

Annual report 2006

Pursuant to Article 48, § 1, 4°, 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 2006.

The present annual report may be referred to as: "CBFA Annual Report 2006".

In addition to the present annual report, the Management Committee has drawn up a report ("CBFA MC Report 2006") 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.

Disclaimer

This text is an unofficial translation and may not be used as a basis for solving any dispute.



Foreword	5
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CHAPTER 1 : GENERAL ORGANIZATION

A. MANAGEMENT COMMITTEE

Composition	11
Organization chart	12
Bylaws	13
Code of ethics	13
Number of meetings held by the governing bodies	14
Financing of the CBFA's operating expenses	14
The Financial Stability Committee	15
International and European activities	16
External accountability	17

B. SUPERVISORY BOARD

Composition	18
Report of the Supervisory Board	19

C. RECENT DEVELOPMENTS

21

CHAPTER 2 : REPORT ON ACTIVITIES

2006 AT A GLANCE	23
-------------------------	----

REPORT ON ACTIVITIES - DEPARTMENTS

Prudential policy	24
Prudential supervision of banks and investment firms	33
Prudential supervision of insurance companies and supervision of insurance intermediaries	47
Supplementary pensions	59
Supervision of financial information and markets	64
Protection of consumers of financial services	76

REPORT ON ACTIVITIES - INVESTIGATIONS OFFICE

84

GENERAL SERVICES

Legal Service	88
The internal audit function at the CBFA	91
Secretariat General	91

FINANCIAL STATEMENTS FOR THE 2006 FINANCIAL YEAR	97
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COMPOSITION OF DEPARTMENTS AND SERVICES	107
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Foreword



Eddy Wymeersch, Chairman

The CBFA and financial regulation

2006 will undoubtedly go down as the year of financial regulation, a year when large sections of financial legislation were revised or modified. The regulations now in place are predominantly of European inspiration, whereby the unity of policy that has emerged at European level will come to be fully reflected in Belgium as well, enabling Belgian financial institutions to operate throughout the European Union and to be on a level playing-field in gaining access to the financial markets of the other EU Member States. Within Belgium, investors, policyholders and present and future pensioners will also be better protected, not only in their dealings in Belgium, but also when they respond to proposals from foreign providers of financial services.

The regulatory framework has been substantially extended, reinforced and adjusted to the needs of a modern financial system, and integrated into the broad, European financial market. Very considerable efforts have gone into this, ranging right across the areas of activity of all departments of the CBFA and demanding great commitment from every echelon of staff. In accordance with the legislative techniques set out in the Law of 2 August 2002, and in conformity with the Lamfalussy structure, there was exhaustive consultation of the market participants concerned and their professional associations, besides repeated public consultation. That consultation – more properly, a dialogue – has proved to be very fruitful and has undoubtedly contributed towards better regulation, adapted as much as possible to the requirements of the Belgian financial world as an integrated player in the European financial market.

Although most of the basic texts had been prepared by the end of 2006, a number of matters will still need to be addressed in 2007; thereafter, however, there will be, as expected, a pause in regulation in most areas – though somewhat later in the case of the supervision of insurance. Once everything is in place, Belgium – and indeed the other EU Member States as well – will be equipped with one of the most advanced regulatory systems in existence, meaning that Belgian businesses will be better armed against the increasing worldwide competition in the financial markets.

Some of the new regulation will no doubt bring major changes in its wake.

In respect of the credit institution sector, Belgium has – in good time, it may be said – completed implementation of the Basel II framework, which has been set out in a European directive and preparations for which had begun in 1998. This has introduced a fundamental change in the prudential requirements, a change that should permit credit institutions and investment firms to manage their risks better. Although the institutions concerned were kept constantly and thoroughly informed of the new provisions, the application of these last – particularly as regards the development of new risk models – will nevertheless demand the full commitment of both supervisor and supervised.

It was partly against the background of the amendments to the Law on Banking Supervision that the CBFA approved an innovative document regarding internal governance, a document that replaces the earlier “agreements on autonomy” and adopts an entirely new approach (that of “prudential expectations”), expressed in a governance memorandum that will be evaluated on an “explain” basis by the supervisor in the light of the principles of internal governance. These rules will apply henceforth to credit institutions, investment firms and insurance companies.

A further vital revision concerns the supervision of institutions for occupational retirement provisions, often referred to in the past as “pension funds”. An entirely new supervisory framework has been developed that, in tandem with tax regulations, should not only provide a sound legal footing for such institutions in Belgium, but also ensure that the country is sufficiently attractive to convince multinational pension funds to establish themselves here.

A complete revamping of the regulations governing the financial markets has been undertaken these last few years. The exercise began in 2004 with the total rewriting of the regulations governing institutions for collective investment and turned in 2005 to the supplementary rules regarding market abuse; attention in 2006 focused on the prospectus and 2007 is being devoted to the rules governing public take-over bids, transparency and, lastly, the markets in financial instruments. The final result will be a body of entirely new legislation, resulting in securities markets in Europe being fully opened up, information being provided efficiently to investors, investors being protected and the new market structures bringing about more competition and greater transparency. All this revamping has been accomplished with no let-up in the work involved in the application of the IFRS norms (2005) and the successive amendments to the status of Euronext.

Changes to the regulations regarding insurance supervision are still in the pipeline: the solvency requirement project – known as “Solvency II” – is in full swing in Europe and introduction of the requirements is scheduled for 2010. However, the CBFA has decided not to wait until the date for implementation of the relevant directive; after exhaustive consultations with the sector, circulars were sent out in 2006 with the aim of preparing insurance companies step by step for the challenges that Solvency II will represent for the sector; the preparation was both quantitative in respect of the requirements governing provisions – the introduction of tighter ALM requirements – and qualitative in respect of organizational requirements.

New paths have been trodden concerning the range of insurance products on offer. By giving its support to self-regulatory initiatives developed by the sector, the CBFA has ensured that there is better protection for consumers of financial services: henceforth, there will be an improved framework for advertising life assurance products and for providing information about them; moreover, those offering a product will, prior to the conclusion of an insurance policy, check that the product offered satisfies the customer’s needs and wishes.

In implementation of new Belgian legislation, a start was made in 2006 with the registration of intermediaries for banking and investment services. The system is organized along the same lines as that for insurance intermediaries and is designed to bring about a level playing-field. The procedure for both categories of intermediary has been substantially automated.

Most of the legislation mentioned above falls within the orbit of the increasing integration of the European financial markets and is consequently in line with the realization of the Lisbon agenda. In the view of the European Commission, the progress being made towards further integration of the markets will make a substantial contribution to economic growth. It is progress that Belgium is putting its best effort into achieving.

The internal operation of the CBFA

During the past calendar year, the CBFA also focused much of its attention on its internal organization. Just over three years since it was begun, the work of integrating the Insurance Supervisory Authority into what was the Banking and Finance Commission has now been largely completed; it has been fully completed as regards supervisory tasks, financing rules and operation, as well as organization and staff status.

The various departments now observe the same standards of quality, and cooperation is smooth.

This has been helped by internal staff mobility, which has been strongly encouraged. As regards the integration of executive staff, a large number of staff with civil servant status were, after screening, offered an employment contract giving them status as CBFA staff; however, the further integration of the staff will require continuous attention.

Now that the CBFA has been entrusted with new supervisory tasks by the Legislature, the staff will need to be expanded, as was the case with the new legal task in respect of the registration of intermediaries for banking and investment services. Everything is also being done to fill current vacancies, but, like many other institutions and companies, the CBFA is finding the labour market short of candidates for specialist positions.

The CBFA is financed entirely by contributions that, in accordance with a legal arrangement, are made by persons and companies subject to CBFA supervision. The basis of the Royal Decree is that income should cover expenditure and that any surplus is repaid to the contributors.

Committee for Financial Stability

With the increase in the relative importance of the Belgian financial world on the European stage has come a growing realization that the consequences of this development for the stability of the financial system and the country have to be adequately monitored. It is for that reason that the legislators established the Committee for Financial Stability (CFS), made up of the members of the Board of Directors of the National Bank of Belgium (NBB) and of the Management Committee of the CBFA. The CFS conducts regular analysis of the risks and of the most important factors that could influence the financial system; that analysis and its discussion also involve the federal Ministry of Finance. Additionally, the CFS pays great attention to the handling of possible operational crises of a nature to threaten financial stability. Drawing on the support of the services of the NBB and the CBFA, the CFS examines the extent to which our financial system is proof against certain developments, such as a drastic interest-rate shock, a liquidity crisis or a pandemic. Both institutions have co-operated actively in the committee's work, and the committee itself follows up the NBB and the CBFA in their co-operation in carrying out the tasks of supervising certain infrastructure companies, more particularly in respect of securities clearing and settlement, which is carried out in consultation with the foreign supervisory authorities concerned.

The CBFA is convinced that this co-operation both broadens and tightens supervision, whereby macro-level elements and micro-level data supplement each other. Now that the co-operation has been extended to take in common support functions, the CBFA can build up a stronger supervisory system and develop it further.

Internationalization of supervision

The growing internationalization of the financial system is inevitably having an impact on supervisory practices in Belgium. Numerous companies established in Belgium are active worldwide and big international players have set up their head offices or branches here. This international dimension to financial supervision is demanding increasing attention from the CBFA.

The fact that various Belgian groups with subsidiaries and branches at home and abroad have their head office in Belgium necessarily means that they fall within the scope of CBFA supervision. Although subsidiaries are supervised by their local supervisor, there is – given the role of the central management of the institution – an important task for the supervisor of the company responsible for group management, and it is here that consolidated supervision comes into play.

In view of the increasing internationalization of the activities of Belgian institutions, the CBFA had concluded numerous memorandums of understanding (MoUs) with foreign supervisors; moreover, additional agreements are negotiated each time Belgian banks venture onto new territory. This was the case in 2006, for example, in respect of contacts with the Turkish supervisors, when two Belgian groups took over local banks in Turkey.

The CBFA has wide experience of cross-border supervision. Specific agreements have been concluded regarding supervision of the large Belgian financial groups; for specialized companies, such as Euroclear and Clearnet, suitably adapted MoUs are in place.

A number of notable cross-border transactions took place on the securities markets in 2006. In respect of Mittal's Europe-wide takeover bid for the shares of Arcelor, the coordination between supervisors that takes place within the framework of the standard MoU of the CESR lay at the basis of the formulation of a joint standpoint adopted by the four supervisors concerned and of the drawing-up of a uniform information document for all markets concerned.

There was even tighter cooperation in respect of Euronext's approach to the New York Stock Exchange in the trans-Atlantic constellation. Cooperation between the five European supervisors and their American counterpart was active and led to uniform points of view that will in future ensure that balanced supervision will continue to guarantee investor protection, without any threat to the existence and individuality of markets on either side of the Atlantic. Special guarantees have been stipulated to prevent American securities regulation or company law being applied to companies listed exclusively in Europe.

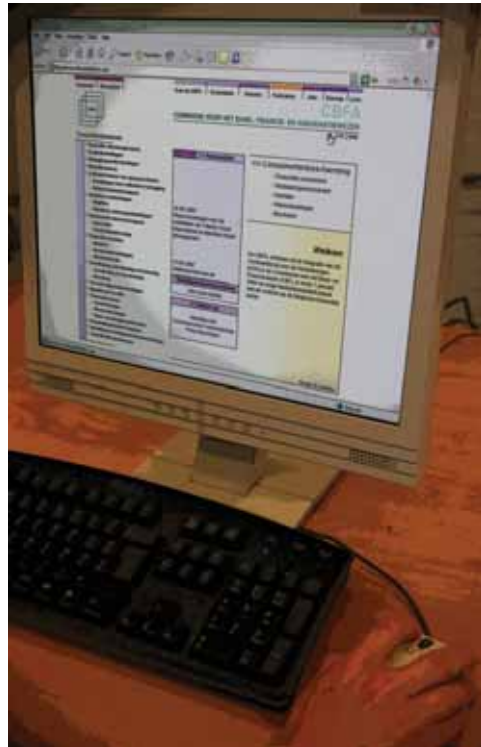
In respect of regulation, the CBFA is closely involved in the development of both European and international legislation, taking an active part in three international organizations – the Basel Committee, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO) – as well as in the European advisory committees – the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR) – that coordinate and formulate policy in this regard. Various members of staff have been involved at different levels in these efforts to achieve better regulation and the CBFA has been able, in this way, not only to confirm its expertise, but also to make a contribution to a body of rules that will bring about a better framework for the financial business in general. The advantage of this for Belgian companies and consumers is that they will be more rapidly informed about current developments. It will also allow local points of interest to be included in the process of European consultation.



In the midst of these exciting European and international developments, however, it is important not to lose sight of the requirements of daily supervision. The fact that, again in 2006, this task was not lost sight of is evident from the activity reports that follow in this annual report. The effort put in each day by every member of the CBFA's staff does not always result in spectacular campaigns, but it is no less necessary for all that and represents the central pillar on which the institution rests.

The staff's expertise and professionalism are a guarantee of the CBFA being able adequately to carry out the task entrusted to it by law, which is all the more reason to value their commitment.





Chapter 1

General organization

A. MANAGEMENT COMMITTEE



⁷Eddy **Wymeersch**, **Chairman**

²Rudi **Bonte**

⁸Marcia **De Wachter**

⁴Michel **Flamée**, **Vice-Chairman**

⁶Françoise **Masai**

⁵Peter **Praet**

³Jean-Paul **Servais**, **Vice-Chairman**

Secretary General

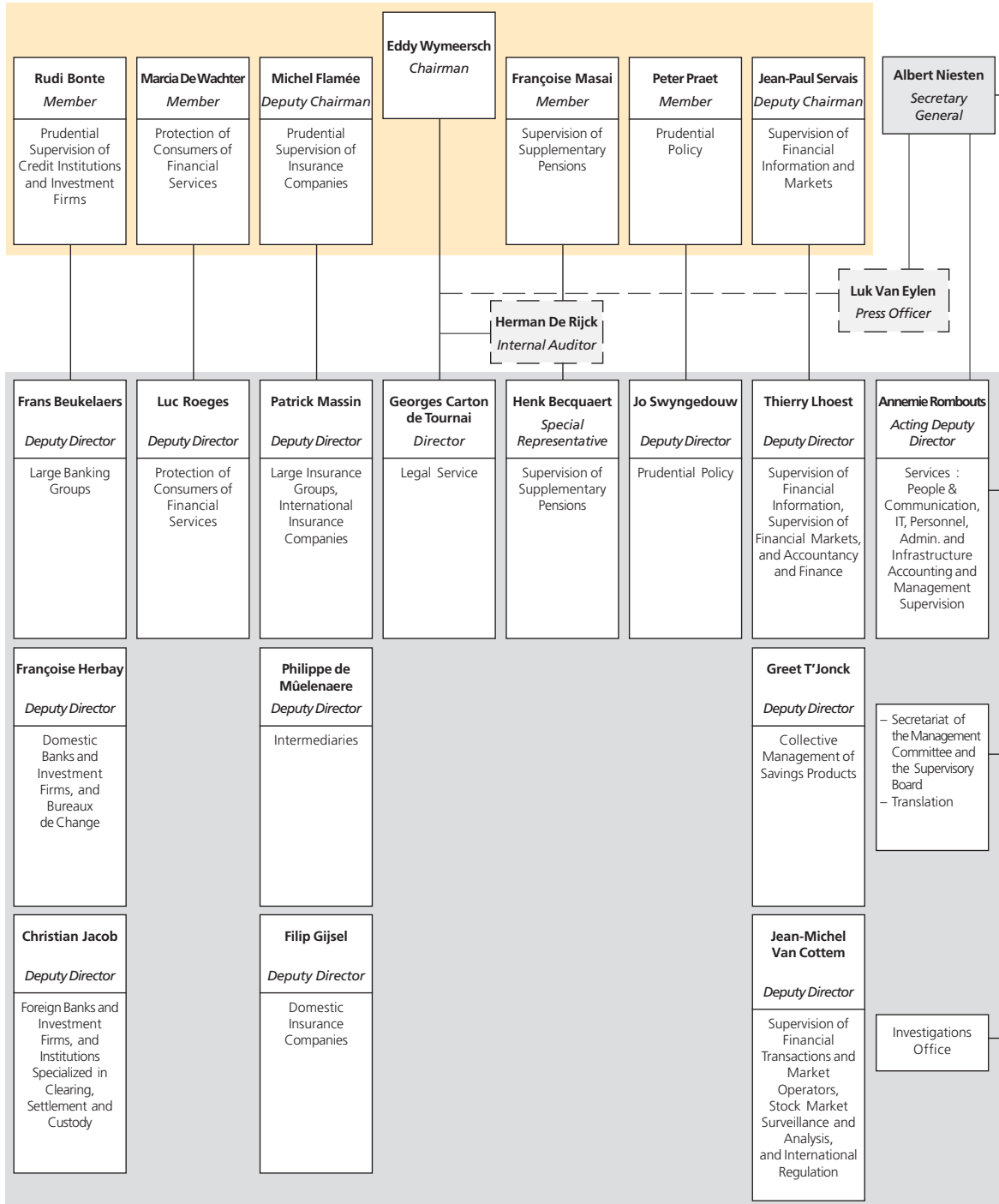
¹Albert **Niesten**, **Secretary General**

Organization chart: development (1)

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

Organization chart

Management Committee



(1) Situation as at 1 January 2007.

Mr G. Vernailen, Deputy Secretary General, reached retirement age and left the CBFA on 1 November 2006. As Secretary General of the ISA, Mr Vernailen had been appointed Deputy Secretary General (2), his primary mandate being to assist the Secretary General particu-

larly in achieving the integration of the ISA services with the CBFA. After Mr Vernailen's departure, the organization chart was updated and the position of Deputy Secretary General was omitted.

Bylaws

There was no amendment to the bylaws in 2006.

Code of ethics

In the course of 2006, the CBFA's code of ethics underwent three modifications. The first involved excluding from its scope those statutory employees (civil servants) who opted for the pre-retirement leave regime. Although these employees remain members of the CBFA staff up till the time of their retirement, they have in fact left the institution. The second change consisted of specifying the provisions relating to holding securities by persons closely associated with members of management, while the third extended the ban on transactions that applies to members of staff to cover securities listed on the Alternext market and Euronext Brussels' Free Market (*Marché libre/Vrije Markt*).

By way of reminder, one of the important purposes of the CBFA's code of ethics is to protect the institution, its leaders (3) and the members of its staff from any suspicion concerning the use of privileged information that they inevitably possess as a result of the institution's mandate. By applying this code, the leaders of the CBFA abstain from holding any shares or units 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 code of ethics came into force or who have joined the CBFA since then 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 2006, members of staff submitted 28 requests to sell their securities or include them in an exchange or repurchase operation.

For each of these requests for authorization, the Secretary General verified whether the proposed transaction was of a defensive character, and whether the CBFA services had any relevant information that could be deemed to be privileged. It should be noted that where a request for authorization concerns shares in a company that has informed the CBFA that it was using the faculty made available under Article 10, § 1bis, of the Law of 2 August 2002 to postpone the dissemination of a privileged item of information, the request will be turned down even if the privileged information itself is not known to the CBFA. In such a case, the staff member is invited to resubmit a request after a period of 30 days.

(2) See Article 39 of the Royal Decree of 25 March 2003 implementing Article 45, § 2, of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, confirmed by the Law of 5 August 2003.

(3) «Leaders» here is to be understood as 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.

Number of meetings held by the governing bodies

In 2006, the Management Committee met 52 times and also had recourse to a written procedure on 17 occasions.

In addition, the Management Committee, together with the Board of Directors of the National Bank of

Belgium (NBB), participated in eight meetings of the Financial Stability Committee.

The Supervisory Board met eight times in the course of the year, and had recourse to a written procedure on four occasions.

Financing of the CBFA's operating expenses

With effect from 1 July 2006, the CBFA's supervisory tasks were expanded to include supervision of the companies adopting the new legal status of intermediary in banking and investment services, which was introduced by the Law of 22 March 2006 (4).

At the end of 2006, the rules for covering the operating costs of the CBFA were therefore amended to take account of financing the costs of supervising such companies, estimated at 1 160 000 euros.

Three factors determine the costs for this legally mandated supervision:

- ❖ *the necessity of recruiting additional staff*

For 2006, the CBFA estimated the number of staff required to implement the law at the full-time equivalent (FTE) of ten. That number may be reduced on 1 January 2008 to 8 FTEs. In making the estimate, the CBFA took account of the productivity gains to be offered by, on the one hand, the computerization of registration and, on the other, the wish of the political authorities to tighten up supervision with a view to offering better protection to the public. This requires more on-the-spot verifications at both the central institutions and the intermediaries themselves.

- ❖ *the rental of additional office space*

- ❖ *the development of IT protocols for online registration (via Internet) and the automated management of intermediaries.*

Pursuant to Article 48, § 1, 5°, of the Law of 2 August 2002, the Supervisory Board is competent to submit to the King, on the advice of the Management Committee, the general rules regarding the financing of the CBFA's activities. On the basis of this competence, the Supervisory Board therefore proposed the following general rules in order to finance the supervision costs thus determined:

- ❖ *increase in the number FTE staff that the CBFA may recruit*

By way of reminder, the number of FTEs that the CBFA is permitted to employ was set at 406 by article 1 of the Royal Decree of 22 May 2005, in light of the tasks that the CBFA was charged with at that time.

- ❖ *Financing of the supervision costs imputable to intermediaries in banking and investment services, through the determination of a sectoral budget in the amount of the budgetary consequence of the Law for the CBFA.*

The Royal Decree of 20 December 2006 incorporated these rules into the original decree of 22 May 2005, raising the maximum number of persons that the CBFA may employ from 406 to 416 for 2006, 415 for 2007 and 414 for 2008, and introduced a separate budget of 1 160 000 euros, to be financed by intermediaries in banking and investment services, partly in proportion to the number of persons each allocates to contact with the public.

(4) Law of 22 March 2006 on intermediation in banking and investment services and on the distribution of financial instruments, published in the Belgian Official Gazette of 28 April 2006.

The Financial Stability Committee

In accordance with the Law of 2 August 2002, matters of common importance for the CBFA and the NBB are dealt with by the Financial Stability Committee (FSC) (5). Those matters are detailed further by the Law.

A major field of activity concerns assessment of the stability of the Belgian financial system. In this respect, the FSC regularly analyses the risks and most important factors that could influence that system, and also involves the federal public service "Finances" in its deliberations.

During 2006 the stability of the Belgian financial system was thus a major theme in the IMF's assessment of the robustness of the Belgian financial sector (the Financial Services Assessment Program – FSAP). The FSC took cognizance of the stress tests that, in close cooperation with the major Belgian banks and insurance companies, were carried out by the CBFA and the NBB in order to gauge the resilience of financial groups to liquidity or interest-rate shocks or to credit problems. The IMF welcomed the initiative and requested the FSC to focus its attention on the change in risk profile that the Belgian financial system is currently experiencing and on the challenges the financial sector faces in consequence of the important developments in European regulation (6).

The FSC likewise focused its attention on payment and settlement systems, on the TARGET 2 project, which is intended, by 2008, to put in place a common technical platform for real-time gross settlements in the euro area, as well as on the interaction between this new shared platform and securities settlement systems. Lastly, there was examination of the SEPA project, which aims to establish a single euro payments area by 2010.

In a second, related field of activity, the FSC paid specific attention to the handling of possible operational crises of a nature to threaten financial stability. On 18 October 2004, it approved a number of recommendations aimed at reinforcing the stability of the financial system should such crises occur. These recommendations concern ensuring that the players and functions deemed critical for the smooth running of the Belgian financial system take the requisite measures to guar-

antee the continuity of their activities (business continuity). The FSC entrusted the implementation of the recommendations to a Permanent Monitoring Entity (PME), which developed a specific escalation and communication procedure for incidents of an operational nature that could have a sharply negative impact on the proper operation of the Belgian financial system (natural disasters, terrorist attacks, pandemics, etc.).

A third field concerns supervision of the payment, clearing and settlement systems in respect of which the CBFA is responsible for prudential supervision of regulated companies that manage them, and in respect of which the NBB is responsible for oversight, which focuses on the smooth operation, efficiency and soundness of such systems. The FSC coordinates the two supervisory responsibilities, the aim being to allow supervision to be conducted as efficiently as possible for both the supervising and the supervised institutions.

A fourth field of common importance is the cooperation between the two institutions in respect of support tasks, cooperation that is given shape through service level agreements (SLAs). As at closure of the period under review, fifteen SLAs had been concluded between the institutions in order to enhance their efficiency. Moreover, with a view to avoiding conflicts of interest between the two institutions, efforts are made to draw up these agreements at market terms and conditions.

In order better to bring its operation and competences to public notice, the FSC decided during the period under review to set up its own web site (www.csf-cfs.be). Operational since 2 October 2006, the site describes not only the tasks and activities of the FSC, but also those of the Financial Services Authority Supervisory Board (FSASB), the second body for cooperation between the CBFA and the NBB that was created by the Law of 2 August 2002 on supervision of the financial sector and on financial services. The web site will also serve as a means of communicating with the sector, should a serious operational, financial crisis hit one or more critical institutions or infrastructures. Like comparable sites in other countries, this site offers not only information that may be accessed by the public, but also information to which only the critical institutions and infrastructures, as well as the financial authorities, have access.

(5) Article 117, §§ 1 and 3, of the Law of 2 August 2002 on supervision of the financial sector and on financial services.

(6) The European directives regarding capital requirements (CRD), markets in financial instruments (MiFID), solvency margins (Solvency II) and payment transactions (the Single Euro Payments Area – SEPA).

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 being defined.

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

In addition, staff from all departments are actively involved in the international and European working groups 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 brought to bear on planned activities, and Belgian companies can be informed of 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.

External accountability

Accountability – Justification of policy

The independence of supervisors referred to in the applicable international supervisory standards, such as those of the Basel Committee or of IOSCO, is entrenched in Belgian legislation; the reverse side of this independence is the obligation to provide justification. As is the case with similar provisions in other countries, Article 65 of the Law of 2 August 2002 states that the chairman of the CBFA may be questioned before the competent committees of the Chamber of Representatives or of the Senate. Such questioning occurred again in 2006. Without prejudice to the other specific obligations arising from the law – such as those regarding open consultation of market participants in the preparation of legislation (Article 64 of the Law of 2 August 2002) – it is the task of the supervisor to give substance to this obligation to provide justification. This can be

done through a range of instruments that can be used to provide greater transparency to the actions taken and standpoints adopted by the supervisor. The CBFA conducts exhaustive consultation with the undertakings subject to supervision and with their professional associations, in order – given the proportionality rule – to guarantee that the proposed regulatory obligations are optimally geared to the size of those to whom they are addressed. The CBFA makes extensive use of, among other things, its web site to publish information and decisions (7), and notes that the site is frequently consulted (8). Furthermore, the CBFA attaches great importance to the justification of its decisions, particularly in respect of matters where it imposes sanctions on market participants.

(7) See Article 66 of the Law of 2 August 2002: “The CBFA shall organize a web site and keep it up to date. The web site shall contain all regulations, proceedings and resolutions that are required to be published, as well as any other information that the CBFA deems appropriate to disseminate in the interest of its legal tasks. Without prejudice to the means of publication prescribed by the appropriate legal or regulatory provisions, the CBFA shall specify other possible means of publishing the regulations, resolutions, opinions, reports and other proceedings it makes public.”

(8) See the CBFA web site: www.cbfa.be.

B. SUPERVISORY BOARD (9)



1	2	3	4	5	6	7	8	9
			10		11		12	

¹¹Eddy **Wymeersch**, Chairman

⁷Jean **Eylenbosch**

⁹Jean-François **Cats**

²Guy **Keutgen**

¹Herman **Cousy**

¹²Hilde **Laga**

³Eric **De Keuleneer**

⁶Didier **Matray**

⁴Christian **Dumolin** (10)

⁵Marnix **Van Damme**

¹⁰Martine **Durez** (10)

⁸Dirk **Van Gerven**

Auditor

André **Killesse** (11)

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 19 April 2007.

(9) Status as at 31 December 2006.

(10) Appointed in his capacity as member of the Council of Regency of the National Bank of Belgium.

(11) 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

Like the Management Committee, the Supervisory Board was heavily involved in 2006 in the re-regulation of the financial system. Pursuant to its legal task of discussing developments regarding supervision in Europe and their repercussion on the supervisory framework in Belgium, the Board repeatedly deliberated on the major pieces of draft legislation or draft decrees, and in doing so formulated comments and submitted recommendations. This occurred particularly in the case of the draft legislation on takeover bids, in respect of which the members of the Board set out their views on the most important policy options contained in the draft. It also occurred in respect of the new legislation on institutions for occupational retirement provision. Among other things, the Board gave its attention to the proposed new legal structure and recommended that a check be made of the extent to which the prudential rules that would apply to those institutions could be brought into line with those applying to other companies subject to prudential supervision. The differences with the legislation applying to insurance companies were also discussed.

The Board also analysed several other major draft laws and regulations: in particular, the new transparency rules for listed issuers and the legal framework for intermediaries for banking and investment services; discussion also took place on the supervisory structures and the related financing rules. In application of Article 48, § 1, 5°, of the Law of 2 August 2002, the Board, on the proposal of the Management Committee, drew up proposals concerning the financing arrangement for the supervision of intermediaries for banking and investment services, proposals that led to the Royal Decree of 20 December 2006 amending the Royal Decree of 22 May 2005 on the operating costs of the CBFA.

There was an exhaustive discussion of the proposal for the internal governance of credit institutions, based on the draft document drawn up by the Management Committee to replace the earlier bank protocols. The rules of internal governance were compared not only with the code for listed companies, but also with the specific prudential requirements.

On the basis of the results assembled from the individual stress tests aimed at charting the interest-rate risk of insurance companies, the Board discussed both methodology and conclusions. This led to a deeper insight being gained and a call for the matter to be followed up further. More generally, the Board took cognizance of the conclusions of the assessment conducted by the International Monetary Fund following upon the review carried out by the Fund during the previous year, and has noted that, in most instances, the recommendations have been implemented.

In respect of the Board's role in providing legal advice about the priorities of supervision and the preparation and implementation of supervisory policy, as referred to in Article 48, § 1, 2° and 3°, of the above-mentioned law, there was policy-oriented discussion regarding the role of consumer protection in the CBFA's policy; the Board drew up suggestions for balanced development of its task in this respect. The Board also reiterated its concern regarding the transparency of the administrative charges in life-assurance and group-insurance contracts, already mentioned in its preceding report.

Discussions of this nature are exceptionally useful for the operation of the institution, because they permit broader assessment of the proposals of the Management Committee and allow possible adjustments to be identified and, where necessary, to be taken account of at an early stage.

The Board also looked at various aspects of the internal operation of the institution.

A great deal of attention was naturally paid to the Board's task as laid down in Article 48, §1, 4°, of the Law of 2 August 2002, whereby the Board approves the financial statements, the annual budgets and the annual report. In this respect, the financial statements and the annual report were approved on 31 March 2006. In the course of the year, the Board was notified of the implementation of the budget, and the six-monthly statement of income and expenditure was submitted to it. It also followed up the findings of the internal audit function and the action taken regarding the recommendations formulated. On 22 May 2006, it renewed the mandate of the auditor.

Pursuant to its general task of supervising the operation of the CBFA, as referred to in Article 48, §1, 4°, of the above-mentioned Law, the Board regularly examined the internal operation of various services. As in previous years, the Human Resources report was submitted to it and the Board discussed the main developments regarding the staff, including the balanced age-group structure and a favourable balance between the sexes.

Relatively new for the CBFA is its competence to impose sanctions. The Board requested a comprehensive presentation of the sanction procedures and the role of the Ministry for Public Prosecution. Members of the Board made recommendations in this delicate matter, particularly regarding observance of the rules of due process.

With intermediaries for banking and investment services now being required to register with the CBFA, there was a need to expand the service for intermediaries; this has involved not only the recruitment of new staff, but also the service being rehoused.

The physical infrastructure, including the budgetary impact, was discussed within the framework of the increased needs regarding accommodation.

Pursuant to paragraph 3 of Article 62 of the Law of 2 August 2002, the Board is associated with the appropriate measures to ensure observance of the code of ethics. Again in 2006, the Board took cognizance of various cases of the code of ethics coming into play, among other things in respect of direct or indirect holdings of shares. With regard to this, it noted that the code required three adjustments and, in general, was consistently observed.

Lastly – pursuant to Article 48, § 1, 6°, of the above-mentioned Law, which stipulates that its prior opinion is required on the matter – the Board devoted an initial discussion to the procedures that can be followed for the appointment of the members of the Management Committee, and thereafter notified the Ministers of Finance and of Economic Affairs of its opinion on the matter.

C. RECENT DEVELOPMENTS

The six-year term of office of Eddy Wymeersch, Chairman of the CBFA since 1 April 2001, ended on 31 March 2007.

Pursuant to the Royal Decree of 25 April 2007, Jean-Paul Servais has been appointed Chairman of the CBFA, with effect from 20 April 2007.

Furthermore, the function of chairman of the CBFA has been split.

Pursuant to the Royal Decree of 30 April 2007, Eddy Wymeersch has been appointed Chairman of the Supervisory Board of the CBFA, with effect from 2 May 2007.

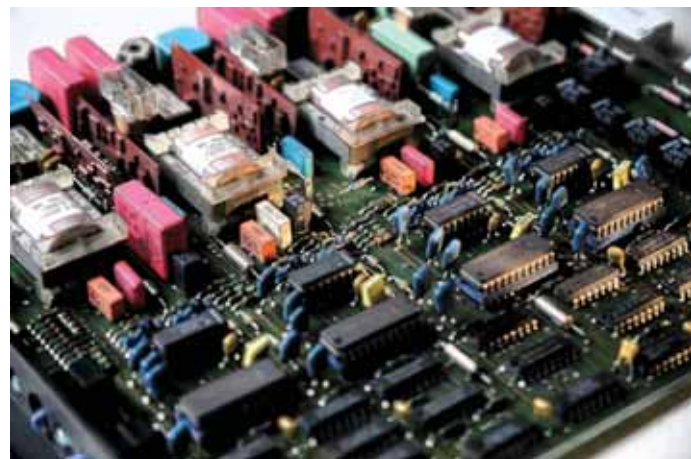
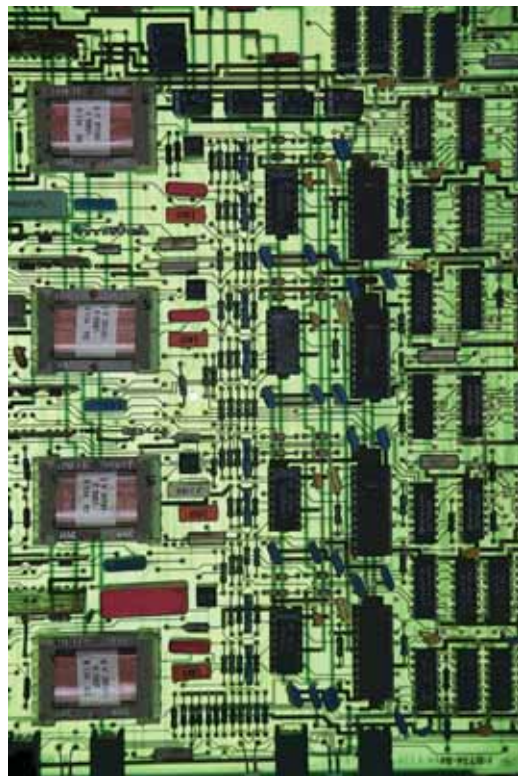
Equally with effect from 2 May 2007, Jean-Paul Servais has been appointed Chairman of the Management Committee of the CBFA.

Pursuant to the Royal Decree of 30 April 2007, Henk Becquaert has been appointed member of the Management Committee of the CBFA, with effect from 2 May 2007.

With the splitting of the chairmanship of the Supervisory Board and the Management Committee of the CBFA, the government has responded to, among other things, the recommendations formulated by the International Monetary Fund, particularly within the context of the Financial Sector Assessment Program and more recently during the "Article IV" mission conducted in respect of Belgium.

The administrative procedure for the imposition of sanctions was established by the Law of 2 August 2002. Given the rise in the number of dossiers, and on the basis of experience, it has been decided to delegate competence to impose administrative fines and penalties to a Sanctions Committee set up within the Supervisory Board of the CBFA (12). Introduced at the same time was the option of a voluntary settlement in certain cases.

(12) Programme Law of 27 April 2007 (Belgian Official Gazette, 8 May 2007).



Chapter 2

Report on activities

2006 AT A GLANCE

22 February 2006	The Law of 22 February 2006 introduces into the Law of 27 March 1995 on insurance and reinsurance intermediation and on the distribution of insurance an obligation with respect to providing information. In concert with the CBFA, the professional associations of insurance intermediaries and the professional association of insurance companies have drawn up sectoral documents for the use of insurance intermediaries, in order to assist the latter in meeting this insurance obligation. Specifically, three documents have been issued: the first is devoted to traditional life assurance, the second to savings or investment by means of a life assurance policy, and the third to non-life insurance.
7 March 2006	The Royal Decree of 7 March 2006 is passed in response to the request by the collective management sector that Undertakings for Collective Investment (UCIs) be given the option of lending their securities. The Decree specifies the conditions and modes of such a loan of securities.
31 March 2006	Banks report for the first time under IAS/IFRS norms for prudential purposes (consolidated Layout A). They also make use of XBRL for the first time.
10 May 2006	New preventive measures regarding market abuse enter into force. They complete the transposition into Belgian law of the European directives concerning market abuse. Between 10 May and the end of 2006, the CBFA publishes 822 transactions by company officers and by persons closely associated with them.
17 May 2006	The CBFA presents its annual report of 2005 to the media.
20 May 2006	The Directive on takeover bids enters into force. Since the transposing legislation is still being drafted at this time, the CBFA takes the necessary measures to take account, on its own initiative, of the direct effect of the Directive's provisions recognizing the rights of economic actors. This concerns, in particular, provisions with regard to competence and to the recognition of prospectuses in the context of cross-border offers.
23 May 2006	The CBFA approves the prospectus for the issue of a maximum of 649 350 new shares of Evadix SA, the first company to be listed on Alternext. The listing takes effect on 20 June 2006. In the course of the year, three more companies would be admitted to trading on Alternext, namely, Emakina Group SA, De Rouck Geomatics SA and Porthus NV. In 2006 there was a total of 20 IPOs on Euronext Brussels: 7 on Eurolist by Euronext Brussels, 9 on the Free Market and 4 on Alternext Brussels.
14 June 2006	The Capital Requirements Directive (CRD) transposes the Basel II framework into European legislation.
16 June 2006	The Law of 16 June 2006 governs the prospectus to be published by closed-ended UCIs.
21 June 2006	A Royal Decree of 21 June 2006 reforms the system for individual consumer complaints regarding insurance, centralising the competence in this matter with a single authority, the Insurance Ombudsman Service. This Royal Decree enters into force at the end of November 2006. From this point on, the CBFA stops handling any new complaints submitted to it in the area of insurance.
1 July 2006	The Law of 22 March 2006 enters into force. This Law introduces the status of agent or broker for banking and investment services.
10 August 2006	The European Commission publishes the implementing measures to MiFID.
17 August 2006	After the closing of its takeover bid on 17 August 2006, Mittal Steel announces that it holds 93.72 % of Arcelor's shares. From the time the bid was announced, there was close cooperation among the supervisory authorities of the countries where the offer was made, in order to reconcile the legal and regulatory provisions in force in the various European jurisdictions, and in order to ensure that there is no significant difference between the information provided to the public in Europe and in the United States respectively. This cooperation was also undertaken in order to try to coordinate the statements to the press made by the parties concerned in this highly publicized case.
22 August 2006	The CBFA issues a regulation on the external functions of company officers of institutions subject to its supervision.
19 September 2006	Anticipating certain measures that are to be introduced by the forthcoming Solvability II Directive, the CBFA specifies, in two circulars, the modalities for gaining recognition for asset/liability risk management models in order to obtain an exemption from establishing a flashing-light provision for interest-rate risk in life assurance.
17 October 2006	The CBFA approves the new own funds regulation, which applies to all institutions subject to Basel II. With this regulation, most of the provisions of the Capital Requirements Directive have been transposed into Belgian law.
27 October 2006	The Law on institutions for occupational retirement provision (IORP) is promulgated. This Law transposes the IORP Directive, which allows Belgian IORPs to manage pension schemes established in other Member States of the European Economic Area. The Law modernizes the prudential framework for IORPs. It also creates a new legal form, that of OFP (pension financing organization), specially designed for their activities and endowed with its own fiscal status.
19 December 2006	The General Meeting of Shareholders of Euronext NV gives the green light to the proposed combination agreement between Euronext NV and the NYSE Group Inc. The CBFA, as a member of the College of Euronext Regulators participated in the working group set up at the initiative of the Chairmen's Committee. The mandate of the working group was to carry out a detailed analysis of the proposal in order to identify its impact on supervisory activities as defined in the MoU signed among the various Euronext regulators. In a parallel process, the CBFA examined the impact of the said proposal on its domestic supervisory activities.
December 2006	The CBFA publishes a <i>feedback statement</i> on 'sound governance'. This document is the result of a broad consultation with the sector, carried out between March and June, concerning the prudential expectations of the CBFA with regard to sound governance of financial institutions under prudential supervision.
1 January 2007	"Basel II" enters into force. The Basel II framework, drawn up by the Basel Committee, refines the own funds requirements of financial institutions. Banks and investment firms will as of 2007 prepare a solvency calculation based on the new Basel II framework.

REPORT ON ACTIVITIES - DEPARTMENTS

Prudential policy

1. Aims of the department

The aims of the department were elucidated in previous annual reports (13); there was no change to them during the year under review.

The department participated in the development of prudential norms, standards and regulations for banks, investment firms and insurance companies. One of the most important points of focus during the last financial year was the preparation of the integration of the insurance dimension into the activities of the department, integration that is due to be fully completed in the course of 2007. Once the process is rounded off, the service provided to all the operational departments (banking and insurance supervision) will be of a comparable nature. That will permit maximum emphasis to be laid on cross-sectoral harmonization of the prudential approach and regulation, more than was the case in the past. Where, in the past, this approach had been introduced in respect of provisions on governance and on general administration, it will now be applied across the board in the delineation and development of prudential norms and their transposition into best practices and supervisory instruments.

The developments in the Solvency II project for the insurance sector, comparable in conceptual terms to Basel II, and those in the three "Lamfalussy" committees, as they are called (CEBS, CEIOPS en CESR) (14) require that the structure and the operation of the department be directed to achieving cross-sector synergy and coherence. These 3L3 committees operate within the context of conglomerate supervision, money-laundering,

suitability criteria for shareholders, own funds, internal governance, etc., and are responsible for a body of initiatives aimed at further convergence of the prudential practices of the European supervisory authorities – more particularly with regard to, among other things, mediation, impact assessment, peer review, and joint training and instruction initiatives – and at reinforcing a European culture of supervision. The initiatives also fall within the scope of preparation for the evaluation of the Lamfalussy structure, set to take place in the EU in 2007. In respect of that preparation, the Convergence Task Force within the CEBS has been charged with the coordination of activities. Within CEIOPS, the mandate and the name of the Compass Task Force have been changed; the mandate has now been entrusted to the Convergence and Impact Assessment Task Force, chaired by the Management Committee member responsible for insurance supervision. A further task of these working groups is to formulate an answer to the recommendations of the "Francq" report (15).

A coherent, cross-sector prudential approach is indispensable for an integrated supervisor, if risk analysis and the approach to supervision are ultimately to be unified and made identical, irrespective of the nature and legal status of the financial intermediary. Within the specifically Belgian context, moreover, a coherent cross-sector approach is a condition for group or conglomerate supervision to be conducted in credible fashion.

(13) See the CBFA Annual Report 2004, pp. 32-33, and Annual Report 2005, pp. 28-29.

(14) Acronyms of the English names, hereinafter referred to as the 3L3 committees:

CEBS: Committee of European Banking Supervisors.

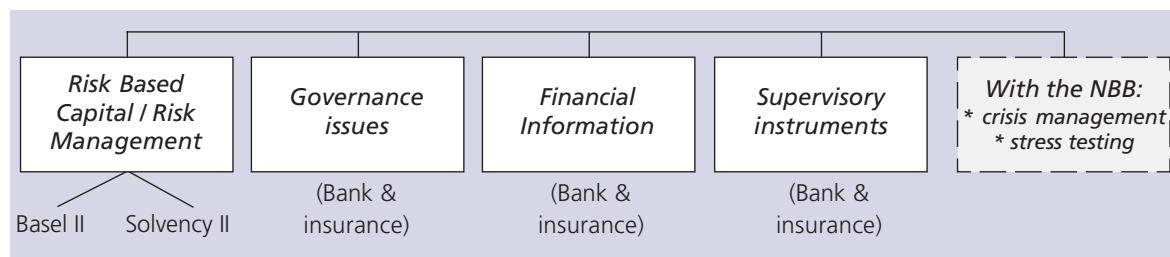
CEIOPS: Committee of European Insurance and Occupational Pensions Supervisors.

CESR: Committee of European Securities Regulators.

(15) The "Francq" report on financial supervision was prepared by the Financial Services Committee (FSC) at the request of Ecofin and includes recommendations for a more efficient organization of financial supervision in Europe.

2. Organization chart and resources

In 2007, the department will be arranged according to the following structure:



This structure emphasizes the cross-sector approach toward matters of prudential supervision. The organization chart also indicates the policy areas brought within a relationship of structural cooperation with the National Bank of Belgium (NBB); the areas concerned are those in which both the CBFA and the NBB have specific competences, in which they take joint initiatives or in which they coordinate their efforts to the full.

International policy consultation is one of the department's core activities, and members of the Management Committee take a leading part therein. Examples of this were the appointment in 2006 of the Committee member responsible for this department as a member of the Ad Hoc Working Group on EU Financial Stability Arrangements of the EFC (16); the appointment in 2007 of the committee member responsible for the *Prudential Supervision of Insurance Companies* Department as chairman of the executive committee of the IAIS (17); and the appointment at the beginning of 2007 of the committee member responsible for the *Prudential Supervision of Credit Institutions and Investment Firms* Department as a member of the CEBS bureau. The staff of the department also have a hand in determining policy in various international forums and consultation bodies.

To deal with all its tasks, the department has the full-time equivalent of 27.7 members of staff. This number includes four members of the staff of the NBB, incorporated into the department to give concrete expression to synergy between the CBFA and the NBB.

3. Priorities and points for consideration

2006 was characterized to an important extent by a wave of new regulatory initiatives, resulting from European or international developments. Attention shifted to the coherent implementation of those regulations in prudential practice; the shift will have a substantial influence on the agenda and priorities of the international forums during the period ahead.

The rounding-off of major regulatory initiatives has brought a number of the department's long-term projects into their final phase, and further work has been done to implement the recommendations made previously by the International Monetary Fund (IMF) during its assessment of the Belgian financial system (the Financial Sector Assessment Program – FSAP) (18).

Dealt with below are both the international and national developments regarding the various matters falling within the department's scope of work as indicated in the organization chart.

3.1. Risk-based Capital / Risk Management

3.1.1. Banks and investment firms

In 2006, the Basel Committee placed the emphasis on preparations for the implementation of Basel II. No new large-scale projects were set in train.

(16) Economic and Financial Committee of the EU.

(17) International Association of Insurance Supervisors.

(18) See the CBFA Annual Report 2005, pp. 18-20.

The implementation of Basel II is being prepared within the Accord Implementation Group, the emphasis being on the so-called “home/host” cooperation between supervisors in the supervision of cross-border financial groups. In addition, a great deal of attention is being paid to the second pillar and to questions relating to the validation of internal models for credit and operational risks. Increasing attention is also being given to recent developments in respect of the stipulations for the calculation of capital requirements for market risks.

During 2006, the Quantitative Impact Study V was also completed. Its most important conclusion was that the set goals for capital requirements within the Basel II framework had in general been achieved, so that no recalculation of parameters was required. However, it was noted that there was a relatively wide spread of results from one institution to another. The exercise indicated that, with the average quality of its credit portfolio and its broad retail-customer base, the Belgian sector had recorded a greater than average decline in capital requirements.

2006 also saw the Basel Committee revise its structure, a move partially prompted by the change of chairman during the year.

In addition to the above-mentioned Accord Implementation Group, whose mandate was confirmed, a new Policy Development Group (PDG) was established with the task of following up (best) market practices regarding risk management and of instituting a dialogue with the sector on the matter. The PDG coordinates all activities to do with advanced risk-management techniques (including those of the Research Task Force, whose co-chair is the CBFA’s Management Committee member responsible for this department, and the Risk Management and Modelling Group). There are also specific sub-groups, whose activities will cover particular themes, more particularly the definition of own funds and of liquidity management.

Within the Joint Forum, a project was begun in 2006, whose aim was to achieve a description of the practices regarding the management of risk concentration within a financial group.

EU Directives 2006/48 and 2006/49 (19) of 14 June 2006 were published, transposing Basel II into European law (20). A compromise on the content of the directives had been reached in 2005.

With a view to dealing with questions of interpretation regarding the CRD, the European Commission has set up a working group (the CRD Transposition Group) to reach common answers.

The implementation of Basel II has been CEBS’ most important area of work since the committee’s establishment in 2004. The task of CEBS is to bring about convergence in prudential practice and more particularly within the context of the implementation of Basel II. Various recommendations that were prepared in 2005 were issued definitively in 2006 (21). In this respect, the following recommendations and guidelines were published:

- ❖ on “home/host” cooperation between supervisors;
- ❖ on the approach of the supervisory review process under the second pillar;
- ❖ on the procedures for the handling and assessment of and the decisions regarding applications from institutions to use advanced approaches to calculate own funds requirements for credit and operational risks.

The framework for EU-harmonized Basel II reporting requirements (COmmon REPorting or COREP) was also completed. Besides the reporting requirements for institutions, the supervisors are also expected to publish information about the implementation of Basel II within the context of what are known as the Supervisory Disclosure obligations. The end of 2006 saw the various Member States moving to give concrete shape to the CEBS project.

In the work to achieve convergence in respect of the supervisory review process, technical recommendations were published under the second pillar, regarding stress tests and the management of a few specific types of risk, including the interest-rate risk in the banking book and the concentration risk.

(19) Directive 2006/48 on the taking-up and pursuit of the business of credit institutions and Directive 2006/49 on the capital adequacy of investment firms and credit institutions, both of 14 June 2006, and hereinafter referred to as the “Capital Requirements Directive” or CRD.

(20) See the 2005 report of the CBFA Management Committee, p. 19.

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

Within CEBS, a Subgroup on Operational Networks was set up that included the supervisors of the top ten financial groups active in Europe, among which are two groups for which the CBFA is the “home” or consolidating supervisor. The purpose of this group is to share experience, to inventory the problems regarding the implementation of Basel II and subsequently to formulate proposals in respect of prudential practices that will also be of use for groups – other than those top ten – that are subject to the supervision of the institutions represented in the sub-group.

In addition, networks were established to share questions and experience and to work out common answers in specific technical fields (among other things, in respect of the validation of advanced models or in respect of the reporting framework).

Lastly, work was done within the CEBS during 2006 on the provision of advice to the European Commission, regarding:

- ▣ the definition of regulatory own funds;
- ▣ the prudential treatment of large risks.

Within the IWCF (22), one of the points requiring attention has been the achievement of cross-sector convergence regarding regulatory own funds.

All these activities will continue in 2007.

At national level, the entire year under review was dominated by the preparations for a new “own funds” regulation, whereby the large majority of provisions from the CRD were at the same time transposed into Belgian law. There were intensive discussions with the sector about the options selected, including the Pillar 2 approach. The main features of the new regulation are dealt with in more detail elsewhere (23). The outcome was the new “own funds” regulation of 17 October 2006. Besides the regulation itself, the CBFA issued comprehensive elucidation of and commentary to its provisions; the entirety of the “own funds” regulation and commentary forms an integrated handbook that, with effect from 1 January 2007, is applicable to all institutions subject to the Basel II framework and that supersedes all previous “own funds” regulations applying to the various categories of institution.

The above-mentioned COREP reporting package was likewise adjusted to Belgian requirements and published.

In respect of appropriate risk management, and partly with a view to fleshing out a Pillar 2 policy, a circular was issued concerning sound management practices regarding the interest-rate risk in the banking book, the liquidity risk and the concentration risk (24). Besides qualitative stipulations regarding sound risk management per type of risk, reporting stipulations for these types of risk were also laid down (to come into effect from 2008). Care was taken in the drafting to ensure that these stipulations were in line with the relative CEBS recommendations and that institutions would be able to use the results of their internal reporting to the maximum for prudential ends.

During the period under review, within the context of pillar 2 assessment (the Supervisory Review and Evaluation Process), a start was made with the development of both an appropriate methodology and appropriate instruments for evaluation, by the supervisor, of the risk profile of each institution. The exercise will be completed in 2007.

The department cooperated with the operational supervisory department in respect of validation of the internal models submitted in 2006 with a view to their application for regulatory purposes.

Since 2006, lastly, the department has been charged with developing prudential policy regarding clearing and settlement. Among the implications of this are the preparation of positions in respect of international developments, as well as the further fleshing-out in prudential terms of the legal status of settlement institutions.

3.1.2. Insurance

The department is becoming increasingly involved in the activities of the IAIS. In 2006 and at the beginning of 2007, two reference documents were published by the IAIS sub-committee:

- ▣ *Standards on Asset-Liability Management*, a document encapsulating best practices in respect of ALM for an insurance company, as well as minimum requirements that supervisors are required to monitor and enforce;

(22) Interim Working Committee on Financial Conglomerates, a forum set up by the CEBS and the CEIOPS, aimed at the implementation of the Financial Conglomerates Directive.

(23) See the 2006 report of the Management Committee, p. 24-27.

(24) See the 2006 report of the Management Committee, p. 28-29.

- ❖ *The common structure for the assessment of insurer solvency*, a document that contains the basic principles regarding the supervision of solvency and that will be supplemented in the course of 2007 with technical documents on the valuation of technical provision and assets, internal models, etc.

With the European Commission's completion of the draft Solvency II Directive in sight (completion is expected in mid-2007), the attention of CEIOPS has turned to the opinions still pending for the European Commission. Those opinions have to do with reporting to the supervisor and the public, the supervisory process and the detailed quantitative requirements imposed on insurance companies. The opinion in respect of this last is that which has served as the basis for the development of the technical specifications accompanying the QIS 2 exercise (Quantitative Impact Study). Where QIS 2 (see below) was aimed chiefly at testing the design of the solvency regime, QIS 3, begun in the spring of 2007, is intended principally to fine-tune the standard formula and the calibration of the parameters employed. QIS 3 also looks at the group dimension and tests the standard formula at group level.

In addition, a number of important issues were being tackled by the permanent committees of CEIOPS. The Occupational Pensions Committee has been looking into the transposition of the pension directive (the IORP Directive) in view of its imminent revision; the Expert Group on Insurance Intermediaries put the final touches to the report on the Insurance Mediation Directive, with a view to formulating suggestions for its amendment; the Insurance Group Supervision Committee is engaged in processing the results of the review conducted on the functioning of the Coordination Committees, which looked both at the actual coordination of the activities of the supervisors and the technical aspects of group supervision.

At national level, particular attention was given to the processing of the QIS 2 results, the Belgian sector also having taken part in the study. The main aims of the exercise were: in the first place, to test – under various valuation hypotheses – the level of security in the present technical provisions; and secondly, to gain insight into the construction of a risk-sensitive standard formula for the calculation of the requisite solvency capital.

The major conclusions of QIS 2 are:

- ❖ that, when measured against a market-consistent evaluation of insurance obligations, the present level of provisions appears to offer a sufficient margin of security;
- ❖ that, when set against Solvency I, the proposed standard formula for calculating capital requirements (Solvency Capital Requirement, or SCR) leads to a significantly higher requirement;
- ❖ that the solvency ratio under Solvency II is expected to show only a modest decline (an average of 200%) in comparison with the Solvency I solvency ratio of 214% (the average for Belgian institutions that participated in QIS 2), meaning that, under Solvency II, substantial deferred gains on assets and the implicit security in the present provisions will become available in the form of available capital;
- ❖ that the results demonstrate that, given the level of technical provisions for insurance risks, the biggest drain on regulatory capital is accounted for by the market risk in the share portfolio and by the interest-rate risk.

3.2. Corporate Governance

The period under review saw most attention going to broad consultation and further fine-tuning in respect of the CBFA's policy regarding the sound governance of financial institutions under prudential supervision. The new policy, set out definitively at the beginning of 2007 in a circular, supersedes the earlier "agreements on autonomy" in the banking and insurance sector. Those agreements no longer offered an adequate response to the developments of recent years, including the tendency towards greater fragmentation of the shareholder structure of financial institutions, the formation of financial groups and the increasing centralization of operational management, the establishment and role of specialized committees within boards of directors, and new forms of conflicts of interest.

The CBFA consulted broadly on its consultation document during the first half of 2006 and in December published a feedback statement in which it grouped the reactions to that document and indicated the consequent policy action it intended to take.

The main features of the new policy are:

- ✦ that it is in line with the international developments noted (25);
- ✦ that it is a comprehensive, holistic approach towards sound governance that is expressed in an overall assessment of the result;
- ✦ that it is applicable in cross-sector terms to all financial institutions subject to prudential supervision;
- ✦ that the document contains what the supervisor expects in prudential terms regarding sound governance; it is the responsibility of each institution to determine its policy on the matter and to set that down in a memorandum on internal governance that will subsequently be assessed by the CBFA on the basis of the principles set out in the circular; furthermore; in this respect, the non-application of certain principles can be justified and/or offset by the inclusion of alternative measures;
- ✦ the foregoing implies that:
 - no 'one-size-fits-all' approach is laid down;
 - the principle of proportionality is central to the application of the principles;
- ✦ that the group dimension and group management are recognized, without that derogating from the obligations and interests of the separate legal persons within the group.

Below are the ten principles contained in the circular concerning what is expected in prudential terms regarding the sound governance of financial institutions:

1. The financial institution's major shareholders should be trustworthy and financially sound. They should manage their shareholding in line with a sound and prudent management of the institution, its sound governance and its sustainable development.
2. The financial institution should adopt a transparent governance structure that favours a sound and prudent management appropriate to its nature, size, complexity and risk profile.

A distinction should be made, wherever possible, between the functions that concern managing the institution's activities, supervising the management, and shaping the general policy and strategy of the institution.

The financial institution should regularly assess the operation of its governance structure.
3. The financial institution should determine the powers and responsibilities of each segment of its organization, specify the procedures and reporting lines and ensure their implementation.
4. The senior management should consist of several persons acting as a collegial body, without prejudice to the allocation of specific responsibilities to individual senior managers.
5. The financial institution should have appropriate independent control functions. The management should oversee their organization and operation and make use of their conclusions.
6. The financial institution's company officers should have a profile that is appropriate for governing the institution. They should give evidence of having the necessary integrity, commitment, fitness and probity, experience and expertise to carry out the tasks entrusted to them.
7. The financial institution's policy regarding the remuneration of its directors should be commensurate with the institution's goals, values and long-term interests.
8. The financial institution should determine its strategic objectives and values, in particular as regards its integrity, and should ensure that these objectives and values permeate all segments of its activity. The institution should also draw up internal codes of conduct and take appropriate measures to manage conflicts of interest.
9. The management have a clear understanding both of the institution's operational structure and activities, and of the risks associated with the services and products it offers.
10. The financial institution should communicate with its stakeholders about the principles it applies with regard to its governance structure.

(25) See, among others: Enhancing corporate governance for banking organizations by the Basel Committee (February 2006), Guidelines on Internal Governance (a chapter in the CEBS document Guidelines on the application of the supervisory review process – January 2006) and Compilation of IAIS Insurance Core Principles on Corporate Governance (January 2004).

Particular attention was also given to preparing the transposition of the CRD in respect of aspects other than the provisions regarding technical own funds (see above), especially those concerning the modification of legal provisions (including the banking law, the Law of 6 April 1995, the Royal Decree of 12 August 1994 on consolidated supervision). In this, attention went chiefly to a more detailed description of the organizational requirements institutions must satisfy, especially as regards internal control and independent transversal functions. Special in this respect is the role and responsibility of the management committee or senior management regarding appropriate organization and internal control, including reporting on these matters to the board of directors, the statutory auditor and the CBFA.

Use was made of the occasion in order for banks and insurance companies to:

- ❖ entrench within the law a limited number of internal governance provisions stemming from the CBFA's new policy (see above);
- ❖ delineate more clearly the tasks of the accredited auditor in respect of his task to cooperate in prudential supervision; the new provisions need to be read in conjunction with each other and are inextricably linked with the responsibility of the management committee or senior management to ensure an appropriate organization and internal control.

The CBFA continued its policy of bringing about cross-sector convergence in prudential regulation and practice. To that end:

- ❖ a circular on internal control and the internal audit function at insurance companies was issued (26);
- ❖ a regulation was put in place (27) for tighter rules to be set regarding the exercise of external functions by the company officers of, among others, insurance companies, UCI management companies, settlement institutions and assimilated institutions, financial and insurance holding companies, and mixed financial holding companies.

Regulations in the fields mentioned were harmonized with the existing regulations applicable to banks and investment firms.

At EU level, cross-sector harmonization of supervisory practices was set in train at 3L3-committee level (see above) and at the level of the IWCF (28) (set up by CEBS and CEIOPS), whose chief task is to work towards convergence in the supervision of financial conglomerates, particularly in respect of the implementation of the European Financial Conglomerates Directive.

The department was actively involved in the work of CESR regarding the implementation of the MiFID Directive (29) and its implementing directive 2006/73 of 10 August 2006. The intention behind this European activity is to achieve uniform interpretations and agreements between the European supervisors regarding the supervision of investment firms and credit institutions that offer investment services. A member of the department's staff chairs CESR's intermediaries sub-group's drafting team for passporting.

At national level, the department was further actively involved in the work of transposing the European directives in question into Belgian law. In each case, the necessary attention was given to contacts with the professional associations within the framework of a consultation and information procedure. Because of the underlying aim of achieving Europe-wide harmonization, the European provisions provide little, if any, scope for supplementary provisions at national level. The department's activity concerned particularly the organizational requirements and conditions for conducting business as an investment firm or credit institution offering investment services. Attention was also given to gearing these provisions to the above-mentioned general organizational provisions applicable to, among others, credit institutions and investment firms, prepared within the context of the transposition of the CRD.

3.3. Financial information

As indicated above, the Basel Committee amended its structures in 2006. The Accounting Task Force (ATF) continued its task of following up on international accounting and auditing matters. The ATF has kept three sub-groups, which concentrate respectively on accounting practices for financial instruments, the activities of the IASB in respect of the conceptual framework, and auditing, this third sub-group being chaired by a member of the CBFA staff. Within the Committee, growing attention is being paid to audit quality.

(26) See the 2006 report of the Management Committee, p. 31.

(27) See the 2006 report of the Management Committee, p. 23-24.

(28) Interim Working Committee on Financial Conglomerates. See also p. 27 of the present report.

(29) Directive 2004/39/EC of 21 April 2004 on the markets for financial instruments.

There are also specific areas that the overall group itself pays attention to and that are followed up by a limited number of its members. They are compliance, the performance reporting activities of the IASB, financial transparency and bancassurance.

In 2006, the Committee published two documents: *Supervisory guidance on the use of the fair value option for financial instruments by banks* and *Sound credit risk assessment and valuation for loans* (30).

At IAIS level, accounting questions were followed up by the following subcommittees: the Insurance Contracts Subcommittee, the Accounting Subcommittee and the Enhanced Disclosure Subcommittee. These last two have put the final touches to two major documents, the first of which, the *Second Liabilities Paper*, sets out the stance of the prudential supervisors regarding life assurance accounting under IFRS and is intended to contribute to the debate on that subject and to have an impact on the IASB activities concerning the development of a new standard in the matter (the second phase of IFRS4, Insurance Contracts). The second document is an international standard on public disclosure by life assurance companies of details regarding their risk positions and financial performance. Lastly, in May 2006 the Accounting Subcommittee completed a study on the impact on supervisors of the implementation of IFRS.

The end of 2006 saw the merger of the Enhanced Disclosure Subcommittee with the Accounting Subcommittee, whose present competences are accounting matters, the audit and public disclosure.

At CEBS level, it is the Expert Group on Financial Information that handles these matters. Within the new group, there are three sub-groups whose respective responsibilities are accounting, reporting and auditing; the sub-group concerned with reporting is chaired by a member of the CBFA. The most important activities of the Expert Group are following up developments in international accounting and auditing standards, and maintaining FINREP and COREP reporting, together with the XBRL taxonomies.

At CEIOPS level, the activities of the group specialized in accounting matters and reporting were focused on the preparation of a draft opinion to the European Commission on the third pillar of Solvency II, i.e. the obligations regarding public disclosure (market discipline) and reporting to the prudential supervisors; a draft opinion was published in November 2006 for consultation. The group also actively followed developments at IFRS level that affect the insurance sector, doing so at the level of both the IASB and the European accounting bodies, and more particularly through observer representation within EFRAG and the ARC (the CEIOPS representative within EFRAG is a member of the CBFA staff).

At national level, the new version of the consolidated IFRS/IAS-compliant layout A was prepared. The changes concern:

- better alignment of the consolidated layout A with CEBS's FINREP package;
- updating of the IAS/IFRS references (chiefly IFRS 7);
- a number of simplifications and deletions.

The amended reporting package will be introduced in 2007.

In respect of the dematerialization of securities, draft recommendations were also prepared for credit institutions and investment firms on the administration of financial instruments and the attendant internal control procedures. The recommendations will be issued in 2007 and are MiFID-compliant.

Following the obligation with effect from 2006 for (non-listed) banks and investment firms to draw up their consolidated financial statements in accordance with the IAS/IFRS, the Royal Decree of 1 September 2006 (31) extended the obligation to UCI management companies with effect from 1 January 2007.

(30) For comments on these documents, see the 2005 report of the CBFA Management Committee, p. 14.

(31) See the 2006 report of the Management Committee, p. 30.

3.4. 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 2006, particular attention was paid to the implementation of the new BPR, introduced in the light of the new, IFRS/IAS-compliant consolidated layout A.

In cooperation with the NBB and within the context of the analysis of financial stability, furthermore, sectoral studies of the various types of risk were conducted on the basis of the BPR results. The department gave particular attention to the follow-up of the financial position of institutions not relevant to the system.

In consultation with the (operational) supervisory department concerned, a start was made with the development of a financial supervisory instrument for the insurance sector, an instrument that will gradually be developed further.

3.5. Crisis simulations and stress tests

Simulation exercises contribute towards the evaluation and improvement of the procedures for crisis management in financial matters and the cooperation agreements concluded in this respect among financial authorities (32). In April 2006, an exercise was held within the EU in which a financial crisis was simulated, the purpose being to test the agreement concluded in 2005 between the central banks, supervisors and treasuries regarding their cooperation in crisis situations (33). The exercise involved representatives of all the EU authorities that were signatories to the agreement. In light of the results of the exercise, the ECOFIN Council approved further work to promote mutual cooperation between European financial authorities. The department participated in the preparation and organization of the simulation, and the department responsible for the supervision of credit institutions took an active part in the simulation itself.

Further stress tests were organized in cooperation with the NBB and, for the first time, were set up within the framework of the IMF's FSAP (Financial Sector Assess-

ment Program) mission (34); they were aimed at evaluating the impact of macroeconomic and other shocks on the financial position of the large banks and insurance institutions. In 2006, the test scenarios again previewed interest-rate shocks and a worsening of the quality of credit, as well as – for the first time – incidents that could have a drastic impact on the liquidity position of institutions, such as a downgrading of an institution's credit rating and a general liquidity crisis on the financial markets. The results of the tests were discussed with the IMF and the institutions concerned. The tests themselves now form a fixed component of the CBFA's supervisory arsenal in the assessment of the risk profile of the financial institutions concerned.

3.6. Other

During the period under review, a great deal of attention was paid to setting up appropriate training programmes on the new regulations and reporting provisions.

Since 2006, the department has also been responsible for the CBFA's contribution to the activities of the Secretariat of the Committee for Financial Stability (35).



(32) See the 2006 report of the Management Committee, p. 14 on the cooperation agreement between the CBFA, the DNB and the NBB regarding the management of crisis situations; see also the Annual Report CBF 2002-2003, p. 123, on the MoU concluded between bank supervisors and central banks in the EU.

(33) See the 2005 report of the CBFA Management Committee, p. 33, on the MoU regarding cooperation between bank supervisors, central banks and Treasuries in crisis situations.

(34) See the CBFA Annual Report 2005, p. 18-20.

(35) See the present report, p. 7.

Prudential supervision of banks and investment firms

1. Aims and tasks of the department

The *Prudential Supervision of Credit Institutions and Investment Firms* Department verifies that banks, investment firms and related financial enterprises observe the conditions laid down by law for obtaining authorization and for pursuing a business activity. This prudential supervision (hereinafter referred to simply as "bank supervision") entails the monitoring and assessment of the financial situation and the risks of the institutions concerned. Additionally, a check is made of whether their risks are properly managed and whether the institutions have a management structure, administrative and accounting organization, and internal control commensurate with their risk profile.

Where an institution owns subsidiaries, or is itself a subsidiary of a financial holding company or of a financial services group, 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 department also supervises the *bureaux de change*. This supervision is not prudential in the strict sense, 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 2006, the number of institutions per supervisory status was as follows:

105	banks
74	investment firms and other companies with a specific status
6	UCI management companies
7	financial holding companies
1	settlement institution and 1 institution assimilated to settlement institutions
21	bureaux de change

On a consolidated basis as at the end of 2006, the banking sector posted a balance sheet total of approximately 1 375 billion euros. Another indication of the importance of the Belgian banking sector is the notional amount of approximately 5 000 billion euros outstanding in respect of derivatives and the approximately 10 000 billion euros' worth of deposited securities. 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% of deposits and loans.

As regards investment firms, the profile of the sector is determined by the 27 stockbroking companies and the 22 portfolio management companies governed by Belgian law. There are only a limited number of companies with a different status. Together, stockbroking firms and portfolio management companies manage a good 90 billion euros' worth of securities. Account has also to be taken of the six UCI management companies, subsidiaries of Belgian banks, which managed more than 250 billion euros' worth of funds.

Over and above prudential supervision of the banks and investment firms established in Belgium, the department has the additional task of supervising the activities of the 20 representative offices in Belgium of foreign banks and the notifications of 506 foreign banks and 1 310 investment firms that offer banking and investment services in Belgium within the European framework of the freedom to provide services.

2.1. The banks

As at the end of 2006, 105 banks were registered; although this is more or less the same number as at the end of the previous year, it conceals a further decline in the number of banks governed by Belgian law and a constant rise in the number of branches of foreign banks. In 2000, six out of ten banks were institutions governed by Belgian law, but that number has now fallen to less than five out of ten, a decline that is chiefly the consequence of a continuous process of takeover or integration. Of the fifty-one banks of Belgian law, there are 26 (approximately half) with a Belgian major-

ity interest, i.e. one out of four of the total number of banks in the country. Of those Belgian banks, there are five with a family shareholding structure and five cooperative companies.

Among the foreign subsidiary banks and bank branches, it is mainly the European ones that have risen sharply these last years. Foreign interest in bank establishment in Belgium has risen further, particularly in respect of private banking activities.

Meanwhile, via subsidiaries or branches, Belgian banks have been expanding their activities abroad, not only within the European Union, but also in the new countries of continental Europe.

Together with the further expansion of Belgian banking groups abroad, the increasing importance of foreign banking groups on the Belgian banking market has led to an intensification of data exchange and cooperation with foreign supervisory authorities. More particularly, the takeover in 2006 of local banks in Turkey by two Belgian financial groups led to an initial series of contacts with the Turkish bank supervisor, aimed at putting a bilateral cooperation agreement in place.

By supervision status, the breakdown of banks registered in Belgium is as follows:

Breakdown of banks registered

	Number as at 31.12.2000	Number as at 31.12.2005	Number as at 31.12.2006
BANKS AUTHORIZED IN BELGIUM	85	63	59
1. Banks governed by Belgian law	72	54	51
Banks (among which the Federation of Credit Institutions)	43 (1)	33 (1)	32 (1)
Savings banks (among which credit associations that form part of the professional credit network)	25 (10)	17 (10)	16 (9)
Securities banks	3	3	2
Municipal savings banks	1	1	1
2. Branches in Belgium of banks of a State that is not a member of the European Economic Area	13	9	8
BANKS OF ANOTHER MEMBER STATE OF THE EUROPEAN ECONOMIC AREA THAT HAVE A BRANCH REGISTERED IN BELGIUM	34	41	46
TOTAL NUMBER OF BANKS ESTABLISHED IN BELGIUM	119	104	105
FINANCIAL HOLDING COMPANIES OF BELGIAN LAW	10	9	7

Supervision of the 46 branches of banks based in the EU is in the first instance conducted by the home country authority. The supervisory role of the CBFA as host country authority 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 home country authority, the CBFA is responsible for the supervision of 33 branches of Belgian banks in other EU Member States. Belgian banks have a further 16 branches in 11 countries outside the EU.

The table below indicates the development of the number of foreign banks active in Belgium by way of a subsidiary, a branch, the freedom to provide services or a representative office. French banks, in particular, have strongly expanded their presence and now account for one-third of the foreign banks here.

As regards the free provision of services in Belgium, more than 500 notifications had been submitted as at the end of 2006, nearly 40% of which were by English and French banks.

Presence of foreign banks in Belgium

	Subsidiaries (*)		Branches		Free prov. of services (**)		Representative offices		
	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	
EEA countries									
EU									
Germany	2	1	7	7	59 (32)	63 (34)	3	2	
France	12	11	12	15	88 (37)	91 (36)	1	1	
Italy	1	2			8 (2)	8 (2)	7	6	
Luxembourg			3	4	51 (35)	51 (37)	1		
Netherlands	6	4	9	10	70 (64)	70 (64)			
Spain	1	1	2	2	9 (6)	10 (7)	3	3	
United Kingdom			8	7	101 (76)	106 (78)			
Sweden				1	5 (3)	5 (3)			
Other EU countries					94 (62)	98 (67)	5	6	
Consortium	1	1							
Sub-total	23	20	41	46	485 (317)	502 (328)	20	18	
Other EEA countries					4 (3)	4 (4)			
Total EEA	23	20	41	46	489 (320)	506 (332)	20	18	
Other countries									
India			2	2					
Israel							1		
Japan	1	1	2	2					
Lebanon	1	1							
Morocco			1						
Pakistan			1	1					
Russian Federation							1	1	
Taiwan	1	1							
United States	1	1	3	3			1	1	
Switzerland	1	1							
Sub-total	5	5	9	8			3	2	
TOTAL	28	25	50	54	489 (320)	506 (332)	23	20	

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

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

2.2. Investment firms

As at the end of 2006, eighty investment firms and other companies with a specific status were registered. The breakdown by supervision status is as follows:

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

	Number as at 31.12.2000	Number as at 31.12.2005	Number as at 31.12.2006
INVESTMENT FIRMS WITH AN AUTHORIZATION IN BELGIUM	83	57	53
1. Stockbroking firms	44	31	27
2. Portfolio management companies	32	23	22
3. Financial instrument broking firms	4	1	1
4. Financial instrument placing firms	3	2	3
BRANCHES IN BELGIUM OF INVESTMENT FIRMS GOVERNED BY THE LAW OF ANOTHER MEMBER STATE OF THE EUROPEAN ECONOMIC AREA	9	14	17
INVESTMENT ADVICE COMPANIES	4	3	3
DERIVATIVE SPECIALISTS GOVERNED BY BELGIAN LAW	0	1	1
UCI MANAGEMENT COMPANIES	-	5	6
TOTAL	96	80	80

There was a further decline in the number of investment firms in 2006, although it was situated solely among those of Belgian law: as at the end of the year, there were less than fifty Belgian stockbroking and portfolio management companies, down by a third on the number as at the end of 2000 (36). The sector consists predominantly (more than 70%) of small firms, whose capital is in private hands. Contrary to the situation in the bank sector, however, investment firms in this country are still by and large Belgian (three out of four). The number of them with a specific legal status remains limited and the retention of that status will have to be examined within the context of the introduction in Belgium of the Market in Financial Instru-

ments Directive (MiFID) (37). The offer of investment services by investment firms is evolving more and more towards portfolio management and investment advice, and 2006 saw a few investment firms launching themselves into the introduction of smaller companies on the Free Market (*Marché libre/Vrije Markt*).

The number of branches of European investment firms has continued to rise steadily and has doubled since 2000. The range of cross-border services offered within the scope of the freedom to provide of services is still impressive and is a multiple of that in the bank sector. Seven out of ten notifications still come from the United Kingdom.

(36) It has nevertheless to be pointed out here that a number of portfolio management companies switched to the legal status of UCI management company in 2005.

(37) See the present report, p. 30.

Presence of foreign investment firms in Belgium

	Investment firm subsidiaries		Branches		Free prov. of services	
	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06
EEA countries						
EU						
Germany					19	27
France	5	5	2	5	74	71
Italy					5	5
Luxembourg			5	5	26	22
Netherlands	3	2	5	5	98	108
Spain					10	10
United Kingdom			2	2	795	879
Other EU countries					101	104
Consortium structure	1	1				
Sub-total	9	8	14	17	1 128	1 226
Other EEA countries					10	15
Sub-total EEA	9	8	14	17	1 138	1 241
Other countries						
Australia						1
Canada					2	2
Hong Kong					5	5
Israel					1	1
United States	2	2			49	50
Switzerland	1				9	10
Sub-total	3	2			66	69
TOTAL	12	10	14	17	1 204	1 310

3. Organization and operation of the department

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 mandate and method of prudential supervision, are similar for both sectors. In practice, the depth and intensity of supervision depend on the size, nature of activity and the risk profile of the individual institution. In addition, a group approach has been adopted, whereby banks and investment firms belonging to the same group are always subject to joint supervision.

In full-time equivalent, the department has a staff of 68 management and supervisory staff and graduates, and 12 persons providing administrative support. They are distributed over multi-disciplinary teams of financial analysts, legal experts, auditors and specialists in IT and risk models.

During the past year, the department's work of continuous supervision proceeded apace: this takes in analysis of the financial reports that institutions are required to submit, consultation with auditors and examination of their reports, on-the-spot inspections, regular discussion with those responsible for the internal audit, for compliance and for risk management, as well as policy discussions with the top management of the companies supervised. Additionally, a steadily greater part in day-to-day supervisory practice is now being taken by the exchange of information with foreign supervisors. This joint approach is of great importance in the development of a pragmatic relationship of mutual trust and the search for greater efficiency and effectiveness in the cross-border supervision of the large financial groups.

Various members of the department's staff are also active in internal and external working groups on policy consultation.

Besides its day-to-day supervisory tasks, the department worked further in 2006 on adjusting and supplementing internal procedure documentation and supervision methodology; to that end, appropriate new IT applications were developed and a special effort was made as regards internal training.

In respect of time allotment in the department, proportionally more time was spent in 2006 than in 2005 on the supervision of systemic-relevant institutions: concerned here are the four large bank groups and the three big market players engaged in the clearing, settlement and custody of securities (38); the fact that ground had to be made up in the supervision of the latter group meant that nearly half the time the department spent on prudential supervision went to these seven groups.

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

4 large bank groups	33%
Institutions engaged in clearing, settlement & custody	15%
Other banks	36%
Other companies	16%
Total	100%

More than half of the time allotted for operational prudential supervision was devoted to on-the-spot supervisory activities. Almost as much time was taken up in controlling the observance of the supervisory status as in financial analysis.

Functional breakdown of the time devoted to supervision

On-the-spot auditing	53%
Control of the observation of the supervisory status	23%
Financial analysis	24%
Total	100%

(38) I.e. Clearnet, Euroclear and the Bank of New York.

4. Points considered and developments in 2006

4.1. Authorizations, conditions for authorization and institutional aspects

Mirroring events in 2005, a new bank and a new investment firm of Belgian law were registered in 2006. Of other applications for authorization examined in 2006, some will be decided upon in 2007 and others have been rejected; in the latter respect, a number of smaller projects for the establishment of an investment firm were insufficiently thought through or well-founded, or demonstrated an inadequate knowledge of the regulations in force. In the authorization procedures, particular attention is always given to the suitability of the shareholders and the management, the appropriate decision-making structure, organization and internal control and to whether the business plan and the financial forecasts are realistic. In the case of institutions that form part of a group, attention is also given to how they are to be integrated into the group structure.

In 2006, in application of the European rules on mutual recognition, nine branches of banks and investment firms from neighbouring European countries were likewise registered.

New registrations aside, domestic merger and restructuring operations at eight institutions were also examined in 2006 and a check made of whether the operations could threaten the prudent and sound management of the institutions concerned.

In 2006, Belgian banks were also very active abroad on the acquisitions front and in setting up new establishments. Examination of these operations, too, was carried out on the basis of the concern that there should be a sound and prudent policy, as well as appropriate management and control by the Belgian banks concerned.

The assessment of the suitability of the members of the management of banks and investment firms is also a critical part of verification of whether the conditions for authorization have been satisfied and of subsequent checks on whether they continue to be satisfied: the persons in question are required to be trustworthy, experienced and expert, and may not have any convictions and/or have been prohibited from pursuing their profession, due to contravention of financial legisla-

tion in force. Such assessment is very important particularly in the case of small institutions, because the (prospective) members of management concerned are the only point of contact for the CBFA and it is they who, in the first place, are responsible for the observance of regulations. In 2006, again, the CBFA was required in a number of cases to issue an opinion regarding the professional trustworthiness of managers (39).

Parallel with the development of the CBFA's new policy regarding the internal governance of financial institutions (40), discussions were held with a number of groups on the revamping of the management and organizational structure, and the appropriate division of competences between the parent company and its subsidiaries.

Given the worldwide increase in incidents related to the non-observance of regulations and codes of conduct or to improper behaviour, and given their impact on the reputation of financial institutions, discussions were conducted with compliance officers, in order to determine the degree to which institutions pursue an appropriate policy regarding sound business practice and the management of their risks, reputation and liability. Particular attention in this respect was given to the combating of money-laundering and the efforts regarding customer identification.

On the subject of recognition conditions, attention in 2006 was given to two new matters: the preparation for the implementation of MiFID (41) and the role of banks and investment firms in what is known as "the dematerialization of securities". With regard to the directive, the focus was on the way in which banks and investment firms are going to integrate the MiFID project into their organization. Two major factors are of importance here in prudential terms: on the one hand, the organizational framework (impact of the MiFID rules on the transversal control functions within the institution, outsourcing, staff transactions, customer classification and the IT impact of implementation); and, on the other, the code of conduct (attention to the way in which institutions implement the new requirements in respect of the provision of information to the customer, the duty of care, the management of conflicts of interest and what is called "best execution").

(39) See the 2006 report of the Management Committee, p. 36.

(40) See the present report, p. 28.

(41) See the present report, p. 30.

There are two aspects to dematerialization: one, the existing bookkeeping regime for dematerialized government debt securities for account of investors; and two, the abolition of bearer securities with effect from 2008 and the attendant new regime for recognized account-holders (42). In respect of the first, the control competences of the Securities Regulation Fund (*Rentenfonds / Fond des rentes*) were transferred to the CBFA in 2006; it is thus the CBFA that decides on the retention of the authorization and on the granting of new authorizations. As at the end of 2006, thirty-seven banks and investment firms were recognized. As regards actual supervision, the CBFA applies the requirements of appropriate administrative and accounting organization and internal control, meaning that, among other things, it is checked whether there is effective separation of an institution's own securities from those of customers, and whether there is a sound bookkeeping regime for securities.

In the matter of applying the new status of the dematerialized securities of companies and of recognized account-holders, banks and investment firms were made aware of the need for the dematerialization process to be adequately managed, and their operational preparations were tested. Attention in this is focused on the quality of the bookkeeping regime for securities, the overview of the securities concerned, the separation of the administration for the financial instruments of customers from those of the institution itself, and the controls, reconciliations and confirmations in respect of customers. At the end of 2006, there had been no new registration on the new list of recognized account-holders for the dematerialized securities of companies.

In respect, lastly, of the application of the new rules on the supplementary supervision of financial service groups (43), there was further examination of which Belgian financial groups should be subject to them; in the case of some groups, the existing supervisory regime (among other things, on the basis of the status of financial holding company) appears to offer sufficient prudential scope that also allows the new solvency rules of Basel 2 (44) to be applied at group level. Given the impact of the cooperation agreements concerned, this question was also discussed with the major foreign supervisors of those groups.

4.2. The analysis of financial risks

The financial position and risks of banks and investment firms are followed up on the basis of, among other things, their periodic financial reporting to the CBFA. Using computerized analysis layouts, the department's financial analysts assess the various risks in respect of solvency, risk diversification, profitability, liquidity, the interest-rate risk and the quality of the loan and securities portfolios. They also handle these aspects in the periodic discussions with the auditors and the management of the institutions, added to which are the internal management reports of the institutions themselves. In controlling the periodic financial reporting, the CBFA attaches great importance to the cooperation of the accredited auditors, who are expected, in their controls, to examine the method used to draw up the financial statements and to adjust their control programme according to the trustworthiness of the institution's organization.

The continually favourable climate enjoyed by the economy and the financial markets was again of benefit to the financial sector in 2006, financial health being boosted by the further increase in results, sound solvency margins, the further efforts concerning cost control and the cautious policy regarding risks (still accompanied by very low credit risk costs). However, prudential attention has continued to be given to the flattening of the yield curve and the repercussion of rising competition on profitability.

2006 saw the introduction of the IFRS for the consolidated financial statements and prudential reporting on the part of banks and investment firms, listed or otherwise. In the new prudential reporting, use is made of the harmonized FINREP layout developed within the CEBS by the European bank supervisors (45). In the application of the IFRS by the institutions involved, particular attention is given to the method of entering financial assets and transactions.

In the calculation of the regulatory solvency basis of banks and investment firms, account had also to be taken of the IFRS impact: to that end, corrections using prudential filters were made to, among other things, unrealized gains and losses resulting from an IFRS valuation and which are imputed to own funds. Attention in the analysis of the

(42) See the 2006 report of the Management Committee, p. 22.

(43) See the CBFA Annual Report 2005, p. 33 and the present report, p. 24.

(44) See Chapter 4.2. below.

(45) See the present report, p. 31.

solvency basis was also paid to the use of innovative capital instruments to underpin solvency. In each case, a check was made to determine to what extent these could be considered as elements of own funds for the calculation of the regulatory solvency ratios.

With effect from 2007, solvency can be calculated on the basis of the new Basel 2 framework that the Capital Requirements Directive (CRD) has given binding force to within the European Union (46). This means that, for banks and investment firms, there is a switch with effect from 1 January 2007 or 2008, as the case may, to a standard approach or, with CBFA approval, to a simplified internal model of their own to calculate and report on their solvency requirements. Any of them using an advanced internal calculation model may apply that with effect from 1 January 2008, likewise after obtaining CBFA approval. Most institutions in Belgium have opted for the standardized approach for the time being, though not that many actually began using the new layout with effect from their first quarter's reporting in 2007. Only a few of the big banks have already developed their own models and the implementation of these is being followed closely; the framework for approving such models is commented on separately below. Calculation of the new solvency ratios will be according to the harmonized COREP layout, which has been developed within the CEBS by the European bank supervisors (47). The department's financial analysts have participated in the implementation of this method in Belgium, and have likewise participated in the final simulations of the impact of the new solvency requirements (the quantitative impact study – QIS 5), in which four Belgian banks were involved.

A major challenge of the Basel 2 process is the application of the second pillar (the supervisory review process), which obliges institutions to assess their capital adequacy in accordance with their risk profile and to develop a strategy to maintain the level of their solvency, and which obliges the supervisor to examine that internal process and assess it. In the following-up of that internal process, particular attention will be paid to the way in which the management assesses all the institution's risks, relates them to the level of capital and validates them internally, and takes account of stress

situations. In its work of assessing this, the CBFA will place dialogue with the institution central and can employ a wide range of measures, without that automatically requiring an additional charge on capital. This pillar 2 process is evolutionary and proportional, adjusted to the nature, scale and complexity of the institution. The first discussions on this have already been held with certain institutions and a few of the large ones have also presented their own approach to determining their own economic capital.

There was also participation in the internal policy discussion with regard to fitting the liquidity and interest-rate risk into the pillar 2 approach. As in the past, the CBFA continued in 2006 to require additional calculations from a few banks whose interest-rate risk required following up; where necessary, higher solvency buffers were imposed for that risk.

During the past year, lastly, stress tests were organized with the NBB, in order to test the resistance of the sector to external shocks (48). The results were discussed with the big banks concerned.

4.3. Assessment of the organization and on-the-spot inspections

In 2006, sixty-eight on-the-spot inspections were carried out at banks and investment firms, as against eighty-four in 2005; they were nevertheless more far-ranging than those in 2005, in that 123 areas were examined, as against 101. The year also saw many "state of play" assignments being carried out, in which many matters were dealt with at the same time and the organization as a whole examined.

The planning of these inspections is done within the context of a multi-year audit programme and takes account of the control activities of the internal audit and the accredited auditor. Certain inspections are carried out in cooperation with other CBFA departments or with foreign supervisors, more particularly in respect of the supervision of the large bank groups. As regards its consolidated supervision, the CBFA has also conducted inspections of the foreign establishments of Belgian banks.

(46) See the present report, p. 26.

(47) See the present report, p. 26.

(48) See the present report, p. 32.

The ten most inspected areas in the sector during 2006 were:

- ❖ compliance;
- ❖ "state of play" examinations of the organization;
- ❖ asset and portfolio management (including in the run-up to implementation of MiFID);
- ❖ risk management;
- ❖ internal audit;
- ❖ administrative organization and internal control;
- ❖ credit and operational risks within the context of Basel 2;
- ❖ credit risk and securitization;
- ❖ IT;
- ❖ commercial networks.

Further, horizontal examinations of a single theme were carried out at various institutions in 2006, one of the themes being management of the liquidity risk. The examinations were preceded by presentations by the institutions concerned, and staff from the National Bank of Belgium were also involved.

Inspection assessments and conclusions are recorded in a report or a follow-up letter that also sets out recommendations and points requiring attention. The department attaches particular attention to discussions on such matters with the senior management, so that certain points can be emphasized and that the institution's reactions can be included in the report. As the case may be, concluding discussions are held with the chairman of the audit committee or the board of directors. Subsequently, there is further follow-up of the timeframe for putting through the measures requested to meet the recommendations or to correct the shortcomings noted.

The points for consideration that often recur during inspections concern the adequate management and control of the risks and of the activity areas examined, looking at them from the following angles:

- ❖ management insight into the risks;
- ❖ formalization via internal guidelines and procedures;
- ❖ the follow-up, reporting and control of risks;
- ❖ the fleshing-out of the essential control functions (internal audit, compliance, risk management).

As regards the new legal status of intermediaries in banking and investment services (49), assistance was given to the operational fleshing-out of the supervision of banking agents and intermediaries.

In respect of 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 clients. Where necessary, a shorter time for implementation was insisted upon. There was also assessment of the application of the customer acceptance policy, as well as follow-up of how institutions work out their monitoring systems for identifying atypical transactions.

In the matter of inspection methodology, lastly, a standard follow-up instrument was developed that enables horizontal analyses to be made of the recommendations in the various inspection reports.

4.4. Specialized inspections

Inspections in respect of risk models and IT are conducted by a team of four 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.

The approval process of internal models for the credit and operational risks is set out in the boxed text below.

The on-the-spot examinations that took place in 2006 in respect of IT inspections concentrated on evaluation of the management, continuity and security of the IT systems. Additionally, particular attention was devoted to specific large-scale IT projects at certain institutions and to the IT underpinning of the Basel 2 models for which an application for approval was submitted. A start was also made with IT quick scans, whereby the IT risk is charted by means of short, specific on-the-spot examinations. Within the context of the initiatives of the Committee for Financial Stability regarding business continuity planning, there was also collaboration on the follow-up of the way in which the critical financial players take account of the risk of a pandemic and, through adequate preventive and protective measures, prepare for its possible consequences on their own critical activities.

(49) See the present report, p. 57.

Procedure for the approval of models for the credit risk and/or the operational risk in respect of Basel 2

In accordance with European Directives 2006/48/EC and 2006/49/EC (hereinafter referred to as the “CRD”), transposed in Belgium by CBFA order of 17 October 2006, an institution looking to use internal systems for the calculation of its own funds requirements for the credit risk (hereinafter referred to as the “foundation method” or “advanced method” (50) and/or the operational risk (hereinafter referred to as the “AMA method” (51)), is required to have prior approval from the supervisor responsible for consolidated prudential supervision (the “home” supervisor). To that end, the institution concerned is required to submit a reasoned request to the home supervisor, in which it is demonstrated that the institution satisfies the minimum criteria set out in the regulatory texts.

Prior to the period of official approval – and, indeed, beginning in 2002 – the CBFA conducted a dialogue with the institutions that had indicated that they wished to use internal systems of measurement; it did so via information assignments and/or recurring meetings with the institutions concerned. Beginning in 2004, against the backdrop of the Memoranda of Understanding on cross-border cooperation already concluded with other authorities, and given the creation of certain large bank groups, cross-border groups of operational experts (hereinafter referred to as the “college”) were set up with the specific task of preparing and completing the work of approving new, internal systems of measurement. The purpose of the work prior to the receipt of the official application was to check whether the institutions concerned had an adequate organization in place and to take note of the principal processes or models that had been set up.

For certain institutions, meetings were organized in mid-2005 with the supervisors charged with supervision of their subsidiaries and/or branches (the “host” supervisors), in order to make a definite start with cooperation between “home” and “host” supervisors.

In its circular letter of 3 June 2005, the CBFA made clear that an institution looking to use an advanced method (foundation or advanced method and/or AMA method) was required to submit – at least one year prior to the date on which it wished to begin using that method – a dossier containing full documentation demonstrating that the internal system of measurement met the minimum requirements laid down in the regulatory texts concerned. The contents of the dossier were set out in the circular letters of 24 October 2005.

By the end of 2006, five applications (52) concerning the credit risk and two applications (53) concerning the operational risk had been submitted to the CBFA in its capacity as “home” supervisor.

The following procedure applies to applications where the CBFA is “home” supervisor. Where the CBFA is “host” supervisor in respect of an application, it works closely with the “home” supervisor responsible for the application, concerning itself chiefly with local models or local implementation and doing so in accordance with the principles set out below.

- (50) The choice of the foundation method indicates that, for its non-retail customers, the institution wishes to use only an internal rating system to assess the probability of default (PD) and that it will not make use of its own estimates of losses in the case of default (LGD) and of exposure in the case of default (EAD). This method has been available for use since 1 January 2007. The choice of the advanced method indicates that, for its non-retail customers, the institution wishes to use an internal rating system for all parameters (PD, LGD and EAD). This method may be used with effect from 1 January 2008.
- (51) The AMA (advance measurement approach) indicates that the own funds requirement to cover the operational risk is calculated on the basis of the internal mathematical model that the institution uses for the follow-up and management of that risk.
- (52) Two “foundation” applications were submitted at the end of 2005, one “foundation” application submitted in mid-2006 and two “advanced” applications submitted at the end of 2006.
- (53) Two “AMA” applications submitted at the end of 2006.

Immediately after receipt of an application, a unit composed of staff from the *Prudential Supervision* and the *Prudential Policy* departments examines whether the application dossier is complete; to a less extent, the team also has recourse to any college that there might be for the institution concerned. The purpose of the examination into completeness – an examination that is required to be conducted with all dispatch – is to determine how far the institution has gone in providing all the information requested (in accordance with the circular letters of 24 October 2005) and whether the quality of the application dossier is adequate. The principal points of attention are the scope of the request, the roll-out plan, the institution's self assessment (54) and the provision of information at local level (i.e. what is to be provided to "host" supervisors involved in the approval).

Once the application dossier is regarded as being complete (as the case may be, in consultation with the college), it is passed to the "host" supervisors involved and the official term of six months referred to in article 129 of the CRD begins; within that six months, a joint decision is required to be made. To ensure optimum cooperation, the other supervisors limit their involvement to the approval of any locally developed models and to assessment of the local situation (e.g., local "use test" (55), local gathering of loss data or assessment of allocation mechanisms (56) in respect of the operational risk).

The aspects regarding the approval of central models (including calibration to take account of specific local elements) or the approval of the roll-out plan are deemed to be the responsibility of the CBFA as "home" supervisor (as the case may be, in consultation with the college). The "host" supervisors are notified of the conclusions of the CBFA's work. In order to achieve the objective, a control plan is drawn up for the period from the data of receipt of the application to the end of the period of consultation with the "host" supervisors. Processes or models that are not explicitly addressed during an on-the-spot assignment are examined solely on the basis of the application dossier.

One month prior to the end of the above-mentioned period of six months, provisional conclusions are prepared (as the case may be, in consultation with the college) for discussion with the "host" supervisors.

A draft conclusion taking account of the comments of the "host" supervisors is submitted to the Management Committee of the CBFA for approval. That committee's decision, to which terms and conditions may or may not be attached, is officially notified to the institution and the "host" supervisors. It is assumed that the final decision will follow no later than the end of the year following the date of receipt of the application.

- (54) Concerned here is the self-assessment conducted by the institution to indicate its ample observance of all qualitative and quantitative requirements regarding the foundation or advanced method and/or the AMA method.
- (55) "Use test" refers to the minimal CRD requirement that the internal ratings and the default and loss estimates used in the calculation of the own funds requirement play an essential part in day-to-day risk management.
- (56) By "allocation mechanism" is meant the procedure whereby a subsidiary institution can calculate its own funds requirement on the basis of the share allocated to it in the own funds requirement calculated on a consolidated basis by its parent, according to the AMA method.

4.5. Recovery measures

Banking and stock market legislation lays down 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 deficiencies or where there is a danger that it will not be able to meet its commitments (57). In 2006, a recovery period was imposed on just one small institution, within which it was required to take appropriate measures to rectify the shortcomings noted at it. Because the measures requested were not taken and because it was deemed that the institution required a sound prudential framework, a special auditor and a temporary director were successively appointed. The institution's authorization was ultimately revoked (58).

The fact that no other formal recovery measures were taken did not prevent the CBFA from having to take action here and there to set matters to rights at institutions faced with shortcomings or challenges regarding organizational or financial viability.

5. Supervision of institutions for securities clearing and settlement

In implementation of the supervision law of 2 August 2002, and without prejudice to the NBB's "oversight" competence, the CBFA conducts prudential supervision of institutions offering clearing and settlement services to the regulated markets. In practice, concerned here is supervision of the groups LCH.Clearnet SA (clearing) and Euroclear (settlement). The supervisory status for clearing institutions is still in the process of development, but that for settlement institutions has already been given definitive form (59). The CIK, the Belgian central securities depository and the first and only such institution to be registered, was incorporated in 2006 into the Euroclear Group under the name Euroclear Belgium. Separate from the prudential supervision conducted in respect of its registration on the list of settlement institutions of Belgian law, the CIK is likewise followed up within the context of the consolidated supervision of Euroclear SA (ESA) as a financial holding company. ESA has in turn been registered on the list of institutions assimilated to settlement institutions.

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 coordination of the contacts with other foreign authorities involved (central banks, prudential authorities and market authorities). The cooperation between the NBB and the CBFA has been facilitated by the establishment of a clearing and settlement committee that steers joint consultation on these matters.

The supervisory work of the CBFA is directed towards building up coherent prudential supervision of the processing chain for securities transactions. In addition, supervisory priorities are determined according to the risk profile and the role of each institution, and particular attention is paid to the strategic projects of each operator.

Attention in respect of Euroclear in 2006 was focused on relationships both between the various entities of the group (on the one hand, the umbrella holding company and, on the other, Euroclear Bank and the group's central depositories) and with the various types of counterparty. It concerned aspects not only of bridge finance, but also of governance, custody, outsourcing, compliance and liquidity. In the field of strategic risk, attention also went to the possible impact of the initiatives of the European Commission and the European Central Bank with regard to the opening up of what are known as "post-trade" activities (60).

The multilateral cooperation among the NBB, the CBFA and the six other authorities from France, the Netherlands and the United Kingdom regarding the supervision of Euroclear was intensified in 2006. The high-level committee which coordinates that cooperation, together with that committee's working groups, jointly assessed Euroclear's various projects and the services it provides to group settlement institutions, and held discussions on these with Euroclear's management. For its part, the CBFA had conducted bilateral consultation with the supervisors of the branches in the United Kingdom, France and the Netherlands on the terms and conditions of cooperation within the framework of the consolidated supervision of ESA.

(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).

(58) For a comprehensive account of this question, see the report of the Management Committee, p. 41.

(59) See the report of the Management Committee, p. 15.

(60) Respectively the implementation of a code of conduct and the Target 2 Securities project.

In LCH.Clearnet's case, the lack of formal legal status for the prudential supervision of clearing institutions required *de facto* an approach to be followed that, in practice, was very much in line with bank supervision and that relied chiefly on the supervisions exercised by the French authorities on Clearnet (61), in their capacity as "home" country supervisor. In respect of the multilateral cooperation regarding the supervision of LCH.Clearnet – the umbrella organization above the clearing institutions Clearnet and London Clearing House and thus the central counterparty for the clearing of transactions on Euronext – the French, Dutch, English, Portuguese and Belgian authorities, via a clearing coordination committee, held joint working meetings, some of which were with the group management. Discussion at the meetings concerned principally the group's possible reorganization plans, governance and strategic aspects.

In 2006, various amendments were made to the Clearing Rulebook. In each case, the CBFA and the NBB consulted together before submitting their opinion to the Belgian Minister of Finance, whose approval is required.

6. Supervision of *bureaux de change*

The number of *bureaux de change* remained relatively stable in 2006, as did their activities. As at 31 December 2006, there were twenty-one *bureaux de change*, compared to twenty-two in 2005; just as in 2005, ten of them carried out money transfers. There was a slight decline (4%) in sectoral turnover (1.5 billion euros, a third of which concerned money transfers). Of the two million transactions carried out in 2006 (up by 6%), two-thirds were money transfers.

A new feature is the great interest in money transfers from mainly international groups looking to expand their networks in Belgium, an interest demonstrated by the numerous requests for information and registration. In examining an application for registration (62),

the CBFA makes a thorough check of whether the applicant satisfies the legal conditions in force, i.e. whether the shareholders have the requisite qualities; whether the effective director(s) possess the necessary professional reliability and experience; whether the administrative and accounting organization permits proper application of an adequate supervision of the money-laundering provisions; and whether, in respect of money transfers, the financial conditions regarding security deposit and own funds have been met.

The CBFA's supervision of *bureaux de change* is less comprehensive than its prudential supervision of banks and investment firms, because it is focused chiefly on the observance by the *bureaux de change* of the money-laundering regulations, as well as on the conditions for registration.

Supervision of *bureaux de change* is conducted essentially on the basis of analysis of their monthly reports. The scope of that reporting has been broadened by the CBFA and now, besides turnover and number of transactions (63), extends to the number and amount of notifications of suspected money-laundering practices to the Financial Intelligence Processing Unit (CTIF-CFI), as well as to the indication of the management level at which the decision to notify is taken. The analysis of this information ought to make it possible to identify more quickly shortcomings in the monitoring of transactions (obligations of vigilance). The information is also examined within the context of the annual report on activities, which is produced by the person responsible for the prevention of money-laundering and submitted to the CBFA. The minimum content of such reports was once again brought to the attention of the *bureaux de change* (64).

Supervision of this sort also implies that an on-the-spot verification is made at least once a year. Particular attention is given to the obligations of vigilance and more especially to second-line control, which ought to permit atypical transactions to be identified.

(61) In France, Clearnet has the legal status of credit institution.

(62) The application dossier is required to be based on the memorandum to obtain registration as *bureau de change*, which has recently been updated: see the 2006 report of the Management Committee, p 44.

(63) See circular CPB/WK/103 of 27 October 2006 (monthly reporting table).

(64) See Chapter 13 and particularly point 13.3 of the CBFA's circular on money-laundering.

Prudential supervision of insurance companies and supervision of insurance intermediaries

The scope of the department in charge of prudential supervision of insurance companies and supervision of insurance intermediaries was described in the previous report (65).

After the new organization was set up, based on a matrix that made it possible for a main supervisory axis to focus on the undertakings under supervision and for a transversal axis to deal with the particulars of the various specialties of prudential supervision, attention in the year 2006 focused on operationalizing supervisory tasks and on implementing and utilizing the newly developed instruments.

Improving the nature and frequency of contacts between the CBFA and enterprises has enhanced the understanding of the situation of the supervised entities and given a better insight into the nature and importance of the risks incurred. The impact of this approach as witnessed in 2006 has reinforced the conviction that such contacts are needed and must be intensified.

Both ongoing or planned regulatory developments, whether they are the results of own initiatives with a view to upgrading the prudential approach of the sector, or of external factors, do require permanent consultation with the various professional associations concerned, in order to perceive correctly the stakes and impacts involved for the undertakings and to ensure correct information as regards motivations and objectives.

1. Evolution of the standards and regulations

1.1. Internationalization of initiatives

The previously identified trend of transferring the initiatives on standards and regulations from the national level to international authorities or organizations has not only been confirmed but has also significantly been reinforced.

This circumstance has a twofold impact: it sets prudential supervision in a broader harmonized context while circumscribing the CBFA's regulatory autonomy.

International harmonization of prudential rules facilitates the development of an efficient insurance market, for the benefit of both insurance companies and policy holders. Among other results of this trend are an improved transparency in the way the activities are exercised and greater comparability of the positions of undertakings, thereby favouring convergence in the supervisory practices.

1.2. The role of the national authorities

The transfer, either factual or by rights, of regulatory initiatives as a result of the internationalization of standards and regulations, restricts the ability of national supervisory authorities to modulate the applicable regulations in order to take into account local markets' specific features or needs.

The role of the national supervisors increasingly focuses on operationalization of supervision, and only retains limited possibilities as regards interpretation and own assessment in enforcing international standards.

Far from alleviating their responsibilities in terms of developing and updating regulations, it forces national supervisors to actively and efficiently participate in international regulatory and standard-setting processes.

Acknowledging national features in an appropriate manner requires an adequate identification of the needs as well as appropriate measurement of the impacts based on in depth knowledge of the market and market players, together with an efficient organization that is able to carry out the necessary negotiations in the right forums.

Additionally, operational prudential supervision can no longer be limited to a verification of compliance. Because international prudential harmonization not only addresses new regulation but also increasingly examines how such regulation should be enforced and interpreted, it is no longer reasonable to assume that operational supervision can be carried out without close involvement in the convergence process.

(65) See the CBFA Annual Report 2005, p. 49.

An adequate interface between conceiving prudential policy and carrying out prudential supervision is an essential prerequisite for the proper operation of these two sides of the CBFA's tasks. In this perspective, the interdepartmental consultation units that were set up in 2006 play a fundamental role in the CBFA's action.

1.3. IAIS

In the area of international activity, the International Association of Insurance Supervisors (IAIS) is becoming increasingly acknowledged as a standard setter. Although rather new, this organization is already helping to lend structure to prudential considerations and developments, and covers most of the world's significant markets and market players.

1.4. European Union

In the field of prudential supervision of the insurance sector, the European Union is a driving force, particularly through the Solvency II project which will overhaul prudential regulation but also, more broadly, the whole supervisory philosophy.

This ambitious project is to be completed in an equally demanding time frame, with a not unrealistic but certainly challenging deadline set in 2010.

1.5. Belgium

At this point, not all of these international developments have been translated into substantial changes in Belgium. The schedule for doing so is largely dependent upon the entry into force of the future Solvency II Directive.

However, the emphasis should be on the sector's preparation to such changes and on generalization of best financial practices throughout the insurance sector.

Obviously, these national and international developments have an impact on prudential tools. Although they are often just a formalization or update of generally accepted principles, these developments are sometimes perceived in terms of regulatory inflation. They should naturally be accompanied by adequate supporting measures towards the sectors under supervision, but should also be integrated into the actual practice within the supervisory teams.

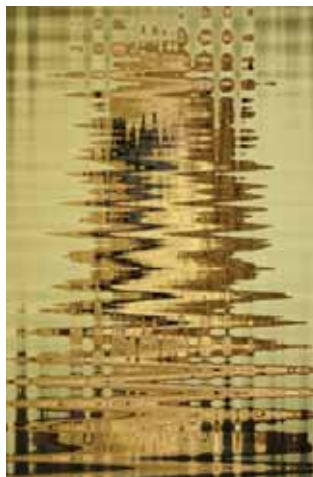
Admittedly, the existing legal and regulatory basis is not always very appropriate for the supervisors to carry out their tasks in a transparent manner that meets all

the requirements of the modern financial world. The structure of the currently applicable regulations is sometimes more the result of successive small-scale measures than the product of a logical construction leading to unambiguous identification of the aim and scope of the provisions and of the expected intervening parties.

Bearing in mind the perspective of the fundamental legal and regulatory changes that will necessarily accompany the entry into force of the future Solvency II Directive, one is tempted to opt for moderate changes to a regulatory environment that can now be viewed as destined basically to ensure the changeover to a renovated approach.

Except for any changes aimed at improving the structure of this environment, it seems appropriate to try and limit substantial modifications. Having said that, some amount of fine tuning can be envisaged to remedy specific problems or improve consistency of prudential supervision over the various sectors. The latter aspect should not be underestimated in the Belgian context, where the market is not only highly concentrated but is also characterized by close interaction between players operating under differing sets of prudential regulation.

In the field of insurance, the focus will be on further upgrading generally accepted practices, rather than on the introduction of new concepts by way of circulars.



2. Supervisory philosophy

Two dimensions of the way in which prudential supervision is carried out are currently undergoing certain developments that deserve to be emphasized: the first is the shift towards a more risk-based approach; the second is the acknowledgment of the role of the various market players, together with the enhanced degree of accountability which this entails.

2.1. Risk-based supervision

Because supervisors' resources are necessarily limited, it would be illusory to expect that one can permanently and comprehensively supervise all of the activities of all undertakings within the sector. This is all the more unrealistic as it would require the allocation of such disproportionate means as would weigh heavily on the sector in terms of costs.

Therefore prudential supervision must concentrate its efforts on the entities or fields which, because of their weight or situation, are most likely to jeopardize the interests of policy holders and the financial system as a whole. Thus prudential supervision is not an absolute guarantee against any type of individual incident. This is not a result of adopting a risk-based approach in the supervision; it is merely an observed fact that has always existed but was mostly implied rather than explicit.

The prerequisite for setting up risk-based supervision is an insight into each supervised undertaking. Such knowledge must embrace financial data but also extend to the objectives, strategy and operation of the entity concerned – including its governance.

Next, one must identify the risks associated with the activities and specific features of the enterprise and determine the importance of these risks from a prudential point of view. This exercise relies on an assessment of each risk, taking into account any measures taken to reduce or support it.

Based on this process, the supervisory plan or actions are then adapted. Such adjustments may be decisions on what tools should be used, e.g. inspection assignments, self-assessment procedures, or even corrective measures.

One element that is used to give substance to this approach is further described below.

2.2. Increasing awareness of responsibility

Prudential supervision of insurance companies relies to a large extent on the interaction among the various people/functions within or without the entities under supervision: the risk management department, the appointed actuary, the internal audit and internal control functions, the statutory auditor, and naturally the CBFA.

It is essential that each of these actors should adequately fulfil their role, in the interests of all parties involved. Each party should for instance not only comply with the standards laid down in the various regulations but also unambiguously take any responsibility which their function entails.

A relevant illustration of this is the necessary independence of certain internal functions such as the audit. Such independence is indeed laid down in the regulations. Yet it is the responsibility of the enterprise itself to establish a creditworthy internal audit function that is able to operate in an environment that ensures its objectivity, not only formally with regard to regulatory obligations, but also more fundamentally with a view to meeting the *raison d'être* of the function within the entity. In this respect, it is essential that the company officers take any necessary action and assume any responsibility which such action entails.

This responsible attitude on the part of market players creates the right conditions for prudential supervision to go beyond the limits of mere legalistic verification and aim towards an analytical, prospective and prioritized vision of risk-related activities.

3. Supervisory process

3.1. Profile of the sector under supervision

Number of authorized undertakings

The downward trend in the number of insurance companies as observed over recent years continued in 2006. As of 31 December 2006, a total of 107 undertakings were registered, down 3 as compared to the previous year.

Authorized undertakings, per legal form

Undertakings	2001	2002	2003	2004	2005	2006
Governed by Belgian law						
Limited companies (<i>Sociétés anonymes/ naamloze vennootschappen</i>)	93	90	84	85	79	77
Cooperative companies	7	7	7	6	6	6
Mutual health insurance companies	21	19	19	19	19	18
Varia	4	7	8	8	6	6
Governed by Belgian law	125	123	118	118	110	107
Governed by foreign law						
EEA	71	72	66	60	57	54
Non EEA	6	6	5	3	3	0
Sub-total	77	78	71	63	60	54
TOTAL	202	201	189	181	170	161

A similar trend is observed as regards subsidiaries of foreign undertakings, whose figure dropped to 54.

2006	EEA undertakings operating in Belgium under the freedom to provide services	EEA undertakings operating in Belgium by way of a branch	Non EEA undertakings operating in Belgium by way of a branch
Austria	20		
Czech Republic	4		
Denmark	12		
Estonia	2		
Finland	11		
France	82	7	
Germany	52	10	
Greece	3		
Hungary	4		
Iceland	1		
Ireland	105	1	
Italy	38	1	
Liechtenstein	18		
Lithuania	5		
Luxembourg	74		
Malta	2		
Netherlands	81	13	
Norway	10		
Poland	3		
Portugal	7		
Slovenia	3		
Spain	12	1	
Sweden	24		
Switzerland			
United Kingdom	189	21	
TOTAL	762	54	0

The United Kingdom, the Netherlands and Germany are the countries with the most subsidiaries in Belgium.

The number of insurance companies which are authorized to operate in Belgium under the freedom to provide services has continued to increase and has now reached a total of 762 entities from 24 countries. The United Kingdom and Ireland still occupy the first two places, followed by France and the Netherlands.

Transfers

In the course of 2006, the CBFA approved 13 transfers, either total or partial, of insurance portfolios by Belgian insurance companies.

Authorizations and relinquishments or withdrawals of authorization

In 2006, two authorizations were voluntarily relinquished, one new authorization was granted, and two insurance companies were dissolved following a merger through absorption.

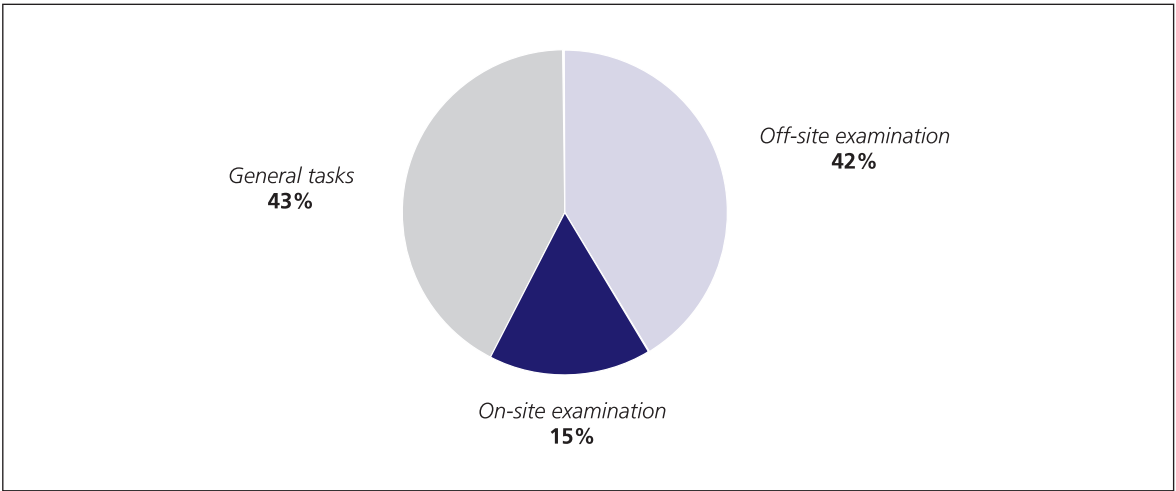
3.2. Resource allocation

The department's resources were allocated in such a way as to take into account the requirements arising from the various supervisory regulations, the systemic importance of enterprises, and the degree of follow-up needed by certain categories of undertaking.

A 13.5% share of the executive staff and 61.4% of other staff are allocated to the supervision of insurance intermediaries, an area where the scope of competence of the CBFA has been extended (see below).

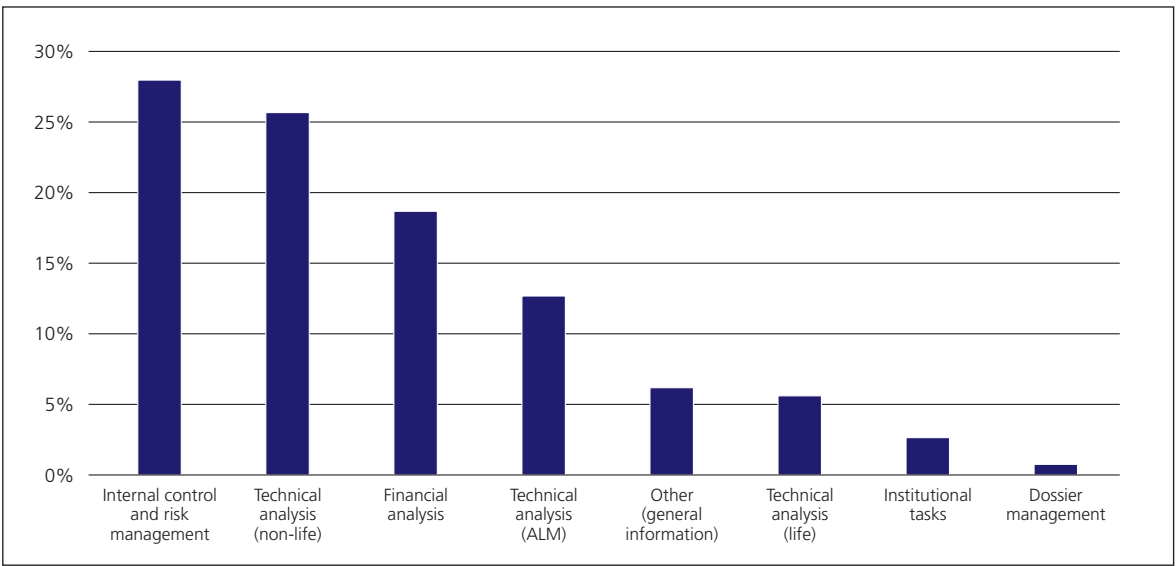
Supervision of, on the one hand, large international insurance groups and insurance undertakings and, on the other hand, domestic undertakings require very similar resources, which goes to show the need to ensure close monitoring of large groups which hold over three fourths of the market share while acknowledging the challenges posed by local enterprises under various types of supervisory regulations, all the more so as quite a few of these enterprises do require particular prudential attention.

3.3. Nature of the tasks



In the course of 2006, the department's staff in charge of supervision have continued to devote a large part (43%) of their resources to so-called general tasks, i.e. tasks that cover several organizational, methodological or prudential policy fields.

Almost 57% of the time went to the operational supervision of insurance companies, some 25% of it on the spot. A total of 32 undertakings were the subject of on-site examinations covering some 57 subjects classified per themes.



It should be stressed that an important part of the supervision of life insurance activities, relating to requests for an exemption from establishing a flashing-light provision (see below), relies on off-site examination, though this has led to numerous direct contacts with the undertakings.

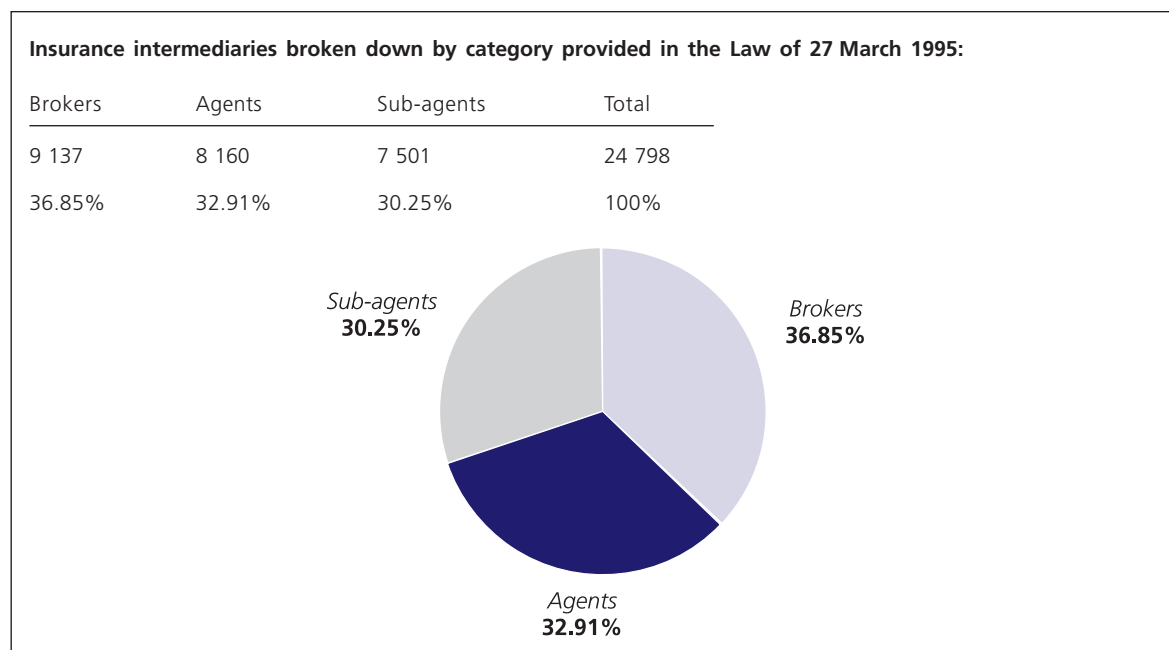
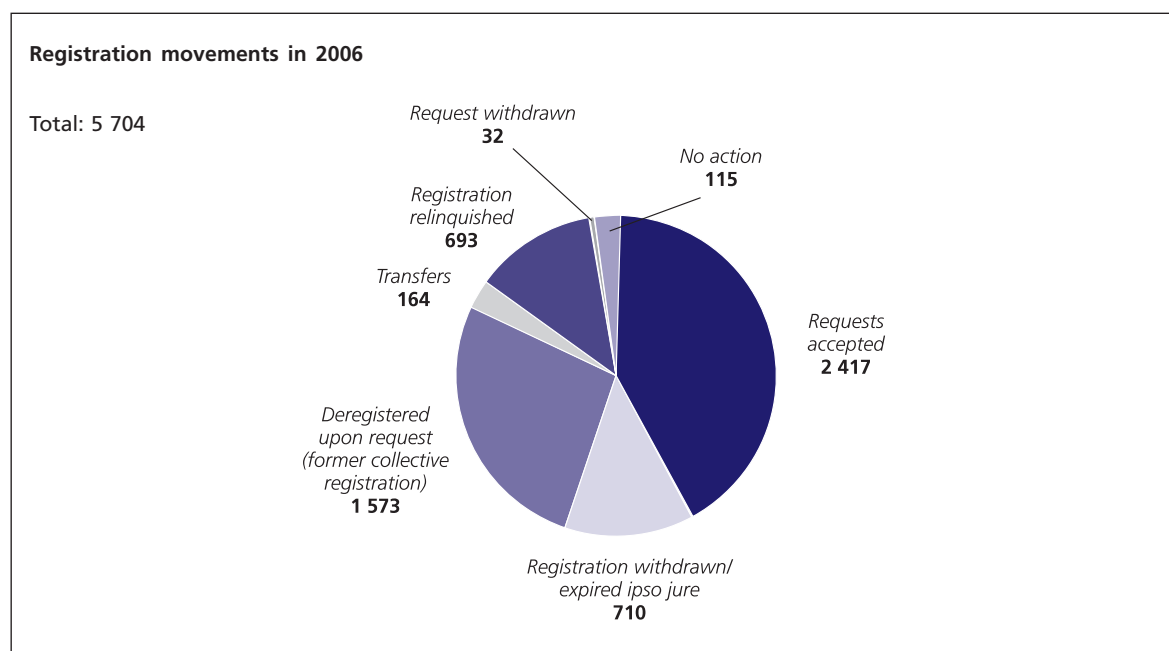
3.4. Insurance intermediaries

As at 31 December 2006, 24 798 insurance intermediaries were registered, down 1 509 registrations as compared to the previous year. A total of 45 224 “distributors” were registered. The staff in charge of the super-

vision of insurance intermediaries carried out 86 assignments.

The registration of a total of 710 intermediaries was deleted or it expired *ipso jure* on the grounds that the registration conditions (surety, professional liability insurance, due payment of the annual registration fee, and fitness and probity) were no longer fulfilled. A group of 1 573 intermediaries were deregistered upon the request of their central undertakings.

The most notable registration movements were as follows:



4. Supervisory practice

4.1. Risk analysis

The risk analysis approach (see above) was implemented through the development of internal tools aimed at formalizing and quantifying the risks assessed for each undertaking.

The aim of the methodology is to make it easier to identify those undertakings with a higher risk profile and determine the main areas where they incur risks,

as well as the areas which require attention horizontally for all or part of the market. This will improve the objectification of choices in prudential action while maintaining the necessary room for assessment proper.

The analysis is based on the assessment by the supervisory teams of 34 risk factors. These assessments are aggregated into eight categories (subscription risks, credit risks, market risks, assets/liabilities management risks, liquidity risks, operational risks, reinsurance risks and other risks), and are weighted on the basis of the degree of risk inherent in the insurance company being observed.

In determining the eight risk categories, the CBFA referred to international work on the subject. The categories can be described as follows:

Subscription risks

These include the risks arising from an adverse evolution of the factors that determine the tariffs (frequency and importance of the losses, mortality tables, etc.) and the risks resulting from subscription management (poor risk selection, poor product designing, etc.).

Credit risks

These are the risks of default on financial instruments held by the insurance company.

Market risks

These are the exposures to market risks (interest rates, shares, real estate, etc.) resulting in potential losses following variations in economic factors.

Assets/liabilities management risks

These are the risks incurred as a result of using an inappropriate mathematical model (inadequate or incorrect model, inappropriate parameters or incorrect/insufficient databases) or of mismatching the insurance company's assets and commitments.

Liquidity risks

This is the risk that the insurance company might have to realize part of its assets in the midst of adverse market circumstances because it has to meet its financial obligations.

Operational risks

These are the risks related to shortcomings internal to the insurance company, such as fraud or mistakes in the systems and processes.

Reinsurance risks

This is the risk that the reinsurance policy may be unfit or may not have been implemented as meant.

Other risks

These include such risks as strategic risks (i.e. the risks that for various reasons, the insurance company's strategy cannot be implemented) and reputational risks.

The intrinsic assessment is adjusted in order to take into account the following two factors:

- an aggravating factor to recognize the risk presented by such data as are deemed insufficient or outdated by the regulator. This self-deterioration of assessments over time builds in a periodic review of all available information;
- a risk-mitigating factor to integrate any extra financial capacity held by the undertaking above a certain threshold situated significantly above the minimum regulatory requirements.

In the course of 2006, the supervisory teams have striven to implement the system of analysis.

Simultaneously, the sector's enterprises were invited to carry out a self-assessment on the basis of the general structure of the risk analysis system. The results of the self-assessment made it possible to confirm the calibration of the internal system and to identify any discrepancies in assessing the risks, with a view to a bilateral discussion of these discrepancies between the supervisory teams and the undertakings, as part of their supervisory plan.

Additionally, the information thus collected made it possible to qualify the sometimes harsh judgments produced by the method, *inter alia* as a result of the absence of information assessed in accordance with the newly introduced approach.

Thanks to the results from the risk analysis, a limited number of companies were identified for close follow up starting in 2007. In addition, it appeared that the data relating to certain fields of a company's activity are insufficient. In those fields, the possibility of specific data collection on a horizontal basis will be envisaged.

4.2. Supervision of mixed groups or conglomerates

As is the case for its banking counterpart, Belgium's insurance sector is characterized by heavy concentration in the hands of a limited number of market players who, besides, are essentially similar and belong to mixed groups or conglomerates.

The fact that supervisory responsibility for both sectors is now with the single supervisor that is the CBFA is a great opportunity for convergence.

Such convergence was, at first, mainly implemented by harmonizing supervisory practices. The second stage consists in examining in greater detail the possibilities for coordination and consultation on supervisory action, *inter alia* as regards the horizontal functions such as risk management, internal audit and internal control.

It has been noted that mixed groups operating in Belgium increasingly adopt a similar, or even single, approach for matters under these horizontal functions. This reality of the market is leading the CBFA, as an integrated supervisor, to reinforce consistency in its prudential approach towards these market players, in terms of both supervisory policy and practical implementation.

4.3. Accounting standards

Adoption of IFRSs is a challenge for most market players. The *Prudential Supervision of Insurance Companies* Department ensures follow up of the application of the standards by individual undertakings. Realizing the need to achieve a level playing field among all of the main parties involved, it has successfully encouraged the generalized use of the same standards by all of them.

At the same time, the department was heavily involved in preparing the prudential consequences of accounting developments, e.g. devising rules to set up an appropriate interface between the new accounting regulations and certain prudential constraints developed under a different accounting regime.

4.4. Flashing-light provision

Prominent in 2006 was a complete overhaul of the framework for the assessment of requests for exemption from establishing the flashing-light provision in life insurance.

The revision consisted in separating and specifying the characteristics of the instruments that can be used to demonstrate interest-rate risk control, and to define the financial conditions to be met.

The former part is where the most remarkable developments have taken place. Although the experience accumulated in recent years on the basis of the sheer principle of demonstrating interest-rate risk control has led to some interesting advances, it has become necessary to define an environment with appropriate incentives for enterprises to develop adequate management methods rather than one shot solutions with little usefulness other than for administrative purposes.

The new environment is explained elsewhere in this annual report. Suffice it to say here that the approach foreshadows the methodology that will come out of the adoption of the Solvency II Directive, a fact welcomed not only by numerous market players concerned but also by several international observers who have carried out studies showing that companies on the Belgian insurance market are among the best prepared for the introduction of the directive under preparation.

In addition, the approach adopted is not limited to the sole aspects which are to be dealt with by the undertakings. The CBFA has striven for transparency in its approach, by formulating as clearly as possible the objectives to be reached and the assessment criteria, and by having each individual assessment accompanied by a quantified evaluation, the detail and motivation of which were communicated to the enterprises concerned, with a view to serving as a basis for a dialogue aimed at improving the overall assessment.

Exemption requests were the subject of quantified assessments based on the criteria laid down in the "Model" and "Exemption" circulars.

As regards the "Model" circular, 152 items were closely examined as part of the assessment. They were subsequently aggregated according to the sections and chapters of said circular into a summary chart, an example of which is shown below.

Life Model (CPA-2006-1-CPA)		
	Assessment	Total assessment
General framework		To be adapted
Scope	Acceptable	
Other risks, environment	Non-existent	
Model risk	Non-existent	
Compiling and updating a dossier	Insufficient	
Recognition process	Perfectible	
Qualitative criteria		To be adapted
Risk management department	To be adapted	
Involvement of the Board of Directors and of the highest governing body	Insufficient	
Involvement in risk management	Perfectible	
Documenting the model	Perfectible	
Internal reporting	To be adapted	
Using the model	To be adapted	
Internal audit	Insufficient	
Quantitative criteria and risk factors		To be adapted
Quantitative criteria		Insufficient
Technical characteristics of the model	To be adapted	
Data relating to the risk factors	Insufficient	
Correlations	Insufficient	
Determining the risk factors		To be adapted
Specifying the risk factors	Acceptable	
General market risk factors	Insufficient	
Specific risk	To be adapted	
Insurance risk	Insufficient	
Assets-liabilities matching	To be adapted	
Varia		Non-existent
Crisis simulations (stress testing)		Insufficient
Back testing		Insufficient
Total		Insufficient

Assessing the criteria from the "Model" Circular: fictitious example

As regards the "Exemption" circular, 68 items were closely examined as part of the assessment. They were subsequently aggregated according to the sections and chapters of said circular into a summary chart, an example of which is shown below.

Exemption (CPA-2006-2-CPA)		
	Assessment	Total assessment
Introduction		To be adapted
- Compliance with the deadlines for filing the request	To be adapted	
Exemption criteria		Perfectible
- No double accounting of solvency margin items	To be adapted	
- Explanation on margins to be established and already established	Acceptable	
- The CBFA has had to disqualify elements of the established margin	Acceptable	
- The segmentation meets the criteria laid down in the "Model" circular	Acceptable	
Contents of the dossier		To be adapted
- 1° all policies; 2° only those policies subject to establishing a flashing light provision	To be adapted	
- Result for the entire dossier	To be adapted	
- Result for each segment of the portfolio	To be adapted	
- The dossier contains all elements that may be useful in assessing the request	Perfectible	
- Exemption model is in compliance with the requirements of the "models circular"	Perfectible	
- Description of the adjustments made to the general model provided	Acceptable	
- Book value, accepted value and market value of the assets for each segment	Non-existent	
- For each category of assets, the returns and residual maturity associated with the instruments	Acceptable	
- The initial book value of the assets is lower than that of the liabilities	Non-existent	
- Result of the deterministic scenario with the central rate	To be adapted	
- Excel file	To be adapted	
- Methodology, result and explanation of VaR, TailVaR and probability of ruin	Insufficient	
- Appointed actuary's report	To be adapted	
- Accredited statutory auditor's certification	Non-existent	
CBFA's decision		Acceptable
- A previously submitted dossier must be submitted each year	Acceptable	
Total		To be adapted

Assessing the criteria from the "Exemption" Circular: fictitious example

4.5. Freezing of assets

The department has striven to assess the relevance and efficiency of previously decided measures to freeze assets.

Where the evolution of the context and of prudential risks so allows, it is proposed to lift the measure and hand back to the companies concerned and their managers full responsibility in managing the assets.

5. Supervision of intermediaries

Prominent in 2006 was the transposition into Belgian law of European Directive 2002/92/EC of 9 December 2002 on insurance mediation. However, this transposition by the Law of 22 February 2006 modifying the Law of 27 March 1995 was only fully completed with the adoption of the Royal Decree of 26 November 2006.

In the course of 2006, the Intermediaries Service has striven to implement these new legal provisions, *inter alia* by adapting the registration forms and explanatory notes.

Another major event was the entry into force on 1 July 2006 of the Law of 22 March 2006, which created the legal status of agents or brokers in banking and investment services. Intermediaries who, upon the entry into force of the Law, had been exercising the activity concerned on a full-time basis for at least one year or on a part-time basis for at least three years were granted a provisional authorization to pursue their business as an agent in banking and investment services.

The provisional authorization was to become a permanent one upon the introduction of a request for registration by 31 December 2006 at the latest.

In order to implement this new status, extra personnel were hired to reinforce the Intermediaries Service's staff. Priority was given to the development of the registration forms, of the explanatory notes and of the FAQs that were made available to the public through the CBFA's web site.

The online registration project was finalized in 2006 when a secure application was opened to the public to allow intermediaries to apply for registration and update their data online. This has made it possible to simplify registration procedures and speed up the treatment of the requests, thereby improving staff's availability for supervisory tasks.

The Intermediaries Service pursued its policy of reinforcing the supervision of intermediaries by focusing in particular on compliance with the obligations as regards professional liability insurance, financial guarantees, fitness and probity and payment of the registration fees.

On-site supervision was further reinforced with the creation, within the Service, of an inspection cell whose sole task is to carry out on-site assignments. This supervision not only relates to compliance with the conditions for registration but also to the obligations as regards information to policy holders and, more broadly, the organizational quality of the intermediaries and of their central undertakings.

The need for such on-site supervision was further enhanced when the Belgian Parliament adopted a change concerning the central undertakings, to the effect that in the collective registration process they were no longer required to provide the CBFA with their members' data but were merely required to keep such information available to the CBFA, thereby making it even more crucial to develop on-site supervision. The staff that have been made available by simplifying procedures and developing online registration will gradually be reallocated to inspection tasks, thereby making it possible to achieve the objective of improved supervisory quality.

6. Future prospects

6.1. ALM models approach

The approach developed by the department as regards risk management models, which also takes into account certain avenues explored in other financial fields, foreshadows the global prudential approach in the field of insurance.

The principles governing the approach are bound eventually to be extended – with the necessary adaptations – beyond solely the “life” activities of insurers.

6.2. Horizontal functions

Harmonization – based on generally accepted practices in the broader financial sector – of standards and practice relating to horizontal functions (internal control and internal audit; risk management) is to be pursued.

The circulars on risk management models have introduced a number of requirements currently applicable only to those undertakings that apply to the CBFA.

The department has undertaken to establish a set of risk management standards to be applied to all enterprises, including those that do not use any of the recognized models.

6.3. Prudential priorities

With due consideration for the priorities that will be identified through the internal risk analysis method, it appears that prudential actions will have to strive to offer faster, pragmatic solutions to the situation of undertakings not strictly under prudential supervision, or in a runoff phase or faced with an uncertain future.

6.4. Integration of supervisory teams

In recent years, movements in personnel, both internal and external, have reinforced existing teams and simultaneously facilitated convergence in supervisory practices. Since supervisory practices have now to a large extent been harmonized, the lights are green for further integration, among others for mixed-activity groups.

6.5. Reporting obligation

In consultation with the sector, the CBFA has determined that in 2007 faster financial information disclosure would be achieved.

At a later stage, attention will turn to the contents of the reports, not with a view to systematically extending the list of reporting items, but in order to assess the relevance of information in terms of what is effectively both exploitable and exploited for the purpose of prudential supervision, capitalizing as much as possible on the manner in which the information is collected and treated within the undertakings.

Supplementary pensions

1. Organization and tasks of the department

The tasks of the *Supervision of Supplementary Pensions* Department were described in detail in the two previous annual reports (66).

The first of its responsibilities is the prudential supervision of institutions for occupational retirement provision (IORPs), in view of ensuring that the latter are secure vehicles for financing supplementary pensions. This supervision includes monitoring the accounting and financial aspects as well as the organizational features of IORPs. The CBFA's remit covers supervision of IORPs governed by Belgian law, as regards their activities both in Belgium and abroad. The supervisory tasks in respect of these institutions are similar to those carried out by the other departments of the CBFA in respect of the undertakings that fall within their respective areas of competence.

The second task is to supervise the implementation of the laws on supplementary pensions for employees (LPC/WAP) and for self-employed persons (LPCI/WAPZ). The supervision of the social aspects of these pensions consists in monitoring whether the rights granted under the aforementioned laws to members and beneficiaries are respected. The department supervises IORPs, the companies that undertake pension commitments, and insurance companies, whether or not they hold their authorization from Belgium, but only as regards their activities in Belgium relating to supplementary pensions.

The courses of action available to the CBFA in respect of the supervision of social aspects were reinforced with the transposition of the IORP Directive. The LPC/WAP and the LPCI/WAPZ now contain provisions, based on those of the Law of 27 October 2006 on the Supervision of Institutions for Occupational Retirement Provision (LIRP/WIBP), which enable the CBFA to request more comprehensive information than it was able to do in the past, as well as to issue injunctions to IORPs and to insurance companies in the event that they fail to meet the obligations imposed by the LPC/WAP and the LPCI/WAPZ; if these injunctions do not produce the desired effect or are not heeded, the CBFA can impose administrative sanctions.

In 2006, the *Supervision of Supplementary Pensions* Department welcomed five new employees; the staff of the department now comprises 23 members, of whom 17 are executive staff.

2. Prudential supervision of institutions for occupational retirement provision

2.1. Development of the sector

As at 31 December 2006, the number of institutions for occupational retirement provision under the supervision of the CBFA was broken down as follows: 239 authorized institutions, 37 registered institutions (67) and 5 institutions in liquidation.

Positive trends in the financial markets have had a beneficial effect on the financial health of institutions for occupational retirement provision. In 2003, 66 institutions had to submit a recovery plan. As at 31 December 2004, 31 such plans were still in progress. By 31 December of the following year 20 of these had not yet been completed. By 31 December 2006, only 8 plans were still under way. Two new recovery plans were submitted by institutions to the CBFA in the course of 2006.

2.2. The prudential framework

2006 saw the debate and vote in Parliament on what is now the Law of 27 October 2006 on the supervision of institutions for professional retirement provision (LIRP/WIBP). This Law was supplemented by several implementing decrees, in the drafting of which the *Supervision of Supplementary Pensions* Department played a major role (68). With the LIRP/WIBP and its main implementing decree (69), the transposition of the IORP Directive is now complete, with the exception of the accounting aspects that will be the subject of a separate decree forthcoming in 2007.

The legal and regulatory provisions are to be supplemented by several circulars and memoranda from the CBFA, texts on which the department has begun working as soon as possible, without waiting for the publication of the legal and regulatory texts. The latter texts, to be published in 2007, concern in particular applica-

(66) See the CBFA Annual Report 2004, p. 63 and 64 and the CBFA Annual Report 2005, p. 57 and 58.

(67) For an explanation of this notion, see the ISA Annual Report 2002-2003, p. 101.

(68) See the 2006 report of the Management Committee, p. 52.

(69) Royal Decree of 12 January 2007 on the prudential supervision of institutions for occupational retirement provision (published in the Belgian Official Gazette of 23 January 2007, *err.* 20 February 2007).

tions for authorization, notifications of a cross-border activity or of an activity in a non-member state of the European Economic Area (EEA), and the principles of corporate governance applicable to IORPs.

Also completed this year were new provisions on financial reporting, set down in Circular P 42, intended to take account of the new prudential environment and to put into practice the risk model developed by the department in the course of 2005 (70).

Like the IORP Directive, the LIRP/WIBP and its implementing measures are based on the "prudent person rule", which in practice means that the majority of provisions that imposed quantitative norms in the area of investment have been abandoned. Instead, an IORP must justify, in its financing plan, the methods and technical bases used to calculate its technical provisions, which, covered by appropriate assets, must be such as to guarantee that the institution is able at all times to fulfil its commitments.

To this end, IORPs will need to make use, no doubt more often than in the past, of mathematical methods enabling them to manage in a consistent manner their commitments and their covering assets (Assets/Liabilities Management, or ALM, methods). These methods cover a wide variety of approaches, ranging from relatively simple first-generation models (efficient portfolio, duration, etc.) through second-generation ones (stress tests or deterministic models) to the more sophisticated ones of the third generation (stochastic models). In the course of 2006, the department carried out a survey among IORPs (71) to assess the extent to which they made use of such methods, for what purpose and with what resources.

This greater degree of freedom in technical and financial management also requires a heightened professionalism in managing IORPs.

The LIRP/WIBP provides that an IORP must have a management structure, administrative and accounting procedures and an internal control function that are appropriate to its activities, in order that it might securely carry out its proposed transactions and thus serve as a secure vehicle for financing occupational pensions. Given the diversity of the IORP sector, in terms of both the size of the institutions and the type of pension schemes being managed, the LIRP/WIBP has laid down general principles only, thus leaving to the supervisory

authority the task of defining how these should be applied.

Given this responsibility, the CBFA has specified its prudential expectations with regard to the governance of IORPs. It began by preparing a draft circular detailing eleven aspects of governance: the definition of the governance structure, the governing bodies of IORPs, internal control, the compliance function, business continuity, internal audit, outsourcing, the accredited auditor, the internal exchange of information and the dissemination of that information. The draft circular rests upon the principles of proportionality and of "comply or explain". On the one hand, and without prejudice to the legal and regulatory provisions on this matter, each IORP shall take responsibility for organizing its governance in accordance with the volume, nature and complexity of its activities as well as its risk profile. On the other hand, an IORP that does not respect certain principles of the circular will have to explain the reasons for its decision.

An open consultation was conducted on the draft circular via the CBFA web site, in order to offer everyone the opportunity to provide feedback on the draft circular by email or regular post. The consultation began on 15 May and ended on 30 June 2006. The responses were then analyzed and, in certain cases, discussed with the authors in the course of the second quarter of 2006. The publication of the definitive circular is planned for the first half of 2007.

At an international level, the department participates in the activities of the Occupational Pensions Committee working group, set up within the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The protocol (72) relating to the collaboration of the relevant competent authorities with regard to the cross-border activities of IORPs was signed in Budapest on 22 February 2006 (73). The department had already exchanged information on specific cases of cross-border activity that had arisen, as well as on the development of national laws and the implementation of the IORP Directive, for instance on the matter of asset pooling. At the same time, the department took part in discussions of various problems relating to the implementation of the IORP Directive, for instance as regards the interpretation of certain principles such as the prudent person rule, ring-fencing, cross-border activity or custodianship. A report by the working group is expected at the end of 2007.

(70) See the CBFA Annual Report 2005, p. 59.

(71) See the report of the Management Committee for 2006, p. 54.

(72) See the CBFA Annual Report 2005, p. 59.

(73) The text of the Budapest Protocol is available on the CBFA web site (www.cbfa.be).

The department is also closely following the work in progress on the proposal for a "Portability" Directive (74).

3. Supervision of supplementary pensions

3.1. Complaints and questions of interpretation

In 2006, the Supervision of Supplementary Pensions Department received 294 requests for information. In a small number of cases, these were in fact complaints about a pension institution (that is to say, an IORP or an insurance company) or about a sponsoring undertaking. In the majority of cases, the questions had to do with the interpretation of the applicable legislation, concerning *inter alia* the calculation of the rights acquired in case of a redemption or exit, or concerning the precision and exhaustiveness of the information provided to members and beneficiaries. As in 2005, a relatively large number of questions had to do with problems of discrimination in supplementary pension plans. Opinion No. 11 of the Supplementary Pensions Commission, issued on 30 March 2006, may constitute a useful reference in this regard.

Finally, several requests had to do with legislation in the process of being drafted, in particular with regard to cross-border activities, new investment rules or activities that are authorized to be carried out in Belgium and in other Member States of the European Economic Area.

3.2. Supervision of social aspects

With regard to supervision of social aspects, 2006, like the year before it, was a time of transition, devoted primarily to developing the framework for the supervision of supplementary pensions.

A consequence of the transposition of the IORP Directive was the extension of this supervision to the activities in Belgium of IORPs established in another Member State of the EEA. As is already the case for insur-

ance companies, these IORPs are not subject to Belgian prudential regulation, but they must nonetheless comply with the provisions of social and labour law in respect of the Belgian pension schemes which they handle, and in particular with the provisions of the LPC/WAP and the LPCI/WAPZ as well as their implementing decrees. These texts have been amended in order, on the one hand, to eliminate any reference to provisions of a prudential nature and, on the other, to strengthen the supervisory tools available to the CBFA as regards social aspects. The CBFA actively participated in the drafting of the draft royal decrees (75).

The new tools available to the CBFA consist first of all in new obligations on the part of the organizers, pension organizations and managers of solidarity schemes to provide information, periodically or upon demand, to the CBFA. In addition, the latter may henceforth issue injunctions, as is the case in prudential matters, to any of the aforementioned institutions or undertakings if they do not comply with the mandatory provisions of the LPC/WAP, the LPCI/WAPZ or their implementing decrees. Finally, these injunctions may be accompanied by a deadline within which the institution in contravention of the law is asked to regularise its situation, and if this is not done by the expiry of the deadline, the CBFA may impose administrative sanctions.

During the period under review, the CBFA published Circular LPC-5/WAP-5 (76) on the application of the so-called "4% rule". This text specifies the conditions under which Article 14, § 3, paragraph 2, of the LPC/WAP applies. This provision constitutes a derogation from the principle of non-discrimination on the basis of the age of employees who are covered by a defined-benefit or a cash-balance pension plan. Regulations may allow for different contributions to be made on the basis of the age of the employees, if the percentages applied to the remuneration of these employees for the purpose of calculating these contributions are such that the lowest percentage is higher than the current value of the highest one, calculated on the basis of the difference between the two ages using a rate of 4%.

(74) Proposal for a directive of the European Parliament and of the Council on improving the portability of supplementary pension rights.

(75) See the report of the Management Committee, p. 54 and p. 103.

(76) Circular LPC-5/WAP-5 of 18 April 2006, Application of the 4% rule is referred to in Article 14, § 3, paragraph 2, of the Law of 28 April 2003. See the report of the Management Committee, p. 106.

A wide range of tasks carried out by the department were connected to the development of the supervision of social pension agreements governed by the LPCI/WAPZ and of the social pension schemes governed by the LPC/WAP.

As regards social pension agreements, Circular LPCI-1/WAPZ-1 (77) was published to implement the cooperation protocol signed by the Federal Public Service Finances and the CBFA concerning the recognition of social pension agreements (78). The purpose of the circular is to inform pension organizations of the conditions under which they can obtain a formal opinion regarding the social nature of their model pension agreements.

As far as the social pension schemes under the LPC/WAP are concerned, 2006 saw further work first of all on the development of the interpretive framework. A draft circular was drawn up, explaining in further detail, *inter alia*, the obligations regarding the limiting of costs and the sharing of profits; the circular is now awaiting the opinion of the Supplementary Pensions Commission.

Furthermore, a cooperation protocol is being drafted between the Federal Public Service Finances and the CBFA to cover social pension agreements established under the LPCI/WAPZ, such as already exists for social pension schemes under the LPC/WAP. The new protocol will be supplemented by a circular devoted to this subject.

Lastly, the *Supervision of Supplementary Pensions* Department issued its remarks concerning sub-section 1.4.1 of the vade mecum published by Assuralia concerning the LPC/WAP (79). These remarks have to do with the methods for calculating the minimum vested reserves in a group insurance policy in the absence of any modification to the pension plan, the minimum vested reserves for part-time employees, and the years of service for the aforesaid part-time employees.

3.3. The secretariat of the commissions and the boards

The *Supervision of Supplementary Pensions* Department provides secretariat services to the four advisory bodies created by the LPC/WAP and the LPCI/WAPZ, and for the working groups set up by those bodies (80). In 2006, several opinions were issued concerning draft royal decrees following the legislative amendments made in the context of the transposition of the IORP Directive.

The Supplementary Pensions Commission issued seven opinions in 2006:

- ❖ opinion No. 11 – Anti-discrimination. This opinion is the product of the ad hoc working group set up in 2004 (81);
- ❖ opinion No. 12 – Solidarity benefits during periods of temporary unemployment;
- ❖ opinion No. 13 – Dormant members. This opinion was issued by the working group set up in 2005 in order to study the question of employees who are no longer working for the organizer but who may continue to hold rights in the latter's pension scheme;
- ❖ opinion No. 14 – Application of price limits for the solidarity commitment;
- ❖ opinion No. 15 – Draft Royal Decree modifying the Royal Decree of 14 November 2003 implementing the LPC/WAP (at the request of the Minister for Pensions);
- ❖ opinion No. 16 – Draft Royal Decree modifying the Royal Decree of 14 November 2003 establishing the rules concerning the financing and the management of the solidarity commitment (at the request of the Minister for Pensions);
- ❖ opinion No. 17 – Draft Law for the combating of certain forms of discrimination.

(77) Circular LPCI-1/WAPZ-1 of 5 December 2006 on the procedure for requesting a formal opinion as to the social nature of a model pension agreement. See the report of the Management Committee, p. 106.

(78) See the report of the Management Committee, p. 105.

(79) See the report of the Management Committee, p. 108.

(80) The opinions are available on the CBFA web site (www.cbfa.be)

(81) See the CBFA Annual Report 2004, p. 67 and the Annual Report 2005, p. 60.

The "Pension Association" working group, charged with studying the possibility of creating a new legal form for institutions for occupational retirement provision, to be called a pension association, suspended its work indefinitely in 2005, since the creation by the LIRP/WIBP of the pension financing organization rendered its activities superfluous.

The Supplementary Pensions Board issued two opinions in 2006:

- ❖ draft Royal Decree amending the Royal Decree of 14 November 2003 implementing the LPC/WAP (at the request of the Minister for Pensions);
- ❖ draft Royal Decree amending the Royal Decree of 14 November 2003 establishing the rules for the financing and management of solidarity commitments (at the request of the Minister for Pensions).

The Commission for Voluntary Supplementary Pensions of the Self-employed:

- ❖ opinion No. 3 – Cooperation protocol between the CBFA and the Federal Public Service Finances (at the request of the CBFA) ;
- ❖ opinion No. 4 – Draft Royal Decree on supplementary pension agreements for self-employed workers (at the request of the Minister for the Middle Classes) ;

- ❖ opinion No. 5 – Draft Royal Decree amending the Royal Decree of 15 December 2003 establishing the rules for the financing and management of a solidarity scheme linked to a social pension agreement (at the request of the Minister for the Middle Classes).

The Board for Voluntary Pensions of the Self-employed issued two opinions in 2006:

- ❖ opinion No. 5 – Draft Royal Decree on supplementary pension agreements for the self-employed (at the request of the Minister for the Middle Classes);
- ❖ opinion No. 6 – Draft Royal Decree amending the Royal Decree of 15 December 2003 establishing the rules for the financing and management of a solidarity scheme linked to a social pension agreement (at the request of the Minister for the Middle Classes).

Supervision of financial information and markets

1. Introduction

The year 2006 provides a good illustration of the growing duality of the CBFA's area of expertise as regards the supervision of financial information and financial markets.

- For one thing, the CBFA faces an ever increasing number of operational dossiers involving cross-border matters.

One example is the particularly large amount of both issues and admissions of investment instruments under European passport (some 435 operations in the course of a single year just after the Prospectus Directive came into force in 2005). Other instances include such emblematic transactions as the integration of Euronext and NYSE in the form of a transatlantic stock exchange group, or Mittal's takeover bid for Arcelor.

All this comes as additional proof that the European factor is increasingly prominent not only on the national capital markets but also in the Belgian regulator's working methods. It must be pointed out that this evolution is taking place in an orderly manner and without any glitches, just as has been the case in earlier years with the changeover to the IFRS for the purposes of financial communication by Belgian listed companies or the transition to the newly created UCITS III status for most UCIs governed by Belgian law.

- For another, the string of IPOs involving a significant number of SMEs oriented essentially towards the national market and Belgian investors has continued at an unabated pace (and that was in addition to the listing of new real-estate UCIs (*sicafis/vastgoedbevaks*), i.e. investment vehicles that also present features that are specific to Belgian law and inherent in the development of certain activity sectors in our country).

Whatever the type of dossier, the CBFA's staff pursued the same objectives, namely ensuring that comprehensive information is publicly disclosed and that this information is fully contained in the prospectus (whether the operation is a takeover bid, a public offer to purchase, a public exchange offer, or a buyout bid). The

purpose of that information is to enable investors to make a reasoned assessment of an offer and to ensure that the context in which the offer takes place guarantees an equal treatment of investors on a transparent and integrity-compliant market. However, the diversity in the nature, size and complexity of the various dossiers to be dealt with has led the department to adapt its techniques for the examination of financial information according to the specific features of each case. Identifying the risk(s) of the various operations and remaining particularly alert when approving commercial communication are initiatives that have significantly contributed to improving supervision.

This "duality" is also present in the field of UCI supervision, to the extent that the CBFA is the first-line supervisor for almost half of the UCIs marketed in Belgium, many of which present certain features which are specific to the products proposed or to the Belgian markets, *inter alia* as a result of the sector's own dynamism.

The increasing volume of operations can also be related to the determination of Belgium's political and administrative authorities to develop a favourable environment for new products and new market initiatives. Thus the year 2006 has again seen the adoption of regulatory measures in fields such as the organization of securities lending by public UCIs, the creation of institutional classes of units within a public UCI, and the finalization of a new specific regulation on institutional UCIs. Experts have observed that each such initiative has contributed to placing the Belgian regulatory environment among the best fitted and most modern in Europe, while ensuring adequate information and investor protection. In this perspective, the CBFA's staff have developed a proactive attitude as regards ex ante supervision of UCI advertising. This prevention-oriented policy seems to be bearing fruit: the financial ombudsmen are currently recording few individual complaints as far as UCIs are concerned.

This diversity in the department's supervisory tasks is also reflected in the fight against market abuse, where a new preventive policy – largely inspired from new European rules – was implemented in 2006, in combination with the necessary tools for punishing offences.

2. Supervision of financial operations ⁽⁸²⁾

2.1. Activity report

The year 2006 was highlighted by a high number of IPOs, a rise in the amount of non-equity securities issues under the impulse of the Prospectus Directive,

and regulatory developments *inter alia* in the field of takeover bids.

Number of operations on equity securities and equivalent securities

	2004	2005	2006
IPOs on Euronext Brussels	1	13	20
<i>Eurolist by Euronext Brussels</i>	1	7	7
<i>Alternext Brussels (as from Jun. 2006)</i>	-	-	4
<i>Free Market ("Marché libre"/ "Vrije Markt" (as from Nov. 2004)</i>	-	6	9
Complementary admissions of companies on Eurolist by Euronext Brussels	76	38	15
Takeover bids in cash or in securities, squeeze out bids	18	15	16
Issues and/or admissions of warrants	9	11	15
Special reports on the basis of Article 583 of the Code on Companies	20	17	25
Other	18	9	24
TOTAL	142	103	115

Comments

Seven companies introduced a request to be listed on *Eurolist by Euronext Brussels*, four on *Alternext* and nine on the Free Market. The CBFA strove to follow its policy of identifying the specific risk(s) for the companies concerned and to draw the attention of potential investors to such risks through a warning on the very

first page of the prospectus. Such warning was provided, for instance, if the company concerned had not yet generated any profits or was highly indebted.

Number of non-equity securities operations

	2004	2005	2006
Issues and/or admissions of investment instruments with no capital risk			
<i>issued from within Belgium</i>	72	70	33
<i>issued under the European passport ("final terms")</i>	24	58	133
Issues and/or admissions of investment instruments with a degree of capital risk			
<i>issued from within Belgium</i>	14	32	7
<i>issued under the European passport ("final terms")</i>	14	47	302
Bank savings certificates, subordinated liabilities and capitalization bonds	10	16	5
TOTAL	134	223	480

Comments

The evolution of non-equity securities operations is a direct result of the entry into force of the Prospectus

Directive on 1 July 2005. In the course of 2006, the CBFA was notified of 197 basic prospectuses or pro-

(82) For the details on these supervisory tasks, see the 2004 and 2005 annual reports.

spectuses relating to a given operation and of 147 passports for prospectus supplements. On the basis of such information as available to the CBFA (the "final terms"), it appears that 435 operations were launched in Belgium under the European passport in the course of 2006. It should however be pointed out that just one issuer initiated over 200 operations.

Non-equity securities operations amounted to € 6 651 512 in 2006, of which € 5 306 185 with a guaranteed reimbursement of capital and € 1 109 764 under no such guarantee. These are mainly structured notes issued by Belgian or foreign banks or their financing vehicles. A large number of these operations are carried out under the European passport.

Any advertising (commercials, presentations, brochures, etc.) must be submitted to the CBFA for prior approval. The CBFA verifies that the advertising is not misleading for the public. Therefore particular attention is paid to whether the capital is guaranteed or not, and to any information on the yield, on possible conflicts of interest and on entry and exit charges.

For its part, the CBFA has issued 22 passports relating to prospectuses it had previously approved.



The Takeover Directive came into force on 20 May 2006. As the transposition draft was still being drawn up at that date, the CBFA took the necessary measures to recognize as being immediately enforceable those provisions of the directive which provided rights to economic agents. This concerned in particular the provisions on competence and recognition of the prospectus for the purposes of cross-border operations. These provisions were applied in the context of the public exchange offer for the shares of Euronext NV. The Euronext offer was governed by French law, and the documentation as approved by the French *Autorité des marchés financiers* was recognized by the CBFA pursuant to Article 6 of the Takeover Directive. As part of the preparation for transposing that directive, the CBFA carried out a consultation with the main Belgian listed companies. It is expected that the directive will entail a complete overhaul of takeover regulations. The cur-

rent so called double condition system (i.e. both a transfer of control and the payment of a premium over the stock exchange price) is to be replaced by an obligation to initiate a takeover bid from the moment a certain threshold of ownership is reached. Parliament has determined this threshold to be 30%.



2.2. Objectives

Given the exponential trend in transactions on non-equity securities, the CBFA will clarify in 2007 the standards which it would see fit as regards advertising. For the rest, the CBFA will continue to strive to combine abundance by high-quality standards on financial information with the need to meet such deadlines as are dictated by market imperatives.

3. Supervision of financial information on a continuous basis (83)

3.1. Activity report

In the course of 2006, the CBFA supervised 143 Belgian listed companies and 75 foreign listed companies. The CBFA's main actions in this respect were as follows:

- ❖ First of all, the CBFA focused on the implementation of IFRS, which, for most companies on Eurolist, had been applied for the first time on a mandatory basis for the financial period 2005;
- ❖ In order to be adequately prepared for this new challenge and ensure homogeneous supervision, the Accountancy and Finance unit, in cooperation with Supervision of Financial Information, drew up checklists for all IFRSs. These lists were established in order to meet the specific needs of the CBFA's supervision, namely determining whether the information provided through listed companies' accounts makes it possible to assess the position, activity and results of issuers, knowing that such supervision occurs after the accounts were audited and that it is in no way a substitute therefor. These checklists are used taking into account the specific

(83) For the details on these supervisory tasks, see the 2004 and 2005 annual reports.

features of each supervised company. The use of such checklists is part of the new supervisory policy as described by the CBFA in its 2002-2003 annual report (84);

- The Accountancy and Finance unit has also systematically participated in the European Enforcers Co-ordination Sessions (EECS) where European regulators gather to address issues relating to practical IFRS implementation. The CBFA itself presented some cases, and the decisions to which they led were registered in the EECS database;
- In order to determine its supervisory program, the CBFA resorted to its risk model (85), integrating into it the findings it had made in the previous year as part of its examination of the preparations by listed companies for the changeover to IFRS;
- As part of its supervisory tasks in 2006, the CBFA identified several shortcomings on the part of listed companies, *inter alia* in the field of IFRS implementation. For this *ex post* supervision, the CBFA has modulated its interventions in such a way as to make the corrective action proportionate to the seriousness of the issue, *inter alia* by resorting to its authority to issue a communiqué, by requesting companies to publish a communiqué announcing changes in the accounting, clarifying some information or announcing the company's commitment to carry out the necessary accounting changes, or by securing a company's firm commitment to remedy certain shortcomings in the 2006 annual brochure;
- As in previous years, the CBFA has verified compliance with the deadlines and with the rules for publication of the annual and half yearly statements by listed companies. The CBFA identified shortcomings at six companies as regarded annual statements and two companies as regarded half yearly statements.

During the period under review, the CBFA also carried out five comparative studies on Belgian and/or foreign companies with their main listing on the Brussels stock exchange. Such studies aim among others at improving the general quality of the information disclosed by listed companies in Belgium in those fields. The studies related to the 2005 annual statements and half yearly

statements, to information in 2005 on the changeover to IFRS and its impact on the equity and the results, to corporate governance information as disclosed in the company's governance charter, and to the presentation of the IFRS income statement and compliance with the CESR recommendations on alternative performance measures.

As part of the supervision of foreign non-assimilated issuers, three thematic studies were carried out as regards the annual communiqué, the notices convening the general meeting and the dividends payment notifications. The aim of the analyses was to examine whether companies duly comply with the provisions on information publication and transmission to the CBFA as provided for in the Royal Decree of 31 March 2003 on the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market. Where the CBFA found that a provision was not duly complied with, it requested the issuer or its intermediary in Belgium to take the necessary measures to comply with the provisions of the Royal Decree of 31 March 2003.

The CBFA's staff were also very active in implementing the regulations relating to the Alternext market, which has been operating in Belgium since 2006 and requested new legal provisions to make it possible for medium-sized companies to be listed on an organized market that is subject to the same requirements as the regulated market, save for publication of IFRS accounts. The finalized legal provisions came into force on 1 January 2007. Since that date, the companies listed on Alternext are under CBFA supervision.

During the period under review, the CBFA saw to it that companies were kept permanently informed of both ongoing and future legislation, so as to ensure maximum predictability and thus enable companies to adapt in due time.

Finally, the CBFA has also cooperated closely in preparing the transposition of the Transparency Directive which, when it comes into force in 2007 as planned, is to overhaul the obligations of issuers of securities admitted on a regulated market as well as the field of notifications of large shareholdings in listed companies.

(84) See the CBF Annual Report 2002-2003, p. 141 et seq.

(85) See the 2004 report of the Management Committee, p. 109.

3.2. Objectives

In 2007, the CBFA will, besides its usual supervisory tasks, focus on the challenge to listed companies resulting from the transposition of the Transparency Directive, by adequately supporting the new legal framework and adapting its supervisory policies. The CBFA will also focus on providing adequate support to companies being admitted onto the Eurolist and Alternext markets.

Actions undertaken by the trading room	Number of cases in 2004	Number of cases in 2005	Number of cases in 2006
Treatment of received, obtained or analyzed information	259	409	234
Financial instrument monitoring	193	196	183
Request for information from issuers or market players	291	124	66
Request for suspension of trading	41	32	34
Pre analysis of stock exchange offences	85	113	72
Replies to questions on market supervision	106	58	25

Market players and other interested parties are now familiar with the role of the CBFA's trading room in supervising the markets. As shown in the table above, this has made it possible to reduce the number of requests for information and replies to questions. This is because market players and other parties regularly relay to the trading room such information as can justify movements in shares, as well as any other issue related to the listing of their shares.

In the course of 2006, the trading room also adapted its procedures following the transposition into Belgian law of the Market Abuse Directive. In this perspective, the trading room integrated into its scope of examination the information arising from financial analysis and the data on transactions of senior managers of listed companies. The trading room also dealt with postponed disclosure of insider information (87), of which there were 30 cases in 2006.

4. Market supervision (86)

4.1. Activity report

During the period under review, trading room interventions were as follows:

4.2. Objectives

The trading room's main objective for 2007 is to adapt its procedures and means of operation to the implementation of the Markets in Financial Instruments Directive (MiFID) and the Transparency Directive currently being transposed into Belgian law.

5. The fight against market abuse (88)

Analysis and Investigation examines potential cases of insider dealing and market manipulation (market abuse) identified by the CBFA while supervising financial markets.

The CBFA also cooperates with foreign supervisors in their investigations and ensures implementation of market abuse regulations.

5.1. Activity report

The following table presents the evolution of analyses and investigations of market abuse during the period under review.

(86) For the details on these supervisory tasks, see the 2004 and 2005 annual reports.

(87) Pursuant to Article 10, § 1bis, of the Law of 2 August 2002. See the 2005 report of the Management Committee, p. 81.

(88) For the details on these supervisory tasks, see the 2004 and 2005 annual reports.

Basic figures	Ongoing cases as of 31/12/2005	Cases started in 2006	Cases finalized in 2006	Cases ongoing as of 31/12/2006
Analyses (89)	5	37	34	8
Investigations (90)	76	33	18	91
Cooperation requests from other supervisors	0	17	12	5

The CBFA has initiated 155 new investigations since 1 June 2003 (91). Where this is justified on the basis of the data relating to the investigation, a proposal is made to the Management Committee to initiate administrative sanction proceedings. In such a case, the Management Committee will assess whether there are "serious indications" of an offence, in which case it will refer the case to the investigation officer, who will investigate the charges and the defence. Out of 18 cases that were treated in 2006, the Management Committee referred two cases to the investigation officer.

In the course of 2006, the CBFA made 66 requests for cooperation from foreign supervisors. The average reply time was 68 days. Twelve requests for information remained unanswered as at the end of 2006. The CBFA, for its part, received 17 new requests for cooperation from foreign supervisors. On average, it replied within 39 days of the request.



Once it has taken cognizance of the investigation officer's findings, the Management Committee can impose an administrative sanction. In the course of the period under review, the Management Committee took two final decisions on cases of market abuse (92). These were cases of insider trading.

The Management Committee also decided to issue a warning to an investor in relation to the manner in which he self-admittedly tested market depth. The case related to a share that was traded on Eurolist's double fixing market. The person had placed large, fictitious purchase orders limited at over 50% above the reference price. In the opinion of the Management Committee, the other market players may be misled if such test orders remain in the order book for a long time

during the orders accumulation period and are not cancelled sufficiently in advance of the time of fixing.



During the period under review, the CBFA was involved in drafting two implementing decrees of 5 March 2006 on market abuse and on correct presentation of investment advice and disclosure of conflicts of interest. These implementing decrees complement the transposition into Belgian law of Europe's Market Abuse directives.

The CBFA also organized for the sector a very well-attended information meeting in which the basics of the new regulations were explained and both the Federation of Enterprises in Belgium and Febelfin were able to react. The second part of the information meeting was a Q&A with questions from the sector. The CBFA simultaneously posted on its web site a number of model documents for compliance with the new reporting obligations.

In the wake of the Q&A, the CBFA included a series of frequently asked questions on its web site. The practical questions give the CBFA an opportunity to explain how it applies the new regulations, using concrete examples.

The new measures to prevent market abuse came into force on 10 May 2006. During the remaining part of the period under review, the CBFA published a total of 822 transactions disclosed by senior managers and related persons. A substantial part of these transactions turned out to be the result of employee participation schemes. A total of 180 transactions were related to the exercise of employee options or warrants (for a total of € 25.74 million). In most cases, the shares obtained were immediately sold on the stock exchange,

(89) This refers to the first investigative phase, carried out on the basis of internally available information.
 (90) This refers to the actual investigation, in which both internal and external information is used.
 (91) On 1 June 2003, the CBFA became competent for detecting and sanctioning market abuse.
 (92) See the present Annual Report, p. 79.

presumably because the options or warrants had come to be highly in the money as a result of the bullish stock exchange trend of recent years. The other disclosures concerned 281 purchases for a total of € 204.03 million, 359 disposals for a total of € 384.29 million, and two other transactions for a total of € 3.08 million.

As regards suspicious transactions, the CBFA received in the course of the period under review four notifications of transactions which the institution concerned suspected were related to market abuse. Such cases lead to an investigation being initiated according to the usual procedures. Where the notification relates to a financial instrument that is traded not in Belgium but in another EU Member State, the CBFA will notify the regulator concerned. In the course of the same period, the CBFA has received from the Belgian Financial Intelligence Processing Unit (CTIF CFI) two notifications under the provision of the Law of 11 January 1993 to the effect that the CTIF CFI shall inform the CBFA whenever it refers to the judicial authorities a case that is potentially related to market abuse.



In April 2006, IOSCO's European Regional Committee, chaired by CBFA chairman E. Wymeersch, organized a seminar at the premises of the CBFA on detection, investigation and sanctioning of insider dealing. It attracted more than sixty representatives from over thirty European stock exchange regulators. Based on a number of case studies, they discussed the various stages of insider dealing investigations, including international cooperation issues.

5.2. Objective

The main activity remains the investigation of potential cases of market abuse, where the recently introduced measures to prevent market abuse are being integrated into the investigative methodology. In 2007, extra efforts will be devoted to the supervision of due compliance with the obligations arising from these preventive measures.

6. Supervision of market operators (93)

The Law of 2 August 2002 provides that all market operators shall obtain authorization from the Minister of Finance, in order to ensure protection of investors' interests as well as proper operation, integrity and transparency of the markets. The CBFA is competent for permanent supervision of market operators. As such, it is in charge of verifying that the conditions for authorization are complied with.

6.1. Euronext NYSE merger

As regards the activities of the College of Euronext Regulators, the prominent feature of the period under review was the planned merger between Euronext N.V. Group and NYSE Group, Inc. (94). The Chairmen's Committee set up an ad hoc working group in charge of carrying out a detailed analysis of the plan with a view to identifying its impacts on supervision. With this objective in mind, the working group drew up a report to assist the Chairmen's Committee in its decision-making. Pursuant to the memorandum of understanding concluded between the various regulators of the Euronext zone, the plan could not be implemented until the College of Regulators made it clear that they did not oppose it.

The working group's report not only took into account the risk of current and future US legislation "spilling over", but also examined the impact of closer cooperation between the European and North American stock exchange structures on the "federal" model set up by the Euronext group at its inception. With a view to safeguarding that model, the working group formulated various recommendations to the Chairmen's Committee. In substance, the recommendations aimed *inter alia* at obtaining from the group to be born out of the merger a commitment that it would not hinder further application of the MoU between the regulators of the Euronext zone and that it would guarantee availability to the European local entities of sufficient financial and human resources to enable an autonomous management of their markets, taking into account the applicable legal and regulatory provisions. The Chairmen's Committee agreed with the various recommendations.

(93) For the details on these supervisory tasks, see the 2004 and 2005 annual reports.

(94) See the 2006 report of the Management Committee, p. 73.

The agreement of the College of Regulators was followed by the various national procedures according to which the different supervisors involved took the necessary decisions and/or gave the competent ministers such opinions as were needed for the final decision to be taken. In this respect, the CBFA decided not to oppose NYSE Euronext Inc. taking indirect control over Euronext Brussels. The CBFA also recommended to the Minister of Finance not to impose additional conditions on Euronext Brussels' authorization as market operator, taking into account the commitments made by NYSE Euronext. The Minister of Finance decided to follow that recommendation.

- ❖ During the period under review, the CBFA again cooperated closely with the various Euronext regulators committees. These committees have submitted Euronext and its markets to a number of joint supervisory verifications. In this regard, it should be noted that there is an ongoing effort to reach joint decisions on the market rules that apply to Euronext's regulated markets.
- ❖ The CBFA's activities as regards setting up a joint databank for Euronext regulators have made considerable progress in 2006. The databank is now available to the regulators, and Euronext keeps feeding it with the information that, as a

transnational entity, it is obliged to provide to the various competent supervisors.

- ❖ In 2006, the CBFA again provided a constructive contribution to the CESR working groups addressing the various aspects of MiFID and its implementing regulation. At the core of this work were all aspects related to the technical implementation and enforcement of the obligation to report transactions in financial instruments listed on a regulated market.
- ❖ In the course of 2006, the CBFA imposed upon four international banks an administrative fine of € 100 000 each for late disclosure of off-exchange transactions on linear bonds, split securities and treasury certificates. (95)

6.2. Objectives

The CBFA's objectives for 2007 include the actual application of MiFID, principally as regards putting into practice the various obligations on transaction disclosure and market transparency. The CBFA will continue to participate in the supervision of Euronext within the College of Euronext Regulators and will remain active in the CESR working groups on practical application of MiFID.



(95) See the 2006 report of the Management Committee, p. 78.

7. Supervision of undertakings for collective investment (96)

7.1. Evolution of the UCI sector and of the activities of the service supervising collective management of savings products

	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/12/2006
Belgian UCIs	157	155	160	158	185
Sub-funds	1 987 (*)	1 979 (*) 1 252 (**)	1 372	1 481	1 652
Non passported foreign UCIs	34	49	39	18	17
Sub-funds	145	142	112	99	104
Passported foreign UCIs	230	218	206	198	209
Sub-funds	1 891	1 925	1 918	2 023	2 068
Total UCIs	421	422	405	374	411
Total Sub-funds	4 023	4 046 (*) 3 319 (**)	3 402	3 603	3 824

(*) Including the sub-funds that were created and registered by October 2000 but were never marketed.

(**) Excluding the sub-funds created and registered by October 2000 but never marketed, and effectively deregistered in December 2003.

In the course of 2006, the number of *Belgian UCIs* rose by 17% (-1.25% in 2005). The continued rise in the number of *sub-funds* was even steeper at 11.55% than in 2005 (+7.94%).

2006 also saw the total number of (both passported and non passported) *foreign UCIs marketed in Belgium* grow by 4.6% (-11.8% in 2005), while the number of *foreign sub-funds* rose slightly by 2.4% (against a 4.5% increase in 2005). These figures can be broken down as follows between passported and non passported foreign UCIs.

For the first time since 2002, the number of *foreign passported UCIs* resumed its climb, this time by 5.6% (-3.8% in 2005 and -6% in 2004). This net increase in the number of harmonized foreign UCIs marketed in Belgium is presumably due to the impact of the new European regulations, and more particularly the extended investment possibilities under UCITS III. The number of *sub-funds of foreign passported UCIs* continued to expand, although to a lesser extent (up 2.2% as against a 5.74% progression in 2005).

Although the number of *foreign non passported UCIs* fell by 6% (-54% in 2005), it did step up by 5% in terms of *sub-funds* (-11% in 2005). Thus the sharp drop noted over the previous three years in the amount of non-harmonized foreign UCIs marketed in Belgium was clearly reversed in 2006.

As at 31 December 2006, *UCIs for which the CBFA is the first-line supervisor* (namely UCIs governed by Belgian law plus non-passported foreign UCIs) amounted for 49.2% of all UCIs and 45.9% of all sub-funds (as compared to 47% and 43.8% respectively as at 31 December 2005).

(96) For the details on these supervisory tasks, see the 2004 and 2005 annual reports.

Evolution of the net assets of Belgian open-ended UCIs

	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/12/2006
Net assets of open-ended UCIs governed by Belgian law (in EUR billion)	78.26	85.05	95.33	112.14	124.27

As at 31 December 2006, the net assets of open-ended UCIs governed by Belgian law which were marketed in Belgium amounted to € 124.27 billion (97). The net assets of Belgian open-ended UCIs thus set a new record as compared with the 1990 level. Growth was strong again at 10.8%, though somewhat abated as compared with the two previous review periods (+17.63% in 2005 and +12.08% in 2004).

This rise in the net assets of those Belgian UCIs is largely attributable to net subscriptions totalling € 10.4 billion. This net inflow of capital is nonetheless lower by 32% than the € 15.3 billion net influx recorded in 2005. However, there is a marked contrast between open-ended investment companies, whose net subscriptions dropped by 50% (down € 7.2 billion), and open-ended investment funds, whose net subscriptions tripled (up € 2.28 billion).

Evolution of the activity volume of the service supervising collective management of savings products

	2002	2003	2004	2005	2006
Number of registrations					
New UCIs	29	33	27	30	59
<i>Belgian harmonized UCIs</i>				1	1
<i>Other Belgian UCIs</i>				8	28
<i>Foreign harmonized UCIs</i>				21	29
<i>Other foreign UCIs</i>				0	1
New sub-funds	397	473	418	578	543
Number of takeover bids and squeeze-out bids	3	2	0	0	1

The number of dossiers submitted to the Management Committee for approval – one of the indicators of the activity volume – remained practically unchanged in 2006 as compared to 2005.

However, based on the service's internal registration systems, the volume of incoming documents over 2006 has risen by 23% and the volume of *advertising* submitted to the CBFA for approval has climbed by 67% as compared to 2005.

The above table showing the number of registered Belgian and foreign UCIs clearly evidences the *rising number of new registrations*, which has nearly doubled as compared to 2005. This surge primarily relates, to an equal extent, to new foreign harmonized UCIs on the one hand, and to Belgian non-harmonized UCIs on the other hand. The latter category of UCIs mainly includes investment funds whose policy is to invest in other UCIs (so-called "funds of funds"). It cannot be excluded that this trend is motivated by tax considerations.

(97) The net assets of open-ended UCIs governed by Belgian law account for 72% of the combined net assets of Belgian and foreign UCIs (excluding so called "funds of funds") offered on the Belgian market (as compared with 61% in 2005, but this time based on the combined net assets of Belgian and foreign UCIs including funds of funds).

Ninety-three per cent of all Belgian sub-funds created in 2006 belong to the segment of *fixed-maturity, protected-capital investment undertakings* (88% in 2005). The Belgian UCI market thus seems to keep on profiling itself with financial products offering the investor a protection of the invested capital, further confirming how popular these products are with Belgian investors.

As was the case in 2005, although now to a lesser extent, the policy of the major part (62.4%) of new sub-funds of foreign UCIs focuses on direct investment in shares and/or bonds.

Finally, 2006 witnessed the listing of two real-estate UCIs.

7.2. Activity report

Whereas 2005 was devoted – both in terms of regulation and from an operational point of view - to the entry into force of the Law of 20 July 2004 on certain forms of collective management of investment portfolios, in 2006 the focus was on the operational management of the dossiers generated by the sector's own dynamics and the implementation or modernization of various pieces of national legislation relating to several aspects of collective management.

As regards the service's operational activity, one can point in particular to the admission to trading on Euronext Brussels of two new real-estate UCIs and the creation or marketing of 59 new UCIs and 543 new sub-funds. Another notable item, as indicated above (98), is the increasing resources devoted to analysis and approval of advertising. Efforts have been made in this area to develop a harmonized enforcement of advertising standards.

The entry into force of the Law of 16 June 2006, governing *inter alia* the prospectus to be published by closed-end UCIs (99), was followed by certain operational measures. Among others, collaboration by this

service with Supervision of Financial Operations was reinforced with a view to ensuring optimal treatment of the dossiers introduced by closed-end UCIs.

Additionally, a procedure to grant authorization to statutory auditors in the field of UCIs, initiated in the autumn of 2006, led the CBFA to grant one new statutory auditor a specific authorization for UCIs and another eight a general authorization. Also notable in the matter of statutory auditing was the creation by the CBFA, together with the statutory auditors of UCIs, of an operational working group aimed at determining and clarifying the scope of statutory auditors' tasks.

Regulatory developments related to a large number of projects aiming to adapt the legal environment to market trends and to create the right conditions to facilitate new market initiatives.

First a series of consultations were organized with the sector (100) on securities lending by public open-ended UCIs: this made it possible to give the project substance by adopting a royal decree of 7 March 2006 (101) that lays down the terms and conditions for such securities lending.

The new regulatory framework on public open-ended UCIs' accounting, financial statements and periodic reports, as well as on the financial statements and consolidated financial statements of real-estate UCIs, has now also been finalized and published as the Royal Decrees of 10 November 2006 (102) and 21 June 2006 respectively (103). Again, a considerable part of the service's resources were required to finalize the public consultation procedures and contribute the necessary technical support for such matters as the principles underlying the valuation of financial instruments and real-estate property in accordance with IFRS, or the new accounting layouts.

(98) See point 7.1.

(99) Law of 16 June 2006 on public offers of investment instruments and the admission of investment instruments to trading on regulated markets (Belgian Official Gazette, 21 June 2006, p. 31352); see the 2006 report of the Management Committee, p. 57.

(100) Represented by BEAMA (Belgian Asset Managers Association).

(101) Royal Decree of 7 March 2006 on securities lending by certain undertakings for collective investment (Belgian Official Gazette, 10 March 2006, p. 14519); see the 2006 report of the Management Committee, p. 88.

(102) Royal Decree of 10 November 2006 on accounting, the financial statements and periodic reports of certain open-ended undertakings for collective investment (Belgian Official Gazette, 30 November 2006, p. 66437); see the 2006 report of the Management Committee, p. 86.

(103) Royal Decree of 21 June 2006 on accounting, the financial statements and consolidated financial statements of public real-estate UCIs, modifying the Royal Decree of 10 April 1995 on real-estate UCIs (Belgian Official Gazette, 29 June 2006, p. 32780); see the 2006 report of the Management Committee, p. 90.

Important efforts were also made to draw up the CBFA's Regulation of 11 September 2006 on statistical information to be provided by certain public open-ended UCIs (104). As supporting material, the CBFA also published a circular to illustrate through examples certain provisions of the Regulation and clarify a number of rather technical issues (105).

Part of the resources also went to formulating opinions or contributing specific expertise for regulatory projects in the area of private as well as institutional UCIs.

One such opinion was formulated on the Royal Decree modifying the current regulatory framework applicable to so-called "private *pricafs/privaks*" (specific private UCIs) and on the Royal Decree implementing Article 103, paragraph 4, of the aforementioned Law of 20 July 2004 to determine the conditions under which institutional UCIs in receivables are presumed to take adequate measures to ensure that the holders of their securities are institutional or professional investors (106).

Expertise was also contributed in the discussions held as part of the preparation of a specific regulation on open-ended institutional UCIs. This new regulation also enabled the CBFA to evolve its doctrine on the creation of institutional share classes within a public UCI (107).

Finally, the service cooperated in the CBFA's internal work on dematerialization of bearer securities in preparation for a circular and a set of legislative proposals. It also contributed its know how in the field of UCI regulations to the discussions on the transposition of MiFID into Belgian law, *inter alia* by trying to determine how best to combine the provisions of the UCITS and MiFID directives respectively.

As regards the international work, the service continued to be active in the CESR Investment Management expert group through its involvement in following up the work on assets qualifying as investments for UCITS and in the considerations that have led to the publication of CESR recommendations on the notification procedure for UCITS.

Additionally, the CBFA took part as an observer in two workshops held in the summer of 2006 on improvements to the content and form of the simplified prospectus for UCITS.

(104) Royal Decree of 18 December 2006 approving the Banking, Finance and Insurance Commission Regulation on statistical information to be provided by certain public open-ended undertakings for collective investment (Belgian Official Gazette, 29 December 2006, p. 75558); see the 2006 report of the Management Committee, p. 87.

(105) Circular OPC/ICB 3/2006 explaining the Banking, Finance and Insurance Commission Regulation on statistical information to be provided by certain public open-ended undertakings for collective investment; see the 2006 report of the Management Committee, p. 88.

(106) Royal Decree of 15 September 2006 containing certain implementing measures relating to institutional undertakings for collective investment in receivables; see the 2006 report of the Management Committee, p. 91.

(107) See the 2006 report of the Management Committee, p. 93.

Protection of consumers of financial services

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

- ❖ supervises the companies and transactions referred to in the Law of 4 August 1992 on mortgage loans;
- ❖ ensures that the policy terms and conditions and the publicity issued by insurance companies observe the provisions of the Law of 25 June 1992 on non-marine insurance policies and its implementing decrees, and of the Law of 9 July 1975 on supervision of insurance companies and its implementing decrees;
- ❖ contributes to observance of the rules intended to protect depositors, investors and insurance policyholders against illegal offers of financial products and services;
- ❖ provides secretariat services for the Insurance Commission.

Until November 2006, the department was also responsible for handling insurance sector complaints, but this task was dropped after the entry into force of the Royal Decree of 21 June 2006 (108).

Lastly, the department worked on various projects aimed at educating and informing consumers of financial services.

These activities are commented on below.

1. Activities regarding mortgage credit

1.1. List of companies authorized to offer mortgage loans

In 2006, the CBFA enrolled or registered six companies, and the enrolment or registration of fourteen others was deleted, chiefly in consequence of mergers. As at the end of 2006, the list of companies authorized to offer mortgage loans within the meaning of the Law of 4 August 1992 totalled 221, of which 200 were enrolled companies governed by Belgian law and 21 were registered companies established under the law of another Member State.

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

	31/12/2005	31/12/2006	Difference
Enrolled companies governed by Belgian law			
Insurance companies and pension funds	32	31	- 1
Credit institutions	43	39	- 4
Public institutions	5	5	0
Other institutions	129	125	- 4
Total number of enrolled companies governed by Belgian law	209	200	- 9
Registered companies established under the law of another Member State	20	21	+ 1
Total number of enrolled and registered companies	229	221	- 8

(108) See the 2006 report of the Management Committee, p. 111.

1.2. 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 2006, the department examined 730 such documents (compared to 600 in 2005).

Furthermore, the department supervised the observance of the rules concerning publicity for mortgage loans. To that end, mortgage loan companies and intermediaries were requested to submit their publicity documentation. There was continued cooperation with the federal public service "Economy".

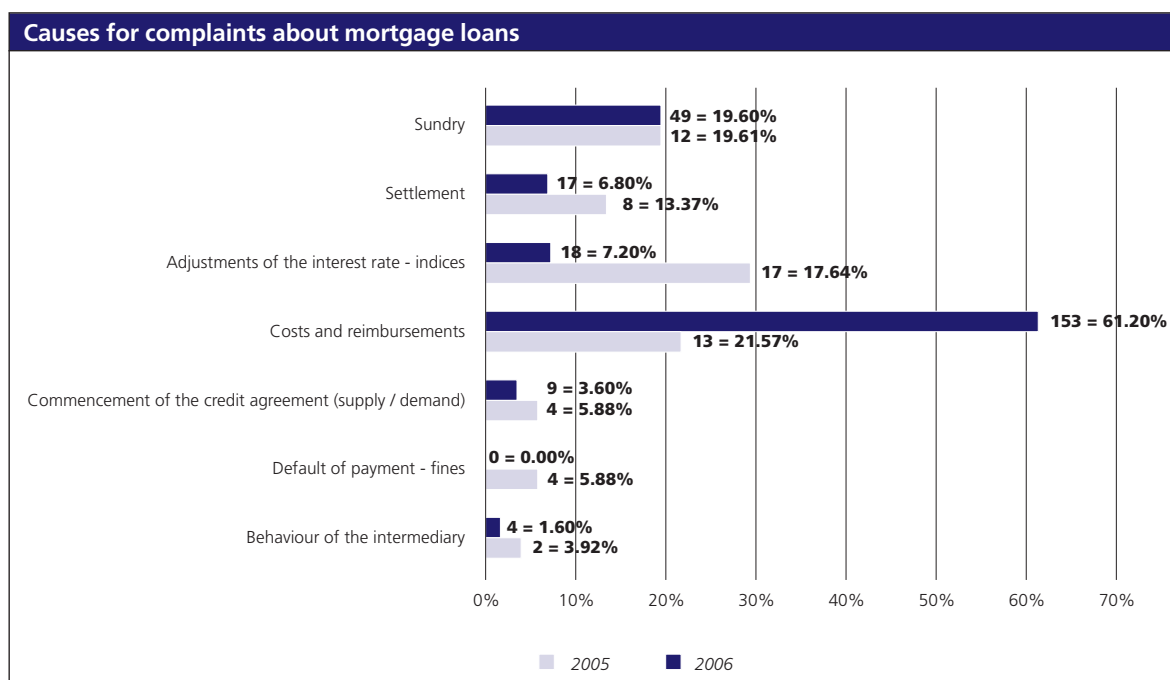
1.3. On-the-spot inspections

The number of on-the-spot inspections of mortgage companies doubled: 6 in 2006, as compared to 3 in

2005. Their principal purpose is to monitor observance of the provisions of the Law 4 August 1992, particularly in respect of contractual information, the application of the variability of the interest rate, the charging of costs and the correct maintenance of the dossiers concerning disputes. In the case of mortgage companies that are neither credit institutions nor insurance companies, on-the-spot inspections were conducted to monitor observance of the money-laundering legislation.

1.4. Complaints

Besides numerous requests for information, the department handled 250 complaints (compared to 60 in 2005). A sharp increase was seen particularly in complaints about the costs being charged, which was probably a result of the interest aroused by the CBFA's campaign in this area (109).



1.5. Circulars regarding mortgage loan costs

In the course of 2006, the CBFA sent two circulars to the mortgage companies on the subject of the costs charged (110). The purpose of both circulars was to set

out clearly the legal framework within which those companies are permitted to charge costs to their customers. The second circular was preceded by a consultation of the sector (111). The circulars are commented on in the report of the Management Committee (112).

(109) See the 2006 report of the Management Committee, p. 118.

(110) Circular HYP 23 of 15 February 2006 and Circular HYP 24 of 23 November 2006.

(111) Standard letter of 22 May 2006.

(112) See the 2006 report of the Management Committee, p. 118.

1.6. Preparatory work in view of a possible change to the law on mortgage credit

In last year's report, mention was made of the research begun by the CBFA with a view to a possible change in the law on mortgage credit. In 2006, the CBFA drew the attention of the Minister for Economic Affairs to four points regarding which an amendment to the law could be useful in tightening the efficiency of supervision. Those four points were: the status of mortgage loan companies other than credit institutions and insurance companies, and which are not subject to CBFA supervision; the sanction arrangement, where at present there is little differentiation; the *a priori* supervision of tariffs and documents; and the absence of a legal status for intermediaries in mortgage credit. The CBFA also drew the minister's attention to a number of other reforms considered desirable by the sector, such as the introduction of legal status for the reverse mortgage.

In response, the minister requested the CBFA to give priority to the preparation of a draft bill for the introduction of a legal status for intermediaries in mortgage credit. Further, the *Beroepsvereniging voor het Krediet/Union professionnelle du crédit* (professional credit association) was asked to detail its ideas in respect of the reverse mortgage.

At closure of the period under review, the CBFA was well advanced in the preparation of the text for a draft bill aimed at introducing a legal status for intermediaries in mortgage credit, along the lines of the one for intermediaries in insurance and intermediaries in banking and investment services. Moreover, to ensure that candidate borrowers are treated with proper consideration, and within the context of the struggle against the excessive debt burden, a number of rules of conduct were inserted that will apply to both intermediaries and mortgage companies.

For its part, the *Beroepsvereniging voor het Krediet/Union professionnelle du crédit* submitted proposals to the Minister for Economic Affairs and the CBFA, designed to provide a legal framework for the granting of reverse mortgages. At the beginning of 2007, the CBFA submitted a number of comments on those proposals to the minister.

1.7. European activities

For a number of years now, the CBFA has been examining the necessity and possibility of regulating at European level certain aspects of mortgage credit that are of importance to both consumer and lender. In 2006, the European Commission consulted the Member States, industry and consumers on a number of essential points, including the provision of information, the provision of advice, early repayment and the annual percentage rate.

The CBFA prepared the position of the Belgian government and to that end consulted extensively with all those concerned, including consumer representatives. The contributions of the Member States – including that of the Belgian government – were published by the European Commission on its web site, a site that also contains the report that the Mortgage Industry and Consumers Expert Group and the Mortgage Funding Expert Group brought out in 2006.

The round of prior consultation has thus been virtually completed and, in a white paper that it intends to publish in the summer of 2007, the European Commission will make known its opinion on the further steps to be taken in respect of the integration of the EU market for mortgage credit.

2. Activities regarding insurance

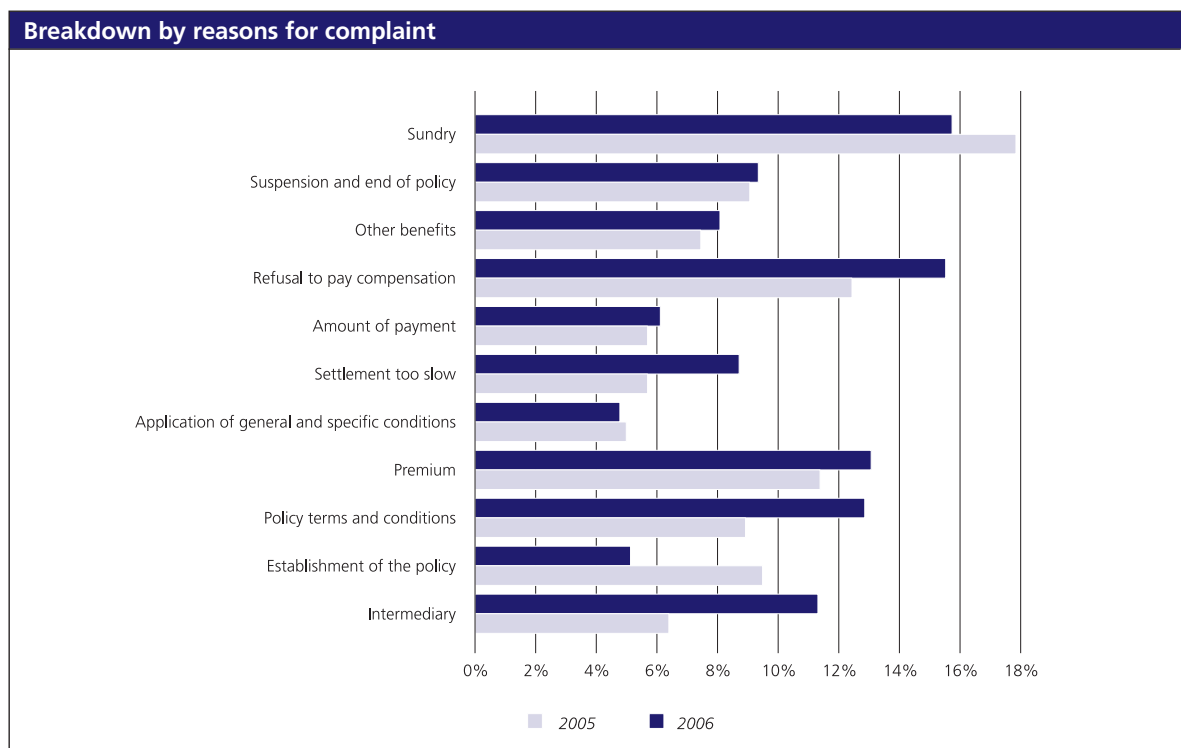
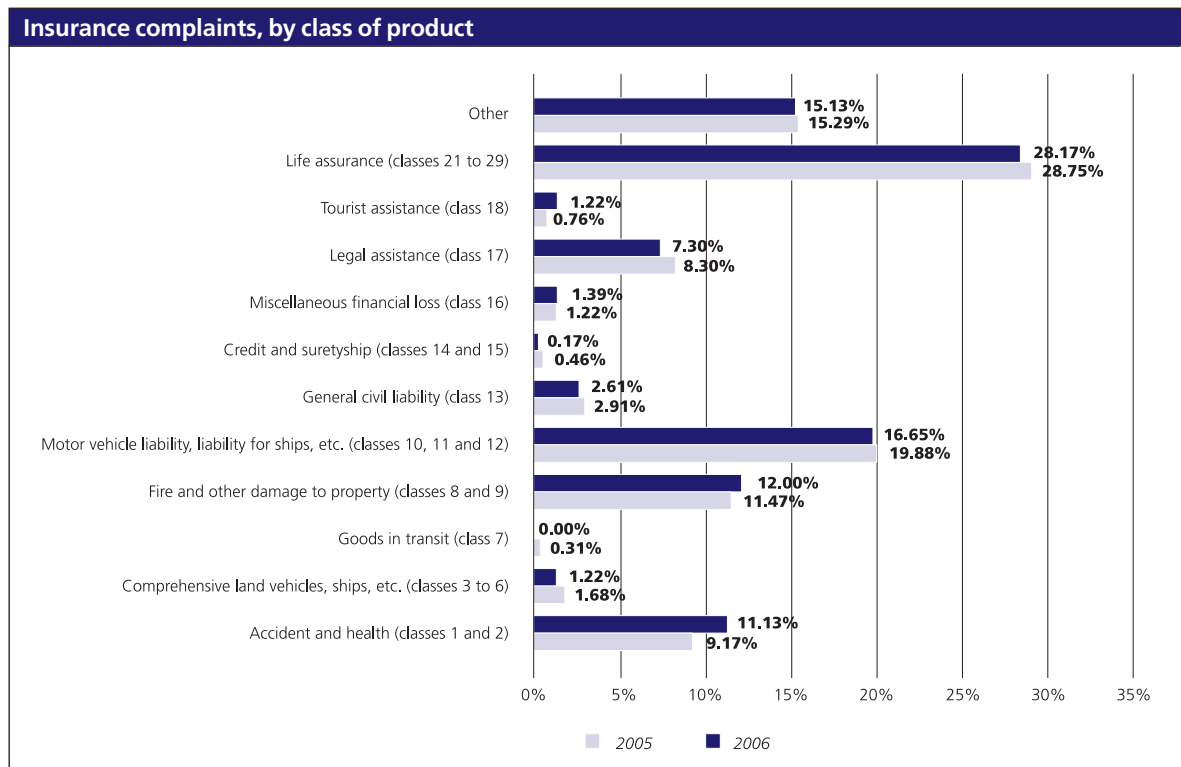
2.1. The handling of complaints in the insurance sector

The reform of the arrangement for handling complaints in the insurance sector was completed in 2006 (113). Pursuant to the Royal Decree of 21 June 2006, which came into force at the end of November 2006, the CBFA no longer has competence to handle individual complaints in respect of insurance. That competence now rests with a single entity, the Insurance Ombudsman, and the CBFA has not handled any new complaints since the above-mentioned decree came into effect. Any complainants addressing themselves to the CBFA are now referred to that entity, though they are recommended first to lay their complaint before the insurer and to turn to the Ombudsman only where the insurer does not respond.

(113) See the 2006 report of the Management Committee, p. 111.

Between January and November 2006, the CBFA received 698 complaints about insurance policies, as against 815 in 2005. Of those 698, fifty-one concerned the activities of the insurance intermediary, as against 45 in 2005.

The following two graphs are of complaints broken down according to insurance product and according to the reason for complaint.



2.2. Supervision of policy terms and conditions

Hitherto, policy conditions were supervised chiefly on the basis of individual complaints; however, with the reform of the arrangement for handling complaints in the insurance sector, this has now changed.

For the CBFA, complaints remain a valuable source of information in identifying problems that go beyond the individual case, and it is for this reason that the Insurance Ombudsman Service has an obligation to notify the CBFA of the customer complaints it receives. Complaints with a broader dimension are divided into two categories: on the one hand, the complaints that concern all customers of the same company that find themselves in the same situation; on the other, the complaints that concern the entire sector.

In the course of 2006, the CBFA handled various complaints in respect of the first category and that concerned, among other things:

- ❖ the profit-sharing policy of an insurer (114);
- ❖ notification of a increase in premiums to policyholders of a health insurance policy (115);
- ❖ the action that an insurer had taken to prompt holders of a life assurance policy to convert their policy into an insurance product with an interest rate only partially guaranteed (116).

As regards the second category, the CBFA received various complaints from persons subscribing to a group hospitalization policy – for example, via their employer – and who were faced with changes in the policy, fee increases and even termination of the policy, without having been properly informed about those matters (117).

Other complaints concerned travel insurance (assistance and cancellation), many of them concerning contractual exclusion clauses formulated in such a way as to allow the insurer a great deal of room for interpretation. The department noted that it was frequently the case that policyholders thought they were covered, whereas strict application of the policy conditions excluded them. This prompted the department to include in its planning a sectoral survey both of exclusion clauses in tourist insurance and of the interpretation that the insurers involved gave to those clauses.

Other sectoral surveys were also conducted, more particularly on both the application of provisions introduced into the law on non-marine insurance by the Law of 17 September 2005 on insurance against natural disasters (118) and the notification and registration of general and particular terms and conditions.

Insurers offering legal expense insurance have received a questionnaire from the CBFA, the intention being to update and supplement the data they are required to submit to the CBFA regarding, among other things, the form used in this branch for claims management.

Lastly, the department commenced updating the list of mandatory insurance, a list that can be consulted on its web site.

(114) See the 2006 report of the Management Committee, p. 117.

(115) Although the insurer had taken the appropriate measures to ensure that the policyholders were informed by ordinary letter of the increase in premium, it was unable to prove that the letters sent had actually arrived. Given the circumstances, the department ruled that the policyholders were entitled to terminate their policy outside the stated term of notice of three months before maturity.

(116) The CBFA has insisted that this commercial action be accompanied by observing the obligation of notification to which insurance intermediaries are subject and that customers should receive appropriate documentation in order to be able to make an informed decision.

(117) The draft law amending the Law of 25 June 1992 on non-marine insurance policies and concerning health insurance policies (Doc. Chamber 2689/001) was aimed at reinforcing the situation of beneficiaries of a group hospitalization policy by granting them the right to extend the policy on an individual basis where they lose the benefit of the group policy.

(118) For more information on this Law, see the 2005 report of the Management Committee, pp. 116-117.

2.3. Supervision of publicity

In the last annual report it was mentioned that, in response to the request of the Minister for Consumer Affairs, the CBFA had agreed to collaborate with the federal public service "Economy" on a study of financial publicity. The study prompted the minister to request the sectors involved to draw up a code of conduct in respect of such publicity. The professional associations responded to the request and drew up codes of conduct for, on the one hand, publicity and information on individual life assurance and, on the other, for information and publicity about savings deposits (119).

For its part, the CBFA decided to reinforce the supervision it conducts *a posteriori* on publicity for life assurance. A number of insurers are periodically requested to submit publicity to the CBFA that they have employed during a particular reference period. The publicity of intermediaries is collected from selected free local papers.

2.4. The obligation of insurance intermediaries to provide information

In cooperation with the CBFA, the professional associations of insurance intermediaries drew up sectoral documents to help intermediaries meet their obligation to provide information, an obligation that the Law of 22 February 2006 inserted into the Law of 27 March 1995 on insurance and reinsurance intermediation and on the distribution of insurance. The documents take the form of three cards: one for traditional life assurance, one for insurance-linked saving or investment and one for non-life insurance (120).

The department was closely involved in preparing those cards and in formulating the CBFA's stance on the matter.

2.5. Advice to the government

During the period under review, and at the request of the Minister for Economic Affairs, the CBFA issued an opinion on a draft Royal Decree that proposed to limit the recourse that the insurer has against persons who caused damage when they were minors (121), as well as an opinion on a draft Royal Decree on the qualifications for the authorization and the supervision of the *Compensatiekas Natuurrampen / Caisse de compensation des Catastrophes naturelles* (Natural Disaster Compensation Fund) (122).

On its own initiative, the CBFA also issued opinions on the draft law on insurance against damage caused by terrorism (123) and on the draft law on private health insurance policies (124). The opinions proposed that the role allotted to the CBFA in the texts of the draft laws be better geared to the CBFA's competences as supervisor.

2.6. Secretariat services for the Insurance Commission

In 2006, the department provided secretariat services for ten meetings of the Insurance Commission and for fourteen working-group meetings. During the year, the Insurance Commission issued sixteen opinions, which are available on the CBFA's web site (125).

3. Protection of depositors, investors and the insured against illegal offers of financial services

Regarding the protection of the public against illegal offers of financial services (known as "perimeter control"), the department received a large number of written requests for information (310, compared to 382 in 2005), as well as many telephone requests.

(119) See the 2006 report of the Management Committee, p. 116.

(120) See the 2006 report of the Management Committee, p. 114.

(121) In respect of this Royal Decree, see the 2006 report of the Management Committee, p. 112.

(122) Royal Decree of 8 December 2006 determining the conditions for authorization and supervision of the *Compensatiekas Natuurrampen / Caisse de compensation des Catastrophes naturelles* (Natural Disaster Compensation Fund), published in the Belgian Official Gazette of 22 December 2006 (second edition).

(123) The amended text of the draft law on insurance against damage caused by terrorism (Doc 51/2848) was laid before the Chamber by the government on 15 January 2007.

(124) Draft law for the amendment, in respect of private health insurance policies, of the Law of 25 June 1992 on non-marine insurance policies, Parl. st., Chamber, 2005-2006 session, No. 2689/001.

(125) See the headings "About the CBFA" and "Advisory bodies for which the CBFA provides secretariat services" (on the French and Dutch sites only).

In 2006 the CBFA published four warnings and one notification on its web site. The warnings concerned:

- ❖ a company that claimed to be established in the United States and that offered financial services characteristic of a “recovery room” (126);
- ❖ a company that offered investment services without being licensed to do so;
- ❖ a so-called “bank”, whose web site claimed that it had branches in Brussels;
- ❖ a company that posed as an entity active in respect of consumer protection on futures markets and that claimed that its registered office was at the same address as that of the CBFA, probably to create the impression that the investments offered to the public by affiliated companies were above board.

In all four cases, the CBFA passed on its findings to the legal authorities.

In the 2005 annual report, mention was made of the press release published in consultation with Luxembourg’s *Commission de Surveillance du Secteur Financier* (CSSF) on a company governed by Luxembourg law that, in Belgium, had collected repayable funds in the form of bonds. Following the press release, the company concerned notified the CBFA that it no longer issued bond loan securities in Belgium, but that, since 2005, it had been offering investors established in Belgium the opportunity to acquire shares of another company under Luxembourg law, an offer that carried an undertaking to repurchase them.

Neither the CSSF nor the CBFA had ever been notified by the company of the offer to subscribe to the shares, which indicated that no issue prospectus had ever been submitted to either of them for approval. The CBFA has urged the company whose shares were offered to adopt an appropriate legal form and, as regards the past, to

consider reimbursing the investors. The company has accepted this advice and has applied to the CSSF for and received a licence as a “*société d’investissement en capital à risque*” (SICAR or company for investment in risk capital). Furthermore, the company that had offered the shares for subscription undertook to offer subscribers in Belgium repayment of their investment, without costs.

During the period under review, the CBFA noted that, via a web site and an office, promotion was being conducted under the name of a bank unknown to it for investment in high-interest funds, likewise unknown to it, and for a high-interest savings formula. The CBFA immediately requested the promoters to identify themselves and to suspend their activities until further notice, whereupon they closed their office but refused to identify themselves. Because bad faith could not be ruled out, the CBFA informed the legal authorities of what it had noted, which could be considered the illegal use of the term “bank”, the illegal soliciting of repayable funds from the public and the illegal offer to the public of units in undertakings for collective investment.

Shortly thereafter, it appeared that the initiative had been set up by a non-profit association that, by taking on the appearance of a bank, was attempting to focus the public’s attention on certain practices regarded as unethical. The CBFA took note of this and insisted that the promoters drop the protected term “bank” from any continuation of the campaign and that they take care that what was a purely educational campaign should not mislead the public.

As in previous years, the CBFA used its web site to publish warnings from other European supervisors that were sent to it by the CESR-Pol secretariat. During 2006, 111 such warnings were published (compared to 49 during 2005).

(126) A “recovery room” is a mechanism of fraud whereby an investor who has bought securities that have dropped heavily in value is contacted by a person who offers to buy them at a price higher than the value. The most diverse reasons are given for this, one being that the buyer wishes to gain control of the company whose securities he is looking to buy. However, the investor is always requested to pay certain costs in advance or to invest in other securities. As soon as the costs are paid, nothing further is heard from the person who contacted the investor.

4. Activities geared to the education and information of consumers of financial services

In the last annual report, mention was made of the OECD having in July 2005 approved a recommendation containing principles and good practices regarding financial education. During the period under review, the Minister for Consumer Affairs requested the CBFA to assess those principles and, on the basis of experience in Belgium and other countries, to set out ways of improving financial know-how among consumers.

The CBFA replied that it fully shared the aim of encouraging financial education among consumers and drew up a detailed inventory of the initiatives launched by the competent authorities of a number of neighbouring countries. It also offered to act as catalyst and, more specifically, undertook not only to prepare a list of courses of instruction for consumers of financial services in Belgium and of what those consumers needed by way of instruction, but also, on that basis, to draft a report offering proposals for action.

The OECD continued its activities specifically directed towards financial education in the field of insurance and pensions. The department participated in those activities and, in that respect, has received suggestions from representatives both of the sector and of consumers.

In conclusion, the department has begun work on various brochures for the public. They include:

- ❖ a brochure providing information about the CBFA;
- ❖ a brochure directing consumers towards the body competent to handle complaints about financial services;
- ❖ a brochure on mortgage loans;
- ❖ a brochure updating the brochures published earlier by the former BFC and the former ISA, setting out the similarities and differences between units of an undertaking for collective investment and unit-linked life assurance (class 23 products).

The screenshot shows the CBFA website interface. At the top, there are navigation links: Disclaimer, Newsletter, About CBFA, Consultations, Sanctions, Publications, Jobs, Sitemap, and Links. The CBFA logo and name are prominently displayed, along with the text 'BANKING, FINANCE AND INSURANCE COMMISSION' and language options 'NL | FR | ENG'.

Areas of responsibility

- Financial services groups
- Credit institutions
- Investment firms
- Bureaux de change
- Collective management of savings products
 - Undertakings for collective investment
 - Management companies
- Public offers
 - Issues of securities
 - Takeover bids
- Listed companies
 - Information
 - Shareholding structure
- Financial markets
 - Markets
 - Market operators
 - Market abuse
 - Director dealings
- Settlement, clearing & custody
 - Settlement & clearing
 - Custody
- Insurance companies
- Mortgage credit
- Intermediaries
 - Insurance
 - Reinsurance
 - Banking and investment services
- Surety companies
- Institutions for occupational pensions
- Supplementary pensions

News / Communiqués

- 12-09-2007**
New positions open at the CBFA for various professionals
- 11-09-2007**
Communication concerning the recognition of external credit assessment institutions (ECAIs)
- 10-09-2007**
Opinions of the Insurance Commission (Commission des Assurances - Commissie voor Verzekeringen)

Occupational pensions
Cross-border info

Search
For a search on the CBFA site, please go to the French or Dutch search engine

Consumer Protection

- Financial Consumer
- Insurance Consumer
- Complaints
- Warnings
- Brochures

Welcome

The CBFA, created as a result of the integration of the Insurance Supervisory Authority (ISA) into the Banking and Finance Commission (BFC) is since 1 January 2004 the single supervisory authority for the Belgian financial sector.

REPORT ON ACTIVITIES - INVESTIGATIONS OFFICE

The Investigations Office is the service that, under the direction of the Secretary General in his capacity as Investigations Officer, carries out the functions of investigating the charges and the defence in respect of administrative sanction proceedings initiated by the CBFA Management Committee (127).

Having begun operations with the entry into force of the provisions of the Law of 2 August 2002 defining the exercise of the CBFA's power of administrative sanction (128), the Investigations Office continued to develop its activities in the course of 2006.

Organization of the Investigations Office

During the period under review, the Investigations Office underwent reorganization.

The number of permanent staff members of the Office was increased, as had been announced in the CBFA's 2005 Annual Report (129).

Previously, the Office's mode of operation had been predicated on calling almost exclusively upon staff members from the various departments of the CBFA to perform the tasks of rapporteur (130).

Given the increase in the number of dossiers with which the investigations officer is charged, a number of difficulties had arisen: the difficulty on the part of these staff members in combining their tasks as rapporteur with their primary duties within their own department, the resulting increase in the length of time taken by the investigations, as well as the fragmentation of the experience gained in this area.

Therefore the investigations office now has a permanent staff consisting of four university graduates, one of whom is an employee temporarily seconded from the legal service, and one administrative staff member.

The role of the permanent staff is to take primary responsibility for serving as rapporteur, charged with in-

vestigating the charges and the defence, in the dossiers which the Management Committee refers to the investigations officer; this does not preclude the possibility that the investigations officer may also call upon staff members from other departments of the CBFA to take on such tasks, alone or in collaboration with a member of the investigations office's permanent staff. The investigations officer is thus always in a position to draw upon the specific areas of expertise available within the various departments of the CBFA. In the course of 2006, 13 different staff members of departments other than the Investigations Office served as rapporteurs.

In addition to this increase in staff, a position of coordinator of the Investigations Office was also created, the duties of whom are to coordinate the scientific aspects of the work of the rapporteurs, to coordinate the activities of the office as well as to formalise the legal framework and the process according to which the investigations are carried out.

The creation of this support function is intended to help streamline the activities of the Investigations Office.

Statistical data

During the period under review (131), the Management Committee charged the investigations officer with investigating three new dossiers.

These dossiers concerned three natural or legal persons in respect of which the Management Committee had determined that there were serious indications of practices liable to give rise to an administrative sanction.

It should be noted that a "dossier" is understood to mean the decision by the Management Committee to charge the investigations officer with an investigation pursuant to Article 71, § 1, of the Law of 2 August 2002; this decision may concern serious indications of an infringement of one or several laws by one or more persons.

(127) See the CBFA Annual Report 2004, p. 95, for a description of the role of the investigations officer in the procedure for imposing administrative sanctions as well as for a description of the investigation process.

(128) The provisions of the Law of 2 August 2002 governing the role of the Secretary General, acting in the capacity of investigations officer, entered into force on 1 November 2002.

(129) See the CBFA Annual Report 2005, p. 84.

(130) In accordance with Article 70, § 2, paragraph 2, of the Law of 2 August 2002, the investigations officer appoints, for each case referred to him, a rapporteur from among the members of the CBFA staff, in order to carry out the investigative powers granted him by the Law of 2 August 2002 to investigate the charges and the defence. Under the investigations officer's direction, the rapporteur takes responsibility for the investigation, carries out the various tasks involved in investigating the charges and the defence, analyses the facts in the light of the legal provisions that apply, and writes a draft report. See also the 2005 Annual Report, p. 84.

(131) That is to say, between 1 January and 31 December 2006.

The investigations officer conducted hearings of a total of 13 persons, in connection with 6 dossiers under investigation.

During the same period, the investigations officer recorded his conclusions with regard to seven dossiers he had been charged with investigating, submitted these conclusions to the Management Committee and made them available to the persons concerned, in accordance with Article 71, § 2, of the Law of 2 August 2002 (132).

These conclusions were contained in 9 reports and concerned 15 natural or legal persons.

The 7 dossiers on which the investigations officer reported concerned respectively:

- three natural persons in a dossier concerning serious indications of market manipulation within the meaning of Article 25, § 1, 2°, 6° and 7°, of the Law of 2 August 2002, a dossier referred to the investigations officer in 2004.

The investigations officer concluded that there had been infringements of Article 25, § 1, 2°, a) and b), and 3°, of the Law of 2 August 2002 (133) on the part of one of these three natural persons. On the other hand, he deemed that the investigation did not permit a conclusion that there had been infringements of Article 25, § 1, 6° and 7°, of the Law of 2 August 2002 (134) on the part of the two other persons;

- one natural and one legal person in a dossier concerning serious indications of the use of inside information within the meaning of Article 25, § 1, 1°, a), and § 2, of the Law of 2 August 2002, a dossier referred to the investigations officer in 2004.

The investigations officer concluded that there had been an infringement of Article 25, § 1, 1°, a), of the Law of 2 August 2002 (135), on the part of the legal person concerned, and of Article 25, § 2, paragraph 1, of the Law of 2 August 2002 (136), on the part of the natural person;

- a legal person in a dossier concerning serious indications of market manipulation within the meaning of Article 25, § 1, 2° and 3°, of the Law of 2 August 2002, a dossier referred to the investigations officer in 2005.

The investigations officer concluded that there had been an infringement of Article 25, § 1, 2°, a) and b), of the Law of 2 August 2002. He considered that the investigation did not permit a conclusion that Article 25, § 1, 3°, of the Law of 2 August 2002 had been infringed. Furthermore, the investigations officer deemed that the facts presented to him likewise constituted an infringement of Article 36, § 1, 1° of the Law of 6 April 1995 (137). He concluded, however, that at the time of the events under investigation there were no legal grounds permitting the Management Committee to sanction, on the basis of this provision, the behaviour in question (138);

- (132) When submitting his findings to the Management Committee, the investigations officer shall notify the person(s) accused of the practice in question that he is doing so. This or these last may, at the registered office of the CBFA and on the days and at the times indicated by the investigations officer, inspect the dossier that has been compiled (Article 71, § 2, of the Law of 2 August 2002).
- (133) According to the version of Article 25, § 1, 2°, of the Law of 2 August 2002 that was in force at the time of the events in question, it is prohibited for any person to execute transactions or issue orders to trade that give, or are likely to give, false or misleading signals regarding the supply of, demand for or price of one or more financial instruments (Art. 25, § 1, 2°, a)) or which secure, by a person or by persons acting in concert, the price of one or more financial instruments at an abnormal or artificial level (Art. 25, § 1, 2°, b)), unless the person who entered into the transactions or issued the orders to trade establishes that his reasons for doing so are legitimate and that these transactions or orders to trade conform to the normal practices which apply on the market concerned and are recognized as such by the CBF [now CBFA]. Article 25, § 1, 3°, of the Law of 2 August 2002 prohibits the execution of transactions or the issuing of orders to trade which employ fictitious devices or any other form of deception or contrivance.
- (134) Article 25, § 1, 6°, of the Law of 2 August 2002 prohibits any person from participating in any arrangement whose object is to perpetrate acts as referred to in 1° to 5° of the said article. Article 25, § 1, 7°, of the Law of 2 August 2002 prohibits any person from inciting one or more persons to perpetrate acts that, were he himself to perpetrate them, would be prohibited under 1° to 5° of the said article.
- (135) According to the version of Article 25, § 1, 1°, a), of the Law of 2 August 2002 that was in force at the time of the events in question, it is prohibited for any person possessing inside information to use this information to acquire or to dispose of, or try to acquire or dispose of, for his own account or for the account of a third party, either directly or indirectly, financial instruments to which that information refers, or related financial instruments.
- (136) Article 25, § 2, paragraph 1, of the Law of 2 August 2002 provides that in the case of a company or other legal person, the prohibitions laid down in Article 25, § 1, shall likewise apply to natural persons who take part in the decision to execute a transaction or issue an order to trade on behalf of the legal person in question.
- (137) Pursuant to Article 36, § 1, 1°, of the Law of 6 April 1995, the intermediaries referred to in Article 2, § 1, of the aforesaid Law shall take care, in their transactions in financial instruments, to act honestly and fairly in order best to promote integrity and honest practices on the market.
- (138) For a similar decision made by the Management Committee in the context of another sanction case, see the CBFA Annual Report 2005, p. 70. A subsequent amendment made to Article 39 of the Law of 6 April 1995 made it a possible to remedy this lacuna.

- ❖ a legal person and two natural persons in a dossier concerning serious indications of the use and disclosure of inside information within the meaning of Article 25, § 1, 1°, a), b) and/or c), of the Law of 2 August 2002, on the occasion of transactions executed by these natural persons for the account of the legal person, a dossier referred to the investigations officer in 2005.

The investigations officer concluded that there had been no infringement of Article 25, § 1, 1°, a), of the Law of 2 August 2002 (139) on the part of the legal person or of one of the two natural persons. Regarding the second natural person, however, he did conclude that there had been an infringement of Article 25, § 1, 1°, a), of the Law of 2 August 2002, but he found that the investigation did not permit a conclusion that there had been an infringement of Article 25, § 1, 1°, b) or c), of the Law of 2 August 2002 (140);

- ❖ a natural person in a dossier concerning serious indications of the use and disclosure of inside information within the meaning of Article 25, § 1, 1°, a), b) and/or c), of the Law of 2 August 2002, a dossier referred to the investigations officer in 2005.

The investigations officer concluded that there had been an infringement of Article 25, § 1, 1°, a), of the Law of 2 August 2002 in certain transactions executed by the said natural person, but he deemed that there had been no infringement of the aforesaid provision in the case of the other transactions by the same natural person, on the grounds that the information possessed by the latter at the time of the said transactions could not be considered inside information within the meaning of Article 2, 14°, of the Law of 2 August 2002.

He also determined that the investigation did not reveal any elements permitting the conclusion that there had been an infringement of Article 25, § 1,

1°, b) and c), of the Law of 2 August 2002 on the part of the said natural person;

- ❖ a legal person and two natural persons in a dossier concerning serious indications of the use and disclosure of inside information within the meaning of Article 25, § 1, 1°, a), b) and/or c), of the Law of 2 August 2002, a dossier referred to the investigations officer in 2005.

The investigations officer concluded that no infringement had been committed by these persons, on the grounds that the information they possessed at the time of the transactions under investigation could not be considered inside information within the meaning of Article 2, 14°, of the Law of 2 August 2002;

- ❖ two legal persons in two dossiers concerning serious indications of non-compliance with the obligations regarding disclosure of transactions in financial instruments admitted to trading on a regulated market, a dossier referred to the investigations officer in 2005.

In both cases, the investigations officer concluded that there had been an infringement of Article 6 of the Royal Decree of 31 March 2003 on the reporting of transactions in financial instruments and on the storage of data.



In the first two months of 2007, the Management Committee charged the investigations officer with investigating the charges and the defence in three new dossiers. At 1 March 2007, 14 dossiers, concerning a total of 31 persons, were under investigation.



(139) According to Article 25, § 1, 1°, a), of the Law of 2 August 2002, it is prohibited for any person possessing information that he is aware, or ought to be aware, is inside information to acquire or dispose of, or try to acquire or dispose of, for his own account or for the account of a third party, either directly or indirectly, financial instruments to which that information refers.

(140) According to Article 25, § 1, 1°, b), of the Law of 2 August 2002, it is prohibited for any person who possesses information that he is aware, or ought to be aware, is inside information, from disclosing that information to any other person, unless such disclosure is made in the normal course of the exercise of his job, profession or duties.

Article 25, § 1, 1°, c), of the Law of 2 August 2002 prohibits any person who possesses information that he is aware, or ought to be aware, is inside information, from recommending or inducing a third party, on the basis of that information, to acquire or dispose of financial instruments to which that information.

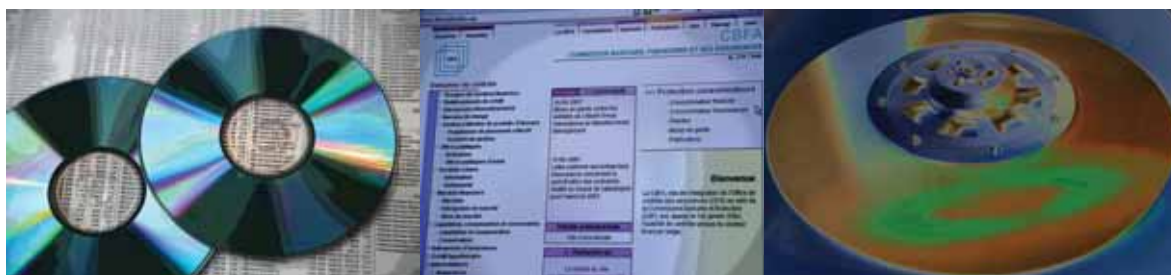
From the time when the provisions of the Law of 2 August 2002 concerning the procedural rules for the imposition of administrative sanctions entered into force – that is, from 1 November 2002 – until 1 March 2007, the investigations officer was charged with investigating 32 dossiers concerning serious indications of one or several practices, by one or several persons, liable to give rise to an administrative sanction. The investigations officer submitted his conclusions in 18 of these dossiers. In three of the dossiers, he concluded that it was impossible to prosecute and proposed to the Management Committee that they dismiss the

cases. In 14 dossiers he concluded that there had been infringement and proposed to the Management Committee that they sanction the actions that constituted the infringement. In one dossier the investigations officer deemed that the alleged infringement had not been proven and proposed, therefore, that no sanction be imposed.

The dossiers which the investigations officer was charged with investigating concerned serious indications of infringements of one or several of the following legislative texts:

LEGISLATION CONCERNED IN CASES WHERE SERIOUS INDICATIONS OF AN INFRACTION WERE REFERRED TO THE INVESTIGATIONS OFFICER
Cumulative list (1 November 2002 - 1 March 2007)

Law of 11 January 1993 on preventing use of the financial system for purposes of money-laundering and the financing of terrorism	7
Law of 27 March 1995 on insurance and reinsurance intermediation and on the distribution of insurance	1
Law of 6 April 1995 on the legal status and supervision of investment firms, on intermediaries and on investment (including conduct of business rules)	3
Law of 2 August 2002 on the supervision of the financial sector and on financial services	
1. Abuse of inside information	12
2. Market manipulation	2
Law of 22 April 2003 on public offers of securities (prospectus)	2
Royal Decree of 31 March 2003 on the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market	2
Royal Decree of 31 March 2003 on the reporting of transactions in financial instruments and on the storage of data	5



GENERAL SERVICES

Legal Service

1. Tasks of the Legal Service

The overall task of the legal service is to ensure the legal quality of the CBFA's activities as regards both individual cases and general topics, as well as in the legislative and regulatory texts prepared by the CBFA.

In carrying out its tasks, the legal service covers all legal matters pertaining to the CBFA's areas of competence. These matters are of considerable variety, extending as they do (to mention only the principal ones in broad terms) to the following areas of supervisory law: banking and financial services, secondary markets, securities, insurance, undertakings for collective investment and supplementary pensions. The exercise of its powers also brings the CBFA into contact with other important branches of the law: in addition to the ever-present company law, which has been present since the CBFA's creation, branches such as public and administrative law, general criminal law, human rights law, consumer law and protection of privacy law play an increasing role in the work of the legal service.

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

- ❖ to provide, as appropriate, legal advice or assistance in individual dossiers to the Management Committee and to the other services of the CBFA, and thereby to contribute to the quality of the institution's decision-making process.
- ❖ 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 this task within the CBFA in cooperation with the supervisory departments concerned.
- ❖ to contribute its expertise to the development of supervisory policies with an important legal dimension, as well as in providing solutions to questions of a general legal nature or exploring general legal topics.
- ❖ to play a part in representing 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.

Moreover, the Management Committee has entrusted the legal service with the task of assisting it in drafting decisions on sanctions that are taken on the basis of Article 72 of the Law of 2 August 2002.

Finally, the service is responsible for ensuring the proper handling of law suits in which the CBFA is involved.

It should also be noted that in 2006, the documentation service of the CBFA was brought under the authority of the legal service.

2. Personnel of the legal service

As at 31 December 2006, the legal service consisted, in addition to the head of the service, of eleven lawyers. Their fields of specialty cover all areas of the CBFA's competence. A secretariat consisting of three persons assists the lawyers in the performance of their tasks.

3. Core activities of the legal service

a) Provision of legal advice in individual cases

In 2006, the legal service received 288 requests from other services of the CBFA to provide legal advice in dossiers with a particular degree of legal complexity and consequently requiring more detailed legal examination. After a substantial rise in the number of requests during previous years, the figure has now stabilized, given that in 2005 there had been 284 such requests. In 2006, the service also issued 118 formal legal opinions (compared to 175 in 2005), covering all areas of the CBFA's competence. The decrease in number may be attributed largely to the substantial volume of legislative work carried out by the service in the course of the year (see below).

b) Preparation of legislative and regulatory texts

The completion of the European Commission's "Financial Service Action Plan" continued to demand a substantial effort in the transposition of European texts into national law. Thus, nearly all the texts governing investment instruments and secondary markets in financial instruments will have been completely rewritten over a period of three years. It should be noted as well that the European legislative texts are now increasingly detailed in character, a result principally of the fact that European texts also govern the implementing measures for what is known as the Lamfalussy procedure.

In 2006, the legal service prepared texts transposing directives on the following subjects:

- ✦ takeover bids;
- ✦ markets in financial instruments (MiFID) (in cooperation with other departments of the CBFA) ;
- ✦ financial conglomerates;
- ✦ equal treatment for men and women, as regards the aspects concerning the insurance sector.

It was also closely involved in preparing the transposition of the following directives:

- ✦ transparency obligations of publicly traded companies;
- ✦ institutions for occupational retirement provision;
- ✦ third money laundering directive;
- ✦ capital requirements for credit institutions and investment firms (CRD).

Finally, the transposition of the directive on the "Prospectus to be published when securities are offered to the public", largely completed in 2005, was finalized in 2006 and enacted into Law on 16 June 2006.

In addition to the transposition of directives, the legal service also drafted (in full or in part) a series of texts in the following areas:

✦ *Banking and insurance*

The legal service was closely involved in the drafting of the Law of 22 March 2006 on intermediation in banking and investment services and on the distribution of financial instruments, and of the

implementing Royal Decree of 1 July 2006. The service was also closely involved in the preparation of the Royal Decree of 21 June 2006 on handling complaints in the insurance sector.

✦ *Investment instruments and secondary markets*

The legal service contributed to the drafting of the Royal Decrees of 22 March 2006 and 14 December 2006 concerning the Alternext market. It also contributed to the drafting of the Royal Decree of 4 October 2006 amending the Royal Decree of 31 March 2003 on the obligations of issuers of publicly traded companies.

The service was also involved in the drafting of the Royal Decree of 26 September 2006 extending the notion of qualified investors and of institutional or professional investors, the Royal Decree of 12 January 2006 on dematerialized company securities, and the Royal Decree of 5 March 2006 amending the Royal Decree of 23 January 1991 on government debt securities.

✦ *Undertakings for collective investment*

The legal service was closely involved in the drafting of the Royal Decree of 7 March 2006 on the lending of securities by certain undertakings for collective investment.

It also made an important contribution to the drafting of the Royal Decree of 21 June 2006 on the accounting and the financial statements of closed-ended real estate UCIs (*sicafis/vastgoedbevak*), as well as of the Royal Decree of 15 September 2006 implementing certain measures relating to undertakings for collective investment in receivables.

✦ *Institutional texts*

The legal service prepared the Royal Decree of 20 December 2006 amending the Royal Decree of 22 May 2005 on the operating expenses of the CBFA. Other amending decrees are still in progress.

In most cases, the legal service undertakes the preparation of draft CBFA opinions on regulatory texts provided in the various acts of legislation.

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

The legal service carried out a wide variety of tasks in this area.

For example, it continued to represent the CBFA in the activities related to the abolition of bearer shares and the implementation of the new law on the dematerialization of securities.

It was also involved in certain parts of the discussions on a draft law concerning dormant bank accounts, as well as on a draft bill intended to increase the tax deduction for pension savings funds in cases where payments are placed in socially responsible investments.

The service continued its discussions with Assuralia and with the occupational accident fund (*Fonds des Accidents du Travail/Fonds voor Arbeidsongevallen*) concerning the introduction of specific provisions regarding occupational accident insurance into the Law of 25 June 1992 on the non-marine insurance contract.

It also continued to carry out detailed studies of the implementation within the CBFA of the legislation on the protection of privacy.

The service issued several legal opinions on the drafting of a collaboration agreement between the CBFA and the new Insurance Ombudsman Service, as well as on the revision of the CBFA's labour regulations and the protection of the privacy of staff members in the use of the CBFA's IT and telephone infrastructures.

The legal service maintains contacts with the national assisting magistrate (*magistrat d'assistance*) in matters of economic, financial and fiscal delinquency. It regularly provides an opinion and legal assistance in cases when information is submitted to the judicial authorities, especially as regards aspects concerning the CBFA's duty of professional secrecy.

A staff member of the legal service represents the CBFA at the meetings of the Management Committee of the Protection Fund for deposits and financial instruments (*Fonds de Protection des dépôts et des instruments financiers/ Beschermingsfonds voor deposito's en financiële instrumenten*).

d) Drafting decisions on administrative sanctions

The legal service is charged by the Management Committee with assisting in the drafting of decisions regarding administrative sanctions.

In this regard, the service prepared the texts of several decisions in 2006 upon instruction by the Committee.

In accordance with Article 70, § 2, paragraph 2, of the Law of 2 August 2002, legal service staff may also, on a case-by-case basis, be appointed as rapporteurs by the investigations officer.

e) Representation of the CBFA in various international activities

The legal service took part in discussions concerning the Payment Services Directive, as well as on the implementing measures of the Markets in Financial Instruments Directive (MiFID) and of the third Money Laundering Directive.

It was involved in the activities of the Company Law Expert Group (a group within the European Commission working on the development of European company law).

The legal service regularly represents the CBFA at meetings of the *Institut francophone pour la Régulation financière* (IFREFI).

A staff member from the service participates actively in the work of the International Organization of Securities Commissions (IOSCO), examining applications of candidates wishing to sign IOSCO's multilateral MoU.

Members of staff are involved on an ongoing basis in various international working groups, in particular in the area of financial conglomerates and on combatting money laundering.

f) Other tasks

The legal service is also charged with coordinating the drafting of the Management Committee's annual report and with ensuring its legal coherence. The service also hosts four legal secondees from the judicial authorities each year. Finally, the legal service handles any law suits in which the Commission is involved.

The internal audit function at the CBFA

The task of internal audit is to examine the entire field of auditing at the CBFA. In this, it supports the Management Committee in the latter's performance of the legal tasks of the CBFA and in achieving the institution's objectives.

In its first full year of operation, internal audit expanded its operational framework and developed its audit activities.

In the course of 2006, it audited broad themes and scrutinized processes that concerned several departments. In this way, risks were examined that are of relevance to the entire organization, and the operation of the internal audit function has now expanded to take in all sections of the CBFA.

Two financial audits and three operational audits were carried out during the year. At the request of the Management Committee, moreover, two *ad hoc* examinations were carried out that took the form of a compliance audit.

Internal audit prepared a report on each examination and discussed it with the entity audited, thereafter submitting it to the Management Committee for delibera-

tion. The internal auditor gave an elucidation of each report to the members of the Management Committee and discussed the conclusions and recommendations of the exercise with them.

In accordance with the internal audit charter, the Management Committee reported to the Supervisory Board on the activities of the internal audit function.

The Management Committee is responsible for managing the risks that the CBFA runs in performing its legal tasks and in striving to achieve its goals. The line managers in each department are responsible for the identification and operational management of those risks in their department; in its turn, internal audit is required to evaluate that identification and management.

The Management Committee has requested a study of how those risks can be analysed and dealt with more systematically. To that end, internationally accepted standards will be taken into account. The internal audit function will support this exercise.

Secretariat General

The services of the Secretariat General, apart from those of translation and documentation, are grouped around four pillars (141):

- ▣ staff administration and infrastructure management;
- ▣ human resources management and communication;
- ▣ IT;
- ▣ accounting and comptrollership.

The management of the library and the documentation service was shifted to the Legal Service in 2006.

The Secretariat General's staff was reduced by four full-time equivalents (FTEs) and, as at 1 January 2007, numbered 100 (FTEs).

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

1. The integration of statutory and contractual staff of the former ISA

In 2005, the terms and conditions of the integration process were set out in a protocol on the integration of the staff of the former ISA and in a collective labour agreement regulating the optional transfer of those staff members to the contractual regime of the CBFA.

Prior to that, the Law of 2 August 2002 was amended with a view to confirming both the evolutionary character of the status of statutory staff and the competences of the CBFA's Management Committee.

(141) See the CBFA 2005 Annual Report, p. 87 for more detailed information regarding the functions exercised under each of the pillars.

This arrangement nevertheless needed to be rounded off with the definition of the administrative and financial status of the statutory staff.

Regarding their administrative status, one of the matters requiring to be dealt with was the designation of the bodies competent to deal with disciplinary matters, assessments and promotions, as well as the bodies to which recourse can be had in matters of discipline and assessment.

In its proposals, the Management Committee has always looked to achieve maximum convergence between the arrangements for contractual staff and that for statutory civil servants.

The negotiations begun in 2005 with the public-sector trade unions led to an agreement on the application of identical assessment criteria to the entire staff, it being understood that, in cases where assessment has been least favourable, there remains a possibility of recourse in accordance with the person's status. In disciplinary matters, too, an agreement was ultimately reached to have disciplinary competence for the entire staff placed with the Management Committee, whereby the possibility of recourse to an existing external body satisfying the requirements of the status remains.

Given the specific character of the CBFA, the new status allowed the Management Committee to give certain training courses outside the *Opleidingsinstituut van de Federale Overheid / Institut de Formation de*

l'Administration (Federal Government Training Institute) equal recognition with certificated courses. The occasion was used to introduce into the status certain adjustments from the "Copernicus" reform, in respect of level "A".

Regarding the financial status of the former ISA staff, the changes boiled down to amalgamating into a single text the two decisions that had regulated that status since the integration agreements of 25 May 2005. Furthermore, two new measures were taken: the first regulating the reimbursement of costs attendant on carrying out assignments, the second granting a one-time seniority premium. Lastly, on the example of the adjustments in respect of the "Copernicus" reform, the salary scales of level "A" were transposed into annual increments, without any change in minimum and maximum amounts. Both decisions came into force on 1 July 2006.

In 2006, with the intention of maintaining a certain equilibrium between the end-of-career conditions applying to contractual staff and those applying to statutory staff, the CBFA requested an extension to the period in which statutory staff can take advantage of the opportunity to take pre-retirement leave. Pursuant to Royal Decree of 17 January 2007, the regime governing that leave was extended to include staff who will have reached the age of 56 before 31 December 2007.

The table below sets out the impact as at 31 December 2006 of the integration measures in favour of staff of the former ISA, as regards pre-retirement leave.

Staff of the former ISA	Executive (cadre)	Non-executive	Total
As at 01/01/2004	62.8	58.3	121.1
Departure: pre-retirement leave/retirement	-10.3	-5.3	-15.6
Departure: other	-1.3	-2.0	-3.3
Change in working hours	+0.3	+1.3	+1.6
As at 31/12/2006	51.5	52.3	103.8
Of which, CBFA integration contract	24.6 or 47.8%	14.4 or 27.3%	39.0 37.6%

These measures allowed approximately 13% of the staff to take pre-retirement leave; of the remainder, 38% were given an integration contract.

Bearing in mind that the integration programme still has a further three years to run, it may already be said that the great majority of staff of the former ISA will be given such a contract and that the latter will have played a decisive part in their effective integration.

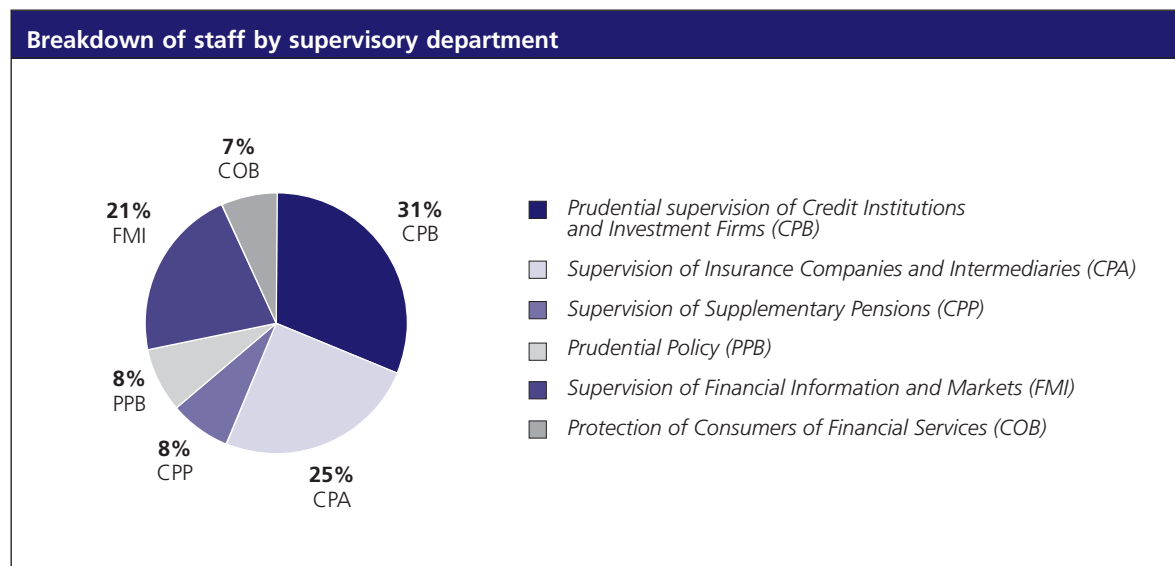
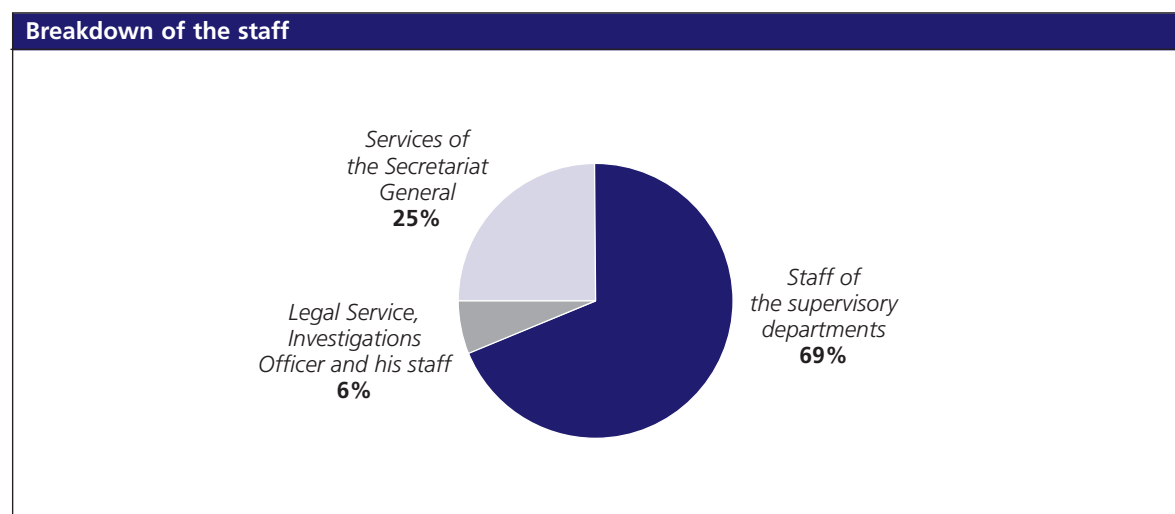
2. Development of staff numbers in 2006

The Royal Decree of 20 December 2006 set the maximum number of staff that could be employed within the context of cover for the operating costs of the CBFA. That number does not correspond to the number of staff entered in the staff register, as the decree took account only of available staff (142).

The number of staff entered in the staff register was 416 for 2006, ten more than as at 31 December 2005.

The fact that there were an additional ten full-time equivalent staff was due to the extension of the CBFA's competence to supervision of intermediaries in banking and investment services, and these ten staff members were consequently assigned to the *Supervision of Insurance Companies and Intermediaries* Department, more particularly to the service responsible for the supervision of intermediaries (143).

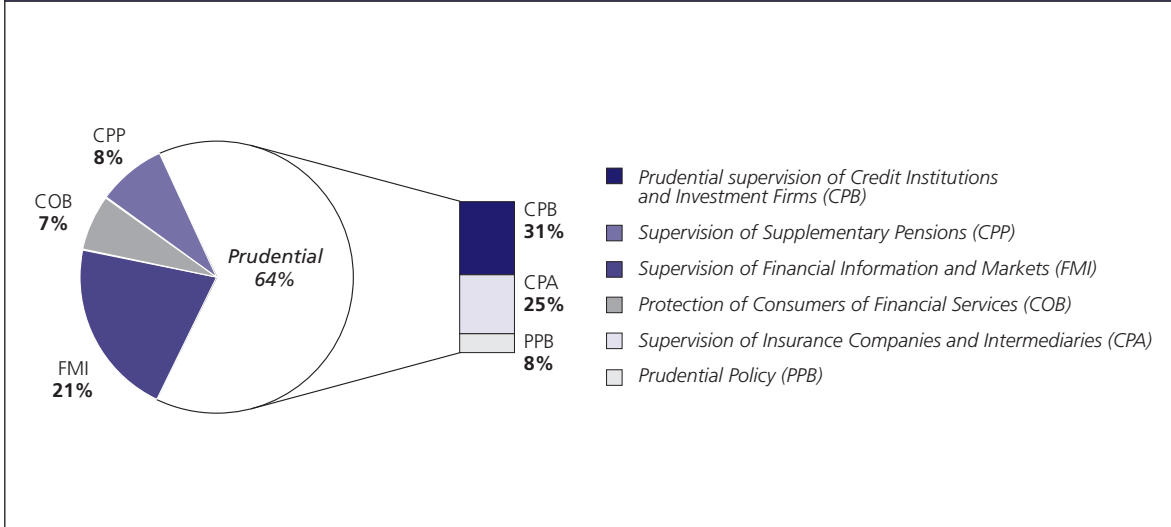
As a result of that assignment, the budgetary breakdown of staff across the departments and services is as follows:



(142) See article 1, § 1, of the Royal Decree of 22 May 2005 on the operating costs of the CBFA. See also the present report, p. 14.

(143) See the present report, p. 14.

Breakdown of supervisory department staff by specialization



Over the past three years, staff numbers have developed as follows:

	2004	2005	2006
Number of staff (units)	408	421	438
Number of staff according to the staff register (FTEs)	383.33	397.63	415.06
Available staff (FTEs) (144)	369.93	375.58	393.96

Of the CBFA staff as at the end of 2006, 52.3% were university graduates. There were also virtually equal numbers of men (50.5%) and women (49.5%). The average age was forty-one years. 27% of staff were part-time, of which 79% women and 73% administrative staff; more than half of those in question (fifty-seven out of 107) had opted for the 80% arrangement (a four-day week).

3. Recruitment campaign

Just as in 2005, there was a substantial number of new recruits in 2006; they totalled thirty-five (compared to thirty-two in 2005) and included sixteen executive (management and supervisory) staff. There was a net staff increase of seventeen units, including four persons with a school-leaver's agreement.

The major effort to gear staff numbers to operational needs is being continued in 2007, with twenty-five posts having to be filled, taking account of expected departures.

4. Career management

Internal transfer

The opportunity for internal transfer, instituted in 2005, appears to be answering a need, as indicated by the fact that in 2006 twenty-one members of staff – including twelve executive staff – took advantage of it to give their careers a new direction.

Training

The CBFA attaches great importance to the training of its staff, including in language skills. Training is conducted in-house or through participation at seminars or courses organized by third parties.

(144) 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 secondment and the long-term sick.



The number of days devoted to training (excluding language courses) rose again in 2006, chiefly in consequence of the many in-house training courses that appeared necessary to make staff familiar with the new regulations in force and techniques in use. Following the substantial effort made in 2005 to improve language skills, fewer language courses were organized in 2006.

Assessment

The introduction of administrative status for statutory staff led to a general application of the assessment system of the former BFC with effect from 2006.

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

5. IT

As indicated elsewhere, the CBFA's central IT infrastructure is now managed within the framework of a combining of forces between the CBFA and the NBB.

As regards the analysis of external financial data too, it has been agreed that, as has been the case for financial reporting by credit institutions these last ten years, the NBB will be responsible for the gathering and validation of the financial data that the institutions subject to supervision are required periodically to submit to the CBFA. This method of working is warranted by, on the one hand, the fact that certain data submitted to the CBFA for supervisory purposes and to the NBB for statistical purposes are virtually identical and, on the other, the fact that it is preferable for the sake of efficiency to have a single point of contact for financial reporting in respect of institutions subject to supervision. Indeed, this enables the CBFA to direct its IT resources towards developing the applications necessary for analyzing financial data within the context of supervision.

One of the major projects in 2006 was to finalize the application used in gathering the financial reports of insurance companies and institutions for occupational retirement provision, an application that required substantial investment on the part of the NBB and the CBFA, and that became operational on 31 March 2006.

Another project was the development of an instrument for the analysis of the IFRS-compliant layout "A" on a consolidated basis that credit institutions are required to draw up; a specific feature of reporting via that layout is that it is based on a new standard, the XBRL (eXtensible Business Reporting Language), which is designed to permit companies to develop a more reliable and rapid system of internal and external reporting and thereby enhance the efficiency of their exchange of data with the NBB and the CBFA.

A third project concerned the introduction of an online registration system (via the Internet) for intermediaries and the automation of the management of the details concerned.

A high level of priority was given to the development of this system, following the passing of the Law of 22 March 2006 on intermediation in banking services and investment services and on the distribution of financial instruments, an immediate consequence of which was to introduce an obligation for intermediaries in banking and investment services to register with the CBFA. Indeed, the degree of rationalization of administrative procedures that the system is designed to allow is such that only a limited increase in staff is likely to be needed to manage the system (145).

Lastly, certain regulations regarding securities made a number of other developments necessary, more specifically in respect of the disclosure that must be made by company officers of issuers of financial instruments and by persons associated with them, as well as in respect of the publication of prospectuses on the CBFA's web site.

In 2006, the IT unit participated in the activities of a working group of experts set up within CESR (CESR-Tech) and charged with examining the technical challenges and harmonization requirements attendant on MiFID; their task, more specifically, was to conduct a thorough analysis of the architecture of the transaction reporting system that is to be established by and among the Member States.

Within the context of regular contact with other integrated supervisors, the department also participated in an exercise to give thought to the possibilities for harmonization and mutual exchange of IT solutions, an initiative prompted by the sharp increase in the im-

(145) See the present report, p. 14.

portance and complexity of the IT dimension of the implementation of European financial regulations.

6. Consultation on social matters

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 is part of the 325 Joint Committee. The negotiations begun in 2005 to extend the collective labour agreement of 12 May 2003 were completed at the beginning of 2006 for the 2005-2006 period.

Within the CBFA, two collective labour agreements were concluded in 2006.

The first, concluded on 30 June 2006, contained the undertakings entered into under the sectoral collective labour agreement of 30 March 2006, which, for certain persons, served to extend earlier undertakings and for which no new measures needed fundamentally to be taken.

The second, concluded on the same day, concerned the CBFA's group insurance arrangement, more particularly the rules in respect of the opportunities for early retirement. The previous age threshold of 56 years for taking early retirement has now, with effect from 1 January 2008, been raised to 59 years until 2010 for executive staff and incrementally to 60 years in 2010 for administrative staff.

In 2006, the CBFA also introduced a labour regulation that included the rules for both contractual and statutory staff.

7. The fleshing-out of cooperation with the NBB

On 1 January 2006, the CBFA and the NBB set out fourteen service level agreements (SLAs), some of which concerned the activities that are now being carried out jointly and others of which concern forms of cooperation that have not yet been settled or that need to be developed

gradually in various stages and for which consecutive service level agreements are necessary (146).

In 2006, the existing cooperation agreements were consolidated and some of them expanded.

As regards documentation, for example, there was – besides the centralization of book, magazine and journal acquisitions and a reorganization of the libraries – a thorough analysis of how a uniform management of the documentation centres could be achieved; this led to an evaluation of the policy followed until then of organizing that management on the basis of an in-house IT system and to the decision to link up with an existing library network.

2006 also saw the process of integrating the IT structures being set in train, whereby the management of the CBFA's servers and networks will be gradually taken over by the NBB's IT unit. The initial choice had been in favour of a unified network, but the decision was made during the year to maintain two separate networks, in order to give maximum protection to the data of the two institutions.

In respect of human resource management, cooperation with the NBB was given concrete form in the shape of CBFA participation in certain activities that the NBB organizes for its own staff, in certain training sessions and in systematic information regarding the development of that management within the two institutions, more particularly with regard to the conclusion of collective labour agreements (147).

Turning to supervisory activities, cooperation is most intensive in policy and risk analysis; indeed, the fact that the CBFA's *Prudential Policy* Department and the NBB's *International Co-operation and Financial Stability* Department are under one and the same management means that they can exchange information and expertise.

An additional service level agreement was also concluded in the matter of making office and archive space available for the CBFA's service responsible for Supervision of Intermediaries.

(146) For details of the contents of the various agreements, see the CBFA Annual Report 2005, p. 88-89.

(147) See the present report, p. 6.

FINANCIAL STATEMENTS FOR THE 2006 FINANCIAL YEAR

The financial statements of the CBFA for the 2006 financial year were approved on 21 March 2007 by the institution's Supervisory Board, in accordance with Article 48, §1, 4°, of the Law of 2 August 2002.

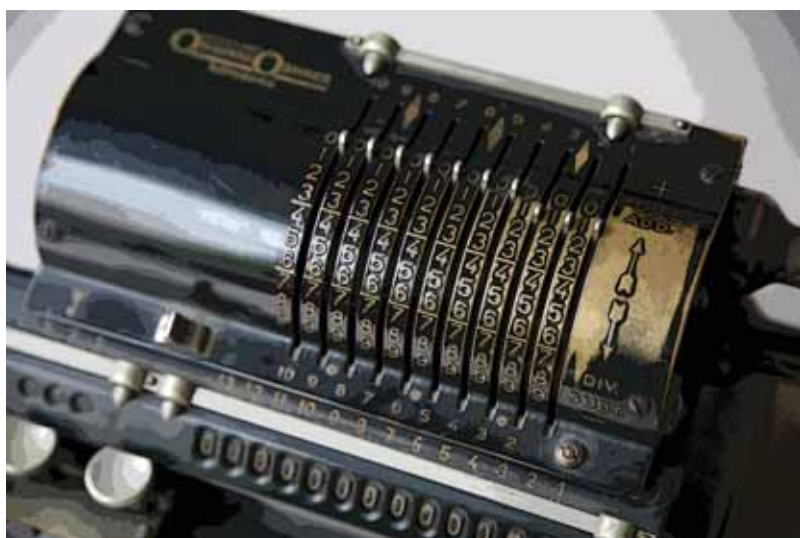
1. BALANCE SHEET (in 000 €)

ASSETS	31/12/2006	31/12/2005
FIXED ASSETS	56 595	59 022
I. Formation expenses	2 064	3 000
II. Tangible and intangible fixed assets	54 531	56 022
1. Tangible fixed assets		
A. Land and buildings	53 339	54 673
B. Plant, machinery and equipment	133	294
C. Furniture and vehicles	330	650
2. Intangible fixed assets	729	405
CURRENT ASSETS	53 121	39 992
IV. Receivables at max. one year	5 823	6 930
A. Receivables in respect of operating expenses	4 374	5 760
B. Other receivables	1 449	1 170
V. Investments	40 000	25 000
VI. Liquid assets	5 913	7 448
VII. Deferred charges and accrued assets	1 385	614
TOTAL ASSETS	109 716	99 014
LIABILITIES	31/12/2006	31/12/2005
OWN FUNDS	15 000	12 750
II. Reserves	15 000	12 750
Restricted reserves	15 000	12 750
A. General budget reserve	1 875	1 875
B. Liquidity reserve	13 125	10 875
FINANCING FUND	11 725	12 018
PROVISIONS	3 638	4 678
III. Provisions for liabilities and charges	3 638	4 678
A. Pensions and similar obligations	1 168	1 222
C. Other liabilities and charges	2 470	3 456
AMOUNTS OWED	79 353	69 568
IV. Amounts owed, at more than one year	41 943	43 410
A. 2. Credit institutions	41 943	43 010
B. 2. Other amounts owed in respect of operating expenses	0	400
V. Amounts owed, at max. one year	35 506	24 517
A. Amounts owed, at more than one year, due within the year	1 467	1 818
C. Amounts owed in respect of operating expenses	3 389	4 327
1. Suppliers	2 167	3 318
2. Other amounts owed	1 222	1 009
D. Amounts owed in respect of taxes, remunerations and social charges	7 273	6 708
1. Taxes	827	762
2. Remunerations and social charges	6 446	5 946
E. Other amounts owed	23 377	11 664
VI. Deferred income and accrued charges	1 904	1 641
TOTAL LIABILITIES	109 716	99 014

2. INCOME STATEMENT (in 000 €)

INCOME STATEMENT	2006 financial year	2005 financial year
I. Income	83 971	74 209
A. Contributions to operating expenses	83 133	73 300
B. Other income	838	909
II. Operating expenses	57 146	58 646
A. Services and miscellaneous goods	6 386	5 952
B. Remunerations, social charges and pensions	48 790	51 156
C. Write-downs on receivables in respect of operating expenses	245	49
D. Provisions for liabilities and charges	-1 333	-809
E. Depreciation on formation expenses and fixed assets	3 058	2 298
III. Operating surplus	26 825	15 563
IV. Financial income	874	406
A. Income from current assets	874	406
V. Financial charges	2 072	2 120
A. Debt charges	2 068	2 116
C. Other financial charges	4	4
VI. Normal operating surplus	25 627	13 849
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	25 627	13 849

Appropriation of the operating surplus for the financial year	2006 financial year	2005 financial year
A. Operating surplus for the financial year, for appropriation	25 627	13 849
C. Allocation to the restricted reserves	2 250	2 185
Repayments pursuant to Royal Decree of 22 May 2005 relating to the operating expenses of the CBFA	23 377	11 664



3. NOTES

A. NOTES TO THE BALANCE SHEET (in 000 €)

ASSETS						
II. STATEMENT OF FIXED ASSETS	Land and buildings	Software	Development costs	Plant, machinery and equipment	Furniture and vehicles	Total
a) Acquisition value						
As at the end of the previous financial year	56 866	1 036	405	1 203	1 317	60 827
Movements during the financial year						
Acquisitions		39	506	80	7	632
Other						
As at the end of the financial year	56 866	1 075	911	1 283	1 324	61 459
b) Depreciation and write-downs						
As at the end of the previous financial year	2 193	1 036		909	667	4 805
Movements during the financial year						
Entered	1 334	39	182	241	327	2 123
Other						
As at the end of the financial year	3 527	1 075	182	1 150	994	6 928
c) Net carrying value as at the end of the financial year	53 339	0	729	133	330	54 531

V. CASH INVESTMENTS	2006 financial year	2005 financial year
Invested via the federal public service 'Finance'	40 000	25 000

LIABILITIES		
2. PROVISIONS FOR LIABILITIES AND CHARGES	2006 financial year	2005 financial year
Estimated costs of adjustments to the building	84	134
Provision for disputed debt	322	322
Pensions	1 168	1 222
Pre-retirement leave	2 064	3 000
Total	3 638	4 678



B. NOTES TO THE INCOME STATEMENT (in 000 €)**I. A. CONTRIBUTIONS TO OPERATING EXPENSES**

A1. CONTRIBUTIONS TO OPERATING EXPENSES		
	2006 financial year	2005 financial year
1.a. Credit institutions, investment firms and investment advice companies - Art. 10	17 767	17 764
1.b. Intermediaries (banking and investment services) - Art. 10bis	747	
2. Public offers of securities - Art. 14	924	1 734
3. Investment institutions - Arts. 15, 16 and 17	31 131	22 309
4. Belgian market listings - Art. 21	6 272	6 267
5. Investigations officer and consumer protection - Art. 22	744	750
6. Sundry, former BFC	5 218	4 065
7. Insurance sector - Art. 2	15 470	15 467
8. Intermediaries (insurance) - Art. 4	3 290	3 362
9. Sundry former ISA	2 408	2 491
Total	83 971	74 209

A2. Net contributions		
	2006 financial year	2005 financial year
1.a. Credit institutions, investment firms and investment advice companies - Art. 10	10 439	14 510
1.b. Intermediaries (banking and investment services) - art 10bis	747	
2. Public offers of securities - Art. 14	924	1 734
3. Investment institutions - Arts. 15, 16 and 17	20 380	19 006
4. Belgian market listings - Art. 21	3 685	5 119
5. Investigations officer and consumer protection - Art. 22	744	750
6. Sundry former BFC	5 218	4 065
7. Insurance sector - Art. 2	12 924	11 748
8. Intermediaries (insurance) - Art. 4	3 290	3 362
9. Sundry former ISA	2 243	2 251
Total	60 594	62 545

II. B. 1. Employees entered in the staff register

	2006 financial year	2005 financial year
a) Total at end of financial year	438	421
b) Average number of full-time equivalent staff	406	398
c) Number of hours actually worked	549 084	534 832

II. B. 2. Remunerations, social charges and pensions

	2006 financial year	2005 financial year
a) Remunerations and direct social benefits	32 467	29 690
b) Employer's social security contributions	8 827	8 000
c) Employer's premiums for voluntary insurance	2 078	6 214
d) Other staff charges	4 035	5 764
e) Pensions	1 383	1 488
Total	48 790	51 156

II. D. Provisions for liabilities and charges

	2006 financial year	2005 financial year
Estimated costs of adjustments to the building	-50	-208
Sundry	-990	-321 (*)
Application of financing fund	-293	-280
Total	-1 333	-809

(*) When added to the 1 729 000 euros entered under the caption "write-back of provisions for extraordinary liabilities and charges" in the income statement, this amounts to 2 050 000 euros, which is the amount entered under the same caption in the CBFA 2005 Annual Report, p. 98.

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 the institution. Given the special circumstances of each of these claims, the CBFA is of the opinion that they are inadmissible and/or unfounded, and no provision has been set aside for them.

Explanatory notes to the 2006 financial statements

1. Legal framework

The financial statements 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 financial statements (148). The layout of the balance sheet and of the income statement is adapted to the specific character of the CBFA's tasks and activities.

The operating expenses of the CBFA are financed in advance by the companies and sectors that are subject to supervision (149). Pursuant to the Royal Decree of 22 May 2005 (150), the maximum amount of the CBFA's 2006 operating expenses (151) eligible for cover was 58 889 947 euros.

In accordance with the terms and conditions laid down in the Decree, contributions that exceed the operating expenses, or, if lower, the above-mentioned maximum amount, are required to be repaid to certain companies and sectors (152).

The maximum amount of the budget may be adjusted at the end of the financial year, in accordance with two criteria:

- ✦ by taking into account the development of the costs in respect of the members of the CBFA's bodies and its staff, as certified by the CBFA's auditor; for 2006, the maximum number of staff the CBFA was entitled to employ was 416 (153);
- ✦ by indexation of the budget for other expenditure, likewise certified, according to the retail price index.

No adjustment was necessary at the end of 2006, because operating expenses for the year did not exceed 58 889 947 euros.

2. Valuation rules and notes to particular captions

The overview below provides a full picture of the approved valuation rules as at the end of the financial year.

Formation expenses

Restructuring costs are charged in full to the financial year in which they are incurred.

In 2004, a provision of 5 million euros was set aside to cover future costs in respect of the arrangement for pre-retirement leave for staff of the former ISA (154). In 2005, the provision was adjusted and reduced to 3 million euros. This amount is included under "Formation expenses" and is depreciated each year in the amount actually paid in that year (0.936 million euros in 2006).

(148) Royal Decree implementing Article 57, first paragraph, of the Law of 2 August 2002 on supervision of the financial sector and on financial services, published in the Belgian Official Gazette of 15 October 2003, p. 50050.

(149) See the CBFA 2005 Annual Report, pp. 16 and 17.

(150) Royal Decree of 22 May 2005 on the operating expenses of the CBFA, implementing Article 56 of the Law of 2 August 2002 on supervision of the financial sector and on financial services, and implementing various legal provisions on the tasks of the CBFA (hereafter referred to as the "Royal Decree of 22 May 2005"), published in the Belgian Official Gazette of 27 May 2005, p. 24963, Art. 1, § 1.

(151) Other than the costs in respect of cooperation bodies, as referred to in Article 117, § 5, of the Law of 2 August 2002.

(152) Royal Decree of 22 May 2005, Articles 8, 9, 25 and 26.

(153) See the Royal Decree amending the Royal Decree of 22 May 2005, published in the Belgian Official Gazette of 29 December 2006, p. 76365, Article 1, 2° and Article 13, fourth paragraph, 2°. See the present report, p. 14.

(154) See the CBFA Annual Report 2004, p. 110.

Fixed assets

The caption "Tangible fixed assets" is subdivided into:

- ❖ Land and buildings;
- ❖ Plant, machinery and equipment;
- ❖ Furniture and vehicles;
- ❖ Other tangible fixed assets.

The acquisition value of the CBFA's registered office is depreciated progressively over twenty-five years, in parallel with the capital repayments of the loan contracted to finance that building.

Apart from the registered office, tangible fixed assets also include purchased goods expected to have a useful life of several years and with a minimum purchase price of 1 000 euros per unit.

These 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 caption "Intangible fixed assets" concerns computer-application development costs paid to third parties. 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

Computer licences are depreciated in full in the year of acquisition.

Receivables

The caption "Receivables" concerns chiefly the contributions to the operating expenses of the CBFA due from companies subject to its supervision. Amounts receivable are entered for the amount unsettled. In respect of the valuation, a distinction is made between amounts receivable from Belgian and foreign debtors that are not intermediaries and amounts receivable from intermediaries (155).

Amounts receivable from Belgian and foreign debtors that are not intermediaries

Amounts receivable from a Belgian debtor are entered as doubtful and subject to a write-down of 50% where, three months after a dossier is submitted for collection to the Land Registry, Public Records and Crown Lands Office of the federal public service "Finances", they remain unpaid. Where payment is still not forthcoming after a further three months, an additional write-down of 50% is entered.

Amounts receivable from abroad are entered as doubtful and subject to a write-down of 50% where, three months after dispatch of a registered letter, no payment has yet been received. Where payment is still not forthcoming after a further period of three months, the balance of the amount receivable is written off in full.

In the case of bankruptcy, the amount receivable is immediately entered as doubtful and a write-down is entered forthwith for the full amount.

Amounts receivable from intermediaries

Unpaid amounts receivable from intermediaries are transferred to doubtful amounts two years after the intermediary concerned has been struck from the register, and a provision is set aside for the amount outstanding.

Liquid assets

Cash balances, balances on demand deposits and time deposits are valued at nominal value.

Provisions

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.

(155) These are the insurance intermediaries referred to in the Law of 27 March 1995 on insurance and reinsurance broking and the distribution of insurance (Belgian Official Gazette, 14 June 1995), as amended by the Law of 22 February 2006 amending the Law of 25 June 1992 on non-marine insurance policies and the Law of 27 March 1995 on insurance and reinsurance intermediation and on the distribution of insurance (Belgian Official Gazette, 15 March 2006), and the intermediaries in banking and investment services referred to in the Law of 22 March 2006 on banking and investment intermediaries and the distribution of financial instruments (Belgian Official Gazette, 28 April 2006).

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 as at the end of the financial year. Differences can occur in the case of liabilities denominated in foreign currency; where they occur, they are processed as exchange-rate differences.

3. Notes to the balance sheet

Fixed assets

In 2004, a provision of 5 million euros was set aside to cover future charges in respect of the arrangement for pre-retirement leave for staff of the former ISA (156). In 2005, the provision was adjusted and reduced to 3 million euros. This amount is included under "Formation expenses" and is depreciated each year in the amount actually paid in that year (0.936 million euros in 2006).

Current assets

As was the case in 2005, contributions to the operating expenses of the CBFA due from insurance intermediaries (157) were able to be called in only in December 2006 and were entered on the 31st of that month as "Receivables in respect of operating expenses".

Amounts receivable from intermediaries in banking and investment services for the 2006 year of operations, which will be called together with the contributions for 2007, are entered under "Deferred charges and accrued assets".

Investments (40 million euros) refer solely to time deposits with the Treasury.

Own funds

2.25 million euros, or 8.8% of the total, were withdrawn from the operating surplus for 2006 to increase the unavailable reserves to 15 million euros. By virtue of Article 27, the CBFA may apply up to 50% of the annual operating surplus to those reserves to bring them up to that figure (158).

Financing fund

By way of reminder (159), a financing fund was established in 2004 as an element of the financing of the CBFA's registered office. The fund was topped up with 7.9 million euros from the contributory sectors of the former ISA and with 4.9 million euros from the contributory sectors of the former CBF.

Each year, the fund is applied in the amount of the difference between the accounting financial charge in respect of the premises (depreciation and interest charges) and the fixed amount by which the loan is being repaid and to which the contributions of the sectors are geared.

In 2006, 0.293 million euros of the financing fund (11.725 million euros) was used to reduce by 0.108 million euros and 0.185 million euros respectively the 2006 contributions of the contributories of the former BFC and former ISA.

Provisions

The movement in the provisions for other liabilities and charges (3.638 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 (160).

Amounts owed

Amounts owed, at more than one year (41.943 million euros), concern solely debts incurred for the financing of the CBFA's registered office.

(156) See the CBFA Annual Report 2004, p. 110.

(157) Article 4 of the Royal Decree of 22 May 2005.

(158) Article 27 of the Royal Decree of 22 May 2005.

(159) See the CBFA Annual Report 2004, p. 112.

(160) See the CBFA Annual Report 2005, p. 89.

Amounts owed at maximum one year 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 on the operating expenses of the CBFA (161).

There was a normal development in amounts owed in respect of operating expenses (3.389 million euros), as well as those in respect of taxes, remunerations and social security (7.273 million euros), and hence no further commentary is required (162).

Under the caption "Other amounts owed" is mentioned the portion (23.377 million euros) of the operating surplus for the 2006 financial year (25.62 million euros) that is to be reimbursed to the sectors referred to in the above-mentioned decree (163), after allocating 2.25 million euros to top up the restricted reserves (164).

The breakdown of the operating surplus (25.627 million euros) across the supervisory tasks of the former BFC and the former ISA (165) is as follows for the 2006 financial year:

	CBFA (in millions of euros)	CBF share (in millions of euros)	ISA share (in millions of euros)
2006 surplus	25.627	22.167	3.460
Allocation to restricted reserves	2.250	1.500	0.75
Reimbursement to the contributories	23.377	20.667	2.710

4. Explanatory notes to the income statement

The 2006 financial year closed with an operating surplus of 25.60 million euros.

Income

Income comprises the amounts companies subject to CBFA supervision are called upon for, in accordance with the Royal Decree of 22 May 2005 (166), to cover the operating expenses of the CBFA. Calculation of those amounts is based on either a fixed sum per sector supervised or a tariffing of transactions or of the volume of activity.

With effect from 2006, a contribution (0.747 million euros in 2006) is likewise due from intermediaries in banking and investment services, subject to CBFA supervision with effect from 1 June 2006 in accordance with the Law of 22 March 2006. The contribution of such intermediaries was determined in the Royal Decree of 20 December 2006.

Apart from the contributions due from intermediaries in banking and investment services, the increase in overall contributions in 2006 resulted from the rise in contributions from UCIs, these contributions being calculated partly on the basis of the net assets of those undertakings at the end of the year and partly on the basis of units actually invested during the year.

By way of reminder, these contributions are collected in the form of pre-financing by the CBFA (167). After closing the financial statements and determining the operating expenses to be covered, any surplus of contributions over costs is reimbursed.

The captions "Sundry former CBF" and "Sundry former ISA" include chiefly the contributions to finance the registered office, the contributions of the clearing and settlement institutions, market operators and the mortgage companies, the contributions of the former ISA sectors to the cost of the services of the investigations officer and of the consumer protection department, and – lastly – outstanding amounts paid during the financial year.

(161) See Article 33 of the Royal Decree of 22 May 2005. In respect of the pre-financing, see the CBFA Annual Report 2005, p. 16.

(162) See the present report, p. 97.

(163) See the CBFA Annual Report 2005, p. 16.

(164) See the present report, p. 103.

(165) The costs attendant on former CBF and former ISA supervisory tasks continue to be financed separately. In this respect, see the CBFA Annual Report 2005, p. 16.

(166) See the CBFA Annual Report 2005, p. 16.

(167) See the CBFA Annual Report 2005, p. 16.

“Other income” concerns essentially the reimbursement by the Commission for Accounting Standards of the costs of staff secondment.

Operating expenses

85% of the CBFA's operating expenses are accounted for by staff charges.

In comparison to the situation in 2005, and excluding a non-recurring charge entered, staff charges rose by 5.4%, the result of the increase in the number of personnel, of the further implementation of the programme of integrating the staff of the former ISA, and of salary-scale adjustments.

	2006 (in millions of euros)	2005 (in millions of euros)	
Staff charges	48.8	51.2	-4.7%
Non-recurring charge		-4.9	
Recurring staff charges	48.8	46.3	+5.4%

The amount under the caption “Services and miscellaneous goods” has remained constant for three years now, despite the increase in the number of staff.

Type of expense	2006 (in millions of euros)	2005 (in millions of euros)	2004 (in millions of euros)
Buildings	0.867	0.862	0.823
Rental and maintenance material	1.234	1.273	1.237
Office supplies	1.417	0.948	1.484
Sundry	2.868	2.869	2.874
Total	6.386	5.952	6.418

Financial income

Financial income stems from revenue from the placement of current assets. By way of reminder, that placement consists of time deposits with the Treasury, as well as current accounts for day-to-day management, in accordance with the Circular of 28 November 1997.

5. Adjustment of amounts due in 2007

Pursuant to the Royal Decree of 22 May 2005, the CBFA's maximum budget and the fixed amounts of pre-financing due from the CBFA's contributors may be adjusted each year in accordance with the development of staff

charges and the consumer price index for other expenditures and charges (168).

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 other costs.

Given the fact that, in 2006, the actual amount in respect of the CBFA's operating costs was lower than the amount of the institution's maximum resource budget, it was decided not to index the contributions for 2007.

(168) Article 1, § 1, of the Royal Decree of 22 May 2005. See the CBFA Annual Report 2005, p. 16.

Auditor's report on the financial year closed as at 31 december 2006

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.

Unqualified audit opinion on the financial statements

We have audited the financial statements for the financial year closed as at 31 December 2006 – prepared in accordance with the reference accounting system used in Belgium – with a balance sheet total of 109 716 000 euros and with an income statement that closed with a surplus of 25 627 000 euros. We have likewise conducted the specific investigations required by the Law of 2 August 2002 and the Royal Decree of 12 August 2003.

The preparation of the financial statements is the responsibility of the Management Committee, a responsibility that includes, among other things: the establishment, implementation and maintenance of an internal control function regarding the drawing-up and faithful rendering of the financial statements, free of material misstatement resulting from fraud or error; the selection and application of appropriate valuation rules; and the preparation of bookkeeping estimates that are reasonable under the given circumstances.

It is our responsibility to express an opinion about those financial statements, based upon our examinations. Our audit was conducted in accordance with the legal provisions and according to the audit standards in force in Belgium, as issued by the *Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement resulting from fraud or error.

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 elucidation or information. We have examined, on a random test basis, the evidence supporting the amounts included in the financial statements. We have assessed the soundness of the accounting principles, the judiciousness of the significant accounting estimates made by the CBFA and the overall presentation of the financial statements. We believe that our procedures provide a reasonable basis for our opinion.

In our opinion, taking into account the applicable legal and regulatory requirements, the financial statements closed as at 31 December 2006 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 provision of the Royal Decree of 12 August 2003.

Brussels, 7 March 2007

André KILESSE
Auditor

COMPOSITION OF DEPARTMENTS AND SERVICES (169)

REPORTING TO THE CHAIRMAN

Legal Service

Georges **Carton de Tournai**, *Director*

Hilde **Daems**

Jean-Pierre **Deguée**

Veerle **De Schryver**

Ann **Dirkx** (170)

Jean-Marc **Gollier**

Clarisse **Lewalle**

Hans **Seeldrayers**

Catherine **Terrier**

Frank **Trimpeneers**

Luc **Van Cauter**

Antoine **Van Cauwenberge**

Aline **Waleffe**

Press Officer

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*

Koen **Algoet** (*)

Jacques **Bodard**

Jean-François **Bodart**

Paul **Callebaut**

Philippe **de Barsy**

Christophe **Debrabandere**

Isabelle **De Groote**

Peter **Dhoedt**

Michel **De Schuyter**

Jan **De Smedt**

Philippe **Dubois**

Patrick **Grégoire**

Sarah **Ndayirukiye**

Jérôme **Nélis**

Vincent **Sapin**

Christel **Spaepen**

Nicolas **Staner**

Thierry **Thuysbaert**

Katherina **Tiebout**

Marc **Van Caenegem** (*)

Inge **Van de Paer**

Marc **Verleye** (*)

Coleet **Vynckier**

(*) Acts as "coordinator".

(169) Situation as at 1 March 2007.

(170) Seconded to the Investigations Office.

Domestic Banks and Investment Firms, and Bureaux de Change

Françoise **Herbay**, *Deputy Director*

Guillaume **Bérard**

Yves **Billiet**

Ilse **Ceulemans**

Sofie **Covemaeker**

Marc **Denys** (171)

Sylvie **Funcken** (171)

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*

Lot **Anné**

Nicolas **Coppens**

Alain **Degroide** (*)

Dirk **De Moor**

Marleen **Gelders** (171)

Isabelle **Gérard**

Benjamin **Henrion**

Peter **Monderen**

Giles **Motteu**

Laurent **Ohn**

Joseph **Pulinx**

Florence **Rigo**

Serge **Rompteau**

Karel **Spruyt**

Nicolas **Strypstein**

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** (172)

Pascale **Coulon**

Patrick **Declerck**

Jan **De Pagie**

Philippe **Despoutin**

Annick **Dewulf** (173)

Nathalie **Gigot**

Christian **Janssens**

Annick **Mettepenningen**

Xavier **Oldenhove de Guertechin**

Monique **Siscot**

Lutgarde **Vandermassen**

Luc **Vynckier**

(*) Acts as "coordinator".

(171) Taking a career break.

(172) Taking a career break.

(173) 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**
 Len **Braem**
 Claire **Dubuisson**
 Cécile **Flandre**
 Luc **Hars**
 Michel **Hastir**
 Luc **Kaiser** (*)
 Patricia **Kaiser**

Véronique **Loréa**
 Bart **Maselis**
 Peter **Piu**
 Pamela **Schuermans** (174)
 Dominik **Smoniewski**
 Viviane **Van Herzele**
 Rudy **Vermaelen**
 Patricia **Zaina**

Domestic Insurance Companies

Filip **Gijssels**, *Deputy Director*

Gentiane **Bury**
 Christel **Beaujean**
 Eric **Degadt**
 Dirk **De Paepe**
 Guido **De Pelsemaeker**
 André **Desmet**
 Olivier **Fache**
 Delphine **Genot**
 Dirk **Goeman**

Jean-Marie **Hardy**
 Jan **Hooybergs**
 Pascale-Agnès **Keymeulen**
 Carine **Luyckx**
 Philippe **Loison**
 Françoise **Renglet**
 Eddy **Van Horenbeeck** (*)
 Carl **Vanden Auweele**
 Steve **Vanhuldenberg**

Intermediaries

Philippe **de Mûelenaere**, *Deputy Director*

Herlindis **Boogaerts** (*)
 Nicole **Peeters**
 Marie-Ange **Rosseels**

Christophe **Viaene**
 Rosanne **Volckaert**

▣ Supervision of Supplementary Pensions

Headed by Madame Françoise MASAI

Henk **Becquaert** (175), *Special Representative*

Saskia **Bollu** (176)
 Karel **De Bondt**
 Ann **Devos**
 Maria **Di Romana**
 Gerhard **Gieselink**
 Bertrand **Leton**
 Fabienne **Maudoux**
 Marc **Meganck** (*)

Marie-Paule **Peiffer**
 Johanna **Secq**
 Paul **Teichmann**
 Marleen **Tombeur**
 Ingrid **Trouillez** (177)
 Diederik **Vandendriessche**
 Alexander **Van Ouytsel**
 Caroline **Vandevelde** (*)

(*) Acts as "coordinator".

(174) On secondment to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

(175) Appointed in application of Article 54 of the Law of 2 August 2002.

(176) Also acts as Secretary of the Commission for Voluntary Supplementary Pensions of the Self-employed and of the Board for Voluntary Supplementary Pensions for the Self-Employed.

(177) Also acts as Secretary of the Supplementary Pensions Commission and of the Supplementary Pensions Board.

Prudential Policy

Headed by Mr Peter PRAET

Jo **Swyngedouw**, Deputy Director

Stephan **Bertels** (179)
 Benoît **Bienfait**
 Aimery **Clerbaux** (178)
 Michel **Colinet**
 Emmanuel **Cortese**
 Peter **De Vos**
 Gaëtan **Doucet**
 David **Guillaume** (*)
 Jürgen **Janssens** (178)

Hein **Lannoy** (178)
 Jeroen **Lamoot** (178)
 Annemie **Lefevre**
 Pierre **Lemoine**
 Jozef **Meuleman** (*)
 Marc **Peters**
 Marc **Pickeur** (*)
 Claire **Renoirte** (178)
 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 Cottem**, Deputy Director

Bénédicte **Clerckx** (*)
 Niek **Bundervoet**
 Luk **Delboo**
 Stéphane **De Maght** (*)
 Valérie **Demeur**
 An **De Pauw**

Jean-Pierre **De Vuyst**
 Annick **Lambrighs**
 Didier **Niclaes** (180)
 Patrick **Van Caelenberghe**
 Dieter **Vandelanotte**
 Hendrik **Van Driessche**

Supervision of Financial Information, Supervision of Financial Markets, and Accountancy and Finance

Thierry **Lhoest**, Deputy Director

Luk **Behets**
 Luk **Delboo** (181)
 Geoffrey **Delrée**
 Sonja **D'Hollander** (*)
 Kristof **Dumortier**
 Nathalie **Flamen** (181)
 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**
 Nathalie **Flamen** (181)
 Gaëtan **Laga**
 Johan **Lammens**

Alain **Malengré**
 Astrid **Moens**
 Sabine **Philippart**
 Tom **Van den Elzen**

(*) Acts as "coordinator".

(178) Also acts as Deputy Secretary of the Financial Stability Committee.

(179) Member of the staff of the National Bank of Belgium, but operationally included in the Prudential Policy Department.

(180) Acts as internal CESR coordinator.

(181) Working partly in another service within this department.

➤ SERVICE FALLING UNDER THE SECRETARY GENERAL

Investigations Office

Michaël **André**
Marie-Sheila **Bastians**

Ann **Dirkx** (182) (*)
Merel **Pieter**

➤ SECRETARIAT GENERAL

Headed by A. Niesten

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 (OHD)

Emmanuel **De Haes**
Hilde **Dierckx**
Joseph **Van Cauwenbergh** (183)

Johan **Vanhaverbeke**
Véronique **Léonard** (*)
Jan **Vyverman**

Comptroller

Paul **Verbiest**

Translation

Natasja **Baeteman**
Jean-Pierre **Coernelle**
Françoise **Danthinne**
Xavier **Jeunechamps**

Jan **Leers**
Monica **Sandor**
Christine **Triest**

Prevention Adviser

Yannick **Bauwens**

➤ Seconded staff members

To the Commission for Accounting Standards and its Scientific Secretariat

Jean-Pierre **Maes**, *Deputy Director*

Yvan **Stempnierwsky**

(*) Acts as "coordinator".

(182) Seconded from the Legal Service.

(183) Seconded to the Prudential Supervision of Credit Institutions and Investment Firms Department.

Mr Guido Vernailen, Deputy Secretary General, retired on 1 November 2006 after a rich and varied career.

In 1975 he joined the recently-created Insurance Supervisory Authority (ISA). At the Legal Service, of which he was director from 1986, and then as Director General of the ISA (1992), he was the mainspring of the development of regulation in the areas of insurance and pensions.

From 2003, he devoted himself to the delicate task of integrating the staff of the ICA within the new institution formed by the merger of the CBF and the ISA, and of which he would become Deputy Secretary General in 2004. It is in this capacity that he successfully guided the endeavours that in 2006 completed the integration of the staff and services of the former ISA within the CBFA.

The CBFA is particularly grateful to Mr Vernailen. It is pleased to have been able to benefit, at a particularly crucial moment of its history, from the exceptional expertise which he had developed in the areas of insurance and supplementary pensions.

The CBFA wishes also to express its gratitude to the executive staff who have completed their careers: Ms Danielle Vindevogel and Messrs Philippe de Launois and Fernand Naert.

It likewise thanks the members of the administrative staff whose careers reached completion in the course of the past year: Mss Raymonde Bethume, Marie-Thérèse D'Haeseleer, Josiane Smet and Nicole Van Weddingen and Messrs Michel Carels and Michel Gillet.

In Memoriam

The CBFA mourns the loss of Mr William Fraeys, an honorary member of the Commission, who died on 25 January 2007.

In his capacity as a member of the Board of Directors and then as Vice-Governor of the National Bank of Belgium, Mr Fraeys was a member of the Banking Commission (from 1990 the Banking and Finance Commission) between August 1980 and March 1999.

Mr Fraeys will always be remembered at the CBFA a highly eminent and committed member who, for many years, placed his particular expertise in the financial world and his broad experience at the disposal of this institution, on whose policies he has assuredly left a lasting mark.