiency of prudential supervision. Consequently, it was decided to incorporate co operation between the two supervision teams within a joint committee. The combination of the CBFA and NBB teams charged with these different forms of supervision is leading to enriching cross-fertilization, to the benefit of more aware and efficient supervision. Employing the same resources, a broader view can be obtained of the entirety of risks that such undertakings carry, whereby both the undertaking itself and the whole network that it administers can be incorporated into the analysis. Although different from each other, the two approaches are unmistakably complementary in this respect.

Inter alia as a result of a European directive, the legislation on the prudential supervision of pension funds – henceforth termed ‘institutions for occupational retirement provision’ in European parlance – has meanwhile been radically revised and re-evaluated in prudential terms. In time, thus, there will be a joint core to which the three sectors of banks, insurers and institutions for occupational retirement provision can have recourse, with specific provisions to regulate matters particular to each of these sectors.

In each of these cases, a new supervisory framework will be developed that will foreshadow a supervision philosophy that will gradually come to permeate the entire field of prudential supervision.

The Belgian model allows integrated supervision to be conducted not only among the departments concerned with prudential supervision, but also within the CBFA as a whole. Where a company submits a specific question to the CBFA that concerns various departments, a single submission will suffice and each of the departments concerned will give an opinion on the question. The response is reserved to the Management Committee, which will weigh the interests of the various opinions against each other. The flow of information is handled internally according to the supervisory issues concerned. Securities supervision can be activated on the basis of prudential information, and vice versa; to that end, the requisite cross-links in internal handling are in place, and, after discussion in the Management Committee, a single opinion will be issued. There are frequent cases of this idea of the 'single point of contact' being applied. Notifications of important market transactions are investigated both from the angle of occasional information and as regards the application of special legislation (an example in this respect is the link between a transparency notification and a possibly mandatory takeover bid). The same goes for the application of accounting standards, a considerable number of questions of interpretation having been submitted or thrown up with regard to the international accounting standards (IAS), which were a major focus of attention in 2005 (the year of their mandatory introduction). They are also of importance for the prudential sectors. Hence that opinions framed for the benefit of listed companies must be supported by the entire institution.



The CBFA and its contribution to regulatory developments

A less visible aspect of the CBFA's activity is related to national and international regulation. This was a priority item on the agenda again in 2005, partly in consequence of European pressure. The legal framework of the European securities business is being virtually entirely revamped and has shortly to be transposed into Belgian law. Fundamental concepts are being abandoned and regulations more attuned to competition have to be inserted. As the work to transpose the directives concerning investment undertakings, market abuse and the prospectus gradually comes to an end, there are great challenges ahead regarding the transparency directive and, most of all, the directive on financial instruments, which is bringing about a radical change in market structures. Many of these themes concern the formation of a single European capital market and have therefore to be co-ordinated with our European colleagues. Once these directives have been transposed, a new load awaits in the form of the transposition of Basel II, and more particularly of the capital requirements directive. Then, in 2007, will come the insurance directive, known as 'Solvency II'. For the legislative work, too, the co-operation among the specialists in charge of prudential policy for banking and insurance undertakings will ensure that coherent solutions are worked out, the more so as those specialists can often fall back on practical experience of supervision.



Integration of the BFC with the ISA

A further, decisive step was taken in 2005 with regard to the integration of the former BFC and the former ISA. In accordance with the provisions of the integration decree, the CBFA offered a contract to the statutory civil servants of the former ISA. This approach aimed to allow those members of staff who, after assessment, were found to satisfy the competence criteria, to be granted over time the same legal and financial status as members of staff of the former BFC. The regulation has led to a considerable number of candidates opting for CBFA status. A number of members of staff will retain their status as civil servants: in that respect, their status will evolve in accordance with the principles of the overall status of civil servants, albeit with the necessary adjustments for application to the CBFA and taking into account the appropriate labour agreements at the CBFA.

In application of the Law of 2 August 2002, the policy plan regarding protection of the financial consumer was drawn up during the period under review. This plan rests on a number of pillars: the identification of illegal offers, the promotion both of the provision of information to the consumer and of the education of the consumer, and the follow-up of contract conditions in respect of insurance policies and mortgage loans.

The CBFA has assumed the competences of the former ISA in respect of complaints handling and supervision of the contract conditions offered by insurance undertakings and undertakings providing mortgage loans. For the time being, and in anticipation of complaints handling being possibly regrouped under the insurance ombudsman office, the CBFA is continuing to carry out these tasks.

The CBFA is aware that an effective consumer policy can be put in place only gradually and that, in the process, it must avoid creating unrealistic expectations.

Synergy between the CBFA and the NBB

2005 also saw real progress being made regarding another aspect of the reform of 2002, namely the co-operation with the NBB. The chief concern was co-ordination of the activities of the two institutions, with a view to guaranteeing financial stability: examples are the structural co-operation in respect of the elaboration of prudential policy, the gathering of financial information and statistics, the further development of procedures to manage financial and operational crises, and the co-operation concerning supervision of clearing and settlement institutions.

The co-operation is also aimed at ensuring optimization of total assets. One of the key conditions for that co-operation rests on the obtaining of a neutral VAT status. A ruling was handed down in December that, in respect of liability for VAT, grants neutrality across the board to the two institutions. In anticipation of the ruling, a dozen or so agreements were prepared that regulate the practical conditions for co-operation as regards infrastructure and support services. In each case, the effort was made to ensure that the cost of co-operation could stand comparison with the market. In respect of the many fields in which the NBB can offer expertise, facilities, staff, resources or infrastructure, agreements were concluded whereby the CBFA can henceforth, at market conditions, have recourse to NBB services. The most important aspect of the co-operation concerns IT development. The various areas of supervision are coming increasingly to require intensive use of high-performance IT equipment,

more particularly with a view to prudential reporting on the part of supervised undertakings. Co-operation with the NBB will permit the CBFA to meet that important requirement. The gains in synergy that these agreements can offer will probably in time result in a reduction in costs; furthermore, they will prevent an otherwise stronger increase in the considerable costs attendant on maintaining supervision at an internationally comparable level.



Review by the International Monetary Fund

The review by the International Monetary Fund (IMF), carried out within the framework of the Financial Sector Assessment Program and preceded by a thorough self-assessment on the part of the CBFA, was finalized in 2005. Against the benchmarks of the international supervision standards, as laid down by the Basel Committee, the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS), virtually all the activities of the CBFA were reviewed and assessed by an expert and experienced international team from the IMF. The review was supplemented with an assessment of the undertakings active in securities clearing and settlement, given the special position that Belgium occupies in that field. At the same time, a review was conducted of the application of the regulations to combat money-laundering.

On the basis of the assessment by the CBFA itself, of thorough examination of documents requested, and of extensive discussions with the members of the management bodies of the CBFA, its staff, other public institutions and numerous market participants, the IMF drew up its conclusion regarding the robustness of the Belgian financial apparatus. The conclusion was that Belgium has in the past exhibited great stability, underpinned by a sound financial system in which both public institutions and financial institutions from the private sector participate. As regards financial supervision, more particularly, the IMF noted that the CBFA has the appropriate competences to guarantee supervision and that the quality of supervision is high, judged by international standards. The IMF also judged that, within the context of the integration of supervision within the CBFA, major steps had already been taken to ensure the elaboration of a more risk-oriented supervision of insurance and occupational pension funds. The IMF recommends that this process be further reinforced. The management and numerous members of staff of the CBFA have made considerable efforts in answering the questions raised by the FSAP mission, and they may regard the very favourable IMF assessment with satisfaction.

As already indicated in the previous annual report, the results of this review were altogether favourable. In Europe, Belgium's CBFA is among the leading group of established, credible supervisors that, on the basis of years-long experience, of adaptation to new financial techniques and of the manifest commitment of all concerned, are well equipped to meet the challenges of the future with confidence. A few comments have been incorporated in an action plan that is already being implemented. The strong involvement of management and staff in international institutions that prepare new supervision standards has undoubtedly contributed towards the development of an efficient financial supervisor, adapted to the requirements of contemporary finance. Now that a European regulatory level has been placed between the international and the Belgian level, the call on our scarce human resources is all the more intensive.



The CBFA will continue to strive to achieve the highest degree of professionalism and expertise, both in support of the financial system in Belgium and by way of protecting the monies entrusted to regulated financial firms. In this, it is confident it can count on the total commitment of all its staff.

Chapter 1



General organization

A. Management committee



⁷Eddy **Wymeersch**, **Chairman**

¹Rudi **Bonte**

²Marcia **De Wachter** (1)

³Michel **Flamée**, **Vice-Chairman**

⁵Françoise **Masai** (1)

⁴Peter **Praet** (1)

⁸Jean-Paul **Servais**, **Vice-Chairman**

Secretary Generals

⁶Albert **Niستن**, **Secretary General**

⁹Guido **Vernaillen**, **Deputy Secretary General**

(1) Also a member of the Board of Directors of the National Bank of Belgium.

1.1. Organization chart: development

In accordance with Article 54 of the Law of 2 August 2002, and on the proposal of the Management Committee, the organization chart of the CBFA has been approved by the Supervisory Board.

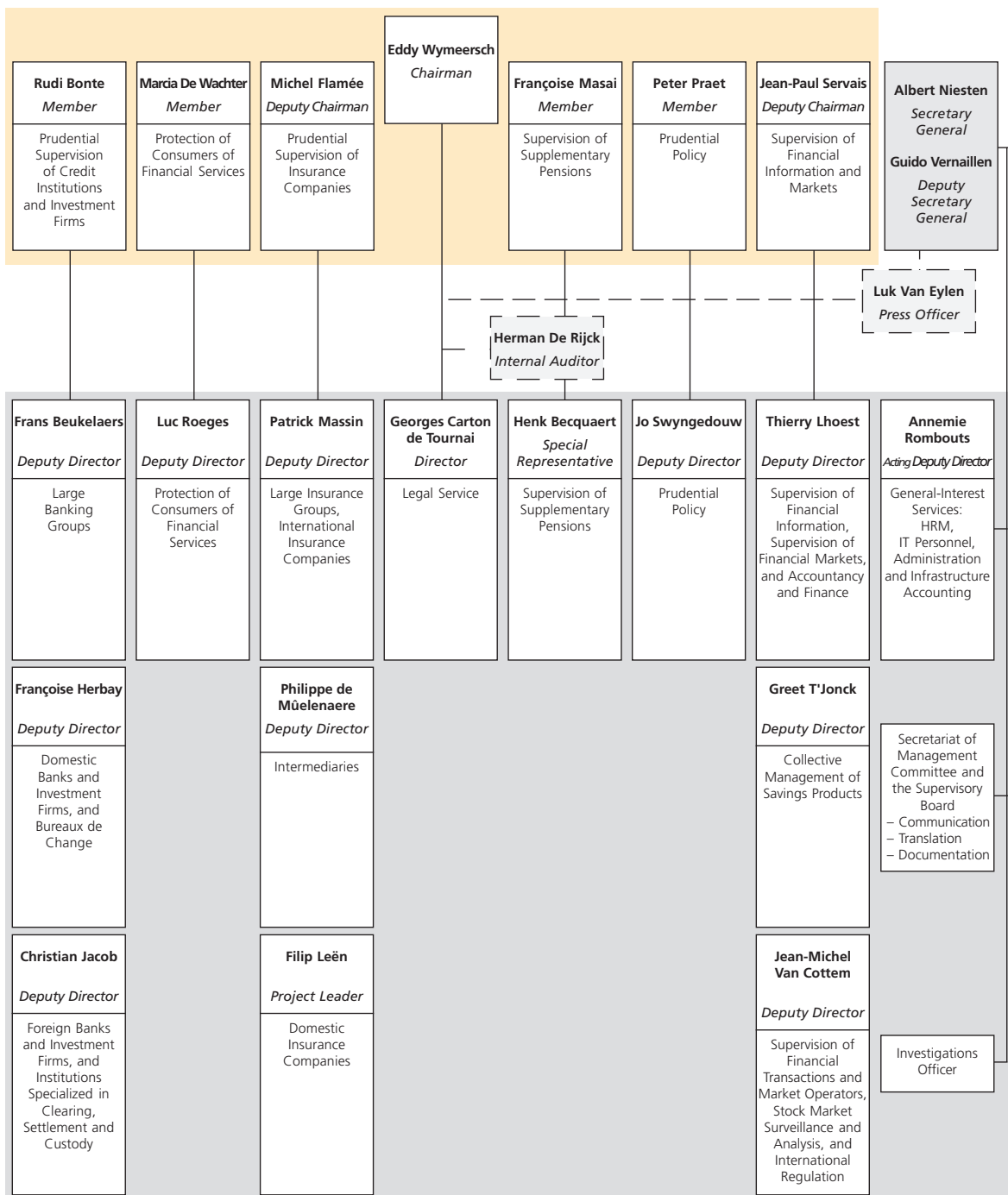
During the period under review, the Management Committee resolved to establish an internal audit function.

The internal audit falls within the remit of the Management Committee and in functional terms is placed under the authority of the Chairman.

Following approval by the Supervisory Board, the organization chart was consequently adapted.

ORGANIZATION CHART

Management Committee



1.2. Bylaws

There was no amendment to the bylaws in 2005. By way of supplement to them, however, the Management Committee formalized the rules for its own functioning.

Those rules, which are not intended for publication have been communicated to the Supervisory Board and the staff.

1.3. Ethical Code

The particular purpose of the ethical code initially adopted by the CBF and subsequently by the CBFA is to protect both the leaders (2) and staff of the institution against any suspicion of using the inside information that they inevitably have, given the institution's task. In consequence, the ethical code is of a particularly imperative nature.

Under this code, indeed, the leaders of the CBFA are prohibited from holding any shares issued by companies under the permanent supervision of the CBFA, with the exception of units of undertakings for collective investment or securities under discretionary management.

Members of staff who held shares at the time the ethical code came into force or who joined the CBFA after that time, but already held shares are permitted to retain them. However, they may execute transactions in

respect of them only with the prior formal authorization of the Secretary General and provided those transactions are of a defensive character.

In 2005, members of staff submitted twenty-four requests to sell their securities or include them in an exchange or take-over transaction.

For each of these requests for authorization, the Secretary General verified whether the transaction was of a defensive character and whether the CBFA services had any relevant information that could be deemed as privileged.

One of the requests concerned the sale of shares of a listed company that had been mentioned in a notification as the target of a takeover bid in respect of which a prospectus was currently being examined at the CBFA. The sale was not authorized.

1.4. Number of meetings held by the management bodies

In 2005, the Management Committee met sixty-two times and also had recourse to the written procedure on sixteen occasions.

In addition, the Management Committee, together with the Management Committee of the NBB, participated in

eight meetings of the Committee for Financial Stability, two of which were devoted exclusively to the follow-up of the evaluation of the Financial Sector Assessment Program (FSAP) (3) by the International Monetary Fund.

The Supervisory Board met seven times in 2005.

(2) By 'leaders' here is to be understood the Chairman, the members of the Management Committee, the Secretary General, the Deputy Secretary General and the person appointed in application of Article 54 of the Law of 2 August 2002.

(3) See the present report, p. 18.

1.5. Financing of the CBFA's operating expenses

The operating expenses of the CBFA are, in accordance with its organic law, borne by undertakings that or whose operations are subject to CBFA supervision. In respect of its general rules, adopted on the proposal of the Supervisory Board (4), the Royal Decree of 22 May 2005 (5) lays down the limits and the more specific rules regarding cover for the CBFA's operating expenses (6). This decree replaces the regulations previously applying to the sectors subject to the supervision of the BFC (7) and the ISA (8).

The decree retains the three points of departure that the regulations had in common, namely:

- ❖ cover for the *actual* operating expenses of supervision;
- ❖ stability and predictability of the financial charge to the sectors concerned (9);
- ❖ a system of pre-financing, with subsequent regularization of the amounts paid.

The Report to the King that preceded the Royal Decree of 22 May 2005 contains a detailed clarification of the options selected, the major points of which are given below.

«Cover for the annual expenses of the CBFA ...»

The contributions made by undertakings and persons subject to the supervision of the CBFA serve to cover the institution's annual expenses, such as those stemming from its income statement drawn up in accordance with accounting legislation (10).

The consequences of this basis are:

- ❖ that no unlimited reserves can be built up within the CBFA through aggregation of annual positive balances;
- ❖ and that any surplus of income over expenses is repaid or settled against subsequent contributions.

These expenses concern chiefly the following categories:

- ❖ staff charges;
- ❖ expenses in respect of tangible fixed assets (head-quarters);
- ❖ the expenses incurred in respect of co-operation bodies (11);
- ❖ other expenses.

«... without cross-financing between the sectors of the former BFC and the former ISA ...»

Prior to the integration of the supervisors, it was determined that, during the initial period, and chiefly for the insurance sector, this would have a substantial budgetary impact. Discussions took place about that impact.

Because of the difference in budgetary impact for the sectors previously subject to BFC supervision and those previously subject to ISA supervision, the decree laid down that the expenses pertaining to the supervisory tasks that the CBFA has taken over from the former BFC should continue to be financed separately from

- (4) The proposal of the Supervisory Board concerned the general rules regarding the financing of the CBFA's activities (see Article 48, § 1, 5°, of the Law of 2 August 2002).
- (5) Royal Decree relating to the operating expenses of the CBFA, in implementation of Article 56 the Law of 2 August 2002 on the supervision of the financial sector and on financial services and in implementation of various legal provisions concerning the tasks of the CBFA (published in the Belgian Official Gazette of 27 May 2005).
- (6) Article 56 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services.
- (7) For those sectors falling within the scope of the supervision of the former BFC, the existing regulation was contained in the Royal Decree of 14 February 2003 relating to the operating expenses of the CBFA (published in the Belgian Official Gazette of 26 February 2003).
- (8) As regards cover for the supervisory expenses concerning the sectors falling within the scope of the supervision of the former ISA, regulation of the matter in respect of, on the one hand, insurance undertakings, capitalization companies, pension funds and mortgage companies was by the Royal Decree of 30 November 1992 laying down the terms and conditions of contribution to the supervisory expenses by undertakings subject to the supervision of the Insurance Supervisory Authority (published in the Belgian Official Gazette of 17 December 1992) and in respect of, on the other, insurance intermediaries by the Royal Decree of 25 March 1996 (Royal Decree in implementation of Articles 9, 10, 2°, 4° and 6°, and Article 11, § 3, of the Law of 27 March 1995 on insurance mediation and distribution of insurance – published in the Belgian Official Gazette of 3 April 1996).
- (9) In that respect, the regulation for the former BFC set a maximum amount for income, which developed according to certain rules. The regulation for the former ISA provided for approval of the supervisor's budget by the competent authority.
- (10) Article 57 of the Law of 2 August 2002.
- (11) Article 117, § 5, of the Law of 2 August 2002.

the expenses pertaining to the supervisory tasks taken over from the former ISA. This has been achieved through the establishment of separate sectoral budgets and step-by-step application of the correction mechanism (see below).

«... and within specific limits ...»

The evolution of the annual expenses of the CBFA is subject to limits, which is to the benefit of the stability and predictability of the contributions of the sectors concerned.

The decree provides for a maximum amount of 58 889 947 euros per year by way of income, an amount that may evolve in accordance with:

- ❖ the evolution in staff charges, with the understanding that, pursuant to the decree, the CBFA may employ no more than 406 persons (full-time equivalent); the wages bill for that number evolves in accordance with the rules in the applicable legislation;
- ❖ the evolution in expenses other than staff charges, in accordance with the retail price index.

The actual amount of the expenses incurred in respect of co-operation bodies (12) is added to the maximum amount of income.

For a period of twenty-five years, to that maximum amount of income is also added a straight amount of 3 122 824 euros representing the annual supplementary (13) budget that serves to cover the financing expenses in respect of the CBFA's headquarters.

«...by way of pre-financing ...»

As the purpose of the contributions of the various sectors is to cover the expenses actually incurred by the CBFA and as the actual amount of those expenses is known only at the end of the year, the decree has provided for a system of pre-financing coupled with regularization after closure of the annual accounts.

In respect of determination of the pre-financing amounts from undertakings subject to permanent CBFA supervision, the decree lays down fixed sectoral contributions, as well as precise criteria for the apportionment of those contributions across the individual un-

dertakings. The sectoral contributions are increased by a proportional, straight share in the above-mentioned supplementary budget for the financing of the headquarters.

In respect of transactions subject to CBFA supervision, the decree lays down single, fixed-rate amounts, as in the past.

«...together with a correction mechanism.»

As one of the purposes of the financing system is to enable the CBFA, within specific limits, to cover its expenses, though at the same avoiding the formation of reserves through the aggregation of annual surpluses, a correction is required where, at the end of the year, it appears:

- ❖ that the sum of the amounts collected is greater than the lower of the maximum amount of income and the total amount of expenses actually incurred by the CBFA;
- ❖ that the sum of the amounts collected is less than the lower of the maximum amount of income and the total amount of expenses actually incurred by the CBFA.

In the first case, the surplus is required to accrue – in proportion to their contributions – to the sectors subject to supervision or to certain among them, in the form of a repayment of or settlement against contributions for the following year. In the second case, additional amounts are required to be called in from the sectors concerned or from certain among them, so as to reach the lower of the amount in annual expenses and the maximum amount of income forming the limit.

In order to achieve the separation of income from the sectors subject to the supervision of respectively the former BFC and the former ISA, the correction mechanism is applied in two stages at the end of the year: first, the amounts from undertakings previously subject to ISA supervision are compared to the expenses imputable to that supervision, whereupon the consequent regularization takes place; then, a similar exercise takes place for the undertakings previously subject to the supervision of the BFC.

As at 31 December 2005, application of the correction mechanism resulted in an overall repayment of 11 664 000 euros.

(12) Article 117, § 5, of the Law of 2 August 2002.

(13) Additionally, the purchase of the CBFA's new registered office is being financed by a proportion of the remuneration or, as the case may be, selling price received by the CBFA for transfer of the rights to the building of the former BFC, situated in the Avenue Louise/Louizalaan, and the sale of the building of the former ISA, situated in the Avenue de Cortenberg/Kortenberglaan.

1.6. FSAP - IMF

1.6.1. Mission background

At the invitation of the Belgian authorities, the International Monetary Fund (IMF) prepared an evaluation of the stability of the Belgian financial system (Financial Sector Assessment Program, or FSAP (14)). The IMF looks to carry out such evaluations – in certain cases, in co-operation with the World Bank – for every country. The evaluations are carried out according to a uniform methodology and consist of two parts.

- ❖ The first is an analysis of the structure and characteristics of the financial sector, whereby, on the one hand, the main characteristics are analysed and, on the other, a check is made of what elements could make the sector vulnerable in a less favourable economic climate or could promote stability.
- ❖ The second is a review, on the basis of international standards, of supervision of financial intermediaries and markets, and of the most important players.

For Belgium, the following fields of supervision were subjected to in-depth review:

- ❖ the banking sector, on the basis of the *Basel Core Principles for Effective Banking Supervision* (15);
- ❖ the securities markets, on the basis of the *IOSCO Objectives and Principles of Securities Regulation* (16);
- ❖ the insurance sector, on the basis of the *IAIS Insurance Core Principles* (17);

1.6.2. General conclusions

1.6.2.1. Conclusions regarding the Belgian financial sector

An important point of note in this report concerns the large market share of a few big international bancassurance groups. This contributes in particular to the banking sector in Belgium being strongly concentrated, but at the same remaining very accessible

- ❖ the securities clearing and settlement systems, on the basis of the *CPSS/IOSCO Recommendations for Securities Settlement Systems* (18);
- ❖ the regulations and procedures aimed at preventing misuse of the financial system for laundering criminal money or for the financing of terrorism, on the basis of the principles promulgated by the FATF (19).

The CBFA and the National Bank of Belgium (NBB) first carried out their own assessment. This was followed in December 2004 by a detailed review by a team of experts selected by the IMF, which provided provisional conclusions. That review was followed in March 2005 by a stress-testing exercise on a representative selection of financial institutions and insurance companies. In October 2005, lastly, on the occasion of the annual mission within the framework of the IMF's so-called «Article IV mission», the provisional conclusions were tested against what had happened since the commencement of the procedure, whereby attention was given chiefly to the follow-up of the recommendations formulated in those provisional conclusions. The final report, endorsed by the CBFA and the NBB, was approved and published on 27 February 2006 by the Board of the IMF (20).

to both less big and foreign institutions. Moreover, the development of the interest margin indicates that the concentration is not to the detriment of open and effective competition. Analysis of a number of indicators prompted the IMF to conclude that the Belgian banking sector is sound, exhibits a fair level of profitability and works efficiently.

(14) See the 2004 annual report of the CBFA, p. 27.

(15) Promulgated by the Basel Committee on Banking Supervision.

(16) Promulgated by the International Organization of Securities Commissions.

(17) Promulgated by the International Association of Insurance Supervisors.

(18) Promulgated by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions.

(19) Promulgated by the Financial Action Task Force on Money Laundering.

(20) See web site www.imf.org.

A major advantage of such a market structure is that those big groups can ensure that the range of products is broad and that there is internal risk diversification. However, they represent a serious challenge in respect of supervision; in this, the existing co-operation agreements that the CBFA has concluded with foreign supervisors contribute towards fully fledged, consolidated supervision.

The insurance sector is significantly less concentrated and in recent years, as has been the case in most countries, has been confronted with a sharp fall in share prices, with historically low interest rates and with rising costs for reinsurance. The situation of the Belgian insurance sector has nevertheless improved considerably recently, although the high proportion of contracts with a guaranteed return still represents an appreciable challenge to solvency and profitability on the longer term.

The capital markets are affected by the preponderance of SMEs in the Belgian economy. Market capitalization is nevertheless at an average level according to European standards, albeit that the bancassurance groups account for a great deal of it. The integration of the Brussels stock market within Euronext offers potential advantages, but Belgium needs to remain vigilant regarding the risk of the majority of listed Belgian companies being marginalized.

Lastly, the IMF pointed to the importance of the presence of one of the major players in the market for securities clearing and settlement. From that, the report concludes that it is necessary, on the one hand, for state of the art regulation to be maintained permanently and, on the other, for there to be closer co-operation between the CBFA and the NBB to ensure that the system risk inherent to such an institution is efficiently monitored. The institution itself is required particularly to give attention to internal procedures to identify and manage potential conflicts of interest between its shareholders and those having recourse to its services.

The IMF noted that the Belgian financial sector can boast a fine level of stability, a stability that was indeed confirmed by the stress tests conducted. The report gave a number of reasons for this:

- ❖ a cautious risk policy within the banking sector as a whole;
- ❖ the importance of government funds in institutions' investment portfolios;
- ❖ the relatively limited importance of share investments in the investment portfolios of the banks;

- ❖ the high savings ratio, which guarantees stable and less expensive funding;
- ❖ the high quality of bank supervision and the stable macro-political context;
- ❖ the advantages of diversification, the cost saving and the general benefits of synergy stemming from the bancassurance model.

1.6.2.2. Conclusions concerning supervision

As regards the organization of supervision following the integration of the former BFC with the former ISA within the CBFA, the IMF noted that important steps had already been taken to:

- ❖ promote co-operation and the exploitation of synergy between the CBFA and the NBB;
- ❖ improve the internal operation of the supervisor: major elements of this are a clearer delineation of task and priorities, a better deployment of resources according to those priorities, enhanced accountability, several-year plans and the elaboration of an audit function;
- ❖ modernize insurance supervision, chiefly in respect of solvency; a great help in this will be the European «Solvency II» project; it is important to ensure that this effort is not to the detriment of the present quality of bank supervision;
- ❖ ensure better structured co-operation among departments, with a view to the supervision of conglomerates.

Besides the further elaboration of these elements, the report also points up a number of important challenges:

- ❖ the further streamlining of legislation and regulation for the various sub-sectors;
- ❖ the achievement of uniform regulations for the entire financial sector in respect of corporate governance;
- ❖ the further reinforcement of the supervision of institutions for occupational retirement provision;
- ❖ the further tightening of the supervision of institutions for securities clearing and settlement;
- ❖ the systematic application of stress testing in respect of the activities of the Committee for Financial Stability;
- ❖ in time, the testing of certain institutional aspects on the basis of international best practice.

The general conclusions are that:

- ❖ the CBFA has the appropriate competences to ensure supervision of the institutions for which it is responsible;
- ❖ in terms of international standards, the CBFA appears to be well able to exercise supervision of a financial system that has an international dimension; a number of points for attention were identified in respect of the insurance and pension sector,

which requires to be further reinforced in order to be able to continue to deal with increasing internationalization;

- ❖ as regards money-laundering, Belgium has a sound legal framework and a Financial Information Unit that operates well; overall effectiveness should be further strengthened by the disappearance of bearer securities; it is important that supervision of observance of the rules in the mortgage loan and insurance sectors be expanded and refined.

1.6.3. Recommendations per sector

The report also sets out a number of specific recommendations concerning the supervision of each sub-sector. These have already been incorporated into the several-year action plan approved by the management of the CBFA. A number of recommendations are closely concerned with the transposition of important European directives into Belgian law: the *Capital Requirements Directive* (CRD) for credit institutions and investment firms; the *Markets in Financial Instruments Directive* (MiFID) for the securities markets; and *Solvency II* for the insurance sector.

The principal recommendations concern the domains listed below per sector.

- ❖ **The banking sector:** an adjustment and formalization of corporate governance rules; the promulgation of formal recommendations regarding liquidity management; the reinforcement and a more «aggressive» use of the CBFA's powers of sanction; and the modulation of the supervision of establishments of foreign institutions in respect of the quality of consolidated supervision in the country of origin.
- ❖ **The insurance and pension sector:** the further extension of more risk-oriented supervision and further modernization of procedures and operating methods, whereby use can be made of the know-how and experience gained in bank supervision; greater attention to the appropriateness of

company organization and internal control; and a systematic adaptation of legislation to the rapidly evolving, particularly European, standards concerned. The necessity is underlined of further reinforcing the supervision of institutions for occupational retirement provision.

- ❖ **The securities markets:** reflection on the possible publication of administrative sanctions; extension of reporting regarding insider transactions; attention to ensuring a level playing-field for products of a similar economic nature; the development of a programme of instruction for investors; and greater formalization of the relationships between brokers and their customers.
- ❖ **Securities clearing and settlement:** reinforcement of CBFA resources; further extension of cooperation between the CBFA and the NBB; development of a regulatory framework for the segregation of customers' securities; greater transparency on the part of the institution(s) concerned.

The implementation of these recommendations will be followed up by representatives of the IMF on the occasion of subsequent «Article IV missions» in Belgium.

1.7. International and European activities

The CBFA takes an active part in many international and European activities in which the future supervisory framework for financial activities is traced out.

Various members of the Management Committee are closely involved in the international discussion regarding bank supervision (member of the Basel Committee, CEBS, etc.) and supervision of the insurance (CEIOPS and Deputy Chairman of IAIS) and the securities business (IOSCO, CESR).

In addition, staff from all departments are active in the international and European working-parties in which

regulation is fleshed out, the new supervisory framework is being created and ever more intensive consultation is taking place among European supervisors.

In this way, from the outset, note can be taken of and influence be brought to bear on planned activities, and Belgian companies be informed about impending developments. Moreover, Belgian supervision can be prepared in due time for the announced innovations; in a number of cases, the CBFA itself has provided the inspiration for international regulation.

1.8. External accountability

The previous annual report contained a review of the most important instruments introduced by the legislature to provide a proper framework for the external accountability of the CBFA.

In 2005, recourse was had to various of them.

The Chairman was heard before the Finance Committee of the Chamber of Representatives.

Constant attention was given to the scrupulous observance of the provisions that the CBFA is required to respect in taking its decisions, provisions such as those concerning the obligation to provide formal justification of administrative decisions, proportionality and transparency.

Consultation with both companies subject to supervision and their professional associations was extended to all sectors subject to supervision and formalized. This included discussion of policy themes and planned regulatory interventions.

The CBFA also paid particular attention to its web site, where all legislation, regulation or policy opinions it applies are clarified and where the visitor to the site can easily take note of all useful information concerning the activities of the CBFA.

B. Supervisory Board (21)



⁸Eddy **Wymeersch**, Chairman

¹⁰Jean-François **Cats**

⁴Herman **Cousy**

²Eric **De Keuleneer**

Christian **Dumolin** (22)

⁹Martine **Durez** (22)

³Jean **Eylenbosch**

¹Guy **Keutgen**

⁷Hilde **Laga**

¹¹Didier **Matray**

⁵Marnix **Van Damme**

⁶Dirk **Van Gerven**

✦ Auditor

André **Killesse** (23)

In application of Article 48, § 1, 4°, of the Law of 2 August 2002 and within the scope of its competences, as set out in the said law, the Supervisory Board of the Banking, Finance and Insurance Commission, on the proposal of the Management Committee, approved the present annual report at its meeting of 31 March 2006.

(21) Situation as at 31 December 2005.

(22) Appointed on the basis of his capacity of Member of the Council of Regency of the NBB.

(23) Appointed in accordance with Article 57, second paragraph, of the Law of 2 August 2002 on the supervision of the financial sector and on financial services.

Report of the Supervisory Board

The tasks of the Supervisory Board are defined principally in §1 of Article 48 of the Law of 2 August 2002.

Pursuant to 4° of the said paragraph, the Supervisory Board, on the proposal of the Management Committee, approves each year the budget, the annual accounts and the annual report.

In implementation of 5° of the said paragraph, the Supervisory Board, on the proposal of the Management Committee, prepared a proposal regarding the general rules concerning the financing of the CBFA. In the drafting of the Royal Decree in this respect, the Board gave attention to a separation of the financing of supervision according to whether the companies or activities supervised previously fell within the competence of the former BFC or the former ISA. In approving the annual accounts – on 15 April 2005 for the 2004 annual accounts and on 31 March 2006 for the 2005 annual accounts – the Board took cognizance of the unqualified certification of the auditor of the CBFA. During the meetings of those dates, the separate annual reports of the institution were authorized as presented to the Board by the Management Committee. The Board also received a copy of the report of the Management Committee, which detailed not only legislative and regulatory changes, but also the activities of the Committee, as well as the resolutions it passed in individual cases during the financial year.

The bylaws approved by the Royal Decree of 5 December 2004 (24) contain important provisions regarding the operation of the bodies of the CBFA, including the Supervisory Board. In accordance with Article 59 of the law, those regulations divide the operational management of the departments among the members of the Management Committee, without affecting the collegial nature of the Committee's decisions. The bylaws gave rise to no difficulties in practice during the calendar year under review. This does not mean that no attention was paid to the internal organization of the CBFA. The organization chart, as already approved in 2004, was adjusted in respect of a few points and, partly on the basis of recommendations by the Board, an internal audit function was established, in respect of which the appointment of the internal auditor was made subject to the approval of the Board, as was the audit charter. It is the Board's opinion that the establishment of the audit function will provide an important instrument of control in an institution, the latter being considerably more complex than the sum of its parts.

Furthermore, the Board took cognizance in general terms of the fairly numerous instances of requests for authorization being submitted in accordance with the ethical code; a few points of that code were amended and refined. In respect of its task of «general monitoring of the operation of the institution», the Board also conducted discussions and issued opinions regarding the institution's communication policy and the role that ought to be played in this by the various bodies of the institution.

Lastly, the Board took cognizance of special rules that the Management Committee has established to facilitate its own internal operation.

Two matters that have been a constant feature of the meetings of the Supervisory Board are the assessment of the general priorities regarding supervision and the preparation and implementation of supervisory policy. By way of presentations on the part of the Management Committee, the Board took cognizance of the action plans developed by departments. Those general presentations were supplemented with special analyses of sub-themes, several of which concerned legislative innovations. A broad range of themes was thus covered in the Board's deliberations and included:

- ❖ the transposition of the European directives on market abuse, the management of undertakings for collective investment, and the prospectus;
- ❖ experience with the IFRS;
- ❖ the recommendation regarding buy-back of own shares by listed companies via stock market transactions;
- ❖ the policy regarding the protection of consumers of financial services;
- ❖ the liability of the CBFA and its bodies;
- ❖ application of the money-laundering legislation in Belgium (FATF report);
- ❖ the harmonized regulations for the recognition of auditors;
- ❖ the CBFA's staff policy.

(24) Published on 31 December 2004.

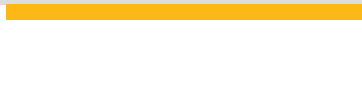
It is the Board's task to advise the Management Committee in respect of the various areas of supervision the CBFA is charged with. During the past financial year, the Board took cognizance of and exchanged views on the external evaluation arranged for in respect of the IMF's Financial Sector Assessment Programme. The Board was able to note the thoroughness of that evaluation and accepted the most important of the IMF's findings. By way of follow-up to this, attention was given to the supervisory techniques used in certain departments. More particularly, the Board set in train an investigation into the rules applying to the ALM policy of life assurance undertakings and the attendant policy regarding derogations. The intention is that those rules should serve to guarantee that life assurance undertakings subject to CBFA supervision are effectively in a position to meet their commitments vis-à-vis policyholders. The Board likewise concerned itself with the transparency of the administrative costs in respect of life assurance and group insurance contracts.

Additionally, the Board gave consideration to whether the CBFA has sufficient resources at its disposal in order adequately to carry out its public-interest tasks, given the challenges the institution faces, which are not to be underestimated, such as international developments, the increasing complexity of financial matters, the integration of the former BFC and the former ISA. Having paid due attention to the changed regulation regarding financing, as established in the Royal Decree of 22 May 2005, and taking into account the current recruitment procedures, the Board is of the opinion, having heard the Management Committee, that it can conclude that no further steps require to be taken to reinforce operating resources, save in respect of new tasks that the legislator may entrust to the CBFA, as in the case of the supervision of banking and investment service intermediaries.

With a view to encouraging the exchange of information by way of underpinning the CBFA's supervisory activities, an extranet application was developed whereby members of the Board can take cognizance electronically of all documents of consequence to the Board (meeting agendas and enclosures, draft minutes, supporting documents). More general documentation has also been disseminated in this way, such as recent regulatory provisions, groundbreaking judgements handed down by Belgian or foreign jurisdictions, relevant provisions from the new law, etc. It is in this way, too, that members of the Board take cognizance of, for example, drafts of regulatory documents prepared by the CBFA or in whose preparation the CBFA co-operates with other institutions within its areas of competence.

During the 2005 financial year, the Supervisory Board met seven times. In addition, it prepared certain matters in working-parties.

At its meeting of 31 March 2006, the Supervisory Board approved the present annual report, including the annual accounts.



Chapter 2



REPORT ON ACTIVITIES

2.1. 2005 at a glance

1 January 2005:	With effect from this date, companies listed on Eurolist by Euronext Brussels, in the same way as other EU companies listed on a regulated market, are required henceforth, irrespective of the date when their financial year begins, to draw up their consolidated annual accounts in accordance with the International Financial Reporting Standards (IFRS).
1 January 2005:	The Euroclear Group restructures. This leads to the establishment of Euroclear SA, the Belgian umbrella holding company for all (I)CSDs (International Central Securities Depositories) of the group (Euroclear France, CrestCo, Euroclear Nederland and Euroclear Bank).
8 February 2005:	The CBFA approves the listing prospectus to accompany the process of merger between the KBC Bank and Insurance Holding Company and Almanij to become KBC Group. The merger was completed on 2 March during the extraordinary general meeting of the companies in question. The Almanij share is delisted.
9 March 2005:	The Law of 20 July 2004 and its implementing decree of 4 March 2005 come into force, thereby giving effect to the reform of the regulatory framework regarding collective portfolio management pursuant to the European directive. The information and investment rules, as well as the organizational requirements for undertakings for collective investment are substantially changed.
25 May 2005:	A collective labour agreement with trade union representatives from both the private and public sectors regulates the transfer of staff from the CDV to the CBFA. The agreement leads to twenty-nine civil servants switching to a contractual labour agreement in 2005.
9 June 2005:	At a press conference, the CBFA presents its annual report for 2004.
21 June 2005:	The CBFA approves the prospectus for the issue of new shares and admission to the Free Market of the company Proximedia. This is the first of seven approvals that the CBFA will grant in 2005 for admission to the Free Market, the others being for the companies Reibel, Newtree, Val Saint Lambert International, ZNJ, Newton 21 and Sodiplan.
9 August 2005:	The CBFA publishes the notification it has received concerning the public takeover bid that Suez is planning to make for 49.9% of the shares of Electrabel. The bid is a combination of a cash and an exchange bid. On 8 September 2005, Suez announces its decision to proceed to a capital increase, which, in accordance with the notification of the bid, leads to an adjustment of the offer price, with a view to taking account of the theoretical value of the pre-emptive right of subscription. After closure of the reopened bid on 6 December 2005, Suez holds 98.62% of the capital of Electrabel.
24 August 2005:	The Law of 2 August 2002, which partially anticipated the European directives concerning market abuse, is further adapted to those directives by Royal Decree on the basis of extraordinary powers (published in the Belgian Official Gazette of 9 September 2005). Among other things incorporated into the law are more preventative measures against market abuse. The obligation for issuers to provide occasional information is henceforth linked to the concept of «inside information».
13 September 2005:	The CBFA approves the prospectus for the public takeover bid by the Landbouwkrediet for the shares issued by Keytrade Bank. That bid is followed by a squeeze-out, which in turn is followed by the delisting of the Keytrade Bank.
29 September 2005:	The CBFA announces the voluntary public takeover bid by Belgacom for Telindus Group. On 14 December 2005, France Télécom S.A. makes a counterbid. A higher bid from Belgacom follows the next day. Belgacom acquires control of Telindus Group and ultimately launches a squeeze-out.
11 October 2005:	Ecofin reaches agreement about the Capital Requirements Directive, aimed at the transposition of Basel 2 within the EU.
11 October 2005:	The listing of the shares of Telenet Group Holding on Eurolist by Euronext Brussels begins. Telenet thereby immediately accounts for the biggest stock market introduction of the year. A further six companies – Elia, Zetes Industries, Galapagos, Devgen, Cumerio and RHJ International – are admitted to that market in 2005.
October 2005:	The International Monetary Fund tests the provisional conclusions of its review of the Belgian financial system against developments since the review procedure's start in December 2004. On 27 February 2006, the Board of the IMF will approve the final report, with a view to its publication. The IMF notes that the Belgian financial sector can present a fine level of stability. The report is available on the IMF web site (www.imf.org).
24 November 2005:	In Brussels, the first joint meeting takes place of the three European Supervisory committees (the CEBS, the CEIOPS and the CESR) that, in respect of the so-called «Lamfalussy structure», are tackling the regulation and supervision of respectively the banking, insurance and securities services sectors. The conference is organized by the three committees, the CBFA and the NBB. On the agenda is supervision of financial conglomerates and the co-operation between the three financial sectors and their respective committees. On this day, the three committees also sign a co-operation protocol.

2.2. Report on activities - departments

2.2.1. Prudential Policy

2.2.1.1. Aims of the department

The aims of the department can be summed up as follows:

- ❖ to participate in the definition and development of prudential practices, standards and regulations for banks, investment firms and insurance undertakings at both national and international level;
- ❖ furthermore, to transpose international recommendations, standards and best practices into national regulations and supervisory instruments.

The purpose is to create a framework within which the stability of both individual financial institutions (micro-dimension) and the sector as a whole (macro-dimension) is guaranteed.

The achievement of the tasks and aims supposes:

- ❖ a strong orientation towards international and European multi- and bilateral consultation, with a view to the convergence and harmonization of the prudential approach and prudential practice.

Both companies and markets are organized on an international basis and require that regulation and standards be harmonized across the various countries. Whereas the emphasis of the European Commission's Financial Services Action Plan (25) of 1999 was on the achievement of an integrated internal market for financial services via a body of regulatory initiatives, the emphasis of the Commission's White Paper (26) of December 2005 was on, among other things, the promotion of convergence in the application and enforcement of regulation (with a view, for example, to the efficient exchange of information among supervisors, to similar assessment of organization and risk management models; to the promotion of uniform reporting requirements, etc.). Internationally active financial

services groups are also pressing for reinforced co-operation among supervisors.

- ❖ Interaction with various players:
 - with the sector and market parties, in order to take account of specific characteristics and features of the sector and market;
 - with the CBFA's operational departments supervising banks, investment firms and insurance undertakings, and with the Legal Service;
 - with the National Bank of Belgium (NBB) as regards the macro-prudential dimension (financial stability) and as regards liquidity and crisis management.

During the period under review, various measures were taken to reinforce interaction within the CBFA, an example being the organization of periodic consultation between, on the one hand, the various departments responsible for prudential supervision and, on the other, the Prudential Policy Department.

Part of the core activity of this department is international policy consultation, into which the department has invested a great deal of effort (470 meeting days, compared to 397 in 2004, split between approximately ninety-five forums and working-parties).

The major international forums are the Basel Committee on Banking Supervision (27), the International Association of Insurance Supervisors (IAIS) (28), the Committee of European Banking Supervisors (CEBS) (29) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) (30).

(25) See CBF 1998-1999 annual report, pp. 83 and 94.

(26) White Paper (December 2005): Financial Services Policy 2005-2010 (IP/05/1529).

(27) See the 2005 Report of the Management Committee, p. 12.

(28) See the 2005 Report of the Management Committee, p. 15.

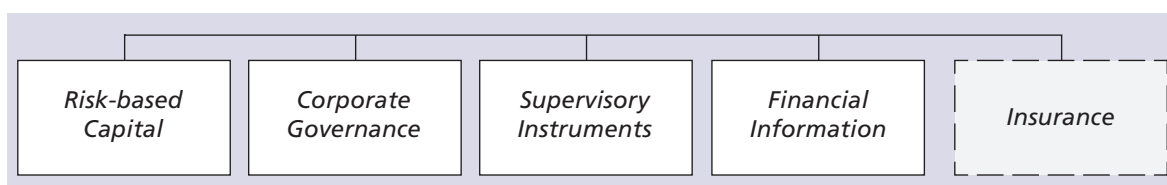
(29) See the 2005 Report of the Management Committee, p. 23.

(30) See, the 2005 Report of the Management Committee, p. 27.

As international consultation is an integral component of the work of the CBFA, members of the Manage-

ment Committee and of staff play a prominent role in various international forums and groups.

2.2.1.2. Organization chart and priorities



The department is built up around domains of expertise, each led by a team with a co-ordinator. Such domains are generally found in the structure of international forums, too. Matters of prudential interest are by and large approached from a cross-sector perspective, as is particularly the case in the fields of corporate governance, compliance, accounting policy, money-laundering, auditing, etc. Specific technical matters dealing with insurance, especially those linked to the «Solvency II» project, form a separate strand of expertise and, within the department, are dealt with by a team of insurance specialists.

The department consists of the full-time equivalent of 26.2 staff members. This number includes four members of NBB staff, incorporated into the department for the sake of efficient organization and to concretely materialize the synergy between the CBFA and the NBB.

2.2.1.2.1. Risk-based Capital

The «Risk-based Capital» domain of expertise covers both the entirety of the standards that institutions are required to observe in the calculation of their capital requirements and the approach to be adopted by institutions for the calculation of their capital requirements in accordance with their risk profile (the «economic capital» approach).

In July 2005, the Basel Committee published a supplement to the Basel 2 framework agreement of June 2004 (31), which mainly deals with the treatment of market risks. The supplement forms an integral part of the Basel 2 project.

In addition, at the prompting of the Basel Committee, a new, worldwide, impact study (Quantitative Impact Study) was launched during the final quarter of 2005. The results of this large-scale exercise will be analysed in 2006. The study aims to paint a more precise picture of the overall impact of the Basel 2 framework. This was deemed necessary in particular:

- ❖ because of the many changes made to the framework since the previous impact study in 2003;
- ❖ because institutions have in the meantime become more Basel-2-compliant, so that the quality of data is appreciably better than in previous exercises.

The results of this impact study will serve not only to check whether, overall, the introduction of Basel 2 will lead to capital requirements comparable to those under Basel 1, but more particularly to switch by the summer of 2006 to a definitive calibration of the Basel 2 agreement.

In the European Union, a political agreement was reached in October 2005 on the so-called «Capital Requirements Directive» (CRD), which is the instrument whereby Basel 2 will be incorporated into the European system of law. As far as its content is concerned, the CRD is closely in line with the Basel Committee's Basel 2 document. The major point of difference is that the European provisions apply not only to credit institutions, but also to investment firms. In the EU, the timing initially set for implementation will be adhered to (i.e. commencement on 1 January 2007, except for the advanced approaches for calculation of the requirements for credit risk and operational risk, which will come into force on 1 January 2008). In the

(31) The Application of Basel II to Trading Activities and the Treatment of Double Default Effects. See the Report of the Management Committee, p. 13.

United States – where only the advanced calculation methods are being proposed – it has meanwhile been decided that implementation will begin only on 1 January 2009. This poses practical problems and requires intensive consultation between European and American supervisors in respect of application of the framework to groups active internationally in both the EU and the United States.

A great deal of attention is being given within both the Basel Committee and the EU to the preparations for implementation of Basel 2. At Basel Committee level, this is being done via the Accord Implementation Group (AIG). The emphasis is being placed both on the exchange of experience, with a view to the validation of models for the management of credit risk and operational risk, and on application of the Basel 2 framework to cross-border financial groups.

At EU level, the major point of attention for CEBS (32) has been the provision of guidance and support for the implementation process, with a view to attaining convergence in prudential approach and practice in the EU (including «home-host» co-operation among supervisors, recommendations concerning the approach of the supervisory review process under the second pillar, the recognition of external rating agencies, the validation process for advanced approaches for the calculation of the credit risk and the operational risk, and a framework for harmonized reporting requirements – COmmon REPorting framework, or COREP – etc.). A number of the documents concerned were prepared by the *Groupe de Contact*, the primary working-party of CEBS, which is chaired by a member of the CBFA's staff.

Meanwhile, a number of these documents have received final approval (33). For the CBFA, they form the basis for the process of implementation in Belgium. The most important «missing link», as it were, concerns the recommendations for the policy regarding (specific) types of risk under the second pillar (for example, the interest-rate risk, the concentration risk, etc.). CEBS will be formulating proposals in this respect in the course of 2006.

Preparation for the implementation of Basel 2 was accelerated at national level in 2005. Various letters were addressed to the institutions (34); among other things, they:

- asked what method the institutions planned to apply for calculation of the credit risk and/or the operational risk and with effect from what date;
- provided a clarification of the CBFA's expectations regarding institutions using advanced approaches for the calculation of capital requirements;
- and gave detailed information about the content of the dossiers required to be submitted to the supervisor, with a view to validation of the use of advanced approaches for regulatory purposes.

In respect of the transposition of the CRD, informal consultation was begun at the end of the year on a new own-funds regulation. A draft text was circulated to the sector, discussions on which began at the beginning of 2006. On the basis of this informal consultation, the CBFA will begin official consultation with effect from the second quarter of 2006. A similar approach will be followed regarding consultation on the Basel 2 reporting requirements (i.e. the Belgian variant of the COREP reporting statements prepared by CEBS).

By way of preparation for consultation on the prudential approach for the various types of risk in the second pillar, there was internal reflection on the updating of the CBFA's policy regarding the supervision of liquidity risks and of their management. In this respect, the CBFA issued a recommendation pursuant to the IMF's FSAP (35).

Likewise by way of preparation regarding the second pillar, the CBFA updated its policy in respect of management of the interest-rate risk. The policy proposals will be incorporated into a more global approach concerning the second pillar, an approach that will be given shape in 2006.

(32) Within the Lamfalussy architecture, the CEBS is the level 3 committee of banking supervisors and central banks. See the 2004 Report of the Management Committee, p. 22.

(33) In this respect, see the CEBS web site: www.c-eps.org.

(34) In this respect, see the CBFA web site: www.cbfa.be.

(35) See the present report p. 20.

Together with the department responsible for operational supervision, the department also participated in the consultation between «home» and «host» supervisors, the purpose of which was to gain an insight into the planning and organization of the Basel 2 project at the various financial institutions. The opportunity was taken also to consult the «home» and «host» supervisors about the organization and gearing of their supervisory activities.

Lastly, both Belgian own funds regulations and own funds reporting were adjusted in the course of 2005 in order to introduce the so-called «prudential filters» (36), whereby the prudential definition of own funds was changed in order to neutralize the undesirable effect of the IFRS/IAS accounting standards on that definition.

2.2.1.2.2. Financial Information

Within the international forums, especially the Basel Committee, particular attention continues to be given to the drawing-up of documents aimed at providing prudential indications on the use of international accounting standards. In 2005, two consultative documents were published: *Supervisory Guidance on the Use of the Fair Value Option by Banks under IFRS and Sound Credit Assessment and Valuation for Loans* (37).

Upon the proposal of a sub-working-party chaired by a member of the CBFA's staff, CEBS prepared a definitive version of IFRS/IAS-compliant financial reporting on a consolidated basis (FINREP). In the same way as for COREP (see above), this represented an important step towards streamlining prudential reporting requirements in the EU.

At the beginning of 2005, the new consolidated IFRS/IAS-compliant layout A was completed at Belgian level; it comes into effect in 2006 and is geared to FINREP, being based on the consultation version of the latter. Together with the NBB, furthermore, action was started to develop an appropriate classification for the new reporting layout, in order to permit xBRL (38) to be used as a reporting instrument, as requested by the sector.

For the insurance sector (after consultation), a policy was laid down for the gradual and phased introduction of IFRS/IAS-compliant consolidated accounts. Effective for the period beginning after 1 January 2010, insurance undertakings will be required to draw up their consolidated accounts in accordance with the IFRS/IAS. However, insurance undertakings that form part of a financial group whose parent company draws up its consolidated accounts in conformity with the IFRS/IAS will be required to draw up their consolidated accounts in accordance with the IFRS/IAS with effect from 2007 already. For insurance undertakings not falling within this category, that requirement will be optional between 2007 and 2010.

For the purpose of implementing this policy, a number of regulatory amendments will be implemented in the course of 2006.

2.2.1.2.3. Corporate Governance

At the international level, a number of measures were taken indicating the growing interest of prudential supervisors in matters of corporate governance.

- ✦ The Basel Committee prepared a document entitled «*Enhancing corporate governance for banking organizations*» for publication in February 2006.
- ✦ CEBS's second-pillar document (39) contains a section with recommendations concerning internal governance.

These international developments were incorporated into the process of internal reflection on a revised policy in respect of internal governance, aimed at replacing the previous agreements on the autonomy in the banking and insurance function. The new policy sets out the prudential expectations for a revised, internal governance policy for institutions subject to prudential supervision. The revised policy will be sufficiently flexible to enable it to be applied to a great diversity of market participants. Moreover, it integrates developments in governance that the present agreement on autonomy is less adapted to deal with (the formation of financial groups, the role of specialized committees within the board of directors, management of conflicts of interest, etc.). Following completion of the process of internal reflection, extensive consultations will be held in the course of 2006.

(36) See the 2005 Report of the Management Committee, p. 39.

(37) See the 2005 Report of the Management Committee, p. 14.

(38) eXtensible Business Reporting Language (XBRL).

(39) CEBS guidelines on supervisory review process, January 2006.

In 2005, consultation took place regarding a reorientation of the tasks of the statutory auditors, the intention being to focus, as a matter of priority, the prudential task of the statutory auditor on establishing the accuracy and completeness of financial reporting, on assessment of the appropriateness of the organization and on the signal function. In this respect, proposals were drawn up for amendment of the provisions concerning adequate management structure, administrative and accounting organization, and internal control. In accordance with the results of the consultation, these proposals will be keyed to the internal governance activities (see above) and incorporated into the work of transposing the CRD.

In 2005, a circular was issued concerning sound management practice in respect of the business continuity of financial institutions (40). The recommendations were directed at all institutions subject to prudential supervision, but were required to be applied proportionally, taking account of the nature, scale and complexity of each company and the attendant risks.

With regard to convergence of prudential practice in matters of governance among the various sectors (banking, investment and insurance):

- ❖ a circular containing recommendations in respect of the organization of a compliance function in the insurance sector (41) was issued;
- ❖ a circular concerning sound business practices in respect of outsourcing by insurance undertakings was rounded off at the beginning of 2006;
- ❖ consultation was begun in respect of the organization of internal control and the internal audit function at insurance undertakings.

The purpose of these initiatives is to gear the organizational provisions of the framework of prudential supervision for insurance undertakings to the existing provisions applying to banks and investment firms, naturally taking account of the specific characteristics of the insurance business.

At international level, too, attention is being paid to the cross-sector attuning of supervisory practices in respect of co-operation among the so-called «level 3» committees, i.e. CEBS, CEIOPS and CESR, which in 2005 signed a formal co-operation protocol and, in implementation of that, drew up a cross-sector programme of action for 2006. In that same respect, CEBS and CEIOPS, together with CESR, began to give thought to the manner in which prudential points of attention linked to the supervision of conglomerates – in particular, those linked to implementation of the Financial Conglomerates Directive – can be organized.

2.2.1.2.4. Supervisory Instruments

Supervisory instruments are tools developed for the purpose of (operational) supervision: for example, with a view to standardized analysis of the financial position of institutions and of their risks (one such instrument is the *Bank Performance Report*, or BPR). In 2005, particular attention was paid to revising the BPR in the light of the introduction of the new, IFRS/IAS-compliant consolidated layout A.

In co-operation with the NBB and in respect of its analysis of financial stability, moreover, sectoral studies of the various types of risk were carried out on the basis of the results of the BPR, the purpose being, on the one hand, to analyse trends in the sector and, on the other, to detect individual outlier behaviour.

2.2.1.2.5. Insurance

As already indicated, the intention within an integrated supervisor is to approach the various prudential points of interest as much as possible from a cross-sector angle. This does not preclude there being specific insurance concerns. In this respect, a great deal of attention is being paid in the EU to preparation of the «Solvency II» project, the purpose of which is to develop a new, risk-sensitive framework for insurance undertakings with regard to solvency-testing. CEIOPS (42) submits opinions to the European Com-

(40) See the Report of the Management Committee, p. 37.

(41) See the Report of the Management Committee, p. 45.

(42) Within the Lamfalussy architecture, the CEIOPS is the level 3 committee of insurance supervisors in the EU. See the 2004 Report of the Management Committee, p. 22.

mission in response to so-called «waves» of calls for advice. In 2005, following broad, public consultation, CEIOPS submitted two opinions to the European Commission (43), which will make use of them in drawing up the future framework for the prudential supervision (Solvency II) of insurance undertakings. The opinions dealt with themes in connection with the adequate organization, internal control and risk management of insurance undertakings, as well as with recommendations for calculation of technical provisions and capital requirements. Additionally, an initial impact study was conducted during the final quarter of 2005 that ought to enable supervisors to measure the consequences of the proposed regime. The results will also form valuable input for the Impact Assessment Report that the European Commission is required to draw up in support of the future draft directive for 'Solvency II'.

2.2.1.2.6. Crisis Management

A great deal of attention went both in international forums and at national level (44) to the prudential approach regarding and the elaboration of appropriate procedures to manage crisis situations at financial institutions. This is a perfect example of a domain where the NBB, too, has specific responsibilities, so that its actions and procedures are geared to a maximum to those of the CBFA.

Practical arrangements are being made regarding, on the one hand, co-operation among the Belgian authorities in crisis situations and, on the other, the updating by the CBFA of procedures for managing financial and operational crises at institutions subject to its supervision.

2.2.2. Prudential supervision of credit institutions and investment firms

1. Aims and tasks of the department

In respect of the legal task to promote the smooth operation of the credit system and the protection of savers and investors, the department is responsible for the supervision of banks and investment firms, more particularly as regards observation of the conditions laid down by law for recognition and the carrying-on of a business.

This prudential supervision entails comprehensive supervision and assessment of the financial situation, the risks and the management of banks and investment firms. Additionally, taking account of their risk profile, a check is made of whether those institutions have an appropriate management structure, administrative and accounting procedures, and internal control systems.

Where a bank or an investment firm is a subsidiary of a financial holding company, or itself owns subsidiaries, the individual supervision is broadened to include supervision on a consolidated basis, which permits the

group dimension of the institution to be brought within the scope of supervision. The conducting of this supplementary supervision was reoriented in 2005 with the transposition into Belgian law of the European Directive on the so-called «financial conglomerates» (45), which introduced new prudential rules for regulated financial undertakings that form a part of a financial services group. For the past few years, via bilateral arrangements with a number of major financial groups regarding a prudential framework, the CBFA has in practice already been initiating the fleshing-out of this supplementary group supervision.

In 2005, two new elements were added to the department's supervisory tasks. In the first place, the new management companies of undertakings for collective investment (UCIs) are now subject to a prudential supervision framework (46); the department conducts this supervision in close cooperation with the UCI operational supervision service, which is part of *Supervision of Financial Information and Markets* Department. Secondly, a new supervisory status was introduced for set-

(43) See the 2005 Report of the Management Committee, p. 27.

(44) See the 2005 Report of the Management Committee, p. 33 and 40.

(45) In respect of the transposition of Directive 2002/87/EC of 16 December 2002 into Belgian law (Law of 20 June 2005 and Royal Decree of 21 November 2005), see the Report of the Management Committee, p. 35.

(46) In respect of the new legal and regulatory framework for these institutions, see the Report of the Management Committee, p. 56.

tlement institutions and institutions assimilated to them (47); the prudential framework for these institutions that settle securities transactions or that provide actual services to settlement institutions is based largely on the rules in force for banks.

The department also supervises the *bureaux de change*. This supervision is not micro-prudential, as in the case of banks and investment firms, but takes the form rather of testing the management and organization against the requirements laid down by the money-laundering regulations.

2. Profile of the sector supervised

As at the end of 2005, the number of institutions per supervisory regime was as follows:

104	banks
75	investment firms and other companies with a specific status
5	UCI management companies
9	financial holding companies
1	settlement institution (CIK (48)) and 1 institution assimilated to settlement institutions (Euroclear SA, the new holding company governed by Belgian law of the Euroclear Group, which provides common services to all group entities)
22	<i>bureaux de change</i> (supervision of the observance of money-laundering legislation)

On a consolidated basis as at the end of 2005, the banking sector posted a balance sheet total of approximately 1 350 billion euros, and 5 700 billion euros' worth of forward, off-balance-sheet transactions. Off balance sheet, the sector also managed a good 9 000 billion euros' worth of deposited securities and receivables. This is a very concentrated sector, the four major bank groups (Fortis Bank, Dexia Bank Belgium, KBC Bank en ING Bank Belgium) accounting for a market share of more than 85% by way of deposits and loans.

As regards investment firms, the profile of the sector is determined by the thirty-one stockbroking firms and the twenty-three portfolio management companies governed by Belgian law. Companies with a different status are only marginally important. Together, stockbroking firms and portfolio management companies manage a good 65 billion euros' worth of secu-

rities, a figure sharply below the corresponding figure for 2004, due to five large portfolio management companies having changed their status to that of UCI management companies; in that capacity, these companies, which are subsidiaries of Belgian banks, managed more than 200 billion euros' worth of funds.

In respect of banking and investment activities conducted in Belgium by foreign financial institutions, the department – over and above prudential supervision of the subsidiaries and branches concerned in Belgium – has the additional task of supervising the activities of the twenty-three representative offices of foreign banks and the notifications of 489 foreign banks and 1 203 investment firms that offer banking and investment services in Belgium within the European framework of the free provision of services.

(47) In respect of the status of clearing institutions and of institutions assimilated to them, see the Report of the Management Committee, p. 42.

(48) With effect from 2006, the CIK (Central Securities Depository) is a full subsidiary of Euroclear, with the new name Euroclear Belgium.

2.1. The banks

As at the end of 2005, 104 banks were registered. This is the same number as at the end of 2004, but the movement of integration and restructuring within bank groups has left its mark on the bank landscape: during recent years, there has been a steady fall in the number of banks governed by Belgian law and a constant rise in the number of branches. This means that, now, seventy-eight banks – or three out of four – are subsidiaries or branches of a foreign bank group. In this respect it has to be noticed that Belgium has become an attractive place of establishment in respect of private banking activities.

The increase in scale in the sector is continuing steadily: of the twenty-six banks governed by Belgian law and with a Belgian majority participation, there are just five with a family shareholding structure and five co-operative companies. For their part, via subsidiaries or branches, Belgian banks, too, have expanded their activities abroad, so that their foreign network now consists of about 100 establishments, half of them subsidiary banks and seventy within the EU.

By supervision status, the breakdown is as follows:

Breakdown of banks registered

	Number as at 31.12.2000	Number as at 31.12.2004	Number as at 31.12.2005
BANKS WITH A LICENCE IN BELGIUM	85	68	63
1. Banks governed by Belgian law	72	59	54
Banks (among which the Federation of Credit Institutions)	43 (1)	38 (1)	33 (1)
Savings banks (among which credit associations that form part of the Professional Credit network)	25 (10)	17 (10)	17 (10)
Securities banks	3	3	3
Municipal savings banks	1	1	1
2. Branches in Belgium of banks governed by the law of a state that is that is not a member of the European Economic Area	13	9	9
BANKS GOVERNED BY THE LAW OF ANOTHER MEMBER STATE OF THE EUROPEAN ECONOMIC AREA THAT HAVE A BRANCH REGISTERED IN BELGIUM	34	36	41
TOTAL NUMBER OF BANKS ESTABLISHED IN BELGIUM	119	104	104
FINANCIAL HOLDING COMPANIES GOVERNED BY BELGIAN LAW	10	8	9

In respect of the European single market and application of the principle of mutual recognition of the banking authorization granted in the country of origin, and of bank supervision by the competent authority there, supervision of the forty-one branches of banks in the EU is in the first instance conducted by the authority of the country of origin. The supervisory role of the CBFA as authority of the host state is limited with regard to those branches, the CBFA supervising only the observance of the reporting requirements and of provisions of general importance, and monitoring the liquidity of those branches.

Similarly, as authority of the state of origin, the CBFA is responsible for the supervision of thirty-one branches of Belgian banks in other EU Member States. Belgian banks have a further nineteen branches in ten countries outside the EU.

The table below indicates the evolution of the number of foreign banks active in Belgium via a subsidiary, a branch, the free provision of services or a representative office. The foreign banks active in Belgium via a

subsidiary or branch are primarily French or Dutch banks; these have steadily expanded their presence in recent years.

More than half of the banks concerned in respect of banking activities by way of the free provision of services in Belgium are English, French or Dutch.

Presence of foreign banks in Belgium

	Subsidiary banks (*)		Branches		Free provision of services (**)		Representative offices	
	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05
EEA countries								
European Union								
Germany	2	2	7	7	54 (30)	59 (32)	4	3
France	8	12	10	12	85 (37)	88 (37)	1	1
Italy	1	1			7 (2)	8 (2)	7	7
Luxemburg			2	3	52 (36)	51 (35)	1	1
Netherlands	6	6	8	9	72 (67)	70 (64)		
Spain	1	1	2	2	8 (5)	9 (6)	3	3
United Kingdom	1		7	8	101 (76)	101 (74)		
Other EU countries					89 (61)	99 (67)	5	5
Syndicate structure	1	1						
Subtotal	20	23	36	41	468 (314)	485 (317)	21	20
Other EEA countries					3 (0)	4 (0)		
Total EEA	20	23	36	41	471 (314)	489 (317)	21	20
Other countries								
China	1							
India			2	2				
Israel							1	1
Japan	1	1	2	2				
Lebanon	1	1						
Morocco			1	1			0	
Pakistan			1	1				
Russian Federation							0	1
Taiwan	1	1						
United States	1	1	3	3			1	1
Switzerland	1	1						
Subtotal	6	5	9	9			2	3
TOTAL	26	28	45	50	471 314	489 317	23	23

(*) Geographic breakdown on the basis of the underlying banking shareholding of the banks concerned.

(**) The numbers between brackets refer to banks authorized in Belgium to receive deposits and other repayable funds from the public.

The growing importance of foreign bank groups on the Belgian bank market and the further expansion of Belgian bank groups abroad have major prudential relevance, as these developments are leading to an intensification of the exchange of information and of co-operation with foreign supervisory authorities.

2.2. Investment firms

As at the end of 2005, eighty investment firms and other companies with a specific status were registered. By supervision status, the breakdown is as follows:

Breakdown of registered investment firms and other companies with a specific status

	Number as at 31.12.2000	Number as at 31.12.2004	Number as at 31.12.2005
INVESTMENT FIRMS WITH AN AUTHORIZATION IN BELGIUM	83	70	57
1. Stockbroking firms	44	36	31
2. Portfolio management companies	32	30	23
3. Financial instrument broking firms (*)	4	1	1
4. Financial instrument placing firms (**)	3	3	2
BRANCHES IN BELGIUM OF INVESTMENT FIRMS GOVERNED BY THE LAW OF THE LAW OF ANOTHER MEMBER STATE OF THE EUROPEAN ECONOMIC AREA	9	14	14
INVESTMENT ADVICE COMPANIES	4	4	3
DERIVATIVE SPECIALISTS GOVERNED BY BELGIAN LAW	0	1	1
UCI MANAGEMENT COMPANIES	-	-	5
TOTAL	96	89	80

(*) Specialized securities brokers

(**) Firms specialized in securities order transmissions

Unlike banks, investment firms are required to apply for an authorization for specifically indicated investment services. In each case, there is a specific framework of prudential supervision that takes account of the risk profile linked to the specific authorization. For example, stockbroking firms that receive deposits from customers are subject to more stringent requirements, whereas the requirements are less stringent in the case of authorizations linked to a lower risk profile.

The trend in the offering of investment services by stockbroking firms in recent years illustrates a changed pattern in the provision of service and in risk profile. Fewer stockbroking firms act for own account; on the contrary, stockbroking firms are becoming steadily more active in portfolio management. Of the thirty-one stockbroking firms, four act as custodians for UCIs or for insurance companies; the capital requirements are higher for this activity than for other activities.

Consolidation in the market has resulted in the number of investment firms declining further. In 2005, the sharp reduction was due to acquisitions and closures, as well as to portfolio management companies switching to the status of UCI management company. This movement has a substantial impact on the sector's financial figures for 2005.

Contrary to the situation in the banking sector, the number of Belgian investment firms in Belgian hands is still high, despite a fall from year to year: as at the end of 2005, indeed, there were still three out of four. Concerned are more the smaller stockbroking firms and portfolio management companies, of which two out of three are in private hands. The other Belgian firms are firmly incorporated into the structure of financial groups. In respect of the foreign investment firms active in Belgium, particularly impressive is the volume of cross-border services offered within the scope of the free provision of services. The number of such

firms expanded further in 2005. Seven out of ten notifications still come from the United Kingdom, as indicated by the table below.

Presence of foreign investment firms in Belgium

	Investment firm subsidiaries		Branches		Free provision of services	
	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05
EEA countries						
European Union						
Germany					19	19
France	5	5	2	2	73	74
Italy					5	5
Luxemburg			5	5	27	26
Netherlands	3	3	5	5	94	98
Spain					9	10
United Kingdom			2	2	767	794
Other EU countries					92	101
Syndicate structure	2	1				
Sub-total	10	9	14	14	1086	1127
Other EEA countries						
Sub-total EEA	10	9	14	14	1096	1137
Other countries						
Canada					2	2
Hong Kong					5	5
Israel					1	1
United States	2	2			49	49
Switzerland	1	1			9	9
Sub-total	3	3			66	66
TOTAL	13	12	14	14	1162	1203

3. Organization and operation of the department

3.1. Organization

The legislation governing the supervision of banks and investment firms (respectively the banking law of 22 March 1993 and the stock market law of 6 April 1995), as well as the task and method of prudential supervision, are similar for both sectors. The institutions nevertheless show a great diversity of activity and risk profile. In order to take account of this and to allow an equivalent supervisory approach and method for comparable types of institution, the department is organized into three different supervisory services:

- ❖ large bank groups and banks in bancassurance groups;
- ❖ domestic banks and investment firms; this service also supervises *bureaux de change*;
- ❖ foreign banks and investment firms; this service also supervises the institutions specialized in the clearing, settlement and custody of securities.

In the breakdown of institutions over these three services, the underlying criterion is the group approach, so that banks and investment firms belonging to the same group are always supervised together.

3.2. Operation

The depth and intensity of the verifications depend in each case on the institution's risk profile. A multiplicity of continuous tasks enables an insight to be gained into the risks and an assessment to be made of the quality of risk management: those tasks include financial analysis of the reports by for the institutions, consultation with the auditors and examination of their audit reports, on-the-spot inspections, regular discussion with the internal audit, compliance and risk management departments of institutions and with the management itself, and the exchange of information and co-operation with other supervisors.

For medium-sized and large institutions, there are also the so-called «periodic three-way discussions» («*trialogues*») with the internal audit department and the statutory auditor on the attuning of the respective control plans, with each party, however, retaining his or its responsibilities. Within that context, the department also attaches great importance to adequate fulfilment on the part of the auditor of his task of co-operating in prudential supervision. This applies to the assessment of the soundness of the organization and

The prudential follow-up of companies is conducted by multi-disciplinary teams consisting of financial analysts, legal experts and auditors. Each in his own area of expertise, they verify and assess the financial risk profile, the observance of legal status and the appropriateness of the organization and internal control. Moreover, there is joint consultation in respect of findings and action to be taken. A number of experts in IT and risk-modelling conduct verification in these specific, technical areas.

In full-time equivalent, the department has a staff of sixty-six management and supervisory staff, and thirteen persons providing administrative support. Their distribution over the various supervisory services and dossiers takes account of the necessary time involved in controlling the various institutions subject to supervision.

to the exercise of the signaling function aimed at communicating relevant facts, decisions and developments within the institution. There is also periodic discussion with officers of the compliance department, in order to verify the extent to which, within the general requirements regarding integrity and business ethics, institutions pursue an appropriate policy to manage their risks, reputation and liability in respect of, among other things, the combating of money-laundering and terrorist funding, and the prevention of market abuse and tax fraud.

The department attaches special importance to the periodic policy meetings with the senior management of the institutions supervised. Those meetings permit discussion of significant facts or developments within the institution and of conclusions of a prudential nature that the department has arrived at, together with the appropriate recommendations. More and more discussion is also taking place with the chairmen of the audit committees concerning supervision of internal controls and the proper operation of the independent control functions of institutions.

The exchange of information and co-operation with foreign supervisors are an integral part of the day-to-day supervision. They are underpinned by general or specific co-operation agreements and by the pragmatic relationship of confidence that has been built up over the years. For the large banking groups active abroad or on a cross-border basis, such contacts are essential for questions of actual supervision and control plans to be discussed among the parties concerned. Additionally, certain inspections are carried out on a joint basis while joint discussions are held with the management of such bank groups.

To carry out its control tasks, the department has developed a set of procedures and a control methodology. Because both were in need of updating, and with a view to more efficient application, a project was be-

gun in 2004 to subject a number of matters to a thorough review and to cast them in an appropriate electronic form. To that end, eighty-five control procedures – both for revision and new – and ten function descriptions were identified and a distribution of tasks and a time-scale for the review drawn up. A substantial proportion of the department's staff was involved in this work. During the past year, a great deal of progress was made in this project: all procedures taking priority were reviewed and all function descriptions rewritten or updated. At the same time, in-house working-parties got down to the work of adjusting and supplementing the principal inspection programmes and the further refining of the department's own management tools. The work was rounded off with putting the processing and follow-up of the department's correspondence on a fully electronic basis.

3.3. Time allotment in prudential supervision

In the department's control activities, proportionally greater attention is given to systematically-relevant institutions. During the past year, thus, virtually half of the department's time allotted to prudential supervision was spent on such institutions. Principally concerned here are the four big banking groups, whose extensive range of financial activities and services to a broad selection of customers, whose multiple distribution channels, whose sometimes complex offer of products in the financial markets and whose far-flung for-

eign network of branches and subsidiaries make huge demands in respect of the continuous, prudential follow-up of the entire entity. Also concerned are the three big market players established in Belgium engaged in the clearing, settlement and custody of securities (49), where the specific risks – namely in respect of operational reliability and continuity – require appropriate follow-up on the part of the Belgian and foreign supervisory authorities concerned.

Breakdown by type of institution of the time spent by the department in prudential supervision

Four big bank groups	35%
<i>Institutions engaged in clearing, settlement & custody</i>	11%
Other banks	35%
Investment firms	19%
Total	100%

(49) I.e. Clearent, Euroclear and the Bank of New York.

Approximately half of the time allotted for operational prudential supervision was devoted to on-site supervisory activities.

Functional breakdown of the time devoted to supervision

On-site auditing	53%
Supervision of observation of the supervision status	21%
Financial analysis	26%
Total	100%

The annual supervision plan is drawn up per institution and per financial group, and implementation is based on periodic assessment of the risk profile of institutions. In consequence of the volume of work placed on the available staff members and of unforeseen cir-

cumstances at institutions or in markets that require instant action, execution of this plan demands regular evaluation and adjustment. The result is that the supervision programmes cannot always be fully completed or have to be in part postponed.

4. Points of attention and developments in 2005

4.1. Authorisations and authorisation conditions

In 2005, one new bank and one new investment firm governed by Belgian law were registered. Also registered, in application of the European regulations regarding mutual recognition, were six branches of banks and investment firms from neighbouring European countries. Other applications for authorization and restructuring were investigated and discussed with the institutions concerned, but will be settled only in 2006. Additionally, new authorizations were granted to five new UCI (Undertaking for Collective Investment) management companies (50). In the authorization procedures, there is always close verification of whether the legal conditions for authorization have been satisfied: this applies in respect of not only the suitability of the shareholders and the professional reliability and experience of the management, but also the appropriate

management structure, organization and internal control. The business plan and the financial forecasts are also investigated.

Verification of whether the authorization conditions have been satisfied also takes place in the case of mergers and restructurings. Indeed, the CBFA is required to grant authorization in these transactions and can refuse them where they could threaten the prudent and sound management of the institution in question. In this respect, in 2005, the CBFA issued an opinion about the merger, acquisition or shareholdership amendment of six banks and two investment firms. In 2005, Belgian banks were also active abroad regarding acquisitions and new establishments, and the CBFA investigated a number of operations regarding acquisitions and the establishment of new branches. It is notable that such operations are now occurring more frequently in the new European Member States.

(50) See also above.

Recently, a number of bank groups have made radical changes to their management and organization structure, and have introduced more resolute, central direction of activities (via so-called «business lines») and of the operational and control functions of the group (51). The changes have had a major impact on the governance of parent and subsidiaries, on the distribution of tasks and competences between the two levels and on the organization of group supervision. The CBFA has investigated these elements on the basis of a number of principles and criteria it has drawn up regarding internal governance within a group context (52), and in this respect has conducted intensive discussions with the management of the groups concerned.

The assessment of the suitability of the members of the management of banks and investment firms is also an important part of verification of whether the authorization conditions have been satisfied and of subsequent checks on whether these are being satisfied. The department verifies whether the persons in question are trustworthy, experienced and expert, and whether they have any criminal convictions and/or have been prohibited from pursuing their profession, due to violation of financial legislation in force. It is in fact essential for the security, integrity and reputation of financial institutions that the trustworthiness of the management be beyond doubt. To that end, the department bases itself, among other things and not exclusively thus, on the extended questionnaire that prospective members of the management are required to complete and submit in advance to the CBFA, as well as on the updating of the information thereby provided. In addition, there are also questions to and contacts with the judicial authorities. In 2005, the CBFA issued in a number of cases an opinion regarding professional trustworthiness, among other things after having been notified of legal enquiries involving or legal action against a member of the management of a financial institution (53).

In 2005, the department continued to cooperate to the development of the better-performing IT applications at the CBFA, within which all the basic data for the identification of both the institutions subject to supervision and their management are collected.

4.2. The analysis of financial risks

The financial position and risks of banks and investment firms are followed up on the basis of periodic financial reporting by the institutions (for banks, this concerns the so-called «schedule A» with its appendices). All the data are processed in a computerized analytical schedule that permits the various financial risks to be analysed and the divergent risk positions (the so-called «outliers») to be detected. In this, most attention is given to solvency, risk spreading, profitability, liquidity, interest rate risk and the quality of the loan and securities portfolios. These various aspects also receive attention in the periodic discussions with the management of the institutions.

In 2005, the sector posted a good performance again: solvency margins remained comfortable and results once more rose strongly, underpinning these developments being the favourable situation on the financial markets, the continued focus on cost control and historically very low credit risk costs. The narrowing of the interest rate margin nevertheless remains something to watch.

Apart from conducting periodic analyses of the financial situation of institutions, the department followed up a number of aspects more closely: the increase in savings deposits and their sensitivity to interest rate movements, the strong growth in mortgage lending, the evolution of the interest rate risk, the valuation of loans and securities, the use of credit derivatives, of other structured products and of hybrid capital instruments, and transactions with hedge funds. In respect of its interest risk policy, the CBFA continues to require additional calculations from a number of banks whose interest rate risk requires to be followed up. Where necessary, higher solvency buffers are imposed for in order to deal with that risk.

In co-operation with the NBB, there was continuation of the so-called «stress tests» begun within the context of the IMF's Financial Sector Assessment Program (FSAP) mission; the objective of these exercises is to test the capacity of the sector to resist macro-shocks. Results were discussed with the big banks involved.

(51) See the report of the Management Committee, p. 52.

(52) See this report, p. 31.

(53) Regarding the procedure followed in this respect, see the BFC 1999-2000 annual report, pp. 42 and 57-60; see also the Report of the Management Committee, p. 51.

During the past year, preparations for implementation of the new Basel 2 framework for solvency requirements were intensified. The approval of the European Capital Directive means that it will be possible, in accordance with the original planning, to introduce the new solvency framework for banks and investment firms with effect from 1 January 2007 in respect of the standard approach and the basic approach regarding internal models, and with effect from 1 January 2008 in respect of the advanced approach. Application of the various aspects of the new framework is being prepared internally in consultation with the *Prudential Policy* Department: discussions on the subject are taking place in a joint forum and in various working-parties, each dealing with a separate aspect. A particular aspect concerns the practical application of the second pillar of Basel 2 (the so-called «supervisory review process»), which obliges institutions to estimate their capital adequacy in terms of their risk profile and to develop a strategy to maintain solvency at the adequate level; it also obliges the supervisor to investigate that internal process and to assess it. Activities were also begun to prepare a new simulation of the impact of the new solvency requirements (the so-called «quantitative impact study» – QIS5); four Belgian banks are co-operating in this exercise.

In the meantime, discussion was also continued with the institutions regarding the internal methodology that they will be using for calculation of their credit risks and operational risk, and regarding the rolling-out of that methodology over the various portfolios and entities of their groups. The requisite clarifications were given both for the timing and procedure to be followed regarding the use of internal models and for the terms and conditions of the application dossiers to be submitted in that respect. Initially, only a limited number of banks will use internal risk models. A few of those banks have already submitted an application dossier.

As regards coordination and co-operation with the authorities of the foreign entities of the large banking groups, cross-border working-parties were set up for Fortis and for Dexia with the relevant authorities in neighbouring countries, in order to ensure a joint follow-up of the methodology of internal models and their validation, and of the necessary contacts in this respect with the bank management. Furthermore, a kick-off meeting was organized for all the bank supervisory authorities of countries where these two groups have

relevant establishments; at that meeting, the CBFA set out its approach as authority responsible for consolidated supervision. In the case of KBC, similar discussions were held on a bilateral basis with the supervisory authorities of the principal Central European countries where the bank group is established. For ING Belgium, the CBFA co-operated in the action set in train by the Dutch authorities supervising the parent bank. In respect of the Basel 2 preparations of Belgian establishments of the big foreign bank groups, the department has also taken part in foreign work sessions organized by the parent bank's relevant supervisory authority.

Another challenge regarding the analysis of the financial position concerned the introduction of the IFRS. All banks and investment firms that draw up consolidated annual accounts (twenty-six and nine institutions respectively) are required to use the IFRS with effect from 2006. Listed financial groups have already been using them since 2005, in view of the European obligation applying to listed companies. The IFRS are also to be used with effect from 2006 for prudential reporting on a consolidated basis. How the transition to the IFRS has been effected and what the implication are for risk management and balance-sheet policy have been followed up via periodic discussion with bank management and auditors. Important points of note in that respect were the options used regarding the accounting treatment of financial transactions, the so-called «first time application», the comparison of that with the previous financial year, and the new interpretation of results. At the same time, note was taken of the impact of the IFRS on the extent and composition of own funds, which will be corrected by the supervisors via application of the so-called «prudential filters» in the calculation of the regulatory solvency basis.

4.3. Assessment of the organization and on-site inspections

In 2005, eighty-four on-the-spot inspections were carried out at banks and investment firms, as against seventy-four in 2004.

The domains most inspected were:

- ❖ independent control functions (internal audit, compliance, risk management, management supervision);
- ❖ operation of the management bodies;
- ❖ financial risks (i.e. the credit, market and liquidity risks) and their management;
- ❖ portfolio management;
- ❖ securities activity;
- ❖ IT.

To be borne in mind in this is that:

- ❖ inspections in a particular year are part of a several-year audit programme;
- ❖ in the planning and carrying-out of inspections, account is also taken of the control activities of the internal audit and the statutory auditor; the gearing of the respective activities to each other is done in the so-called «three-way discussions» (see above);
- ❖ with smaller institutions, several themes are generally dealt with at the same time and the organization is investigated as an entirety.

Certain inspections were carried out in co-operation with other departments of the CBFA or with foreign supervisors, more particularly in respect of the supervision of big banking groups. In other cases, within the context of its consolidated supervision, the CBFA itself carried out inspections at foreign establishments of Belgian banks. This cross-border co-operation in the field is being intensified year by year. Inspection assessments and conclusions are recorded in a report that also sets out recommendations. All points are discussed with the management of the institution and the management's reactions are also included in the report.

Subsequently, there is further follow-up of the scope and timing of measures taken to meet the recommendations or to correct the shortcomings noted.

Themes that often recur in inspections concern how management takes note of risks, the lines of policy, internal guidelines and procedures for managing them, how they are followed up and reported on them, and the functioning and methodology of the control functions (internal audit, compliance, risk management). In respect of investment firms, more particularly, there was further insistence on the adequate fleshing-out of the control functions, which are fairly new in this sector.

In certain instances, horizontal inspections on a specific theme were carried out, examples being liquidity management (which was checked at a few banks against the sound practices formulated by the Basel Committee on the topic) and prevention management in respect of late trading and market timing (this last by way of extension of the CBFA's earlier sectoral questionnaire on the matter (54)).

As regards the prevention of money-laundering, there was further follow-up of the progress and results of the action taken by institutions concerning the regularization of the identity data of their existing clientele.

4.4. Specialized inspections

Inspections in respect of risk models and IT are conducted by a team of three risk-model inspectors and four IT specialists. The work is directed towards evaluation of, on the one hand, the risk models for managing the credit, market and operational risks, and, on the other, the continuity and security of the IT systems.

In 2005, two banks gained recognition for their model for market risk or for the development of the model to calculate solvency requirements. Their models were subject to prior testing against the reference framework of qualitative and quantitative criteria laid down by the CBFA (55). Among other things, moreover, attention was paid to the quality of internal control and of risk management, *ex post* controls (subsequent testing of the outcome of the model against reality, via back-testing) and crisis simulations (testing results in

(54) See the CBFA 2004 annual report, p. 84.

(55) See the BFC 2002-2003 annual report, p. 51-52 concerning the circular of 2 August 2002.

extreme situations via stress-testing). As far as the quantitative criteria are concerned, it was also checked whether, among other things, the model is sufficiently cautious and coherent in the calculation of value at risk (56) and in the choice concerning the use of market data.

Regarding preparations for the implementation of the Basel 2 framework (see above), other on-the-spot inspections were carried out of the project organization and methodology at banks that will be using an internal risk model for the solvency requirements concerning credit and operational risk. In respect of the large banking groups, there has been co-operation with foreign supervisors in this matter, as indicated above. For validation of the models in question, the necessary arrangements were made as regards co-ordination, task distribution and assessment.

Turning to IT inspections, on-site investigations were conducted of IT strategy and policy, security, process management, out-sourcing, the control framework and continuity. For reasons of cost or commercial priority, insufficient attention and resources are sometimes given to these risks. In respect of the circular of 10 March 2005 on sound management practice regarding business continuity, which requested institutions to evaluate their policy in this matter by the end of 2005 with a view to being in line with the recommendations by the end of 2007, the emergency and continuity plans of a number of institutions were looked at closely.

In 2005, the IT inspectors co-operated further in the activities of the Financial Stability Committee regarding operational crisis management.

Besides their audit activities, the risk-modelling and IT inspectors are also involved in technological and methodological discussions with their foreign counterparts. Both within and outside the CBFA, they also offer active support for specific tasks outside the scope of their audit plan and for training in their field.

4.5. Reorganisation measures

The bank law and the stock market law state that the CBFA is empowered to resort to exceptional measures where a company is not observing the regulations, where its organization, management structure or internal control displays serious deficiencies or where there is a danger that it will not be able to meet its commitments (57). In 2005, a reorganisation period was imposed on three small institutions, within which they were required to take appropriate measures to rectify the shortcomings noted at them.

In the first case, the institution was required to take specific internal control measures in order to rectify shortcomings in respect of the prevention of money-laundering and of the monitoring of authorized agents within the commercial network and at head office. The measures requested were carried out. In the second case, the institution was required to revise its management structure, in order to achieve a more adequate separation of functions at the highest level of management. At the same time, it was also required to thoroughly improve its internal audit and compliance functions as regards planning, reporting and assessment by the management bodies, and to prepare an action plan for the revision of the internal control procedures. The institution has revamped its organization and has taken measures to improve its control functions and organization. In the third case, lastly, the institution was required as a matter of urgency to restore the legally required, two-person, professionally trustworthy and experienced management, after the professional trustworthiness of the management had been challenged. With a view to the prudential supervision deemed necessary for the institution, a special inspector and a provisional administrator were successively appointed. As the institution in question proved unable within the set period to take the necessary measure, it ceased its activities and transferred its clientele to other institutions. The institution has been removed from the listing.

(56) This is the calculation of the probable maximum loss on a portfolio within a specific period and with a selected reliability interval.

(57) See Article 57 of the banking law (Law of 22 March 1993) and Article 104 of the stock market law (Law of 6 April 1995).

At the CBFA's insistence, a few other institutions besides the three mentioned above have also been required to set matters right or to increase their capital on account of shortcomings in the organization or internal control, irregularities or losses. In each case, regularization was coupled with intense discussion with the management. There was also intensive monitoring of a few smaller institutions faced with problems of organizational or financial viability and where it is only with difficulty that any tightening of internal controls and procedures and any improvement in financial prospects is being achieved.

4.6. Sanction

1. The Management Committee also imposed a sanction on a Belgian credit institution, in consequence of an infringement of the Law on money-laundering.

The facts in the dossier concern the procedure followed by the bank for the identification of customers, the retention of the relevant documents for identification, the preparation by the bank of an internal report, and notification of the facts determined to the Financial Intelligence Unit.

In the assessment of the seriousness of the infringements, the Management Committee noted that, as regards – among other things – the obligation to provide customer identification, the designated officers of the bank did not comply with instructions and also that the organization structures in force at the bank at the time of the facts did not permit adequate monitoring of transactions of the type that is the subject of the sanction. Consequently, the Management Committee resolved that the bank be charged with non-observance of Articles 8 and 12, § 1, of the Law on money-laundering.

Pursuant to Article 22 of the Law on money-laundering, the Management Committee resolved that an administrative fine be imposed on the credit institution. No appeal has been lodged against this resolution.

4.7. Cross-sector aspects of supervision

Co-operation with the *Prudential Policy* Department is important in the elaboration of new guidelines and standards, international policy consultation, general and sectoral analyses and Basel 2 preparations.

There is also co-operation with the *Prudential Supervision of Insurance Companies* Department in respect of attuning supervision of integrated financial services groups with a banking and insurance activity; in this respect, the supervisory teams consult each other, conduct specific inspections jointly and together hold discussions with the management of the groups concerned.

The management members of the three departments now also jointly discuss the above-mentioned aspects in a prudential consultative committee.

In addition, one should mention the co-operation with the *Supervision of Financial Information and Markets* Department in respect of the transactions of and financial information provided by listed financial groups, as well as supervision of UCIs linked to banks or investment firms. In both areas, co-operation is on the basis of internal arrangements regarding the exchange of information and the distribution of tasks. In 2005, consultation on the rules of conduct that financial intermediaries are required to observe in providing investment services or executing transactions in financial instruments was carried further within the framework of an internal CBFA working-party for implementation of the European Directive on markets in financial instruments (the MiFID Directive) and in respect of the adjustments that this requires from the existing supervisory framework.

With the *Protection of Consumers of Financial Services* Department, lastly, there was attuning regarding the exchange of information concerning action taken by this department in areas to do with bank and investment firm products.

5. Supervision of institutions for securities clearing and settlement

The supervision Law of 2 August 2002 introduced a supervisory status for institutions offering clearing and settlement services to the regulated markets. Prudential supervision of these institutions is conducted by the CBFA, without prejudice to the «oversight» competence of the NBB. In practice, concerned here is supervision of LCH.Clearnet SA (clearing) and Euroclear (settlement), which play a central role in the proper operation of the financial markets. The relevance of these institutions to the system, the nature of their risks and their strategic developments require special monitoring of their activities, organization, internal control and risk management. Hence also that, in last year's FSAP investigation, the IMF gave particular attention to these last.

The NBB and the CBFA work closely together in carrying out their respective tasks and do this through consultation about their supervisory planning, the exchange of the results of inspections and oversight tasks, joint discussions with the management of the institutions concerned and co-ordination of the contacts with other foreign authorities involved (central banks, prudential authorities and market authorities). The co-operation between the NBB and the CBFA has been recently intensified by the establishment of a clearing and settlement committee for joint consultation on these matters. The new prudential framework for clearing and settlement, and the intensive bilateral and multilateral consultation with other supervisory authorities concerning supervision of the Euroclear and LCH.Clearnet groups demand a requisite investment in time, as indeed does the involvement in the joint ESCB-CESR working-party regarding standards for securities settlement in the EU and the methodology for their assessment.

In the prudential supervision of Euroclear, most attention is given to the follow-up of the prudential measures requested regarding organization, governance, operation and financial ratios in respect of the group's restructuring on 1 January 2005, and to the operation of control functions (particularly the internal audit and risk management). The restructuring of the group was

coupled with the establishment of an umbrella holding company Euroclear SA (ESA) above Euroclear Bank and the group's central depositories; the holding company steers the strategy and methodology of the group and within it are centralized a number of joint, operational, control and support functions.

A new prudential status was meanwhile developed for settlement institutions and institutions assimilated to them (58) (in fact: ESA); such institutions are subject to prudential rules based on those for bank status. A new feature, however, is the legal requirement regarding liquidity, introduced to ensure business continuity for six months. The CIK (Central Securities Depository), which was previously a part of Euronext and which, with effect from 2006, is now a full subsidiary of Euroclear (under the new name Euroclear Belgium), was registered under the first status and ESA, which provides services to settlement institutions, under the second (59).

During the past year, concrete form was also given to the multi-lateral co-operation among the NBB, the CBFA and the six other authorities from France, the Netherlands and the United Kingdom regarding the supervision of Euroclear. On the basis of a co-operation agreement, relevant information is exchanged in support of the respective supervisory functions and there is co-ordinated assessment of the joint services provided by ESA to the settlement institutions of the group. In this respect, attention was given by way of priority to Euroclear's strategic projects.

There is also a multi-lateral co-operation agreement regarding LCH.Clearnet, the umbrella institution above the clearing institutions Clearnet and London Clearing House, and thus the central counter-party for the clearing of transactions on Euronext. In this case, the authorities from France, the Netherlands, the United Kingdom, Portugal and Belgium work together. As the prudential control status for clearing institutions has not yet been formulated by Royal Decree, an approach is *de facto* being followed that is very close to practice in bank supervision and which, moreover, is based strongly

(58) See the Report of the Management Committee, p. 42.

(59) See the Report of the Management Committee, p. 55.

on the supervision exercised over Clearnet (60) by the French authorities in their capacity of supervisory authority of the country of origin. Where changes to the Clearing Rule Book are concerned, each of which requires the approval of the Belgian Minister of Finance, the NBB and the CBFA consult regarding the opinions that they submit to the minister.

6. Supervision of *bureaux de change*

As at the end of 2005, there were twenty-two *bureaux de change* registered, compared to twenty-five as at the end of 2004. In 2005, six *bureaux* closed their doors, due to disappointing turnover or to their being unable to satisfy the financial requirements in force for *bureaux de change* intending to engage in money transfers; at the same time, three new *bureaux* were registered. Of these twenty-two *bureaux*, six engage in both the exchange and the transfer of money, nine restrict themselves to money exchange and four

specialize in money transfers. Six act as authorized agents of another bureau; eighteen are established as companies, four as natural persons. The *bureaux de change* specialized in money transfers have a network of 171 establishments. The turnover for the sector fell in 2005 to 1.5 billion euros as at the end of the year, a third of that amount being accounted for by money transfers.

Supervision of *bureaux de change* is conducted on the basis of their monthly reports on turnover and number of transactions, and of on-site checks carried out at least once a year. In these checks, attention is paid to observance of the legal obligations regarding identification of customers and to the vigilance displayed regarding customers' exchange transactions. In addition, there is emphasis on the importance of adequate methods of identifying suspect transactions. *Bureaux de change* that execute money transfers are required to be attentive to the constant observance of the minimum capital requirement of 200 000 euros.



(60) Which in France has the status of credit institution.

2.2.3. Prudential supervision of insurance undertakings and of supervision insurance intermediaries

Besides its tasks inherent in the exercise of operational prudential supervision (see, for example, the boxed text concerning financial analysis), the *Prudential Supervision of Insurance Companies* Department also has a large number of general tasks, including the running of thematic units and the development of prudential methodology. The department also supervises insurance intermediaries and co-operates in the follow-up of legislative and methodological developments regarding insurance and reinsurance in both a European (draft «Solvency II» Directive) and an international context (activities of the International Association of Insurance Supervisors - IAIS).

In 2005, the department decided to set up multi-discipline supervisory teams. The department's structure can be illustrated by means of a matrix: along the main axis are the companies supervised, broken down according to their systemic importance and their characteristics; along the transverse axis are the various specialisms of prudential supervision.

Multi-discipline supervisory teams were set up in respect of the «companies» axis; these have a structure similar to that of those of other supervisory departments, thereby facilitating co-operation with regard to the supervision of mixed groups or conglomerates.

The «specialisms» axis, which comprises financial analysis, technical analysis (life or non-life), institutional analysis and inspection, has to do with the analysis of questions of concern to all companies. Depending on the nature of the problem, a call is made on specialists from other departments and in particular from the *Prudential Policy* Department.

Current developments in respect of the supervision of insurance intermediaries and the establishment of similar supervision for banking intermediaries are factors that, in all likelihood, will have no negligible impact on organization within the CBFA. At the end of 2005, with a view to anticipating expected developments, the department moved to adjust its structure, the supervision of intermediaries being entrusted to a separate entity that will concern itself exclusively with this task.

During the year under review, attention was given to the maintenance and extension of contacts with the management of the companies supervised.

In this respect, there were numerous meetings with the management of the companies supervised, direct contact providing the supervisor with a better insight into those companies' actual operation and concerns. It also helped the supervisor to gear supervision better to the risks faced by the companies. This approach has brought a very positive response from the companies and will consequently be continued in the years ahead.

There were also numerous contacts with the various relevant professional associations.

Meetings were also held with other supervisors, in order to co-ordinate concrete supervisory action. In September, the CBFA played host to the annual *Conférence francophone* of the French-speaking insurance supervisors in continental Europe. During this gathering, the French (ACAM), Luxemburg (Commassur), Swiss (OFAP) and Belgian supervisors held informal discussion about themes participants had placed on the agenda.

2.2.3.1. The sector in figures

2.2.3.1.1. Insurance undertakings

Number of authorized companies

As at 31 December 2005, 110 insurance undertakings governed by Belgian law were registered, twenty fewer

than at the end of 2000. The number of insurance undertakings thus continues to fall.

Companies	2000	2001	2002	2003	2004	2005
Governed by Belgian law						
Limited companies	98	93	90	84	85	79
Co-operative companies	7	7	7	7	6	6
Mutual insurance associations	21	21	19	19	19	19
Sundry	4	4	7	8	8	6
Sub-total	130	125	123	118	118	110
Governed by foreign law						
EEA	73	71	72	66	60	57
Outside the EEA	6	6	6	5	3	3
Sub-total	79	77	78	71	63	60
TOTAL	209	202	201	189	181	170

The number of European companies with a branch in Belgium is declining, whereas the number of European companies operating within the framework of the free provision of services continues to rise. The United King-

dom still occupies first place both in terms of number of branches and the free provision of services, followed by Ireland.

2005	Companies from the EEA carrying out activities in Belgium under the freedom to provide services	Companies from the EEA with a branch in Belgium	Companies from outside the EEA with a branch in Belgium
Austria	16		
Czech Republic	3		
Denmark	10		
Estonia	3		
Finland	11		
France	76	7	
Germany	52	10	
Greece	3		
Hungary	2		
Iceland	1		
Ireland	103		
Italy	39	1	
Liechtenstein	16		
Lithuania	3		
Luxemburg	76		
Malta	2		
Netherlands	82	14	
Norway	10		
Poland	2		
Portugal	7		
Slovenia	2		
Spain	12	1	
Sweden	22		
Switzerland			3
United Kingdom	186	24	
TOTAL	739	57	3

Transfers

In 2005, the CBFA approved nine transfers of insurance portfolios by Belgian insurance undertakings, including partial transfers and mergers by absorption.

Authorizations, renunciations of authorizations and revocations

In 2005, nine companies renounced their authorization (including two whose authorization was revoked *ex officio*). One new company was granted authorization.

2.2.3.1.2. Insurance intermediaries

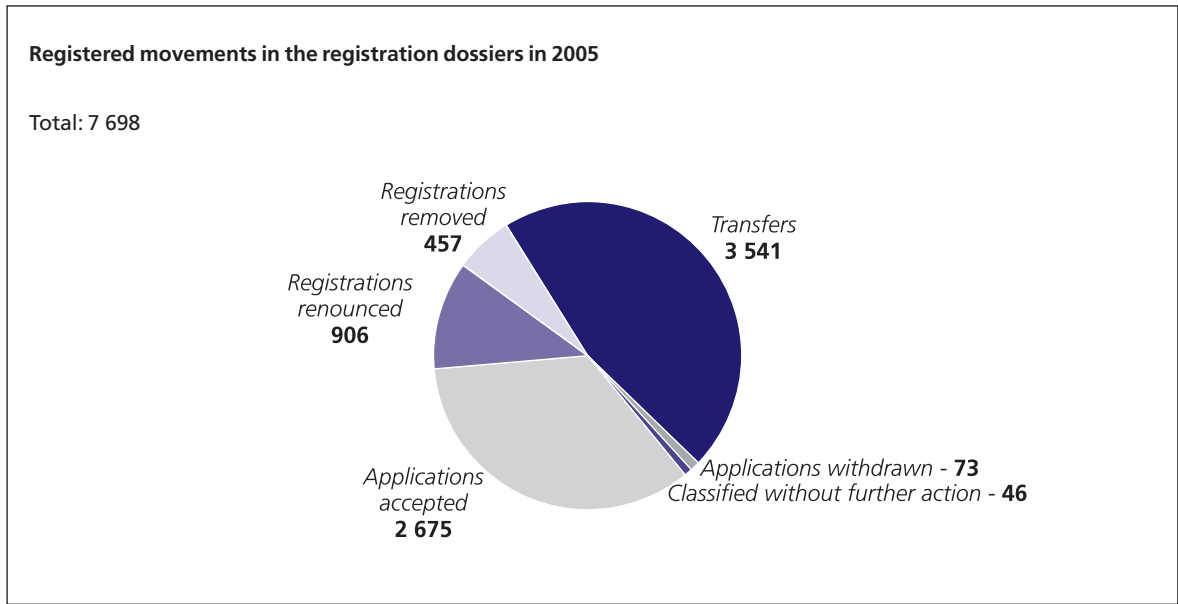
The intermediaries in figures

As at 31 December 2005, 26 307 insurance intermediaries and 48 658 distribution managers were registered.

The service responsible for insurance intermediaries handled around 202 complaints against registered insurance intermediaries and sixty-two on the spot controls were carried out.

The registration of 457 intermediaries was removed, as they failed to satisfy the conditions of registration (suretyship insurance, professional liability insurance, payment of the annual registration fee, compliance with

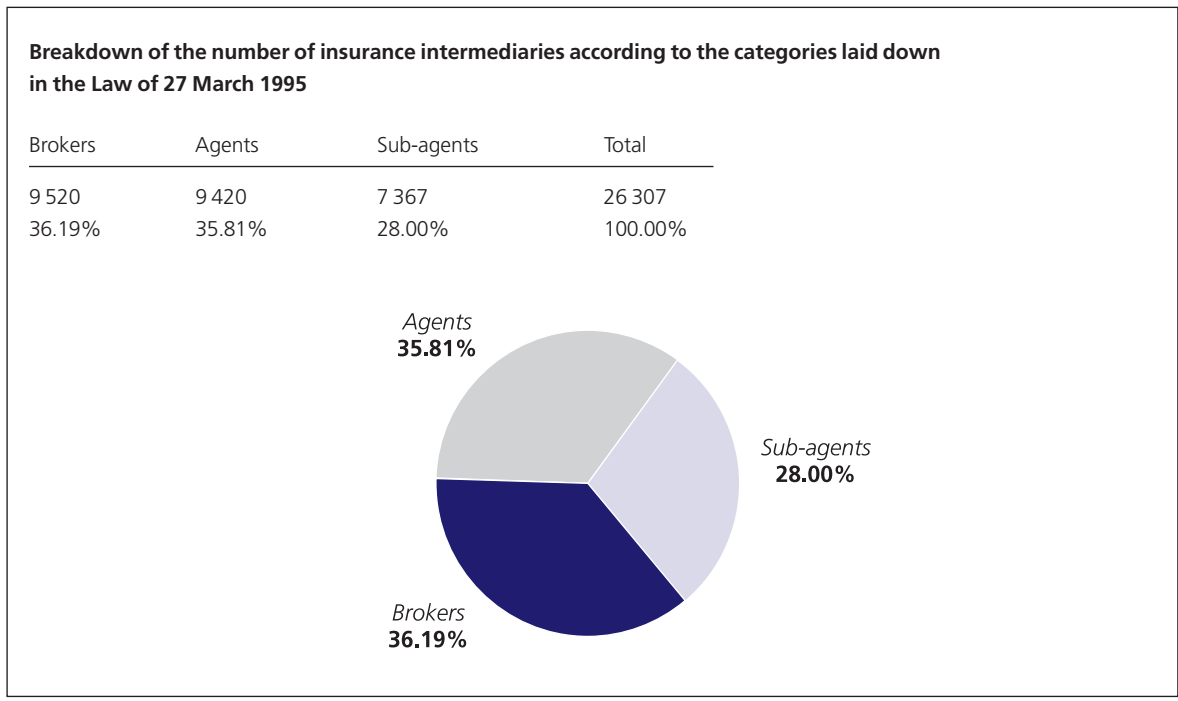
the requirements regarding suitability and professional trustworthiness). The most important movements noted in the register were as follows:



New classification of insurance intermediaries

Pursuant to the Law of 11 April 1999, the new classification of insurance intermediaries according to the classes referred to hereafter was finalised in 2005,

having been started in 2004. It resulted in the following breakdown:



2.2.3.2. Aims and policy accents of the prudential supervision of insurance undertakings

1. Action plan

The 2005-2007 action plan, approved by the Management Committee and by the Supervisory Board, is based on the following:

1. *Predominance of operational supervision*

Following a period of institutional change and reorganization, the accent was placed on operational supervision.

In respect of the follow-up of supervisory activities, the department is developing instruments that ought to facilitate the setting of priorities.

On-the-spot controls are being increased, the intention being that half the department's available time be devoted to them.

2. *Focus on life assurance activities*

The nature of the risks and the situation of the financial markets – e.g. the level of interest rates – are factors that necessitate special attention being given to life assurance activities, more particularly:

- the problem of conventional life assurance (class 21); and
- dossiers regarding the composition of supplementary provisions.

3. *Risk management*

In the present financial world, it is unthinkable that a company should engage in insurance activities without a knowledge of the requisite management instruments and without effectively making use of those instruments. Indeed, the requirement to have that knowledge and make that effective use is explicitly incorporated into international regulation.

In order to cover themselves against the interest rate risk, companies are required to set aside a supplementary life assurance provision where the guaranteed interest rate is higher than the reference interest rate calculated on the basis of the yield of 10-year linear (OLO) bonds. Where, however, on the basis of its asset and liability management (ALM), the company can show that this supplementary provision is unnecessary, it may be exempted from this obligation. The applications for exemption submitted in 2005 were thoroughly examined; such an examination has in the first place to put the department in a position to take a view about granting the exemption and to submit a proposal

on the matter to the Management Committee. However, such an examination also leads to an assessment of the management techniques developed by the companies in question.

A consequence of this approach has been an adjustment of prudential requirements to the financial situation of the companies that requested an exemption. Additionally, it was noted that the approach had a positive impact on the development of management techniques, with the result that a representative number of companies are on track to be able to satisfy the requirements of the future Solvency II Directive. Prudential developments at international level indeed make it necessary that use is made of appropriate management instruments.

In the assessment of the individual situation of companies, attention is thus required to be given to ALM evaluation as a matter of priority. That evaluation should supplement both classic supervision of the estimation of liabilities and supervision (still to be systematized) of asset management.

For assessment of the financial soundness of individual companies – and in respect of the co-operation with the NBB, which has competences at macro-economic level – attention is required to be given as a matter of priority to the development of effective stress tests.

4. *Information*

To obtain an insight into the situation of companies that are significant due to their intrinsic importance or to the seriousness of their situation, the CBFA is required to ensure that the relevant information is both available and distributed at the appropriate levels.

Besides the analysis of sectoral developments, which is generally conducted by the *Prudential Policy* Department, a six-monthly report on the sector as a whole is also required to be drawn up. That report contains a risk analysis and states which companies require special attention.

5. *Organisation of supervision*

The prudential approach, which is based on, among other things, the concept of «concentric circles», consists in making all parties involved in the supervision of companies – examples of those parties are specific bodies and functions within the company, statutory auditors, accredited actuaries – aware of their responsibilities in this matter in the exercise of their tasks. It is

also essential that, in the organization of supervision, account be taken of the principles of corporate governance, which have been harmonized in respect of the entire financial sector. In order to co-ordinate supervision activities and, as the case may be, further to flesh out the plan of supervision, there will be discussion among the parties concerned in the supervision of a company or a group of companies.

6. Self-assessment

The decision was taken to have companies test the application of a system of self-assessment, the intention being both that a process of reflection be set in train within the company that would follow a certain path and that there be further development of the risk analysis system.

2. A brief review of activities in 2005

1. Control of the organization of companies, and on-the-spot inspections

The follow-up of insurance undertakings was conducted by multi-discipline teams of financial and technical analysts, jurists and inspectors. At the end of 2004, a start was made with on-the-spot inspections by the five-man inspection team. In 2005, eighteen such inspections were conducted at the most important market players among insurance undertakings, the accent being on the independent control functions and in particular on the internal audit, the operation of the management bodies and the establishment of the compliance function. The organization and supervision of the distribution network was also subject to inspection. Another of the department's tasks concerned the operation and follow-up of a large group's activities abroad; in this respect, an inspection was conducted abroad in co-operation with the relevant foreign supervisory authorities.

The recommendations that were drawn up regarding control function tasks had to do chiefly with:

- ❖ the setting-up by the internal audit of a methodical, documented and comprehensive risk-analysis system to be used as the basis for preparing the three-year audit plan;
- ❖ the development by the internal audit of a methodology for the follow-up of the recommendations; and
- ❖ the operation of management bodies and the written record of their discussions and resolutions.

As regards the compliance function, the main achievements were the formulation of recommendations regarding the establishment of an integrity policy, the

identification and analysis of the attendant risks and the drawing-up of a detailed programme of work.

The accent in the future will be placed on a multi-discipline approach and on the risks that companies face. The teams set up in this respect will draw up a joint plan for supervision, which, among other things, will involve more extensive on-the-spot controls being carried out. The depth and intensity of those controls will depend on the risk profile of companies.

The recruitment drive designed to bring the department's staff up to the level set by the Management Committee should be completed in 2006. In order to facilitate the integration of new staff, substantial efforts have gone into training. Similar efforts will have to be made at the technical and financial level, as well as in respect of auditing, in order to hone expertise.

With a view to achieving a more efficient application of the control methodology, moreover, a project was begun to formalize on-the-spot inspection procedures. In this respect, various in-house working-parties have been set up, whose task is to develop procedures and programmes of work for various themes. Their work should be completed in the course of 2006. In order to up on-the-spot controls, the five-man inspection team was expanded to include a sixth inspector. The financial and technical analysts are also prepared to carry out such controls within their fields of expertise.

2. Enquiry into the interest rate risk in life assurance

The economic climate has for some considerable time now been characterized by very low interest rates: in September 2005, the yield on 10-year linear (OLO) bonds was barely above 3%. Insurance undertakings are particularly exposed to the interest rate risk, as they offer products with a guaranteed minimum rate of interest.

The permitted maximum rate of interest is set by a Royal Decree. At the request of the Minister for the Economy, the CBFA issued an opinion in which it stated that the setting of that rate of interest should remain within the competence of the political authorities.

At the beginning of August 2005, the central rate was fixed at 3.46%, which is lower than the guaranteed minimum rate of interest for a large number of contracts and in any case lower than that for the contracts carrying a minimum interest rate of 3.75%. In the case of these last, an additional provision had for the first time to be set aside at the end of 2005 to supplement the technical provisions.

One of the questions to which the department has had to give intensive attention is that of how, in the present economic climate, life assurance companies will cover themselves against the interest rate risk.

During the final quarter of 2005, the CBFA started an enquiry among the insurance undertakings in question,

in order to find out how they manage the interest rate risk. They were posed a number of questions about their future profitability, the degree to which they were able to meet their commitments to the insured and their solvency in the medium and long term, supposing a continuing low level of interest rates. The processing of the enquiry's results has not yet been completed.

FINANCIAL ANALYSIS

- Supervision of solvency

The supervision of solvency, or checking whether insurance undertakings have the required amount of own funds, is one of the most important elements of financial supervision.

In the first place is the requirement to calculate the required solvency margin or the solvency margin to be established. In principle, the necessary level of solvency is calculated on the basis of the extent of the insurance activities. For non-life business, it is chiefly premium income that serves as a basis here; for life business, the major basis for calculation is represented by the provisions for life assurance. In the calculation of the required level of solvency, account is also taken, within certain limits, of the transfer of insurance risks to reinsurance undertakings.

The solvency margin established or available corresponds by and large to the insurance company's own funds plus certain specific elements, such as subordinated loans, hidden reserves on assets, the fund for future appropriations, less intangible fixed assets, such as formation expenses, goodwill, etc.

The data for calculating both the solvency margin to be established and the solvency margin available is drawn largely from insurance undertakings' annual accounts. It is for this reason that the CBFA attaches great importance to annual accounts being drawn up according to regulatory provisions. At the same time, it wishes to gain as clear as possible an insight into the way annual accounts are drawn up. In this respect, the CBFA relies on the statutory auditor, who is required to prove the annual accounts and to prepare an extended report on them. Besides the examination carried out by the statutory auditor, the CBFA also conducts numerous validation tests on the annual accounts submitted by companies, with a view to forming as reliable a picture as possible of those companies' financial capacity.

The supervision of available own funds or of the solvency margin available is conducted in respect of both the individual insurance company and companies that are part of an insurance group; in the latter case, there is verification of whether, at group level, own funds are sufficient or whether the required, adjusted solvency margin is available. Such verification is generally performed on the basis of the consolidated annual accounts. In this respect, companies are likewise required to inform the CBFA about intra-group transactions. This supervision is aimed primarily at preventing the same own funds being applied more than once to satisfy the regulatory requirements the various insurance undertakings of a group are subject to, or to prevent so-called «double gearing».

As mentioned, the required solvency margin is calculated on the basis of the extent of the insurance activities, whereby no account is taken of other risks, such as investment risks. For this reason, the CBFA has developed a system of stress tests to verify whether the solvency margin available or established is proof against certain depreciations of the most important assets, such as shares, bonds, real estate, loans and receivables; if it is not proof against them, the CBFA will request the company to take the measures necessary to reduce its sensitivity to risk. In light of this, the CBFA will also test a company's solvency situation on the basis of the market value of investments, contrary to testing on the basis of the balance sheet drawn up according to the principle of purchase value less permanent depreciations.

The CBFA not only assesses the solvency situation of individual companies at closure of the financial year on the basis of the annual accounts, but also requires that companies submit quarterly reports on the situation. This enables the CBFA to keep close track of developments in the solvency situation. However, the purpose of supervision is not solely to be able to analyse the situation at a particular time, but also to be able to form a picture of the possible future development of the financial situation of companies. In the light of this proactive approach regarding companies, the CBFA requires them each year to submit their plans regarding the future development of their activities, together with the budgets and forecasts in respect of the solvency situation. This enables the CBFA to assess whether companies do in fact have the necessary own funds or established solvency margin to carry through their plans for the future, without jeopardizing their financial situation.

- Supervision of covering assets

Insurance undertakings are required to earmark holdings or assets against their underwriting liabilities, the latest being expressed in the technical provisions. Such assets are termed «covering assets» and are subject to a whole range of regulatory provisions. In the first place, the insurance company is required, in assembling such assets, to observe the general principles of safety, marketability, yield, diversification and spread. Covering assets are also required to be expressed in the same currency as the underwriting liabilities (the principle of congruence). At the same time, they are required to be held in full ownership by the insurance company and be reserved exclusively to meet those underwriting liabilities. Furthermore, the nature of assets permitted to be used as covering assets is imposed by regulation.

The limits within which certain investment may be applied are likewise determined by regulation. Those limits are set both according to technical provisions and per counter-party. The manner of valuing covering assets is strictly regulated; in principle, covering assets are valued at market value. Assets earmarked as covering assets are required at all times to be identifiable without the possibility of dispute and, to this end, insurance undertakings are required to maintain a special register of them according to specific prescriptions as to form.

The CBFA follows observance of these rules closely, as such assets form the guarantee for insurance undertakings' underwriting liabilities vis-à-vis their policyholders and the beneficiaries of insurance contracts, and as such assets also serve to reduce the investment risk.

In this respect, a primordial role is also played by the statutory auditor. He is required to prove the information that insurance undertakings are required to submit to the CBFA regarding covering assets and he is likewise required to report any failure to observe regulatory provisions.

The composition of the covering assets is submitted to the CBFA both together with the annual accounts and at the end of each quarter. All data is processed by computer applications and tested against the regulatory provisions. In cases of doubt, the CBFA will institute an on-the-spot investigation.

- Supervision of overall profitability

Despite the fact that the regulations do not contain any specific provisions regarding the profitability of insurance undertakings, the CBFA also gives attention to the result achieved by such companies. For an insurance company to continue to have a sufficient level of solvency and thus continue to be able to meet its underwriting liabilities in the future, it needs to develop profitable activities. The CBFA therefore analyses the insurance company's results, in order to determine what could be the cause of losses. However, it will also investigate the sources of positive results, with a view to being able in due time to identify any apparently profitable activities and to foresee possible future losses.

2.2.3.3. Aims and policy accents in the supervision of intermediaries

During the past year, the *Insurance Intermediaries Service* concentrated its efforts on reinforcing supervision of the observance of the Law of 27 March 1995 on insurance intermediation and the distribution of insurance. In this, particular attention was paid to observance of the conditions for the registration of intermediaries (professional liability insurance, financial capacity, trustworthiness).

An important instrument for this supervision is the exchange of information with institutions providing professional liability or financial capacity insurance. These institutions regularly submit a list of cancelled contracts to the CBFA.

In respect of complaints against registered intermediaries, a thorough investigation was conducted into observance of the conditions for registration.

In order to facilitate the CBFA's supervision, greater responsibility was given to the central institutions. Henceforth, they are responsible both for the management of the registration dossiers of the insurance intermediaries affiliated to them and for observance of the conditions for registration.

The number of on-the-spot controls was increased. These are meant to verify not only whether the intermediary does satisfy the conditions for registration, but also the quality of the internal organization of branches.

Controls were carried out at insurance undertakings, too, in order to investigate the structure and organization of their commercial network and to verify whether the network agents satisfied the conditions for registration. Here, the accent was on making the insurance company aware of its responsibilities.

The information on intermediaries that is published on the CBFA's web site is of use to both consumers and insurers. Consumers can consult it to verify the status of the intermediary managing his policies and the insurance company can consult it to check whether the intermediary that it is working with is registered with the CBFA.

In order to simplify the registration procedure and to be able to deploy more staff in the work of carrying out controls, it was decided to develop an online application for the registration of intermediaries and for the management of the information required by the CBFA to supervise them.

2.2.4. Supplementary pensions

2.2.4.1. Organization and tasks of the department

The *Supervision of Supplementary Pensions* department is in charge of, on the one hand, prudential supervision of pension funds for employees and for the self-employed, from now on referred to as «institutions for occupational retirement provision», and, on the other hand, implementation of the laws on supplementary pensions (LPC/WAP, i.e. the law on supplementary pensions for employees, and LPCI/WAPZ, i.e. the law on supplementary pensions for the self-employed). Since a detailed presentation of the tasks of the department was made in the previous report (61), only the major items will be reminded here, with an emphasis on the CBFA's intervention means.

Prudential supervision of institutions for occupational retirement provision aims to ensure that these institutions are safe hosts for building up supplementary pensions. This implies supervising, on the one hand, the institutions' financial and accounting aspects and, on the other hand, their organization. The financial concern is that institutions for occupational retirement provision must establish sufficient so called «technical provisions» to be able to grant the benefits promised by the pension scheme. These provisions must be matched by so-called «covering assets» that must meet minimum requirements as to diversification, safety and liquidity. In addition, the institution must, in certain

(61) See the CBFA 2004 annual report, pp. 63 and 64.

cases, have a supplementary safety cushion (the so called «solvency margin») in the form of funds that are free of all foreseeable liabilities. Naturally, the financial requirements take into account the nature of the benefits granted and the method of financing, as well as whether there is insurance or reinsurance coverage.

Financial supervision is currently carried out on the basis of an examination of the annual accounts and statistics which institutions for occupational retirement provision must periodically submit to the CBFA. It relies on the statutory auditor's periodic or special reports, as well as on any reports by the actuary appointed by the institution. The department may have to carry out more specific interventions, either on its own initiative or following a complaint. Given the importance and the increasing number of assignments entrusted to the department in recent years, the department has been able to carry out only selective verifications in special circumstances such as a complaint, a change in the pension scheme, or a transfer. To this should be added the verifications made in 2003 and 2004, in response to an issue of insufficient financing as faced by almost one out of four institutions.

Where the department notes that there is an issue of either insufficient financing, which means that the institution has insufficient funds to cover the technical provisions and the solvency margin to be established, that the institution's covering assets are not in compliance with the regulations, or that the margin established is no longer at the prescribed level, the department will demand the institution to present a recovery plan that sets out the measures to be implemented by the institution to make up for the lack of financing in as little time as possible. The plan must be accepted by the CBFA, which will follow up its implementation and impose complementary measures if needed. The sector's great diversity shows in the recovery plans that have been presented to the CBFA: increase in the sponsoring undertaking's contributions, change in the structure of the investments, future decrease in certain of the scheme's advantages, etc. In the most serious cases, the CBFA may take more stringent measures such as restricting or prohibiting the free disposal of the institution's assets. At the most extreme, the CBFA may order the liquidation of the institution for occupational retirement provision.

As far as governance is concerned, the department sees to it that the members of the corporate bodies and the effective management of the institution are fit and proper for their functions. It also sees to it that the institution has an administrative structure and an internal organization that are appropriate for its activities. In this respect, the CBFA has had to limit itself, until now, to supervising compliance with the minimum legal prescriptions. Extreme measures such as a trusteeship or the replacement of the institution's managers have not been necessary until now.

The supervision of social regulations on supplementary pensions concerns not only institutions for occupational retirement provision but also insurance undertakings operating in the field of the second pension pillar. This supervision consists in verifying that the rights granted by the two supplementary-pension laws to members and beneficiaries are respected by the pension institutions. This concerns *inter alia* compliance with the legal provisions on consultation procedures upon introducing or modifying the pension scheme, on joint management of certain pension institutions, on the prohibition of discrimination, on minimum rights, etc. As regards social schemes, an additional item is compliance with the obligations on limitation of costs and on profit sharing.

The CBFA's means of intervention are more limited as regards social supervision. Its power is essentially advisory, though it may also refer a case to the judicial authorities. Neither the LPC/WAP nor the LPCI/WAPZ currently provides the possibility to impose any demands on institutions for occupational retirement provision. However, certain infringements of the social provisions can also be related to prudential aspects. For instance, failing to grant certain minimal rights may come as a result of insufficient financing, an issue to which the CBFA may react with the measures described above.

In 2005, the *Supervision of Supplementary Pensions* department welcomed four new staff members, while two members of the executive staff left the institution. The number of staff as at 31 December 2005 was 18, of which 15 executive staff. A recruitment of four staff members, of which two executive staff, is planned for 2006.

2.2.4.2. Prudential supervision of institutions for occupational retirement provision

2.2.4.2.1. Developments in the sector

As at 31 December 2005, the institutions under supervision amounted to 246 authorized institutions for occupational retirement provision (of which one pension fund for the self-employed), 85 registered institutions (62) (of which 60 internal funds) and 5 institutions in liquidation. In the course of 2005, 9 new institutions were authorized and 7 were liquidated.

The stock market rally has had positive repercussions on the financial health of institutions for occupational retirement provision. In the course of 2003, 66 institutions had to present a recovery plan. As at 31 December 2004, 31 of these 66 plans were still being implemented (63), but no new plan had to be imposed. As at 31 December 2005, 20 plans were still being implemented. In two cases, the CBFA has imposed complementary measures. Two new plans were requested in the course of 2005; one of those has not yet been examined by the CBFA.

2.2.4.2.2. A new prudential framework for institutions for occupational retirement provision

In the course of 2005, the *Supervision of Supplementary Pensions* department has pursued the modernization of the prudential framework set in train in 2004.

Upon the request of the competent ministers, the CBFA has prepared a preliminary draft law on the supervision of institutions for occupational retirement provision. The aim of the text is twofold. On the one hand, it aims to ensure transposition of the Directive of 3 June 2003 (64), the main objective of which is, through a minimum harmonization of prudential requirements, to allow institutions for occupational retirement provision of a Member State of the European Economic Area to manage pension schemes of undertakings established in any of the Member States of the European Economic Area (65). On the other hand, the text also aims to group together the various legal provisions that lie at the basis of the prudential supervision of institutions for occupational retirement provision, be they pension funds for employees or for the self-employed.

The *Supervision of Supplementary Pensions* department has participated in the work of the *Occupational Pensions Committee* working party created within CEIOPS with a view to drawing up a protocol of co operation between the various authorities in charge of supervision of institutions for occupational retirement provision within the various Member States. Through *inter alia* standardization of documents and procedures, the protocol should facilitate exchanges between supervisors where an institution decides to provide services on the territory of a Member State other than its home Member State. The *Occupational Pensions Committee* working party held six meetings in 2005 and the draft protocol has been the subject of two public consultations in February and October. The final protocol was approved on 22 February 2006.

In parallel with the drawing up of the preliminary draft law proper, specific subjects are being examined. The results of this work will show in the implementation of the law (Royal Decrees and CBFA circulars) or in new supervisory techniques. The main subjects thus examined are the new methods for prudential supervision, governance within institutions for occupational retirement provision, certain aspects of the supervisory methods, and the new reporting rules. This work takes into account the lessons from the assessment of the Belgian financial sector by the International Monetary Fund's Financial Sector Assessment Program.

As regards the new supervisory methods, the department is preparing a risk model based on a typology inspired by the one used by the other sectors under CBFA supervision. The aim of the model is to make it possible to assess the risks incurred by each institution, with a view to a better allocation of the department's resources. In addition, the requirements laid down in Directive 2003/41/EC will probably lead to a more dynamic conception of financing rules, with perhaps a greater emphasis on ALM (Asset/Liability Management) techniques.

(62) On this concept, see the ISA 2002-2003 annual report, p. 101.

(63) See the CBFA 2004 annual report, p. 64.

(64) Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision.

(65) For a more detailed comment on Directive 2003/41/EC, see the Management Committee 2005 report, p. 20.

As far as accounting is concerned, the requirements set by the above-mentioned directive, and the need for an improved insight into the institutions under supervision, will mean that the accounting and statistical layouts will have to be adapted and enhanced. A first step in gathering data and in the field of annual accounts has already been taken with Circulars P.40 and P.41 (66). In this respect, the department is closely following developments as concerns the IAS/IFRS, since it is not impossible that in the medium to long term, the institutions may have to calculate their technical provisions in accordance with the requirements of IAS 19, or even in accordance with *fair value* principles.

In October 2004, the CBFA sent all institutions for occupational retirement provision a copy of Circular P 38, which reminded them of the rules to be followed for management and operation of multi-employer funds (67). The institutions concerned had until 31 December 2005 to adapt their articles of association or the management contract concluded with the sponsoring undertakings. A relatively important number of institutions had not yet responded to that Circular as at 31 December 2005. The department will follow up on that issue in 2006.

One of the conditions for an institution for occupational retirement provision to be a safe source of

financing for supplementary pensions is that it must have a structure that is appropriate for its activities, and that its corporate bodies must be competent and beyond reproach. The department's thinking on governance within institutions for occupational retirement provision is already reflected in the preliminary draft law, which devotes a special chapter to that aspect of supervision. The aim is not only to provide the minimum conditions for sound management of institutions for occupational retirement provision and to make it possible to adapt the structure to the precise situation of each institution, but also to enable the CBFA to impose a reinforcement of the structure of an institution (e.g. through the creation of a management committee or by increasing the number of members of the Board of Directors) where the CBFA is of the opinion that the existing structure is not appropriate for the institution's activities.

A few specific cases were examined by internal working parties. One such working party devoted its attention to the issue of whether to maintain the exemptions granted in 1986 to internal funds and to the registered pension funds. While a decision on this is being prepared, the CBFA will limit its action to reinforcing the existing supervisory measures, *inter alia* through the annual report which these funds must regularly submit to the CBFA.

2.2.4.3. Supervision of supplementary pensions

2.2.4.3.1. Complaints and questions of interpretation

As regards supervision of the social aspects of supplementary pensions, 2005, in the same way as 2004, saw a substantial amount of the department's effort being devoted to complaints and questions of interpretation. In 2005, no more than twelve of the questions could be considered as complaints, which is a relatively low number. Often concerned are complex dossiers that have to do with old situations and that, in relative terms, demand a great deal of time. Besides those complaints, the department received about twenty miscellaneous ordinary and interpretative questions a month.

The questions submitted to the department concern generally the calculation of vested rights, particularly in respect of withdrawal from the pension plan. The

department also receives questions about the transfer of reserves upon the discontinuation of a business or about the interpretation of Article 27, § 1, of the LPC/WAP, which prohibits payments being surrendered or paid to members prior to their reaching the age of sixty. It is the CBFA's opinion that surrender or payment should be possible from the age of sixty only where the pension regulations offer that possibility. A specific clause clarifying this would have to be inserted in the above-mentioned draft law.

Many questions are prompted by real or supposed problems in respect of discrimination. The *ad hoc* working party set up in 2004 within the Supplementary Pensions Commission (68) met eleven times in 2005. As the CBFA is responsible for the prudential supervision of the social aspects of the LPC/WAP, it was represented in that working party. The working party's report was

(66) See the Management Committee 2005 report, p. 60.

(67) See the CBFA 2004 annual report, p. 65.

(68) See the CBFA 2004 annual report, p. 67.

submitted to the Supplementary Pensions Commission itself, which will study it in 2006 and possibly issue its own recommendations.

Lastly, the department was repeatedly requested for technical advice regarding the introduction of a pension scheme, more particularly the establishment of a social pension scheme.

2.2.4.3.2. Supervision of social aspects

For reasons already given, supervision of the social aspects of supplementary pensions is conducted principally when a pension plan is being introduced or within the context of a complaint. However, the department is working on a methodology that should make more systematic supervision possible.

A substantial amount of work was involved in developing a framework for interpretation and testing in respect of social pension schemes, which are a new type of scheme introduced by the LPC/WAP and which not only look to the building up of a pension, but also contain a solidarity component. This law links such schemes to a number of additional conditions. For example, there is a mandatory restriction on costs, an obligation to distribute profits in full and mandatory separation of management of the pension component and of the solidarity component. An initial focus of attention was setting out the general legal provisions in practical rules for organizers of such schemes and for pension institutions.

A second focus concerned supervision of social pension schemes, which is a competence divided between the CBFA and the tax authorities, this last because of the additional tax benefit that the LPC/WAP on supplementary pensions bestows on these schemes. Because of this aspect, the department has begun consultations with the tax authorities with a view to concluding a protocol on social pension schemes. This should permit procedures to be simplified to the maximum extent possible, and maximum legal certainty to be given to the institutions concerned, as indeed was explicitly requested by the Supplementary Pensions Commission (opinion No. 8). Consultation with a view

to concluding a protocol has also begun in respect of social pension agreements in implementation of the LPCI/WAPZ.

Lastly, attention was also given to the aspects concerning management of social pension schemes. In this respect, the problems of application were identified that arise in the case of a pension scheme being managed within the framework of a so-called «Royal Decree '69 institution» (69). Particular attention was given in this regard to sectoral pension schemes.

As regards individual commitments, the CBFA published an LPC/WAP-4 circular, which replaced the LPC/WAP-2 circular. The new circular gives more information about certain concepts, and expands the information that organizers of schemes are required to submit to the CBFA (70).

2.2.4.3.3. Secretariat of the commissions and boards

The *Supervision of Supplementary Pensions* Department provides secretariat services for the four advisory bodies set up by the LPC/WAP and the LPCI/WAPZ, and for the working parties set up by those bodies.

The Supplementary Pensions Commission met nine times in 2005 and issued five opinions, of which three on its own initiative, one at the request of the CBFA and one at the request of the Minister for Pensions:

- ❖ opinion No. 6 on the concept «normal pension age» that is used in various regulations;
- ❖ opinion No. 7 on the tax treatment of pension capital;
- ❖ opinion No. 8 on the recognition of social plans;
- ❖ opinion No. 9 (at the request of the Minister for Pensions) on the draft Royal Decree on the appointment of the official responsible for conciliation in respect of social pension schemes;
- ❖ opinion No.10 (at the request of the CBFA) on the 4% rule (Article 14, § 3, 3°, paragraph 2, of the LPC/WAP).

(69) Concerned here are insurance undertakings that satisfy the conditions referred to in the Royal Decree of 14 November 2003 on the granting of extra-legal benefits to the employees referred to in the Royal Decree No. 50 of 24 October 1967 on the retirement and survival pension for employees and the persons referred to in Article 32, first paragraph, 1° and 2° of the Income Tax Code 1992, employed outside the scope of an employment agreement.

(70) For more detailed commentary on the LPC/WAP-4 circular, see the report of the Management Committee, p. 108

In addition, four working parties met several times in 2005:

- ❖ the «Discrimination» working party (see above);
- ❖ the working party concerned with information flows confronting the sectoral pension schemes;
- ❖ the «Early leavers» working party, which is studying the question of employees no longer active with an organizer of a pension scheme, but who may still draw rights from that scheme;
- ❖ the «Pension Association» working party, which is conducting research into the possibility of creating for institutions for occupational retirement provision a new, specific legal form under the name of pension association.

The first two working parties have completed their task and an opinion should be forthcoming in 2006 from

the Supplementary Pensions Commission. The activities of the «Early leavers» working party had not been completed by the end of 2005 and the «Pension Association» working party has suspended its work indefinitely.

In 2005, the Supplementary Pensions Board drew up its bye-laws. At the request of the Minister for Pensions, it also prepared two opinions: one on the draft Royal Decree on the fixing of the amount of the attendance fee for the members of that board, and the other on the draft Royal Decree on the appointment of the official responsible for conciliation in respect of social pension schemes.

The Commission for Voluntary Supplementary Pensions of the Self-employed and the Board of the Voluntary Supplementary Pensions of the Self-employed did not meet in 2005.

Supplementary or extra-statutory pensions are pensions built up within the framework of a professional activity, in order to complement the statutory pension. They form the so-called «second pillar» of pensions. The first pillar consists of the statutory, state-funded pensions and the third of the individual pensions built up by private persons via, for example, pension-saving formulas or individual life assurance.

The supplementary pension for employees is financed by the employer or by the employee himself. The self-employed can also build up a supplementary pension within the framework of their occupation.

Barring exception, the second pillar is based on a system of capitalization, meaning that the pension payments that employees or their rightful claimants will receive at a particular time are financed by contributions for or by them during their active working life.

The supplementary pension is built up at an insurance undertaking or at an **institution for occupational retirement provision** (previously known as a *fonds de pension* or a *caisse de pension* – in both cases «pension fund» – depending on whether the supplementary pension was for employees or the self-employed).

Pension funds are non-commercial institutions created by a **sponsor** in the form of a non-profit association or a mutual insurance association. The **sponsor** may be a company, several companies (multi-employer fund), an entire sector (sectoral fund) or a professional organization (self-employed). In an institution for occupational retirement provision, there are no shareholders that could play a role in strengthening solvency, which explains why the **prudential supervision** of such institutions varies in certain respects from that of insurance undertakings.

Another difference with the insurance sector is the large number of (very) small institutions for occupational retirement provision, which, for example, manage solely the pension plan of a category of employees of a particular company, which warrants somewhat more flexible supervisory rules being applied.

However, the laws regulating **the supervision of social aspects** (the LPC/WAP and the LPCI/WAPZ) are applied in virtually identical fashion for insurance undertakings and institutions for occupational retirement provision.

2.2.5. Supervision of financial information and markets

2.2.5.1. Introduction

2005 was marked by a sharp rise in the number of operational dossiers required to be investigated by the *Supervision of Financial Information and Markets* Department in respect of its various activities and tasks, which all have a direct bearing on integrity and transparency of the markets, and the equal treatment of investors. The activities and tasks of the department can be broken down as follows:

- ❖ supervision of financial transactions;
- ❖ supervision of financial information;
- ❖ market supervision;
- ❖ the combating of market abuse;
- ❖ supervision of market operators; and
- ❖ supervision of undertakings for collective investment (UCIs).

Below is a non-exhaustive list of various notable facts and developments in 2005 vis-à-vis the previous financial year:

- ❖ a sixfold increase in the number of stock market introductions;
- ❖ the high number of complex or transnational public takeover bids and exchange offers;
- ❖ the significant trend of issues and/or admissions of investment instruments with capital risk;
- ❖ the sharp increase (7.9%) in the number of effectively traded compartments of UCIs governed by Belgian law for which the CBFA is the first line supervisor; and
- ❖ the first resolutions of the Management Committee regarding different matters falling within the scope of the department's operational competences (market abuse, the prospectus, etc.) and in respect of which administrative sanctions may be imposed.

2005 was also a pivotal year:

- ❖ first and foremost for listed companies drawing up consolidated accounts and henceforth required to manage all their financial data according to the new IFRS;
- ❖ next, because of the switch of the great majority of UCIs (with passport) to the new UCITS III status, thereby resulting in certain asset managers switching to that status; and

- ❖ lastly, for issuers that, with effect from 1 July 2005, opted to have recourse to the European passport introduced by the Prospectus Directive.

All this was matched by major developments in both the stock-market and financial landscape in Belgium, though without these having led to any difficulties to date.

These factors served to test, in operational terms and in various situations, the soundness and quality of the tools developed by the CBFA more than a year ago regarding supervision of the provision of information and the financial markets.

The multi-disciplinary character of the expertise within the department and the status granted the CBFA of sole supervisor of the Belgian financial markets thus represent undoubted advantages for the operational management of the various dossiers.

2006 ought to see decisive progress being made concerning the transposition and effective implementation of a number of European legal instruments, such as the Transparency Directive and the Market Abuse Directive.

It is against this background that, for each type of operational competence devolved on the department, the systematic comments on the supervisory tasks are made; they are followed by a more detailed report on activities in 2005 and the objectives for 2006 of each of the department's services.

2.2.5.2. Supervision of financial operations

2.2.5.2.1. Supervisory task

The purpose of the supervision of financial operations is to ensure that, where it is approached to purchase or sell securities (in the context of respectively a public offer for sale and a public purchase, exchange or squeeze-out offer), the public is fully informed through a prospectus approved by the CBFA.

The CBFA also monitors observance of the fundamental conditions that public purchase, exchange or squeeze-out offers are required to satisfy and that serve to guarantee equal treatment of investors and the integrity and transparency of the markets.

How the CBFA examines a draft prospectus

The prospectus is the document that is drawn up on the responsibility of the bidder and that contains all the information the public needs to be able to assess the proposed operation. Using a repetitive process involving both itself and the issuer, the CBFA verifies the exhaustiveness, quality and intelligibility of the information, the purpose being – by means of an exchange of questions and answers, and of successive adjustment by the issuer – to supplement, clarify or justify. The time this procedure takes can be short or long, depending on the complexity of the planned operation, the nature of the problems identified and the reaction speed of the issuer. In general, this means that the issuer will have to draft several versions of the prospectus before the text is ready to be approved by the CBFA. The CBFA makes the necessary efforts to provide the issuer with its initial comments within two or three weeks after receipt of the draft prospectus. This period can be substantially reduced in the case of recurring operations, such as the issue of structured bonds, insofar as the CBFA and the issuer have reached agreement on the lines of the information required to be provided for such an issue.

2.2.5.2.2. Report on activities

Key features of 2005 were:

- ❖ the rising number of complex financial operations: thirteen IPOs (four of which on Eurolist by Euronext and six on the Free Market) and fifteen public purchase, exchange or squeeze-out offers;
- ❖ the launching of the Free Market with six IPOs, which lifted the total number of companies listed on this market to seven;
- ❖ in the issue of debt securities, a certain recovery in the balance between those with capital guarantee and those without;
- ❖ the impact of the implementation of the Prospectus Directive.

The table below indicates the number of issue dossiers in respect of which the Management Committee passed a resolution in 2005 (71).

Number of dossiers	2003	2004	2005
IPOs on Euronext Brussels	14	2	13
on Eurolist by Euronext Brussels	9	1	7
on the Second/New Market (2003) - on the Free Market (2004/2005))	5	1	6
Additional admission of companies to Eurolist by Euronext Brussels	72	76	38
Public purchase, exchange and squeeze-out offers	21	18	15
Issues and/or admissions of investment instruments with capital risk	25	14	43
Issues and/or admissions of investment instruments without capital risk	38	78	86
Issues and/or admissions of warrants	14	9	11
Savings certificates, subordinated bonds and capitalization bonds	13	10	16
Other	63	38	26
Total	260	245	248

(71) Employee participation plans are no longer included in this table, as, since 1 July 2005 (the date the Prospectus Directive came into effect), they have been legally exempt from the prospectus obligation, provided that equivalent information to that required to be in the prospectus is made available to the public. The operations carried out in 2003, in 2004 and up to 30 June 2005 in accordance with the regulation of mutual recognition and since 1 July 2005 in accordance with that of the European passport are listed in a separate table.

The only document approved by the CBFA for IPOs on the Free Market is the prospectus. Listed companies are not in fact subject to the CBFA's permanent supervision of the publication of financial information. All that applies to them are the penal provisions regarding market abuse.



The new regulations introduced by the Prospectus Directive have been in effect since 1 July 2005.

The CBFA took measures to enable issuers to have recourse to the new regulations with effect from that date, even though the directive had not yet been transposed into Belgian law. The CBFA has published a notification in this respect on its web site, indicating how it has handled dossiers since 1 July 2005 and how, in the execution of their transactions in Belgium, issuers could have recourse to the direct effect. The table below provides an overview of transactions carried out from abroad in Belgium up to 30 June 2005 in accordance with the regulation of mutual recognition and since 1 July 2005 in accordance with that of the European passport.

Operations carried out in accordance with the regulation of mutual recognition	2003	2004	2005
Issues and/or admissions of investment instruments with capital risk	20	14	11
Issues and/or admissions of investment instruments without capital risk	7	24	11
Operations carried out since 1 July 2005 in accordance with the regulation of the European passport			
Issues and/or admissions of investment instruments with capital risk	-	-	36
Issues and/or admissions of investment instruments without capital risk	-	-	47
Total	27	38	105

Following the disappearance of the exemption from the prospectus obligation for euro bonds, eighty-one issue programmes (including Euro Medium-Term Note programmes and Debt Issuance programmes) were notified to the CBFA, thirty-one by the CSSF (Luxembourg), twenty-three by the FSA (United Kingdom), nineteen by the AFM (Netherlands), four by the AMF (France), two by the BaFin (Germany) and two by the IFSRA (Ireland). During the period of those notifications, eighty-three effective operations were notified to the CBFA, compared to twenty-seven carried out during the first half of 2005 in accordance with the regulation of mutual recognition. As regards these last-mentioned operations, CBFA action was limited to verifying whether the commercial notifications might mislead the investment public, given that the prospectus had been approved by a foreign authority.



In respect of employee participation schemes, the CBFA decided to apply the same regime to the granting of options as that in the Prospectus Directive to the granting of warrants (72). A prospectus no longer has to be prepared where options are granted free to staff. Indeed, granting for consideration is also exempt from the prospectus obligation, provided that equivalent documentation is made available to the staff.



In 2005, the Appeal Court at Brussels handed down its first rulings in respect of the supervision in full jurisdiction devolved on it by the Law of 2 August 2002, more particularly as regards the approval of prospectuses or as regards infringements of the legislation concerning the public offer of securities. Besides disputes concern-

(72) Options that do not constitute securities fall outside the scope of the directive. From an economic point of view, however, options and warrants are comparable.

ing specific operations (especially those in the Suez/Electrabel case (73)), the Appeal Court also handed down judgements on the first administrative fine imposed by the CBFA in this regard. More particularly, it reversed the CBFA's decision to impose an administrative fine of 20 000 euros on a bidder that had distributed a prospectus different to the one approved by the CBFA; the Court's judgement rested on the consideration that the wording of the CBFA's decision in that case offered insufficient legal certainty for such a heavy fine. Against this, the Court confirmed the CBFA's decision to impose an administrative fine of 30 000 euros on the same bidder, as this last had published a notification recommending the operation in question, without first submitting that notification to the CBFA. This was the first administrative fine imposed in Belgium in this respect.

2.2.5.2.3. Objectives

The most important objective for 2006 is, by way of more thorough risk analysis, to achieve further improvement in the quality of the provision of information. At the same time, attention will continue to be given to handling dossiers as quickly as possible.

2.2.5.3. Supervision of financial information

2.2.5.3.1. Supervisory task

Pursuant to the Royal Decree of 31 March 2003, the CBFA is charged with the supervision of issuers of financial instruments whose securities are admitted to trading on a regulated market). That supervision concerns observance by issuers of the obligations they are subject to. Those obligations are intended to guarantee the protection of investors on the markets through the provision to the public of the information necessary to ensure the transparency, integrity and proper operation of the markets, as well as through the observance by those same issuers of the principle of equal treatment for holders of financial instruments who are in similar circumstances.

The above-mentioned obligations concern in particular privileged and periodic information, which is required to be true, accurate and honest, in order to enable investors to assess the position, business and results of the issuer.

In accordance with the principles laid down by CESR, the CBFA exercises *ex ante* supervision of issuers, based on a risk model, updated annually, that determines what undertakings should be subject to more thorough supervision.

Within the context of these tasks, the CBFA is empowered to take measures such as publication of a warning, the preventive introduction of *ex ante* supervision or the suspension of the trading of a financial instrument. It may also impose fines.

2.2.5.3.2. Report on activities

During the period under review, the CBFA reviewed 142 Belgian and eighty-one foreign listed companies. Below follows a brief summary of the most important action taken in that respect.

- ✦ In its efforts to achieve an optimum level of supervision of listed companies in the switch to the IFRS, the CBFA contacted each company that expected specific difficulties in that regard. The CBFA ensured that those companies took the requisite organizational measures in order to be able to publish IFRS-based accounts for 2005. In addition, it revised its circular on the obligations of issuers by adjusting to the new standards the figures that are required to be mentioned in the periodic reports.
- ✦ In fixing the programme of supervision for 2005, the CBFA based itself on the risk model developed by its services. Once again, that model proved its reliability in the assessment of risk by identifying as high-risk companies precisely those companies that, during the financial year under review, actually experienced a number of problems.

(73) See the 2005 report of the Management Committee, p. 74.

- ❖ During the period under review, the CBFA conducted studies of two aspects of Belgian companies. The first study examined the convening of the general meeting in the light of the amended rules for publication. The second examined the impact that the switch to the IFRS has had on the half-yearly reports.
- ❖ The «Accountancy and Finance» Unit did valuable work in the implementation of the IFRS. Repeated recourse was had to the European Enforcers Coordination Sessions (EECS) organized by CERS, at which European regulators were able to exchange ideas about problems arising in the application of those standards. The EECS also set up a data base that will include significant decisions taken by European regulators in the field of IFRS. The CBFA also contributed to the application of the IFRS, by setting up a committee of external experts that met several times during the period under review in order to discuss IFRS-related problems. The Unit likewise participated actively (from the angle of accounting and valuation techniques) in the investigation of prospectuses for IPOs or public takeover bids.
- ❖ The CBFA took care to update issuers constantly about developments in the regulatory framework, more particularly by regularly amending its circulars and notifying issuers electronically about this. It also addressed a memorandum to issuers, concerning the developments expected in consequence of the implementation of the Transparency Directive, which comes into force in January 2007 and which will introduce sweeping changes, principally in respect of the distribution and the recording of regulated information.
- ❖ For the annual and half-yearly reports, the CBFA has again applied the procedure for divulging the names of companies that fail to publish their reports within the set time. Two companies were concerned in the case of annual reports and three in the case of half-yearly. The CBFA therefore announced that failure in notifications stating the names of those companies.
- ❖ In respect of the reorganization of its supervision of foreign companies, the CBFA conducted its first horizontal analysis of the convening of annual meetings and the annual reports that such companies publish.

2.2.5.3.3. Objectives

One of the CBFA's objectives for 2006 is to adapt its supervision of listed companies to the IFRS, which this year will be applied for the first time by all Belgian listed companies that prepare consolidated accounts.

Another is to continue to play an active part in the introduction of the provisions of the Transparency Directive in Belgium.

2.2.5.4. Supervision of the markets

2.2.5.4.1. Supervisory task

Pursuant to the Law of 2 August 2002, the CBFA's task is to ensure the proper operation, the integrity and the transparency of the markets.

In order to carry out that task, the CBFA has a market surveillance room that is in contact with both the markets and the main disseminators of electronic information of an economic nature, and that receives financial press announcements and stock-market advice distributed by financial intermediaries.

The market surveillance room has a dual task: on the one hand, it is required to ensure that the market is properly informed; on the other, it is required to detect situations and actions that could be considered as market abuse.

With a view to the correct provision of information to the market, the CBFA ensures that companies satisfy their obligations regarding inside information (i.e. as regards both its publication and dissemination). More particularly, the CBFA examines whether there is a link between available information and stock-market prices, in order to detect any anomalies or divergences. If necessary, it may demand the publication of certain information and even request that a listing be suspended.

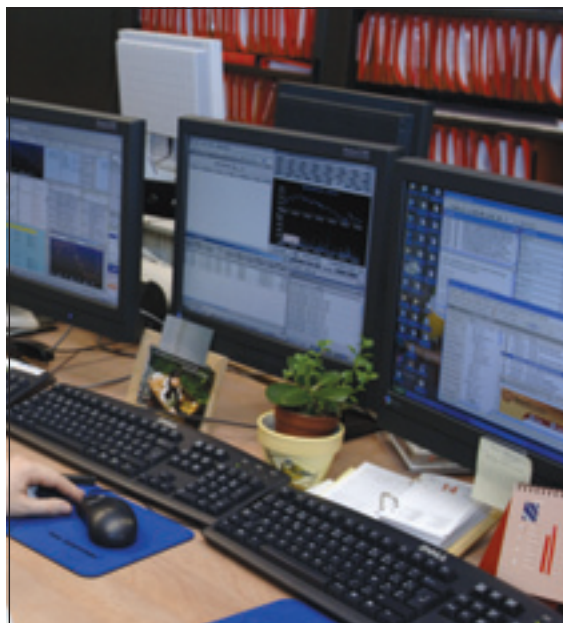
The CBFA has a range of software programmes to draw its attention to singular market movements and enable it to detect actions that could be considered as market abuse.

2.2.5.4.2. Report on activities

The table below lists the interventions made by the market surveillance room during the period under re-

view, and gives the comparative figures for 2004.

Interventions by the market surveillance room	Instances in 2004	Instances in 2005
Handling information received, sought or analysed	259	409
Placing a financial instrument under supervision	193	196
Requests for information from issuers or market participants	291	124
Requests for the suspension of a listing	41	32
Preparatory investigation in the case of stock-market offences	85	113
Replying to questions about market supervision	106	58



In respect of the transposition of the Market Abuse Directive (74), the concept «occasional or ad hoc information» was replaced by the concept «inside information». An issuer can, on its own responsibility, postpone notification of inside information where it deems that such publication could damage its lawful interests, where, in its opinion, postponement of publication would not threaten to mislead the market and where it can guarantee the confidentiality of the information in question. In order to offer as good a frame-

work as possible for these new provisions, the CBFA has amended accordingly its circular to issuers. It also received notification of the first three cases of an issuer looking to postpone publication of inside information. In this regard, the CBFA ensured that the companies in question took the requisite measures, and placed the stock-market prices of those companies under strict supervision.

2.2.5.4.3. Objectives

In 2006, the market surveillance room will concentrate on the further adjustment of its procedures and resources to the implementation of the Directive on Markets in Financial Instruments (MiFID) and the Transparency Directive.

2.2.5.5. Combating market abuse

2.2.5.5.1. Supervisory task

The *Investigation and Analysis Service* investigated possible cases of insider trading and market manipulation (market abuse) that the CBFA noted in respect of its supervision of the financial markets.

The CBFA co-operated with foreign supervisors requesting its co-operation with regard to their investigations. Now that the CBFA has acceded to the IOSCO multi-lateral Memorandum of Understanding (MoU) (75), it can be requested for co-operation on this basis, too.

(74) See the 2005 report of the Management Committee, p. 94.

(75) With twenty-six other, foreign, supervisors.

2.2.5.5.2. Report on activities

The table below lists the analyses conducted during the period under review (the initial phase of investigation based on data available internally), as well as in-

vestigations into market abuse (the phase of investigation in which external sources of data are also used).

Key figures	Current dossiers as at 31.12.2004	Investigation or analyses begun in 2005	Investigation or analyses concluded in 2005	Current dossiers as at 31.12.2005
Total Analyses	6	48	49	5
"Euronext" investigations	20	not appl.	10	10
"Nasdaq" investigations	6	not appl.	0	6
"CBFA" investigations	60	40	40	60
Total number of investigations	86	40	50	76

Since 1 June 2003, the CBFA has been responsible for the detection and combating of market abuse. To date, 122 new investigations – including forty in 2005 – have been instigated and 148 investigations concluded (76) – fifty in 2005. Once an investigation has been concluded, the result is submitted to the Management Committee with a proposal for a resolution. Where there are serious indications of market abuse, a proposal is made to forward the dossier to the Investigations Officer, who will conduct the examination looking both for incriminating and exculpatory evidence. In particular circumstances, the proposal may be made to submit the dossier directly to the public prosecutor. Where there is a lack of serious indications of market abuse, a proposal is made to file the dossier. Of the forty investigations concluded during the period under review, there were five in which serious indications of market abuse were noted. Following a preliminary investigation of the seriousness of the indications, the Management Committee resolved to pass the five dossiers to the Investigations Officer.*



After taking cognizance of the findings of the Investigations Officer, the Management Committee may impose an administrative sanction. During the period under review, the Management Committee passed six definitive resolutions regarding market abuse.

In an initial case, the Management Committee imposed a fine of 58 500 euros on a person involved professionally in a takeover dossier (2004), but who nevertheless purchased shares from the target company just before publication of a counter-bid. In the opinion of the Management Committee, there was, however, insufficient corroboration of the facts laid against a related person. There was no appeal to a higher authority against this resolution. Closer investigation revealed serious indications of that same person, in similar circumstances, having acted with inside information in the run-up to another takeover bid (2002). As these last facts dated from before the introduction of administrative sanction procedures, no such procedure was instituted, the Management Committee instead forwarding the dossier to the public prosecutor.

In a takeover case in 2004, the Management Committee noted serious indications of insider trading on the part of a member of the CBFA's staff, whose function gave him access to inside information. The person concerned was dismissed instantly for imperative reasons. Closer investigation brought to light serious indications that the same person had used inside information in the run-up to another takeover bid (2002) at a time that he was working for a then market authority. The Management Committee resolved to pass both matters to the public prosecutor.

(76) Including eighty-five Euronext dossiers and one NASDAQ dossier.

The Management Committee resolved in two other cases not to impose an administrative sanction. In one, the Management Committee had noted serious indications of «front running» (infringement of Article 36 of the Law of 6 April 1995) and consequently charged the Investigations Officer with examining the facts further. «Front running» consists of an intermediary not executing a customer order directly on the market, but first trading for his own benefit, with a view to taking a profit on the customer's transaction. Having heard the Investigations Officer and the person involved, the Management Committee resolved that no sufficient legal basis existed to impose an administrative sanction on the grounds of non-observance of Article 36 of the Law of 6 April 1995. For such a situation to be dealt with more easily in the future, Article 39 of that law was amended.

The second case was one where serious indications of insider trading were noted by an external consultant involved in contract discussions between a listed company and an important new customer (2003). Following examination by the Investigations Officer and interrogation of the person in question, the Management Committee resolved that there was not sufficient evidence to prove that the information possessed by the person in question at the time of the suspicious transaction satisfied all the demands of the definition of the concept of «inside information». Consequently, the committee resolved not to impose an administrative sanction.



With regard to its investigations, the CBFA has made 111 calls on foreign supervisors since 1 June 2003, including twice on the basis of the IOSCO Memorandum of Understanding, five times on the basis of a bilateral memorandum of understanding, and in the other cases on the basis of the CESR MoU. The average response time was forty-six days. The CBFA itself received sixteen requests for co-operation, which took an average of forty-four days to respond to. One of those requests concerned the questioning of a representative of a Belgian company about transactions conducted by that company on a foreign regulated market.

During the period under review, the CBFA was involved in the preparation of the Royal Decree of 24 August 2005 amending, with regard to the provisions on market abuse, the Law of 2 August 2002 on the supervision of the financial sector and on financial services; it was also involved in the preparation of the implementing decrees in respect of market abuse (77).

The CBFA also submitted an opinion to the judicial authorities, at their request.

2.2.5.5.3. Objectives

In 2006, efforts will continue to be made to gear up the efficiency and result-orientation of the approach to investigations. In addition, there will be close monitoring to ensure the smooth introduction of the new rules regarding market abuse, which complete the transposition of the European directives concerned.

2.2.5.6. Supervision of market operators

2.2.5.6.1. Supervisory task

The Law of 2 August 2002 lays down that the Minister of Finance is required to license market operators, the purpose being to protect the interests of investors, as well as to ensure the proper operation, the integrity and the transparency of the markets. The CBFA was charged with the continuous supervision of market operators, more particularly in respect of their compliance with the terms and conditions of the licence.

2.2.5.6.2. Report on activities

- During the period under review, the CBFA intensified its co-operation with the various committees of regulators of Euronext, which have conducted several joint controls of the Euronext Group and its markets, and which, as regards both market models and possible approaches to other market operators, have closely followed developments at that group since 2005.
- The CBFA also continued its work on the establishment of a joint data bank for regulators, into which Euronext will enter all information that, as a transnational group, it is required to provide to its regulators.
- In addition, the CBFA made a constructive contribution to the CESR working-parties engaged on the Directive on Markets in Financial Instruments.

(77) See the 2005 report of the Management Committee, p. 94.

- ❖ The Securities Regulation Fund (78) submitted four dossiers to the CBFA in 2005 in respect of the latter's supervision of the regulated OTC market in linear bonds, split securities and Treasury certificates. Concerned in each case was late notification of transactions in financial instruments traded on that market. Upon examination of the dossiers, the Management Committee noted serious indications of an infringement and therefore passed the dossiers to the Investigations Officer for an examination of both the incriminating and exculpating evidence. The cases are still pending.
- ❖ The CBFA likewise examined the licence dossier of Belpex (79), the market for energy blocs.

2.2.5.6.3. Objectives

One of the CBFA's objectives for 2006 is to achieve smooth implementation of the Directive on Markets in Financial Instruments, particularly in respect of the reporting obligations regarding transactions. The CBFA will also take an active part in the supervision of Euronext within the context of the College of Regulators of Euronext.



2.2.5.7. Supervision of undertakings for collective investment

2.2.5.7.1. Supervisory task

Undertakings for collective investment (UCIs) collect financial resources from investors with the aim of managing those resources collectively and according to the principle of spread risk. Where Belgian or foreign UCIs collect such resources from the public in Belgium, they are subject to the regulations protecting investors and to the supervision of the CBFA (80). That supervision is conducted by the *Collective Management of Savings Products Service*.

The supervision of public undertakings for collective investment has a dual nature.

- ❖ In the first place is supervision of the *quality of the information* the UCI provides to the public, which takes the form of, on the one hand, *ex ante* supervision of the prospectuses of and the publicity conducted for UCIs and, on the other, *ex post* supervision of the periodic reporting by UCIs.
- ❖ Second is supervision of the *organization and operation of a UCI*. The CBFA monitors whether the UCI – as the case may be, via the appointment of a management company – has the appropriate administrative, accounting, financial and technical organization. At the same time, the UCI is required to have adequate management structures to ensure that it is managed autonomously and in the exclusive interest of the investors.

Financial intermediaries that, by way of appointment or delegation of management tasks, are involved in the operation or marketing of a UCI are subject to a specific code of conduct designed particularly to manage conflicts of interest. In the task of supervision, increasing attention is being paid to the importance of that code being observed.

(78) «Fonds des Rentes»/»Rentenfonds».

(79) See the 2005 report of the Management Committee, p. 91.

(80) The regulations and supervision that apply vary according to the nationality of the UCI in question and the admissible category of investment it opts for. Supervision of European UCIs (hereafter referred to as UCITS) whose investment policy is in line with harmonized European regulation is limited to that of observance of Belgian regulation regarding marketing.

Ex ante CBFA supervision of UCI publicity

Publicity should inform investors, not misinform them.

UCI publicity is therefore subject to special rules of transparency, irrespective of its form, whether it be an advertisement in the press, a poster on the street or in a bank branch, an internet pop-up, a letter to investors or a radio or tv spot. Furthermore, every piece of publicity for a UCI is required to have the prior authorization of the CBFA.

Central to the rules governing publicity is appropriate information about the UCI and its investment policy, and about the attendant risks and costs.

In exercising supervision, the CBFA pays particular attention to how the return is presented. Standardized presentation of the return is a requisite for the comparison of investment products. Furthermore, there can be the prospect of a return only if the return indicated is effectively guaranteed. Moreover, the use of the terms «capital guarantee» and «capital protection» is permitted only in specific circumstances. Lastly, return comparisons must be verifiable and adequate in respect of the investment policy pursued. In respect of publicity for a range of products, the CBFA monitors whether the information about UCIs is clearly distinguishable as regards form and content from publicity for other financial products.

2.2.5.7.2. Table indicating the development of the UCI sector and of the service charged with supervision of the collective management of savings products

Number of undertakings under supervision

	31/12/2001	31/12/2002	31/12/2003	31/12/2004	31/12/2005
Belgian UCIs	157	157	155	160	158
Compartments	1 951 (*)	1 987 (*)	1 979 (*) 1 252 (**)	1 372	1 481
Foreign UCIs without passport	35	34	49	39	18
Compartments	149	145	142	112	99
Foreign UCIs with passport	239	230	218	206	198
Compartments	1 880	1 891	1 925	1 918	2 023
Total number of UCIs	431	421	422	405	374
Total number of compartments	3 980	4 023	4 046 (*) 3 319 (**)	3 402	3 603

(*) Including the compartments established according to the articles of association, registered before October 2000, but not marketed.

(**) Excluding the compartments established according to the articles of association, but not marketed, registered before October 2000 and effectively removed from the list in December 2003.

During 2005, there was a small (1.25%) fall in the number of *Belgian UCIs*. Just as in 2004, however, there was a further increase (7.94%) in the number of *compartments*. 88% of the Belgian compartments created in 2005 belonged to the type *investment undertakings with fixed maturity date and capital protection*, which once again served to highlight the success of this product among Belgian investors.

In 2005, there was an 11.8% decline in the number of *foreign UCIs marketed in Belgium* (with and without passport), but a 4.5% rise in the number of *foreign compartments*, albeit with a clear difference between foreign UCIs with and foreign UCIs without passport.

With a drop of 54% and 11% respectively, foreign UCIs without passport and their compartments continued the downward trend already noted in 2004 (when in each case the number fell by 21%).

Although, with a decline of 3.8%, the number of foreign UCIs with passport continued to fall, as in 2004 (down 6%), the number of compartments climbed by 5.74% (as against a 0.4% drop in 2004).

The investment policy of the majority (78.6%) of the new compartments of foreign UCIs is oriented towards direct investment in shares and/or bonds.

As at 31 December 2005, the *UCIs for which the CBFA is the first line supervisor* (UCIs governed by Belgian law and foreign UCIs without passport) represented 47% of the total number of *investment undertakings* and 43.8% of the total number of compartments (compared to 49.1% and 43.6% respectively as at 31 December 2004).

Development of the net assets of Belgian UCIs with a variable number of units

	31/12/2001	31/12/2002	31/12/2003	31/12/2004	31/12/2005
Net assets of open UCIs governed by Belgian law (in billions of EUR)	88.32	78.26	85.05	95.33	112.14

As at 31 December 2005, the net assets of UCIs governed by Belgian law, with a variable number of units and marketed in Belgium, amounted to 112.14 billion euros (81), the highest level since 1990. The rate of growth of net assets during the period under review (17.63%) continued the rising trend already noted in 2004 (up 12.08%, compared to the figure as at the end of December 2003), thereby resuming the rate of growth of the end of the 1990s.

Much of the increase in the net assets of Belgian UCIs is due to net subscriptions for a total amount of 14 billion euros. Following three consecutive years when Belgian UCIs recorded fairly weak net capital contributions, net subscriptions were comparable to their level during the 1998-2001 period.

Development of the UCI service's volume of activity

	2001	2002	2003	2004	2005
Number of registrations					
- <i>New UCIs</i>	33	29	33	27	30
- <i>New compartments</i>	497	397	473	418	578
Number of dossiers submitted to the Management Committee for decision (*)	556	577	677	685	788
Number of takeover and squeeze-out bids	15	3	2	0	0

(*) These dossiers not only concern the registration of UCIs and their compartments, and updating of the recognition dossiers, but also often deal with questions of principle.

(81) The net assets of UCIs with a variable number of units amounted to 61% of the net assets of Belgian and foreign UCIs offered on the Belgian market.

The number of dossiers submitted to the Management Committee for approval – one of the indicators of the service's volume of activity – rose by 15% in 2005, an increase situated chiefly in the last quarter of the year. The increase was linked with the adjustment of the prospectuses of all Belgian UCIs to the new rules, as well as being linked with the switch of a large majority of UCIs with passport to UCITS III status and a similar switch by foreign UCITS.

Comparison of the rise in 2005 in the number of new registrations of UCIs and their compartments in the list of Belgian and foreign UCIs (11% and 38.2% for investment undertakings and compartments respectively) with the net change in the number of investment undertakings and compartments as at the end of 2005 (down 7.6% and up 5.9% respectively) demonstrates that the range of products is being constantly renewed, a fact that had an impact on the number of dossiers submitted (992 changes in 2005 in the list of marketed UCIs and compartments).

2.2.5.7.3. Report on activities

For the *Collective Management of Savings Products Service*, the period under review was one wholly taken up with the entry into force of the Law of 20 July 2004 both at operational level and as regards the further development of the regulatory framework.

At *operational level*, substantial resources were devoted to the correct organization of supervision of the adjustment of the prospectuses of all Belgian UCIs to the new rules regarding information. This also applied to the switch in respect of investment policy and organization made by the majority of UCIs with passport to UCITS III status. Lastly, the service was closely involved in the handling of applications for licensing as a UCITS III management company, submitted by a number of portfolio management companies that had previously also focused on collective portfolio management.

From an administrative angle, the entry of the UCITS III status into force led to a complete revision of internal data management regarding Belgian UCIs (not forget-

ting the attendant IT applications). Within the same context, work was done to adjust statistical reporting to the new regulatory framework and, in this respect, a switch to quarterly reporting is on the cards.

Despite the fact that the greater proportion of available resources had, as a matter of priority, to be deployed for operational supervision, attention was also given to further *development of the regulatory framework* at both European and national level.

At *European level*, the *Collective Management of Savings Products Service* remained actively involved in the activities of the *CESR Expert Group on Investment Management* (82). It also took part in the discussion organized by the European Commission on the latter's Green Paper concerning UCIs (83).

At *national level*, within *Belgium's system of law*, the Framework Law of 20 July 2004 was further amended (84), implemented and, where necessary, clarified in CBFA recommendations.

The most important efforts were directed at regulation in respect of the accounting and the annual accounts of open UCIs and of real estate sicav/beveks (investment companies with variable capital), and in respect of securities lending by UCIs, as well as in respect of the transposition of the Prospectus Directive for UCIs.

Each of these matters – further commented on in the report of the Management Committee – was thoroughly discussed with the sector (85) and all were in their final stages at the end of the period under review.

During the period under review, with a view to achieving uniformity of application of and comment to the new regulations, the CBFA also issued various circulars. Dealt with extensively in the report of the Management Committee are the recommendations on the uniform presentation of the prospectus and the simplified prospectus (86), the comments on the transitional arrangement regarding UCITS III and the CESR

(82) These activities have given rise to opinions on the investment rules that UCITS are subject to and on the notification procedure in the marketing of UCITS in other EU Member States (see the 2005 report of the Management Committee, p. 96).

(83) *Green Paper on the Enhancement of the EU Framework for Investment Funds*; see the 2005 report of the Management Committee, p. 98.

(84) By, among others, the Law of 20 June 2005 on financial conglomerates; see the 2005 report of the Management Committee, p. 100.

(85) Represented by Beama (Belgian Asset Managers Association)

(86) Circular OPC/1/2005-ICB/1/2005 of 26 April 2005: Presentation of the prospectus and of the simplified prospectus to be drawn up by public undertakings for collective investment of Belgian law with a variable number of units; see the 2005 report of the Management Committee, p. 101.

recommendations concerned (87), and, lastly, the recommendations regarding the organizational requirements in respect of self-managed UCIs (88).

Finally, the service continued its active involvement in the preparation of the transposition of the code of conduct of the Directive on Markets in Financial Instruments, which it did via the special interdepartmental working-party set up for the purpose (89).

2.2.5.8. International regulation

During the period under review, the CBFA participated actively in the work of the main securities commissions of which it is a member, namely:

- ❖ the Committee of European Securities Regulators (CESR);
- ❖ the International Organization of Securities Commissions (IOSCO);
- ❖ the College of Regulators of Euronext (MoU I).

Additionally, attention was given principally to the implementing measures for the Transparency, the Market Abuse and the UCITS III Directives, to the develop-

ment of a methodology for the assessment CESR will be subjecting its members to, as well as to consolidated risk management by Euronext. More information about these matters can be found in the various thematic sections of this report on activities, as well as in the annual reports of CESR (90) and IOSCO (91). A more general description of these committees can be found in this department's 2004 report on activities (92).

From 12 to 15 June 2005, at the invitation of the CBFA, the *Institut francophone de la régulation financière* held its fourth meeting in Brussels. This forum brings together the financial supervisors that use French as their sole working language or as one of their working languages. Its purpose is, on the one hand, to enable there to be an exchange of views and, on the other, to provide education. There were forty-five participants from sixteen countries at the meeting in Brussels. The exchange of views concerned the lessons that could be drawn from the accounting and financial fraud detected at a number of listed companies; it also concerned the role of rating agencies and how a framework needs to be constructed for them. The education seminar looked at the licence for and the supervision of providers of investment services.

2.2.6. Protection of Consumers of Financial Services Department

The *Protection of Consumers of Financial Services* Department is charged with various of the CBFA's legal tasks. It:

- ❖ contributes to observance of the rules intended to protect depositors, investors and insurance policyholders against the illegal offering of financial products and services;
- ❖ ensures that the contract terms and conditions of insurance undertakings observe the provisions of the Law of 25 June 1992 on the non-marine insurance policy and its implementing decrees, and of the Law of 9 July 1975 on the supervision of insurance undertakings and its implementing decrees;

- ❖ handles insurance sector complaints;
- ❖ supervises the companies and transactions referred to in the Law of 4 August 1992 on mortgage loans;
- ❖ provides secretariat services for the Insurance Commission.

The first section of what follows briefly sketches the department's activities in respect of these various tasks. The second section goes into detail about the pillars on which the CBFA is looking to build up its consumer protection policy.

(87) Circular OPC/4/2005-ICB/4/2005 of 17 October 2005: Comments on the transitional arrangement applying to undertakings for collective investment that have opted for investment answering to the conditions of Directive 85/611/EEC or for investment in securities and cash; see the 2005 report of the Management Committee, p. 102.

(88) Circular OPC/2/2006-ICB/2/2006: Recommendations of the CBFA regarding the organization of self-managed undertakings for collective investment; see the 2005 report of the Management Committee, p. 103.

(89) See the CBFA 2004 annual report, p. 48.

(90) See www.cesr-eu.org

(91) See www.iosco.org

(92) See the CBFA 2004 annual report, pp. 86-87.

2.2.6.1. The legal tasks the department is charged with

2.2.6.1.1. Protection of depositors, investors and insured against the illegal offering of financial services

A large number of requests for information (382 written and a rising number of telephone requests) were submitted to the department in 2005 in respect of protection of the public against the illegal offering of financial services (also referred to as «perimeter control»). The number of written requests for information was down on that for the previous reporting period, possibly indicating that the Belgian public is receiving illegal offerings less often.

During the period under review, the CBFA decided to publish seven warnings on its web site. Two cases concerned the fraud phenomenon of «phis(h)ing» (93) and two others a type of fraud known as «recovery room». In addition, the CBFA for the first time warned the public about an intermediary found to be continuing to carry on insurance mediation and distribution activities, despite his registration as an insurance intermediary having been removed months earlier. In most cases, the publication of the warning was preceded by an official notice to the legal authorities of indications of illegal activities.

In consultation with Luxembourg's *Commission de Surveillance du Secteur Financier (CSSF)*, the CBFA also published a notice on a company governed by Luxembourg law active in Belgium. The annual accounts of that company had indicated that it had collected a considerable amount of repayable monies in the form of bonds. The notice informed the public that neither the CSSF nor the CBFA had been notified by the company of the issue of securities and that no prospectus had been submitted for approval to either of the supervisors.

As in preceding reporting periods, the CBFA published on its web site the communiqués and warnings from its European counterparts, submitted to it by the secretariat of the CESR-Pol. The number of communiqués published in this way rose sharply from twenty-eight in 2004 to forty-nine in 2005. In its turn, the CEBS has begun work aimed at facilitating contacts and the exchange of information among the departments of its members charged with ensuring the protection of the public against the illegal collection of repayable monies from the public.

The Annexes to the Belgian Official Gazette represent a valuable source of information in respect of perimeter control. Indeed, the description of activities set out in the articles of association may constitute an indication of a company's intention to develop an activity for which an authorization, registration or approval is required. Periodically and selectively, the department looks at companies whose articles of association refer to such activities, drawing the attention of such companies to the legal framework and requesting them, as the case may be, either to regularize the situation or to cease all regulated activity and to amend their articles of association.

2.2.6.1.2. Supervision of policy terms and conditions, and publicity in the insurance sector

The insurance supervision law and the law on the non-marine insurance contract, as well as the numerous decrees implementing these two laws, contain a substantial number of provisions that regulate the content of insurance policies. In accordance with European directives, supervision of observance of those provisions may not be systematic and is required to be conducted *a posteriori*.

At present, the supervision of policy terms and conditions mainly takes place when investigating complaints. A checklist is drawn up for testing life assurance policies against the mandatory provisions of the insurance supervision law and the Royal Decree of 14 November 2003 on life assurance business. The list of provisions protecting the general good that foreign insurers are required to observe in respect of their activity in Belgium was updated.

The CBFA's supervisory competence concerns not only policy terms and conditions, but also publicity for insurance products, and particular attention was given to this aspect during the period under review. Indeed, many consumers adopt a view purely on the basis of publicity, without taking note of the pre-contractual information available about the insurance product. At the request of the Minister for Consumer Affairs, the CBFA has agreed to co-operate in the federal government service «Economy» investigation, with a view to evaluation of the appropriateness of current regulations on financial publicity. In that respect, the department has contacted ten or so insurance undertakings, requesting them to submit the publicity and attendant general terms and conditions for the products of mainly Class 21 and Class 23 insurance commercialized dur-

(93) For more information about this, see the 2005 Report of the Management Committee, p. 114.

ing the first half-year of 2005 (94). This sample of publicity was supplemented in the course of the second half-year. As at completion of the present report, the investigation was virtually finalised.

The department undertook the preparation of the opinions requested from the CBFA by the Minister for the Economy regarding the abolition of unlimited cover in motor vehicle liability insurance, the insurance of the terrorism risk and cover for persons participating in peace missions conducted abroad by the armed forces (95).

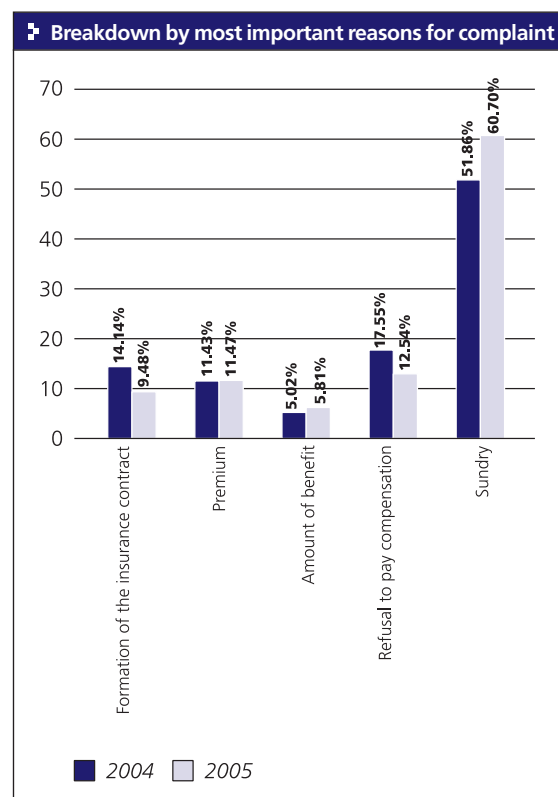
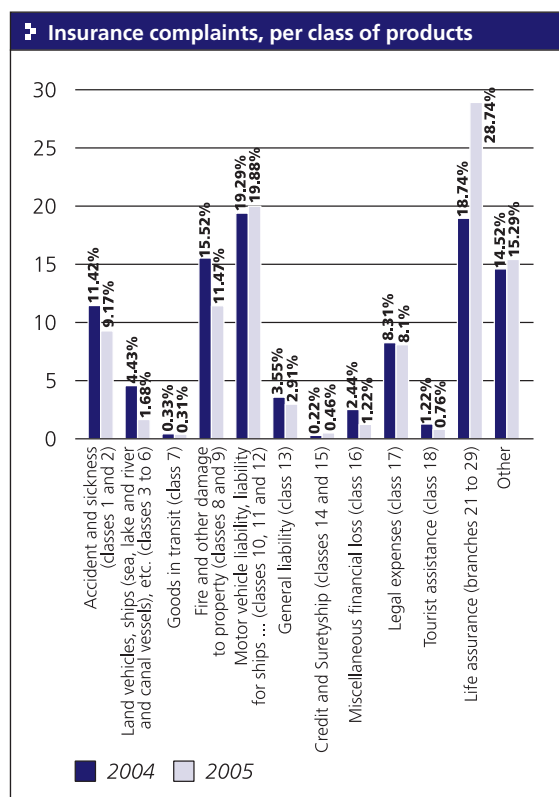
The department represents the CBFA in various forums, including the Insurance Commission and its working groups, the «terrorism cover» working group, the working group regarding the insurability of electric wheel-chairs in motor vehicle liability insurance, and the working group of the Flemish Community regarding cover for volunteers.

2.2.6.1.3. The handling of customer complaints

The CBFA is not competent to examine disputes between a credit institution (96) or an investment firm and a particular customer, save when that is necessary within the framework of its supervision. It nevertheless receives

a large number of individual complaints about specific banking or stock-market transactions (approximately 100 in 2005). In these cases, the person involved is notified that his complaint will be referred to the *Prudential Supervision of Credit Institutions and Investment Firms* Department, but that, because of the CBFA's obligation of professional confidentiality, he will not be notified of any action that might be taken in consequence of his complaint. Furthermore, the person in question will be informed that the Ombudsman for Banking, Credit and Investment is competent for the handling of such complaints and will also be notified of the relevant procedure to be followed.

The situation is different where insurance products are concerned. Pursuant to Article 15, § 1, 3^o, of the General Regulations on the Supervision of Insurance Undertakings, insurers are required to notify policyholders that any complaint about a contract can be addressed to the CBFA. In 2005, the department received 815 complaints in respect of that competence. From the department dealing with the status of insurance intermediaries, additionally, the department has taken over the investigation of complaints from insured about insurance intermediaries (45 complaints since May 2005). The graphs below give the breakdown of complaints per insurance product and the breakdown of the most important reasons for complaint.



(94) Ten or so credit institutions were also contacted and requested to submit the publicity used for savings deposits.

(95) In respect of these opinions, see the 2005 Report of the Management Committee, p. 118.

(96) With the exception of the activities that institution pursues in the capacity of mortgage company.

During the period under review, the CBFA issued an opinion about the reform of complaints-handling in the insurance sector, planned by the Minister for the Economy. The purpose of the reform is to centralize complaints-handling within a single entity with legal personality (97). Besides its management bodies, the new entity would also have a supervisory board whose task would be to ensure the independence and proper operation of the system. The CBFA would be represented on that board. Furthermore, it would be empowered to gather information about complaints, as that information would help it in the execution of its supervisory tasks.

The CBFA has welcomed the planned reform (98) and has also suggested that the opportunity be taken to reinforce the reform's legal basis. In accordance with that suggestion, the Minister opted to wait for approval of the draft law for the amendment of the Law of 25 June 1992 on the non-marine insurance policy and of the Law of 27 March 1995 on insurance mediation and the distribution of insurance, which introduces an explicit, legal basis to enable the reform to be carried through.

2.2.6.1.4. Supervision of mortgage companies

List of companies authorized to offer mortgage loans

In 2005, five companies were enrolled or registered, and the enrolment or registration of twenty others was removed, chiefly in consequence of regrouping. As at the end of 2005, the list of companies authorized to offer mortgage loans in the sense of the Law of 4 August 1992 totalled 229, 209 of which enrolled and twenty registered.

The table below indicates the movement in the list of mortgage companies.

	31/12/2004	31/12/2005	Difference
Enrolled companies governed by Belgian law			
Insurance undertakings and pension funds	34	32	- 2
Credit institutions	44	43	- 1
Public institutions	5	5	0
Other institutions	135	129	- 6
Total number of enrolled companies governed by Belgian law	218	209	- 9
Registered companies established under the law of another Member State	26	20	- 6
Total number of enrolled and registered companies	244	229	- 15

(97) At present, there are three entities in the insurance sector that are charged with complaints-handling: the CBFA, the federal government service «Economy» and the insurance sector Ombudsman, put in place by the professional insurance sector (see the web site of this last: www.ombudsman.as).

(98) On 30 November 2005, the Consumer Affairs Council, on its own initiative, likewise issued an opinion.

Supervision of tariffs, documents and publicity

The Law of 4 August 1992 lays down that any amendment to documents (prospectus, tariff, deed, application form, etc.) is required to be notified in advance to the CBFA. In 2005, the department examined nearly 600 such documents.

The above law imposes strict rules in respect of publicity for mortgage loans. Supervision of that publicity was revised with a view to enhancing its efficiency. A number of mortgage companies were requested to submit all publicity that they had published during a certain period. Investigation of that documentation produced satisfactory results. The gathering of the publicity of mortgage loan intermediaries was more selective. That documentation led to objections being raised in one out of four cases, mirroring the situation last year. Intermediaries that failed to respond in due time to the comments made received a reminder in which they were not only requested to amend their publicity documentation, but also informed that failure to do so would result in their dossier being passed to the federal government service «Economy», which

is empowered, as the case may be, to establish an infringement of Article 23 of the Law of 14 July 1991 on commercial trading practices and on the information and protection of consumers.

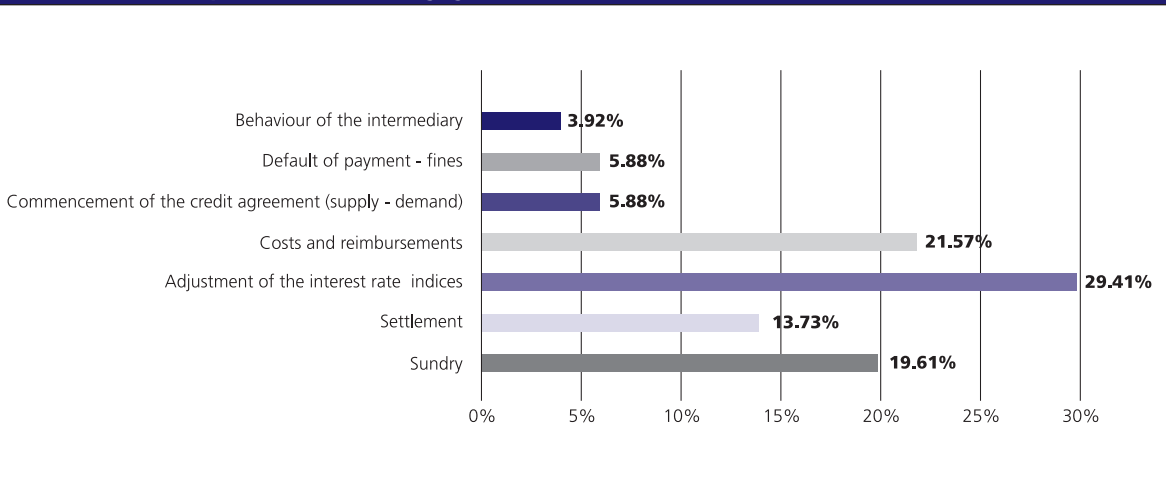
On-the-spot inspections

The department conducted three on-the-spot inspections, the purpose being to monitor observance and correct application of the provisions of the Law 4 August 1992 on mortgage loans. The inspections concerned specifically observance of contractual information, the correct application of the variability of the interest rate and the correct management of the dossiers concerning disputes.

Complaints

In 2005, sixty or so complaints and numerous requests for information were handled. Frequent subjects of complaint were the advanced termination of the contract, the calculation of particular costs or the adjustment of the interest rate. In the table below, complaints are broken down according to cause. Nearly half of the complaints were upheld, and were followed by the appropriate action.

Causes for complaints about mortgage loans



Notifications concerning money-laundering practices

A single notification was sent to enrolled mortgage companies over which the CBFA does not exercise prudential supervision. More particularly, those companies had not received the circulars concerning the combating of money-laundering and the financing of terrorism that the CBFA had addressed to credit institutions and insurance undertakings. The notification indicated to the mortgage companies concerned their duties and obligations in respect of the identification of instances of money-laundering and the financing of terrorism.

Investigation of a possible change to the legal framework

The department has begun an investigation of certain reforms that could usefully strengthen the supervision of mortgage companies and make it more efficient. More particularly, the investigation concerns the following three subjects: the status of enrolled mortgage companies over which the CBFA does not exercise prudential supervision, the regulation of *a priori* supervision of tariffs and documents, and the status of brokers and other intermediaries in the mortgage loan business.

European activities

The department participated in the activities of the Government Experts Group on Mortgage Credit established by the European Commission to support it in the delineation of a Community policy in respect of mortgage loans (99).

2.2.6.1.5. Secretariat services for the Insurance Commission

In 2005, the department undertook to provide secretariat services for the nine meetings of the Insurance Commission and for twelve meetings of working groups.

With a view to the transparency of administrative actions and to provide greater visibility to its activities, the Insurance Commission decided to publish the opinions it issues and information about its status and composition. To that end, the CBFA has set aside space on its web site (100).

2.2.6.2. The pillars of a general consumer protection policy

The Law of 2 August 2002 and the merger of the BFC and the ISA have created expectation of appropriate protection of the consumer of financial services. Contributing to the protection of the consumer are all the above-mentioned tasks of the department, as well as the numerous other legal tasks of the CBFA that ultimately aim at the protection of the depositor, the investor and the insured.

During the period under review, a start was made with framing the CBFA's exercise of its various legal tasks within a general consumer protection policy that is aimed at creating the circumstances in which consumers can negotiate in an atmosphere of confidence with those offering financial services. The development of such a general policy, one that is balanced, coherent and efficient, requires the involvement of all departments of the CBFA and consultation with all parties concerned, both financial institutions and consumers. Moreover, it may not give rise to unrealistic expectations and for that reason should be introduced gradually.

To achieve such a policy, the CBFA has not only given attention to a code of conduct, but has also proposed three pillars: *i)* the education and information of the consumer; *ii)* the promotion of dialogue about consumer matters, and *iii)* attention to the European and international context.

i) The education of and the information of the consumer

In July 2005, the OECD approved a recommendation containing principles and good practices regarding financial education. The department participated in the preparation of that recommendation, basing itself on the realization that financial markets and products have become more complex and that there is also a tendency to shift more responsibilities and risks onto households, among other things in respect of retirement. However, studies in a number of OECD countries indicate that the knowledge of consumers about matters of finance is particularly limited and that little is done to give them a better awareness of those matters. The recommenda-

(99) Regarding the European activities in this respect, see the 2005 Report of the Management Committee, p. 119.

(100) See the sections «About CBFA» and «Organes consultatifs pour lesquels la CBFA assure le secrétariat» on the CBFA web site.

tion is therefore designed to prompt OECD countries to get down to the work of promoting financial know-how among consumers. To that end, a number of principles and good practices were set in place to encourage financial institutions to play a major role in that promotion and especially among their own customers. Campaigns of awareness for the wider public are recommended, with the emphasis being on the fact that financial education is best begun at school age.

The CBFA has also begun reflection on the role it could play as a catalyst in giving the OECD's recommendation shape in Belgium. Indeed, promoting financial know-how among the public is in everyone's interest, as it leads to increased confidence and capacity to assess on the part of the consumer and thus to better operation of the market and better consumer protection. The reflection is being continued.

As regards the information of the consumer, the department participated in a number of exhibitions, as it has done in previous years.

ii) The promotion of dialogue about consumer matters

Various initiatives were taken during the period under review to promote dialogue about consumer protection matters.

It was agreed with the Consumer Affairs Council that, in principle, the department would be invited as expert to participate in discussions within the Financial Services Committee on subjects that have a bearing on the protection of consumers of financial services. This dovetails with the role that the department plays in the Insurance Commission, in which both the professional sectors involved and consumers are likewise represented.

Periodic, three-way meetings with the Ombudsman for Banking, Credit and Investment and the Insurance Ombudsman have been set up and two such meetings took place during the period under review at which developments at each of the three institutions in the handling of complaints were discussed.

Lastly, periodic discussion with representatives of consumers' interests was also begun in respect of subjects falling within the scope of the CBFA's competence and that concern especially the protection of consumers of financial services.

iii) Attention to the European and international context

For some time now, there has been structured co-operation within the CESR (more particularly within the CESR-Pol working group) aimed at combating the illegal offering of investments or investment services. For its part, the CEBS moved during the period under review to achieve greater co-operation in the combat against the illegal reception of repayable monies from the public.

The department participated in the meeting organized by the CESR with representatives of consumer and shareholder associations on the way in which those associations can be given a say in the determination of CESR policy. Also on the meeting's agenda was the possible role of the CESR in respect of the education of consumers. The promotion of consumer know-how in financial matters also arose in an OECD context, the discussion there leading to the above-mentioned OECD recommendation of July 2005. Promoting knowledge of insurance matters – and more particularly of supplementary pensions – among the wider public is the subject of further OECD research, in which the department is involved.

2.3. General Services

2.3.1. Legal Service

2.3.1.1. Tasks of the legal service

The overall task of the legal service is to conduct supervision of the legal quality of the CBFA's activities as regards both individual dossiers and general themes, or as regards legislative and regulatory texts prepared by the CBFA.

More particularly, the legal service has the following six main tasks:

- ❖ The first is to provide, as the case may be, legal advice or assistance in individual dossiers to the Management Committee and the other services of the CBFA, and thereby contribute to the institution's quality of the decision-making process.
- ❖ The second is to prepare the majority of the legislative or regulatory texts whose preparation is entrusted by the Government to the CBFA within the scope of the latter's competences, especially the texts transposing European directives. The legal service carries out that task within the CBFA in cooperation with the supervisory services concerned and, in particular cases, in consultation with the services of the NBB.
- ❖ The third is to provide its expertise in the development of supervisory guidelines with an important legal dimension, as well as in providing solutions to questions of a general legal nature or exploring general legal themes.
- ❖ The fourth is to represent the CBFA in international activities where these have a pronounced legal character or where a member of the legal service has special expertise in the matter in question.
- ❖ The fifth is to assist the Management Committee in the preparation of decisions on sanctions that are taken on the basis of Article 72 of the Law of 2 August 2002.
- ❖ The sixth is to co-ordinate the editorial work in respect of the annual report and to monitor the coherence of that report.

2.3.1.2. Personnel of the legal service

As at 31 December 2005, there were eleven lawyers (10.9 in full-time equivalent) and one member of management in the legal service. Two vacancies were filled in 2005.

2.3.1.3. Core activities of the legal service

a) Provision of individual legal advice

In 2005, the legal service received 284 requests to provide advice or assistance in dossiers with a particular degree of legal complexity and consequently requiring deeper legal investigation. In 2004 and in 2003, the legal service received respectively 154 and 106 requests for advice. In 2005, it issued 175 formal opinions (compared to 94 in 2004) in all areas of the CBFA's competence.

The substantial rise in the number of requests for advice and the number of opinions given indicates that, on the one hand, the supervision services are getting more into the habit of turning to the legal service for legal advice or support and, on the other, the legal complexity of the CBFA's activities is continuing to increase.

b) Preparation of legislative and regulatory texts

The importance of and the degree of detail in the setting of European regulatory norms continues to demand a substantial effort in the transposition of European texts into national law. In 2005, the legal service prepared texts for the transposition of directives on the following three subjects:

- ❖ financial conglomerates;
- ❖ insurance mediation;
- ❖ the prospectus regarding public offers of securities.

More generally, there has been a continuous renewal of financial law texts. In addition, certain matters previously not covered have now become regulated, something presenting editors with fresh challenges, as it is always more difficult to cast new material into regulation. A further challenge, lastly, has been the ever increasing diversity of the matters to be treated, chiefly – though not exclusively – due to the merger of the CDV and the CBF to form the CBFA as the sole regulator.

In 2005, besides the transposition of directives, the legal service undertook (or contributed largely to) the drafting of the Royal Decree of 26 September 2005 on the status of clearing institutions and institutions assimilated to them, and of the new legislation on bank agents and brokers (including the provision of guidance for the political negotiations regarding and the parliamentary discussion of the text); the legal service also thoroughly revised the accounting regulations for investment firms.

The legal service also made an important contribution to the replacement of the Royal Decree of 14 February 2003 relating to the operating expenses of the CBFA by the Royal Decree of 22 May 2005, to the amendment of the Law of 20 July 2004 on certain forms of collective management of investment funds, to the drafting of the Royal Decree of 22 December 2005 amending the Royal Decree of 31 March 2003 on the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market, and to the insertion of an Article 39 into the Law of 6 April 1995, the article enabling the CBFA to issue sanctions for infringements of the conduct of business rules referred to in Article 36 of the said Law.

Furthermore, the legal service represented the CBFA in the inter-ministry activities regarding the abolition of bearer securities and the establishment of the new legislation regarding the dematerialization of securities.

In most cases, too, the legal service undertakes the preparation of draft CBFA opinions on regulatory texts referred to in various legislations.

c) Contribution to the elaboration of policies in respect of supervision with an important legal dimension or to finding a solution to general legal questions

During the period under review, the legal service carried out various major tasks of a structural nature, including a review of the provisions of general importance mentioned on the CBFA's web site for the four sectors: credit institutions, investment firms, UCI management companies and insurance companies. Furthermore, the legal service devoted a number of important studies to the new accreditation regulation for auditors of companies with legal status, the definition of covering assets in respect of insurance, the right to remain silent in respect of requests for information based on Article 78 of the Law of 2 August 2002, the application of the Law of 25 June 1992 on the non-marine insurance policy to insurance groups and to pension funds, as well as the application of the Law on money-laundering to UCIs.

d) Representation of the CBFA in various international activities

In 2005, the legal service was closely involved in the negotiations concerning the implementation measures regarding the Markets in Financial Instruments Directive (MiFID) and the third money laundering directive.

More generally, the legal service participates in the activities of the group of company law experts, chaired by the European Commission, and – as co-ordinator – in the activities of Euronext's Working Party I (Legal and international co-operation).

As expert, the legal service provides special assistance to the Belgian representation in the European Committee for Banking and the European Committee for Financial Conglomerates. The legal service also participates in the activities of the Joint Forum Working group on Regulatory and Market Differences Across Financial Sectors.

Lastly, the legal service participates in the Belgian delegation involved in the activities regarding the «*Convention on Harmonised Substantive Rules regarding Intermediate Securities*» under the auspices of Unidroit. The legal service also represents the CBFA in the *Institut francophone pour la Régulation financière* (IFREFI) and in that capacity organized in June 2005 the fourth annual meeting in Brussels.

e) Drafting sanction decisions

The legal service is charged by the Management Committee with assisting in the drafting of decisions regarding administrative fees pursuant to Article 72 of the Law of 2 August 2002. In this respect, the legal service prepared various draft sanction-decision texts in 2005. In accordance with Article 70, § 2, second paragraph, of the Law of 2 August 2002, legal service staff may also, on a case-by-case basis, be appointed as rapporteurs by the auditor.

f) Other tasks

The legal service is also charged with co-ordinating the editing of the legal section of the annual report and with ensuring legal coherence. In conclusion, the legal service manages the various dossiers of the law suits the CBFA is involved in.

2.3.2. Investigations Officer

By «Investigations Officer» is to be understood the investigation function that the Secretary General is charged with as «auditor» in respect of investigation procedures that the CBFA opens for the imposition of administrative sanctions. The auditor may call upon CBFA staff members to carry out those functions.

The role of the auditor in respect of a procedure to impose an administrative sanction and the course of an investigation begun by the auditor were addressed in the previous annual report (101).

2.3.2.1. Organization of the investigations officer's unit

For each investigation dossier, the auditor, pursuant to Article 70, § 2, of the Law of 2 August 2002, appoints a rapporteur from among the staff of the CBFA. Under the auditor's direction, the rapporteur takes responsibility for the investigation, investigates the charges and the defence, compiles the dossier, investigates the established facts in the light of the legal provisions applying, submits his findings and writes a draft report. Depending on the technical character or the extent of the dossier, one or two members of staff are appointed as rapporteurs. During the period under review, fifteen different members of staff were appointed as rapporteurs.

Besides these *ad hoc* members of staff, the investigations officer has two permanent members of staff.

The appointment as rapporteur of members of staff of operational departments or of the legal service who were not previously involved in the handling of the dossier not only permits a better spread of the resources earmarked for the investigations officer, but also allows rapporteurs to be selected according to their expertise and the characteristics of the dossier. The investigations officer's permanent staff provide administrative back-up and the procedural and scientific coordination required to ensure the coherence of the various reports.

The increase in the number of dossiers submitted to the investigations officer during the period under review has put the internal organization model under pressure. Indeed, that increase has made it all the more difficult for those involved to combine the workload arising from their task as rapporteur with the imperative demands of their tasks within their own department.

It is often very difficult for those appointed as rapporteurs to make time for that task, meaning not only that they have continually to make delicate assessments in setting priorities, but also that the investigation takes more time.

More generally, the systematic recourse to new rapporteurs in order to spread the workload demands a broader framework in the various phases of the procedure and also makes it difficult to build up a reserve of experience to draw on.

With this in mind, it has been decided progressively to expand the number of the investigations officer's permanent staff, in order to counterbalance the call made on staff of other departments and to allow investigations to progress more smoothly.

2.3.2.2. Statistical data

During the period under review, the Management Committee charged the auditor with the investigation of eleven new dossiers. In total, these dossiers concerned seventeen persons or undertakings in respect of which the Management Committee had determined serious indications of the existence of practices liable to give rise to an administrative sanction.

Nineteen interviews in respect of nine investigations were conducted during this period. In the case of two investigations that were concerned with market abuse, the auditor, with a view to gathering information, had recourse to the co-operation agreements with other European supervisors.

The period also saw three investigation dossiers being completed. In respect of a fourth, which possibly has to do with two separate persons, the auditor has submitted a report on established indications of an infringement on the part of one of those persons. The Management Committee, after having heard the defendant (102), has charged the auditor with additional tasks.

A dossier is regarded as being completed when all indications of an infringement for which an administrative sanction can be imposed have been investigated and the auditor has recorded his findings in one or more reports that are submitted or made available to the Management Committee and the person or persons concerned. In the following phase, during which the person or persons concerned will be heard by the Management Committee and a decision made, the

(101) See the CBFA 2004 annual report, p. 95.

(102) In application of Article 71, § 2, second paragraph, of the Law of 2 August 2002.

contribution of the auditor remains limited to an exposition of his findings and in no way intervenes in the decision process regarding the imposition of administrative sanctions.

The reports submitted by the auditor in the course of the period under review concerned respectively:

- ❖ two natural persons in a dossier concerning the alleged use of inside information, a dossier that the auditor was charged with in 2004; in that dossier, a separate report with the auditor's findings, was prepared on each person; the conclusion in the first case was that the person had committed an infringement of Articles 25, § 1, 1°, a) and 25, § 1, 7°, of the Law of 2 August 2002 (103), and, in the second that the person had not committed an infringement of Article 25, § 1, 1°, a) of that law;
- ❖ a natural person in another dossier concerning the alleged use of inside information, a dossier that the auditor was likewise charged with in 2004; the report contained the conclusion that an infringe-

ment of Article 25, § 1, 1°, a) had occurred;

- ❖ two legal persons in two dossiers concerning notifications of transactions, dossiers that the auditor was charged with in 2005; in both cases, the auditor concluded that an infringement of Article 6 of the Royal Decree of 31 March 2003 had occurred.



As of 1 March 2006, sixteen investigations were under way. Together, the dossiers concerned 35 persons.



Since the provisions of the Law of 2 August 2002 concerning the procedural rules for the imposition of administrative sanctions came into force, 26 dossiers have been submitted to the auditor for action.

These dossiers concern serious indications of infringements of the following legislations:

Legislation		Number of dossiers	
Law on the status and supervision of			2
	Investment firms (Law of 6 April 1995)	1	
	Insurance undertakings and insurance intermediaries (Law of 27 March 1995 on insurance mediation and the distribution of insurance)	1	
Law of 11 January 1993 on preventing use of the financial system for purposes of money-laundering and the financing of terrorism			4
Law of 2 August 2002 on the supervision of the financial sector and on financial services			14
	Abuse of inside information	11	
	Market manipulation	3	
Law of 22 April 2003 on public offers of securities (prospectus)			2
Royal Decree of 31 March 2003 on the reporting of transactions in financial instruments and the storage of data			4
TOTAL			26

(103) Article 25, § 1, 1°, a) states that it is prohibited for any person possessing inside information to make use of that information to acquire or dispose of, or attempt to acquire or dispose of, for his own account or for the account of a third party, directly or indirectly, financial instruments to which that information refers, or related financial instruments. Article 25, § 1, 7° states that it is prohibited for any person possessing inside information to incite one or more other persons to perpetrate acts that, were he himself to perpetrate them, would be prohibited under 1° to 5° (of that same article).

2.3.3. Decisions on administrative sanctions adopted by the Management Committee

In 2005, the Management Committee adopted five decisions in matters referred to in Articles 70 to 72 of the Law of 2 August 2002.

One decision concerned money-laundering legislation, the other four matters in respect of market abuse.

Those decisions are commented on thematically in the reports on activities concerning these matters (104).

Further, the Management Committee has transferred four dossiers to the judicial authorities, of which one in respect of transparency legislation and three in respect of market abuse.



2.3.4. The internal audit function at the CBFA

With the merger between the former BFC and the former ISA, and with the assignment of a number of new legal tasks, the CBFA has developed into an organization with a great diversity of responsibilities and tasks. In 2005, the Management Committee established an internal audit function to support it in the management of the risks the institution faces in carrying out the wide range of tasks assigned to it. On the advice of the Supervisory Board, the Management Committee approved the charter of the internal audit function and thereby the tasks, responsibilities and operating methods of the latter. The charter likewise sets out the nature of the audits required to be conducted, as well as of the reporting of results, and clarifies the function's authority, its relationships with other functions and its independence.

Essentially, the role of the internal audit can be outlined as follows:

- ❖ the internal audit carries out its task independently and bears no operational responsibility; to that end it comes – in administrative terms – under the authority of the Chairman of the Management Committee;
- ❖ the internal audit conducts operational, financial and compliance audits; at the request of the Management Committee, *ad hoc* investigations may be conducted; audits and investigations are carried out in accordance with the highest professional standards;
- ❖ business processes are investigated as regards their efficiency, controllability and continuity;
- ❖ an important focus is the testing of processes that contribute to the integrity, trustworthiness and relevance of the information serving as the basis for decision-making;
- ❖ the internal audit signals any shortcomings in the organization of operations, but leaves content aspects of the decision-making process out of consideration;
- ❖ the Management Committee provides the internal audit with the resources necessary for it to carry out its task correctly;
- ❖ the internal audit reports to the Management Committee.

(104) See the present report, p. 46 and 69.

2.3.5. Secretariat General

Both the CBFA as an institution and the context within which it carries out its supervisory tasks have changed radically within a very short period. Instances are:

- ❖ the increase in the supervisory tasks of the CBFA and their attendant resources;
- ❖ the professionalization and internationalization of institutions subject to supervision;
- ❖ the international standards imposed on financial supervisors and the evaluations and investigations in that respect;
- ❖ the ever-increasing contacts with foreign supervisors, which lead to benchmarking in respect of both the organization and content of supervision;
- ❖ the creation of a Supervisory Board and an internal audit function;
- ❖ the need for co-operation with the NBB.

This evolving context has served to prompt the CBFA to provide greater justification for its actions and for the resources it deploys, as well as to adjust its way of working.

This necessarily also applies to the Secretariat General, which now provides services for an institution with a staff of more than 400.

Those services, translation and documentation apart, are grouped around the following four functions:

- ❖ staff administration and infrastructure management;
- ❖ human resources management and communication;
- ❖ IT;
- ❖ Accounting and management supervision.

The grouping of «human resources management» and «communication» is the result of the Management Committee giving thought to the two functions at the CBFA.

Besides the function of spokesman, which had already been thoroughly professionalized, the communication function includes responsibility for internal communication and the management of the CBFA's image in the broad sense. Because communication is one of the

instruments of the human resources management, the «communication» and «human resources management» functions have been combined within a single «People and Communication» service.

This pooling of resources ought to enable the service to meet the inevitable challenges an institution with a staff of more than 400 poses in respect of communication and human resources.

Moreover, the Management Committee has reassessed the role played by the «human resources management» function at the CBFA. It is a function that operates at two levels: on the one hand, the setting of policy and, on the other, the day-to-day management of that policy.

In an institution where the number of staff is increasing, it is important that the responsibility for the day-to-day management of human resources be correctly situated. That responsibility is borne in the first place by the management of the various departments, which looks to achieve optimal deployment of its human resources. To that end, it plays an important part in recruitment campaigns, evaluates staff and what they require as regards training, organizes tasks to enable a balanced distribution of the workload and decides on any redeployment of staff within a department.

Besides accounting, a «management supervision function» was also created. Apart from the recurring tasks in respect of budget control (monitoring of expenditure and its imputation), this function includes control of the application of the decree relating to the operating expenses of the CBFA (105), more particularly:

- ❖ the follow-up and management of the staff of the CBFA;
- ❖ the calculation and calling-in of all contributions due from the institutions referred to in the said decree;
- ❖ the allocation of the costs actually incurred by the CBFA to the former BFC pool or the former ISA pool;
- ❖ the allocation of any surplus/deficit to individual companies;
- ❖ in general, checking whether the contributions set by the said decree meet the real cost of supervising the sector or a specific category of company;

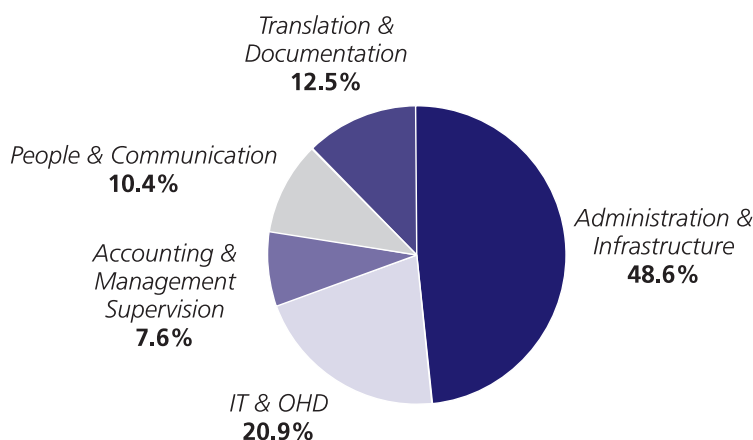
(105) See the present report, p. 16.

Lastly, the management supervision function also includes the refining of the rules of internal control within the Secretariat General and the follow-up and evaluation of service level agreements with the NBB.

The services of the Secretariat General have a staff of 104, expressed in full-time equivalents.

The «administration and infrastructure» unit consists of, among others, teams responsible for reception, post-handling and reprography, stocks and the maintenance of offices and buildings.

Breakdown of the staff of the Secretariat General



The progress of the most important matters handled by the Secretariat General in 2005 is set out below.

The fleshing-out of co-operation with the NBB

In accordance with the Royal Decree of 17 September 2003, promulgated in implementation of Article 118 of the Law of 2 August 2002, and effective on 1 January 2004, the CBFA and the NBB, through the joining of forces of various so-called «support services», are looking to achieve greater efficiency and thereby better cost control for themselves, all the while on the understanding that their independence in carrying out their tasks remains guaranteed (106).

On 1 January 2006, the joining of support-service forces took the form of fourteen service level agreements between the CBFA and the NBB.

The most important agreements concern the NBB's hosting of the CBFA's central IT infrastructure, the safeguarding and guarding of the CBFA building outside working hours by NBB services, the centralization of procurement with the procurement service of the NBB and the technical management of buildings.

These agreements permit the CBFA to enjoy a professional and permanent service in areas where, given its steady growth, the institution would have to make considerable additional efforts. None of the agreements will have any immediate impact on the workload and staffing level of the services of the Secretariat General.

Other agreements concern the NBB making archive space, parking areas and auditoriums available to the CBFA, the opportunity for the CBFA to make use of the reprographic service of the NBB, and joint access to the services offered by the respective libraries and documentation centres.

Another category of agreements has to do with a number of social benefits within the NBB that are also available to the staff of the CBFA, more particularly the in-house restaurant and child care services during holiday periods.

Last is an agreement devoted to the CBFA's logistic support for the real-time supervision of listed financial instruments by the Securities Regulation Fund, should the facilities offered by the NBB be deficient.

(106) See the CBFA 2004 annual report, p. 104.

In the search for synergy, particular attention is being given to the conformity of the price of services supplied with the market price for the supply of services of similar quality.

In order to ensure a neutral tax effect in respect of the service level agreements, a prior decision regarding the qualification for VAT of operations in respect of this duty of co-operation was requested and obtained in 2005 from the *Service des décisions anticipées en matière fiscale/Dienst Voorafgaande Beslissingen in Fiscale Zaken* (Office for Rulings in Fiscal Matters).

During the period under review, the NBB and the CBFA kept each other informed about any changes they made or planned to make to the financial status and career of staff.

The integration of statutory and contractual staff of the former ISA

At the end of 2003 and during the first months following the effective integration of the former BFC and the former ISA, the CBFA – after broad discussions with staff representatives – worked out the core measures that it wished to take in order to achieve the maximum possible integration of the statuses and employment conditions of the staff.

However, the agreement of all parties was required for those measures to be effectively put in place. A condition set by the representative organizations of the statutory staff was that the Law of 2 August 2002 be amended with a view to confirming the evolutionary character of the status of statutory staff and to giving the CBFA's Management Committee the requisite competences in the matter (107).

The competences of the Management Committee were established by amendment of Article 55 of the Law of 2 August 2002 by the Law of 14 February 2005 (108).

On 25 May 2005, an agreement on the terms and conditions of the integration was signed with both private sector and public sector trade unions. The agreement was formally established in a protocol concerning the integration of the members of staff of the former ISA and in a collective labour agreement regulating the optional transfer of those members of staff to the contractual regime of the CBFA.

The most important measures contained in this agreement aimed at facilitating the integration of staff of the former ISA into the CBFA are:

- the equalization of the conditions of employment and adjustment of salary scales by way of compensation for the loss of certain benefits;
- the equalization of social benefits;
- the possibility for statutory staff to switch to a contractual regime, on condition that they pass an evaluation test, whereby they gain access to the CBFA career and are guaranteed an equal salary scale.

During 2005, there was gradual introduction of the changes required to align the social benefits, employment conditions and salary scale increase of the staff of the former ISA with those of the staff of the former BFC. Once the collective labour agreement was concluded, it was possible for a start to be made with the procedure to enable staff of the former ISA to renounce their status and to request an employment contract, whereby, after a transitional period, they would switch to a situation of wholly equal status with that of their colleagues of the former BFC. Determined in consultation with staff representatives, the procedure entailed candidates wishing to be eligible for an employment contract first being obliged to pass an evaluation test conducted by an external agency. In accordance with the procedure, moreover, any candidate not accorded a favourable evaluation will be able to be evaluated again between 2008 and 2010.

Fifty-four statutory members of staff received a favourable evaluation and were invited to sign a so-called «integration agreement». As at 31 December 2005, twenty-nine of them had accepted the invitation.

At the same time as the collective labour agreement was being concluded, the terms and conditions were being determined for pre-retirement leave, as regulated by the Royal Decree of 25 March 2003 (109). This arrangement, which remains in force until September 2006, institutes a parallelism with the arrangement for early retirement that applies to contractual staff, and offers staff of the former ISA the opportunity to end their professional career from the age of fifty-six on.

(107) See the CBFA 2004 annual report, p. 101.

(108) Law of 14 February 2005 amending the Law of 2 August 2002 on the supervision of the financial sector and on financial services, and of Article 40 of the Royal Decree of 25 March 2003 implementing Article 45, § 2, of that law, published in the Belgian Official Gazette of 4 March 2005.

(109) See the Royal Decree of 22 May 2005 determining the conditions for the pre-retirement leave of statutory staff of the CBFA.

During the financial year, twelve members of staff applied for and were granted the benefit of this arrangement, which, for six of them, takes effect in 2006.

In 2005, the CBFA gave full attention to the implementation of the measures designed to achieve as harmonious as possible an integration of staff of the former ISA, whose status in some cases differed markedly. For certain of those staff, the differences will disappear entirely in the near future. For those who have retained civil servant status, the differences have been substantially reduced and therefore no longer represent an obstacle to integration. The CBFA has to ensure that the status of these members of staff is adjusted and evolves further, taking into account the specific characteristics of the institution. It intends to assume this responsibility in full and, with the support of the trade unions concerned, is looking to establish as quickly as possible an effective and pragmatic framework, adapted to the realities of the institution, both in re-

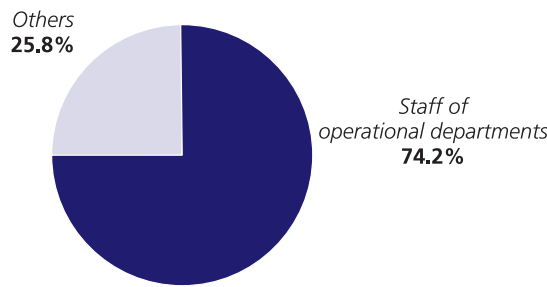
spect of putting the administrative status into effect and in respect of the representation of statutory staff in the consultative bodies for social matters.

Follow-up of the development of staff numbers in 2005

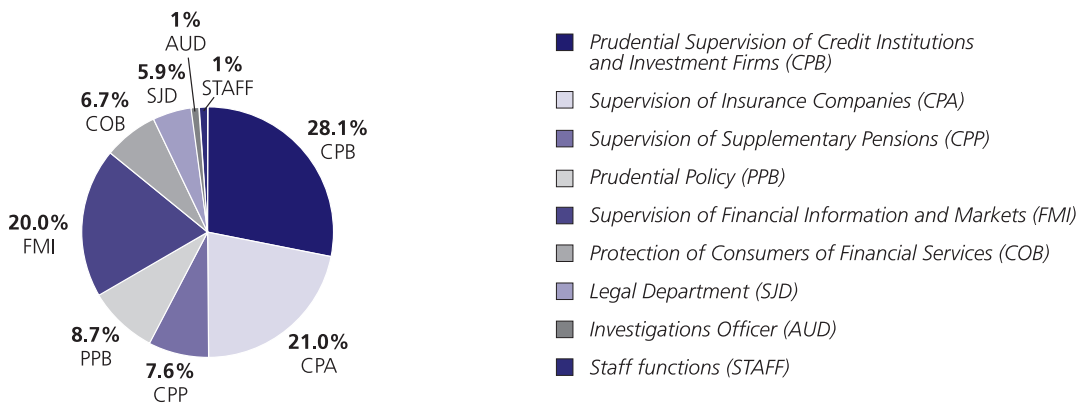
The Royal Decree of 22 May 2005 set the maximum number of staff at 406 full-time equivalents, a number that arises from the amalgamated figure for the total number of the staff of the former BFC and the former ISA, and that takes account both of the additional recruitment necessary for a full cadre and of the fact that certain members of the staff of the former ISA may take up the offer of pre-retirement leave, made to them in 2005.

The Management Committee resolved to deploy 402 (110) full-time equivalents among the departments and services as follows:

Breakdown of staff (FTE of 402)



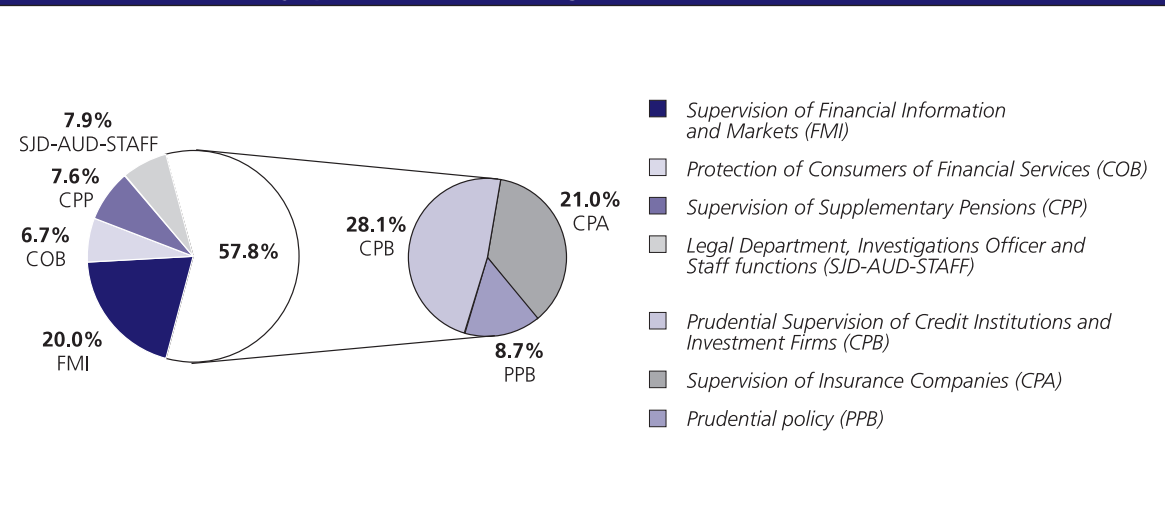
Breakdown of staff by department and service, excluding the Secretariat General



(110) In order to build in a margin of flexibility, four full-time equivalents were not allocated.



Breakdown of staff by specialization, excluding the Secretariat General



Since integration, the number of staff has developed as follows:

	2003	2004	2005
Number of staff according to the staff register (FTEs)	383.03	383.33	397.63
Available staff (111) (FTEs)	367.73	369.93	375.58
Number of staff (in units)	409	408	421

During 2005, thirty-two new people joined the CBFA, twenty-three of whom members of the executive staff (five lawyers, seventeen persons with economic-financial training and one translator) and nine administrative staff.

Against this substantial number of new recruits, 17.8 members of staff, expressed in full-time equivalents, left the institution, bringing the net growth in the total number of staff entered in the staff register to an approximate fourteen full-time equivalents.

Those who left the institution were chiefly staff who had reached the age of retirement or who were retiring early or whose fixed-period labour contract had expired. The number of staff leaving the CBFA voluntarily remains very limited and in 2005 concerned one university graduate and three administrative employees.

Recruitment campaign

Despite the substantial number of new recruits in 2005, there was still a requirement for specialist staff. In December 2005, the CBFA consequently launched a new major campaign in both the general and specialized press, with a view to filling twenty-two vacancies for university graduates and four vacancies for administrative staff.

The campaign targeted candidates with proven experience and attracted great interest.

(111) By «available staff» is meant all members of staff entered in the staff register, with the exception of staff to whom the career break/time credit arrangement applies, staff non-active until the date of their early retirement in accordance with the collective labour agreement of 18 February 1999, staff on detachment and the long-term sick.

Facts about the staff in 2005

As at the end of 2005, the CBFA staff consisted of approximately as many graduates (52%) as non-graduates (48%), as well as a virtually equal number of men (50.6%) and women (49.4%). The number of women in management positions was up by 7% on the level as at the end of 2004.

The average age of the CBFA member of staff is 41 years.

25% of the staff, both management and non-management, have opted for part-time work and in most cases for an 80% regime. Average working hours amount to 94.4% of a full-time working week.

Career management

Management of the various employment regimes

Dominating the agenda of the Personnel Service in 2005 was the implementation of the principles of the collective labour agreement of 25 May 2005 (112) regarding the transfer of staff from the former ISA to the CBFA (113).

Since the integration, there have been two different employment regimes at the CBFA: the contractual and the statutory. As at the end of 2005, the institution had 321.1 staff (expressed in full-time equivalents) with an employment contract governed by applicable legislation and the current sectoral and professional, collective labour agreements (114); as regards statutory staff, it had 76.6 full-time equivalents, who are subject to the civil-servant administrative status, remuneration and pension arrangements of the former ISA (115).

Internal transfer

During the past two years, the Management Committee deemed it undesirable to fill staff vacancies via internal transfer, the chief reason for this being that the departments were in need of consolidation and stabilization, given in part the integration of the BFC and the ISA and the expansion of the CBFA's competences.

In the second half of 2005, the Management Committee resolved to lift the restriction and to accede to the CBFA staff's legitimate aspirations regarding internal transfer. At the end of 2005, the Management Committee approved the internal transfer of nine members of staff.

The internal transfers embraced virtually all departments of the CBFA and as such can be considered a success.

The Management Committee is looking to pursue internal transfers in the years ahead and to adopt a more structural approach to the matter. This requires planning in the medium term in respect of charting both the profiles of staff and the needs of the departments, with any transfer being prepared and accompanied by the appropriate training.

Training

The CBFA gives a great deal of attention to the (continuous) training of its staff; this includes language skills. Training is conducted in-house or through participation at seminars or courses of instruction organized by third parties.

The number of days devoted to training in 2005 was 60% higher than in 2004. Of the total number of days, 64% concerned external and 36% in-house training.

Both management and non-management staff (70% and 30% respectively) participated in training.

The overall budget for training, excluding travel, board and lodging, rose by 177% on its level for 2004.

Assessment

Various assessment systems were in force at the CBFA in 2005, dating from before the integration of the BFC and the ISA. Members of staff of the former BFC and staff recruited since integration were assessed according to a system based on annual targets regarding tasks and organization. For members of staff of the former ISA, capacities, performance and behaviour were assessed on the basis of scoresheets.

(112) Collective labour agreement concluded in implementation of Article 40 of the Royal Decree of 25 March 2003, as amended by Article 24 of the Programme Law of 5 August 2003.

(113) See the present report, p. 89.

(114) See the present report, p. 94.

(115) Article 55 of the Law of 2 August 2002, as amended by Article 3 of the Law of 14 February 2005 amending the Law of 2 August 2002 on the supervision of the financial sector and of financial services and amending Article 40 of the Royal Decree of 25 March 2003 implementing Article 45, § 2, of that law.

For both groups, the assessment systems had financial implications, as well as possible implications for the further careers of staff, but their approach differed.

With the agreement protocol of 25 May 2005 (116), a start was made for a general application of the assessment system of the former BFC with effect from 2006. However, negotiations are still continuing with staff representatives on the career implications for statutory staff.

Training and information sessions respectively were held for the assessors and the staff, with a view to reminding them of the aims and possible impact of assessment.

IT projects

During the period under review, priority was given, on the one hand, to the integration and harmonization of the IT applications used by the various CBFA departments, irrespective of whether those applications had been developed for the former BFC or the former ISA, and, on the other, to the further development of synergy with the NBB as regards both the amalgamation of the two institutions' central IT infrastructure and the processing of external financial data.

Following the migration in 2004, the central servers of the CBFA were situated at the NBB's computer centre. The next step was to integrate the networks of the former BFC and the former ISA, so that all CBFA staff would henceforth be able to work in a unified buretocs environment. Still requiring to be integrated are the data bases with the identification data of the staff of the former BFC and the former ISA.

With the aim of achieving more effective and efficient management of their systems and a broadening of the possibilities of operational co-operation, the CFA and the NBB thereupon examined the possible ways of setting up mutual links between their networks. Such network links are in turn required to expand the opportunities for co-operation and to provide economies of scale, without prejudice to the security of the data

held by each institution. Provided that the investigations into security and confidentiality in respect of data processing can be completed in due time, the mutual network links can be put in place in July 2006.

Additionally in 2005, further efforts were made to harmonize the processing of external financial data by applying to insurance undertakings and pension funds the existing model for collecting external financial data from credit institutions that is managed jointly by the CBFA and the NBB. With effect from 2006, the NBB will act as the sole office for the submission of financial reporting statements from insurance undertakings and pension funds. The NBB will be responsible for the follow-up of the receipt and validation of the reporting statements, and will make those statements available to the CBFA.

In the future treatment of financial reporting statements, there will also have to be verification of whether the financial data reported by credit institutions is in conformity with the IFRS and with the Basel II capital requirements. This has prompted the NBB and the CBFA to switch to a more standardized computer language for the reporting. Supported by the sector, the two institutions have opted for XBRL (*eXtensible Business Reporting Language*) as computer language, with effect from 31 March 2006, for the submission of IAS reporting statements on a consolidated basis. Based on the standard XML (*eXtensible Markup Language*), this language permits more reliable and rapid internal and external reporting for companies, thereby making their exchange of data with the NBB and the CBFA more efficient. The initial phase of this modernization required a not inconsiderable investment on the part of supervised companies, the NBB and the CBFA for the rejigging of their systems for the collection and analysis of data, both prudential and statistical.

Co-operation with the NBB offers the CBFA's IT Service more scope to focus its attention on the development of computer applications for the supervisory departments and services, its proximity, flexibility and knowledge of the supervisory process being unmistakable trumps in this.

(116) See the present report, p. 89.

The management of the CBFA's IT projects is entrusted to an IT steering committee comprised of a representative from each of the CBFA's departments and a number of IT officers from the CBFA and the NBB. Besides the monitoring of projects, this committee is responsible for the co-ordination of the specifically IT activities of the CBFA and its joint IT activities with the NBB.

During the period under review, two experienced members of the staff of the *IT Service* were detached to the IT Audit Unit, set up within the *Prudential Supervision of Credit Institutions* Department.

Consultation on social matters and collective labour agreements

Together with the NBB, the National Delcredere Office, the Participation Fund, the Federal Participation Corporation, the National Lottery Company and the company Credibe, the CBFA takes part in the Joint Committee 325, which brings together representatives of said employers and their employees.

The agenda of the Joint Committee was dominated by the negotiations to extend the collective labour agreement of 12 May 2003, whose provisions regarding collective job security lapsed on 31 December 2004. It was not possible to complete the negotiations and they will continue in 2006.

Two components of the above-mentioned sectoral agreement remain acquired:

- ❖ the provisions concerning efforts on behalf of persons in risk groups – whereby companies under-

take to apply at least 0.10% of the entire wage bill to the recruitment, retention and training of persons belonging to risk groups in the sector or for whom a process of introduction is appropriate, as well as to the training and guidance of threatened and older employees – were extended for a period of two years by collective labour agreement of 29 September 2005;

- ❖ the provisions concerning the procedure to be followed in the case of individual dismissal for reasons of professional or disciplinary shortcomings were tacitly extended for a period of three years.

The main subjects for consultation on social matters at institution level were:

- ❖ the integration of the members of staff of the former ISA in all its aspects and in particular the gearing of staff statuses to each other by adjustment of the financial status of statutory staff and the offer of so-called «integration contracts» to these last; consultation in this respect bore its first fruits in the agreement of 25 May 2005 (117);
- ❖ a transparent and modern policy in respect of the staff.

On 9 November 2005, a collective labour agreement was concluded in respect of the regulation of group insurance, whereby the opportunity to leave the CBFA at the age of fifty-six under the conditions set out in the collective labour agreement of 30 January 2002 were confirmed for the period from 1 January 2006 to 31 December 2006.



(117) See the present report, p. 89.

2.4. Annual accounts for the 2005 financial year

The annual accounts of the CBFA for the 2005 financial year were approved on 31 March 2006 by the institution's Supervisory Board, in accordance with Article 48, § 1, 4°, of the Law of 2 August 2002.

1. BALANCE SHEET (in 000 €)

ASSETS	31/12/2005	31/12/2004
FIXED ASSETS	59 022	62 156
I. Formation expenses	3 000	5 000
II. Tangible and intangible fixed assets	56 022	57 156
1. Tangible fixed assets		
A. Land and buildings	54 673	55 927
B. Plant, machinery and equipment	294	425
C. Furniture and vehicles	650	804
2. Intangible fixed assets	405	0
CURRENT ASSETS	39 992	44 197
IV. Receivables at max. one year	6 930	11 459
A. Receivables in respect of operating expenses	5 760	3 745
B. Other receivables	1 170	7 714
V. Investments	25 000	22 000
VI. Liquid assets	7 448	7 581
VII. Deferred charges and accrued assets	614	3 157
TOTAL ASSETS	99 014	106 353
LIABILITIES	31/12/2005	31/12/2004
OWN FUNDS	12 750	10 565
II. Reserves	12 750	10 565
Restricted reserves	12 750	10 565
A. General budget reserve	1 875	1 239
B. Liquidity reserve	10 875	9 326
FINANCING FUND	12 018	12 298
PROVISIONS	4 678	6 936
III. Provisions for liabilities and charges	4 678	6 936
A. Pensions and similar obligations	1 222	1 272
C. Other liabilities and charges	3 456	5 664
AMOUNTS OWED	69 568	76 554
IV. Amounts owed, at more than one year	43 410	45 228
A. 2 Credit institutions	43 010	44 028
B. 2 Other amounts owed in respect of operating expenses	400	1 200
V. Amounts owed, at max. one year	24 517	29 373
A. Amounts owed, at more than one year, due within the year	1 818	2 572
C. Amounts owed in respect of operating expenses	4 327	2 895
1. Suppliers	3 318	1 487
2. Other amounts owed	1 009	1 408
D. Amounts owed in respect of taxes, remunerations and social charges	6 708	5 774
1. Taxes	762	639
2. Remunerations and social charges	5 946	5 135
E. Other amounts owed	11 664	18 132
VI. Deferred income and accrued charges	1 641	1 953
TOTAL LIABILITIES	99 014	106 353

2. INCOME STATEMENT (in 000 €)

INCOME STATEMENT	2005 financial year	2004 financial year
I. Income	74 209	67 238
A. Contributions to operating expenses	73 300	66 319
B. Other income	909	919
II. Operating expenses	58 646	47 735
A. Services and miscellaneous goods	5 952	6 418
B. Remunerations, social charges and pensions	51 156	40 381
C. Write-downs on receivables in respect of operating expenses	49	85
D. Provisions for liabilities and charges	-809	-982
E. Depreciation on formation expenses and fixed assets	2 298	1 833
III. Operating surplus	15 563	19 503
IV. Financial income	406	246
A. Income from current assets	406	246
V. Financial charges	2 120	1 617
A. Debt charges	2 116	1 613
C. Other financial charges	4	4
VI. Normal operating surplus	13 849	18 132
VII. Extraordinary income	1 729	
B. Write-back of provisions for extraordinary liabilities and charges	1 729	
VIII. Extraordinary charges	1 729	
D. Other extraordinary charges	1 729	
IX. Operating surplus for the financial year	13 849	18 132

Appropriation of the operating surplus for the financial year	2005 financial year	2004 financial year
A. Operating surplus for the financial year, for appropriation	13 849	18 132
C. Allocation to the restricted reserves	2 185	
D. Repayments pursuant to the Royal Decree of 22 May 2005 relating to the operating expenses of the CBFA	11 664	18 132

3. ANNEXES (in 000 €)

A. BALANCE SHEET

ASSETS					
II. STATEMENT OF FIXED ASSETS	Land and building	Software	Development costs	Plant, machinery and equipment	Furniture and vehicles
a) Acquisition value					
As at the end of the previous financial year	56 848	868		1 077	1 142
Movements during the financial year					
Acquisitions	18	168	405	126	175
Other					
As at the end of the financial year	56 866	1 036	405	1 203	1 317
b) Depreciation and write-downs					
As at the end of the previous financial year	921	868		652	338
Movements during the financial year					
Entered	1 272	168		257	329
Other					
As at the end of the financial year	2 193	1 036		909	667
c) Net carrying value as at the end of the financial year	54 673	0	405	294	650

V. CASH INVESTMENTS	2005 financial year	2004 financial year
Placed via the federal gov't. service 'Finance'	25 000	22 000

LIABILITIES	
2. PROVISIONS FOR LIABILITIES AND CHARGES	2005 financial year
Estimate of the costs of removal/adjustments	134
Provision for disputed debt	322
Pensions	1 222
Pre-retirement leave	3 000

B. INCOME STATEMENT (in 000 €)**I. A. CONTRIBUTIONS TO OPERATING EXPENSES**

A1. Gross contributions		
	2005 financial year	2004 financial year
1. Credit institutions, investment firms and investment advice companies - Art. 10	17 764	16 985
2. Public offerings of securities - Art. 14	1 734	1 653
3. Investment institutions - arts. 15, 16 and 17	22 309	20 888
4. Belgian market listings - Art. 21	6 267	5 615
5. Investigations officer and consumer protection - Art. 22	750	686
6. Sundry, former BFC	4 065	3 980
7. Insurance sector - Art. 2	15 467	12 501
8. Intermediaries - Art. 4	3 362	2 553
9. Sundry, former ISA	2 491	2 377
Total	74 209	67 238

A2. Net contributions		
	2005 financial year	2004 financial year
1. Credit institutions, investment firms and investment advice companies - Art. 10	14 510	12 118
2. Public offerings of securities - Art. 14	1 734	1 653
3. Investment institutions - Arts. 15, 16 and 17	19 006	14 903
4. Belgian market listings - Art. 21	5 119	4 006
5. Investigations officer and consumer protection - Art. 22	750	686
6. Sundry, former BFC	4 065	3 980
7. Insurance sector - Art. 2	11 748	7 683
8. Intermediaries - Art. 4	3 362	2 553
9. Sundry, former ISA	2 251	1 524
Total	62 545	49 106

II. B. 1. Employés inscrits au registre du personnel

	2005 financial year	2004 financial year
a) Total as at closure date	421	408
b) Average number of staff in full-time equivalent	398	387
c) Number of hours effectively worked	534 832	534 672

II. B. 2. Rémunérations, charges sociales et pensions

	2005 financial year	2004 financial year
a) Remunerations and direct social benefits	29 690	27 328
b) Employer's social security contributions	8 000	7 176
c) Employer's premiums for extra-legal insurance	6 214	1 672
d) Other staff charges	5 764	2 898
e) Pensions	1 488	1 307
Total	51 156	40 381

II. D. Provisions pour risques et charges

	2005 financial year	2004 financial year
Estimate of the costs of removal	-208	-783
Sundry	-2 050	3
Application of financing fund	-280	-202

C. RIGHTS AND OBLIGATIONS NOT INCLUDED IN THE BALANCE SHEET

Pending disputes and other obligations

The CBFA is the subject of a number of claims for damages, based on alleged shortcomings regarding the supervision of credit institutions, investment firms or capitalization companies. A pending claim abroad involves the CBFA's liability on the grounds of a prospectus approved by it. Given the special circumstances of each of these claims, the CBFA is of the opinion that they are inadmissible and/or unfounded.

Notes to the 2005 annual accounts

1. Legal framework

The annual accounts were drawn up in accordance with the provisions of Article 57 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, and of the Royal Decree of 12 August 2003 determining the layout of the annual accounts.

2. Valuation rules

The valuation rules were approved by the Supervisory Board on 15 October 2003 and amended on 15 April 2005 (118).

Formation expenses

Restructuring costs are charged in full to the financial year in which they are incurred.

The provision for pre-retirement leave, instituted pursuant to the Royal Decree of 22 May 2005 (119) is activated and depreciated in proportion to the amounts paid out each year in respect of this arrangement.

Fixed assets

Computer licences are depreciated in full in the year of acquisition.

Deemed as tangible fixed assets are purchases with a minimum purchase price of 1 000 euros per unit that are acquired as articles of use.

The caption «tangible fixed assets» is subdivided into:

- Plant, machinery and equipment;
- Furniture and vehicles;
- Other tangible fixed assets.

Tangible fixed assets are entered at acquisition price and depreciated according to the straight line method over four years, save for hardware, which is depreciated over three years.

The acquisition value of the CBFA's headquarters is depreciated over twenty-five years, in parallel with the capital repayments of the loan contracted to finance that building.

Amounts receivable

Amounts receivable are entered for the amount unsettled. For accounts receivable, due from a Belgian company, 100% write-downs are entered in case of bankruptcy. In the event of late payment, a write-down of 50% is entered where a dossier – submitted for collection to the Collection Office (120) of the federal government service 'Finance' – remains unpaid after three months. Where payment is still not forthcoming after a further three months, an additional write-down of 50% is entered.

For accounts receivable from abroad, a write-down of 50% is entered where no payment has been received three months after dispatch of a registered letter. Where payment is still not forthcoming after a further period of three months, the balance of the amount receivable is written down.

At the time a write-down is entered, the receivable is transferred to doubtful amounts receivable.

Financial resources

These are entered in accordance with the latest available statement of account.

(118) See the CBFA 2004 annual report, pp. 110-111.

(119) Royal Decree determining the conditions for pre-retirement leave of the statutory staff of the CBFA, published in the Belgian Official Gazette of 27 May 2005.

(120) «Land Registry, Public Records and Crown Lands Office».

Provisions

Where necessary, provisions are set aside to cover losses or charges, the nature of which is clearly defined and which, at balance sheet date, are required to be considered as likely or certain to be incurred, but whose extent can only be estimated.

Provisions for liabilities and charges are individualized according to the liabilities and charges that they are intended to cover.

Amounts owed

Amounts owed are entered at nominal value as at balance sheet date.

Amounts receivable and owed, denominated in foreign currency

Monetary items denominated in foreign currency are translated into their equivalent in euros at the conversion rate published in specialized newspapers.

Amendment of the valuation rules for the 2005 financial year

For the 2005 financial year, the valuation rules were supplemented with regulation in respect of IT application development costs paid to third parties. Such costs are entered under the caption «intangible fixed assets», provided they do not exceed 100 000 euros per application. They are depreciated over five years according to the straight line method, with effect from the entry into operation of the application in question.

3. Notes to the balance sheet

Intangible fixed assets

In 2004, a provision was set aside for charges in respect of the arrangement for pre-retirement leave that is open to staff of the former ISA (121). Those charges were included under fixed assets. The programme effectively got under way in 2005 and the activated amount was depreciated in the amount of the actual costs paid in that year (0.271 million euros).

In the setting-aside of the provision, the assumption was that the arrangement would be introduced in the course of 2004 and that all staff involved of the former ISA would take advantage of it. However, more than one year passed between the time the provision was set aside and the effective introduction of the arrangement, meaning a substantial curtailment of the term during which the staff concerned of the former ISA could have recourse to the arrangement. Together with the fact that a number of staff did not have recourse to the arrangement, this resulted in the amount of the provision and the attendant activated charges being overestimated. At the end of 2005, after being applied to cover the charges for 2005 (0.271 million euros), the provision was consequently reduced to 3 million euros.

The actual charges (0.271 million euros) paid in 2005 were entered as current charges. The adjustment of the provision and of formation expenses (1.729 million euros) was recorded under respectively extraordinary income and extraordinary charges. Concerned here was a one-off transaction.

Current assets

Contributions to the operating expenses of the CBFA due from insurance intermediaries (122) were able to be called in only in December 2005. In consequence, payments occurred at the beginning of 2006, which explains the increase in receivables in respect of operating expenses (5.760 million euros).

Investments (25 million euros) concerned solely time deposits with the Treasury.

Own funds

2 185 million euros or 15.8% were withdrawn from the operating surplus for 2005 in order to increase the restricted reserves to 12 750 million euros. The CBFA may apply up to 50% of the annual operating surplus to raising the restricted reserves until they amount to 15 million euros, which corresponds to three months' worth of operating expenses (123).

(121) See the present report, p. 89.

(122) See Article 4 of the Royal Decree of 22 May 2005 relating to the operating expenses of the CBFA implementing Article 56 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services and implementing various legal provisions on tasks of the CBFA, published in the Belgian Official Gazette of 27 May 2005, and hereafter referred to as the «Royal Decree relating to the operating expenses of the CBFA».

(123) See Article 27 of the Royal Decree relating to the operating expenses of the CBFA.

Financing fund

0.28 million euros of the headquarters financing fund (12 018 million euros) (124) were earmarked to reduce by 0.103 million euros and 0.177 million euros respectively the 2005 contributions of the contributors of the former BFC and former ISA.

Provisions

The movement in the provisions for liabilities and charges (4 678 million euros) was due chiefly to the above-mentioned adjustment of the provision concerning the arrangement for pre-retirement leave for staff of the former ISA (125).

Amounts owed

Amounts owed, at more than one year (43.410 million euro), concern mainly debts incurred for the financing of the CBFA's headquarters (43.010 million euros). They also include the amount (0.4 million euros) by which the pre-financing contributions for 2007 of the former ISA sectors are reduced in accordance with the transitional measures in the Royal Decree relating to the operating expenses of the CBFA (126).

The amount by which the pre-financing contribution for 2006 was reduced is noted under the item «amounts owed, at more than one year, due within the year».

There was a normal development to amounts owed in respect of operating expenses (4.327 million euros), as well as those in respect of taxes, remunerations and social security (6.708 million euros) (127).

Under the heading «Other amounts owed» is mentioned the portion (11.664 million euros) of the operating surplus for the 2005 financial year (13.849 million euros) that is to be reimbursed to the sectors referred to in the above-mentioned decree (128), after application of 2.185 million euros by way of reinforcement of the restricted reserves (129).

The breakdown of the appropriation of the operating surplus (13.849 million euros), more particularly the portion to be reimbursed to the sectors previously subject to the supervision of the former BFC and the former ISA (130), is as follows for the 2005 financial year:

	CBFA (in millions of euros)	Part CBF (in millions of euros)	Part OCA (in millions of euros)
Surplus, 2005	13.849	9.247	4.602
Allocation to restricted reserves	2.185	1.542	0.643
Reimbursement to those liable to contribute	11.664	7.705	3.959

(124) See the CBFA 2004 annual report, p. 112.

(125) See the present report, p. 89.

(126) See Article 33 of the Royal Decree relating to the operating expenses of the CBFA. In respect of pre-financing, see the present report, p. 16.

(127) See the present report, p. 95.

(128) See the present report, p. 16.

(129) See the present report, p. 100.

(130) The costs attendant on former CBF and former ISA supervisory tasks continue to be financed separately. See the present report, p. 16.

4. Notes to the income statement

The 2005 financial year closed with an operating surplus of 13.849 million euros.

Income

Income comprises the amounts companies subject to CBFA supervision are called upon for, in accordance with the Royal Decree relating to the operating expenses of the CBFA (131). Calculation of those amounts is based on either a fixed amount per sector supervised or tariffing of transactions or the volume of activity.

Other income (0.909 million euros) concerns chiefly cover for the operating expenses of the Commission for Accounting Standards, for which the CBFA provides secretariat services.

Besides the development stemming from the trend on the financial markets (UCIs, issues), the increase in contributions was situated principally in the sectors previously under the supervision of the former ISA and reflected the budgetary impact of the integration taken into account by the above-mentioned Royal Decree (132).

It is to be noted that these contributions constitute pre-financing. Where it appears that they exceed actual operating expenses, the situation is regularized through reimbursement to the sectors referred to in the decree (133).

Operating expenses

The increase in operating expenses is largely the consequence of two non-recurring transactions under the item «remunerations, social charges and pensions», namely the allocation of 4.9 million euros to the group-insurance financing fund (134) and the payment of a premium by way of cover for the CBFA's pension obligations vis-à-vis its directors.

Leaving those transactions aside, the item «remunerations, social charges and pensions» expanded by 12.12%, the result of:

- ✦ the adjustment of the salary scale in consequence of index increases and annual increments;
- ✦ additional recruitment during 2005;
- ✦ the adaptation of the ISA staff status to CBFA staff status (135).

The budgetary impact of the integration was estimated in 2003 by the Integration Committee (136). Apart from the costs of the new building, which are being borne by all contributors, integration costs are being borne by the contributors of the former ISA, as they concern specifically the resources employed for the supervision of insurance, supplementary pensions and intermediaries.

The breakdown of the item «services and miscellaneous goods» (5.952 million euros) is as follows:

	2005 (in millions of euros)	2004 (in millions of euros)
Buildings	0.862	0.823
Rental and maintenance material	1.273	1.237
Office supplies costs	0.948	1.484
Sundry costs	2.869	2.874
Total	5.952	6.418

(131) See the present report, p. 16 and 17.

(132) See the present report, p. 98.

(133) See the present report, p. 17.

(134) The current group-insurance financing method takes no account of future salary and career developments or of the costs of early retirement, which are estimated at 1.3 million euros. On the basis of a study by the insurer, costs
(– without additional, annual payments to cover that early retirement
(– would rise from 9.81% to 18.32%. The financing fund has been adjusted to take account of this.

(135) See the CBFA 2004 financial report, p. 102, and the present report, p. 89.

(136) See the CBFA 2004 financial report, p. 102.



During 2005, the time-clock systems in use at the former BFC and former ISA were made uniform, which led to the number of hours effectively worked in 2004 being adjusted in the notes to the income statement (table II.B.1. «employees entered in the staff register»).

The captions «extraordinary income» and «extraordinary charges» (in each case regarding the amount of 1.729 million euros) concern respectively the extraordinary write-back of provisions for extraordinary liabilities and charges, and the extraordinary depreciation on formation expenses in 2005 (137).

5. Adjustment of amounts due in 2006

Pursuant to the Royal Decree relating to the operating expenses of the CBFA, the CBFA's maximum resource budget and the fixed amounts of pre-financing due

from the CBFA's contributors may be adjusted each year in line with the development of staff charges and the consumer price index for other expenditure and charges (138).

The development of the CBFA's staff charges and of the charges in respect of the members of the institution's bodies has been certified by the CBFA's auditor, as has been the development of the other costs.

Given the fact that, in 2005, the actual amount in respect of the CBFA's operating expenses was lower than the amount of the institution's maximum resource budget, it was decided not to index the contributions for 2006.

(137) See the present report, p. 100.

(138) See Article 1, § 1, of the Royal Decree relating to the operating expenses of the CBFA, and the present report, p. 17.

Report of the auditor on the financial year closed as at 31 December 2005

In accordance with the legal and regulatory requirements, we are pleased to report to you on the performance of the audit mandate entrusted to us.

We have audited the annual accounts prepared under the responsibility of the Management Committee for the financial year closed as at 31 December 2005 with a balance sheet total of 99 014 000 euros and whose income statement closed with a surplus of 13 849 000 euros. We have likewise conducted the specific investigations required by the Law of 2 August 2002 and the Royal Decree of 12 August 2003.

Unqualified audit opinion on the annual accounts

Our audit was conducted in accordance with the standards of the *Institut des Réviseurs d'Entreprises/Instituut der Bedrijfsrevisoren*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounts are free of material misstatement, taking into account the legal and regulatory requirements applicable in Belgium to annual accounts.

In accordance with those standards, we have considered the CBFA's administrative and accounting organization, as well as its internal control procedures. The officers of the CBFA have given clear answers to our requests for clarification or explanation. We have examined, on a test basis, the evidence supporting the amounts contained in the annual accounts. We have assessed the valuation rules, the significant accounting estimates made by the CBFA and the overall presentation of the annual accounts. We believe that our procedures provide a reasonable basis for our opinion.

In our opinion, taking into account the legal and regulatory requirements, the annual accounts closed as at 31 December 2005 give a true and fair view of the assets, the financial situation and the operating expenses of the CBFA, and the information given in the notes is in accordance with the provisions of the Royal Decree of 12 August 2003.

Brussels, 9 March 2006

André KILESSE
Auditor

2.5. Composition of departments and services (139)

REPORTING TO THE CHAIRMAN

Legal Service

Georges **Carton de Tournai**, *Director*

Hilde **Daems**

Jean-Pierre **Deguée**

Veerle **De Schryver**

Ann **Dirkx**

Clarisse **Lewalle**

Hans **Seeldrayers**

Catherine **Terrier**

Frank **Trimpeneers**

Luc **Van Cauter**

Antoine **Van Cauwenberge**

Aline **Waleffe**

Spokesman

Luk **Van Eylen**

Internal Audit

Herman **De Rijck**

Prudential Supervision of Credit Institutions and Investment Firms

Headed by Mr. Rudi BONTE

Large Banking Groups

Frans **Beukelaers**, *Deputy Director*

Paulus **Callebaut**

Philippe **de Barsy**

Christophe **Debrabandere**

Isabelle **De Grootte**

Peter **Dhoedt**

Michel **De Schuyter**

Philippe **Dubois**

Filip **Gijssel** (*) (140)

Patrick **Grégoire**

Hein **Lannoy** (141)

Sarah **Ndayirukiye**

Jérôme **Nélis**

Vincent **Sapin**

Christel **Spaepen**

Nicolas **Staner**

Thierry **Thuysbaert**

Katherina **Tiebout**

Marc **Van Caenegem** (*)

Wouter **Van den Kerkhove**

Inge **Van de Paer**

Marc **Verleye** (*)

Coleet **Vynckier**

(*) Acts as «co-ordinator».

(139) Situation as at 1 March 2006.

(140) Appointed as Deputy Director with effect from 1 June 2006. Will assume responsibility for the Domestic Insurance Companies Service.

(141) Also acts as Deputy Secretary of the Committee for Financial Stability.

Domestic Banks and Investment Firms, and Bureaux de Change

Françoise **Herbay**, *Deputy Director*

Guillaume **Bérard**

Yves **Billiet**

Jacques **Bodard**

Sofie **Covemaeker**

Marc **Denys**

Sylvie **Funcken**

Jean-Luc **Hacha**

Pierre **Juridan** (*)

Madeleine **Kaleyanga Tshiana**

Els **Lagrou**

Philippe **Leirens**

Christine **Pécasse**

Willy **Sermon**

Marc **Van de Gucht** (*)

Foreign Banks and Investment Firms, and Institutions Specialized in Clearing, Settlement and Custody

Christian **Jacob**, *Deputy Director*

Alain **Degroide** (*)

Dirk **De Moor**

Marleen **Gelders** (142)

Isabelle **Gérard**

Benjamin **Henrion**

Peter **Monderen**

Giles **Motteu**

Laurent **Ohn**

Marc **Peters**

Joseph **Pulinx**

Françoise **Renglet**

Florence **Rigo**

Serge **Rompteau**

Karel **Spruyt**

Gino **Thielemans**

Brigitte **Vandevelde**

Alain **Vranken**

Valérie **Woit**

Protection of Consumers of Financial Services

Headed by Madame Marcia DE WACHTER

Luc **Roeges**, *Deputy Director*

Elisabeth **Bardiaux**

Birgit **Bas** (143)

Pascale **Coulon**

Patrick **Declerck**

Geoffrey **Delrée**

Jan **De Pagie**

Philippe **Despontin**

Annick **Dewulf** (144)

Nathalie **Gigot**

Christian **Janssens**

Annick **Mettepenningen**

Xavier **Oldenhove de Guertechin**

Peter **Piu**

Lutgarde **Vandermassen**

Luc **Vynckier**

(*) Acts as «co-ordinator».

(142) Taking a career break.

(143) Taking a career break.

(144) Also acts as Secretary of the Insurance Commission.

Prudential Supervision of Insurance Companies

Headed by Mr. Michel FLAMEE

Large Insurance Groups, International Insurance Companies

Patrick **Massin**, *Deputy Director*

Philippe **Authom**
 Claire **Dubuisson**
 Cécile **Flandre**
 Luc **Hars**
 Michel **Hastir**
 Luc **Kaiser** (*)
 Patricia **Kaiser**

Véronique **Loréa**
 Pamela **Schuermans**
 Dominik **Smoniewski**
 Viviane **Van Herzele**
 Rudy **Vermaelen**
 Patricia **Zaina**

Domestic Insurance Companies

Filip **Leën**, *Project Leader*

Christel **Beaujean**
 Gentiane **Bury**
 Eric **Degadt**
 Philippe **de Launois** (*)
 Dirk **De Paepe**
 Guido **De Pelsemaeker**
 André **Desmet**
 Olivier **Fache**
 Delphine **Genot**

Dirk **Goeman**
 Jean-Marie **Hardy**
 Pascale-Agnès **Keymeulen**
 Carine **Luyckx**
 Monique **Siscot**
 Eddy **Van Horenbeeck** (*)
 Danielle **Vindevogel**
 Rosanne **Volckaert**

Intermediaries

Philippe **de Mûelenaere**, *Deputy Director*

Herlindis **Boogaerts** (*)
 Philippe **Loison**
 Nicole **Peeters**

Marie-Ange **Rosseels**
 Christophe **Viaene**

Supervision of Supplementary Pensions

Headed by Madame Françoise MASAI

Henk **Becquaert** (145), *Special Representative*

Saskia **Bollu**
 Ann **Devos**
 Maria **Di Romana** (147)
 Gerhard **Gieselink**
 Bertrand **Leton**
 Fabienne **Maudoux**
 Marc **Meganck** (*)

Marie-Paule **Peiffer**
 Johanna **Secq** (146)
 Paul **Teichmann**
 Marleen **Tombeur** (148)
 Diederik **Vandendriessche**
 Alexander **Van Ouytsel**
 Caroline **Vandevelde** (*)

(*) Acts as «co-ordinator».

(145) Appointed in application of Article 54 of the Law of 2 August 2002.

(146) Also acts as Secretary of the WAPZ (Law on supplementary pensions for the self-employed) Commission.

(147) Also acts as Secretary of the WAP (Law on supplementary pensions) Board and the WAPZ (Law on supplementary pensions for the self-employed) Board.

(148) Also acts as Secretary of the WAPZ (Law on supplementary pensions for the self-employed) Commission.

▣ Prudential Policy

Headed by Mr. Peter PRAET

Jo **Swyngedouw**, Deputy Director

Koen **Algoet** (*)

Stephan **Bertels** (149)

Benoît **Bienfait**

Aimery **Clerbaux** (149)

Peter **De Vos**

Gaëtan **Doucet**

David **Guillaume** (*)

Jürgen **Janssens** (149)

Jeroen **Lamoot**

Annemie **Lefevre**

Pierre **Lemoine**

Jozef **Meuleman** (*)

Fernand **Naert**

Giancarlo **Pellizzari**

Marc **Pickeur** (*)

Claire **Renoirte** (149)

Kajal **Vandenput**

▣ Supervision of Financial Information and Markets

Headed by Mr. Jean-Paul SERVAIS

Supervision of Financial Transactions and Market Operators, Stock Market Surveillance and Analysis, and International Regulation

Jean-Michel **Van Cotte**m, Deputy Director

Bénédicte **Clerckx** (*)

Valérie **Bosly** (150)

Niek **Bundervoet**

Stéphane **De Maght** (*)

An **De Pauw**

Jean-Pierre **De Vuyst**

Jean-Marc **Gollier** (150)

Annick **Lambrighs**

Didier **Niclaes** (151)

Patrick **Van Caelenberghe**

Dieter **Vandelanotte**

Hendrik **Van Driessche**

Francine **Verbinnen**

Supervision of Financial Information, Supervision of Financial Markets, and Accountancy and Finance

Thierry **Lhoest**, Deputy Director

Luk **Behets**

Luk **Delboo**

Sonja **D'Hollander** (*)

Kristof **Dumortier**

Nathalie **Flamen** (152)

Johan **Lembrecht** (*)

Kris **Martens**

Roland **Melotte**

Martine **Nemry**

Koen **Schoorens**

Stefaan **Robberechts**

Maud **Watelet**

Collective Management of Savings Products

Greet **T'Jonck**, Deputy Director

Conny **Croes**

Valérie **Demeur**

Sophie **Devignon**

Nathalie **Flamen** (152)

Gaëtan **Laga**

Johan **Lammens**

Alain **Malengré**

Sabine **Philippart**

Carl **Vanden Auweele**

Tom **Van den Elzen**

(*) Acts as «co-ordinator».

(149) Member of NBB staff, but integrated into the Prudential Policy Department for the purpose of exercising his function.

(150) Taking a career break.

(151) Acts as internal CESR co-ordinator.

(152) Working part-time in another of the department's services.

▣ SERVICE FALLING UNDER THE SECRETARY GENERAL

Investigations Officer

Marie-Sheila **Bastians**

▣ SERVICES FALLING UNDER THE SECRETARY GENERALS

General-Interest Services

Annemie **Rombouts**, *acting Deputy Director*

Personnel, Administration and Infrastructure

Jean-Marie **Jacquemin**

Egwin **Schoolmeesters** (*)

People & Communication

Marie-Josèphe **Léonard**

Myriam **Penninckx** (*)

IT and Online Help-desk

Emmanuel **De Haes**

Johan **Vanhaverbeke**

Hilde **Dierckx**

Véronique **Léonard** (*)

Joseph **Van Cauwenbergh** (153)

Jan **Vyverman**

Management Supervision

Paul **Verbiest**

Translation

Natasja **Baeteman**

Xavier **Jeunechamps**

Jean-Pierre **Coernelle**

Jan **Leers**

Françoise **Danthinne**

Christine **Triest**

Prevention Adviser

Yannick **Bauwens**

▣ Seconded members of staff

To the Commission for Accounting Standards and its Scientific Secretariat

Jean-Pierre **Maes**, *Deputy Director*

Yvan **Stempniewsky**

To the Committee of European Securities Regulators (CESR)

Michel **Colinet**

(*) Acts as «co-ordinator».

(153) Seconded to the Prudential Supervision of Credit Institutions and Investment Firms Department.

Abbreviations**Full denominations**

AIG	Accord Implementation Group
ALM	Asset and Liability Management
BCBS	Basel Committee on Banking Supervision
BFC	Banking and Finance Commission
BPR	Bank Performance Report
CBFA	Banking, Finance and Insurance Commission
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
CIK	Belgian Central Securities Depository (<i>Caisse interprofessionnelle de dépôts et de virements de titres / Interprofessionele Effectendeposito- en Girokas</i>)
COREP	COmmon REPorting framework
CPSS	Committee on Payment and Settlement Systems
CRD	Capital Requirements Directive
CSSF	<i>Commission de surveillance du secteur financier</i>
EECS	European Enforcers Coordination Sessions
FATF	Financial Action Task Force on Money Laundering
FSAP	Financial Sector Assessment Program
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
ICB	<i>Instelling voor collectieve belegging</i>
(I)CSD	(International) Central Securities Depository
IFREFI	<i>Institut francophone de la régulation financière</i>
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISA	Insurance Supervisory Authority
MiFID	Markets in Financial Instruments Directive
MoU	Memorandum of Understanding
NBB	National Bank of Belgium
OPC	<i>Organisme de placement collectif</i>
UCI	Undertaking for Collective Investment
UCITS	Undertaking for Collective Investment in Transferable Securities
XBRL	eXtensible Business Reporting Language
XML	eXtensible Markup Language

The CBFA has acceded to the request of Mr Philippe Beaufay and Mr Filip Leën to have recourse, with effect from respectively 1 January and 1 June 2006, to the pre-retirement leave arrangement established by the Royal Decree of 22 May 2005.

Mr Philippe Beaufay joined the Insurance Supervisory Authority (ISA) on 1 March 1977 as actuarial inspector. In December 1992, he was promoted to the rank of Adviser General. Following the integration of the ISA into the CBFA, he assumed, as Deputy Director, responsibility for the *Technical Supervision Service* within the *Prudential Supervision of Insurance Companies* Department.

Mr Filip Leën joined the ISA on 1 April 1977, becoming head of the *Financial Supervision Service* on 1 January 1996. He continued in this function as Deputy Director at the CBFA.

With the integration of prudential supervision of insurance companies into the CBFA and the reorientation of that supervision, both were able to put their great expertise and years-long experience at the service of the CBFA, thereby contributing to the continuity of high-quality supervision in a transition period of sweeping change. Their commitment merits the CBFA's special appreciation and thanks.

The CBFA also wishes to express its deep appreciation of the work of Ms Michèle Delvaux and Ms Viviane Henderickx, directors at the ISA, for their fine and loyal service to both the ISA and the CBFA. It also thanks the following members of staff who retired during the period under review: Ms Jacqueline Minnaert, Mr Ghislain Delwiche, Mr Paul De Mont, Mr Roland De Pauw, Mr André Moreau and Mr Guy Wathy.

In Memoriam

The CBFA mourns the loss of Ms Carla Verbeke who died in December 2005. Ms Verbeke, a financial analyst in the *Prudential Supervision of Insurance Companies* Department, was greatly appreciated for her dedication, helpfulness and sincere friendliness. She will always remain in our memory.