



Overview of the CSSF annual report 2023

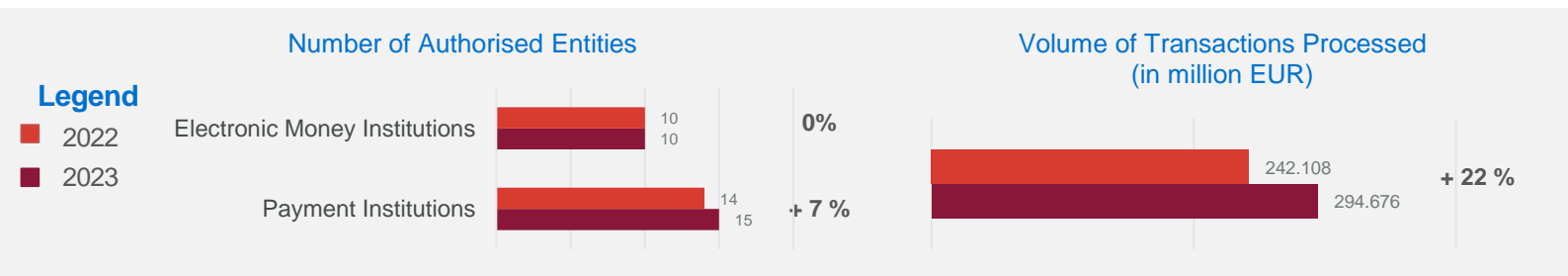
Payment Institutions, Electronic Money
Institutions and VASPs

This newsletter marks the fifth publications of a six-part series, offering an overview of the CSSF Annual Report for the year 2023. This edition of this series is dedicated to the key highlights for Payment Institutions, Electronic Money Institutions and VASPs.

On the 19 September 2024, the CSSF published its annual report focusing on the overview of the CSSF activities and initiatives in 2023. This publication aims to provide valuable information to assist relevant entities in gaining an understanding of areas requiring attention based on the CSSF observations.

In the first publication, we focused on highlighting the outcomes of on-site inspections. In this, the previous and future publications, we provide an overview of the key institutions under CSSF's supervision, offering insights into various aspects of CSSF's supervisory practices. Additionally, we highlight significant past and forthcoming priorities, along with key findings from off-site inspections. Secondly, our focus will shift to the noteworthy regulatory changes that unfolded in 2023, providing a glimpse into anticipated developments for the years ahead.

Payment Institutions and Electronic Money Institutions



The **Law of 10 November 2009** requires payment and electronic money institutions to meet authorization, operational, and supervisory standards. The CSSF oversees these institutions to ensure compliance with regulations to protect users and maintain financial stability. Key priorities include safeguarding user funds, implementing secure IT solutions for transactions and account access, and enforcing fraud mitigation measures as per European regulations.

The CSSF conducts its supervision through management interviews, observation letters, and formal injunctions, with a focus on key areas, including:

Establishment of robust internal governance:

Ensuring institutions have well-defined, documented decision-making processes within supervisory and management bodies, along with permanent, independent, and effective internal control functions.

Comprehensive internal control framework:

Verifying that institutions maintain sound and effective mechanisms for safeguarding payment service user and electronic money holder funds, supported by clear decision-making, oversight, and reporting structures.

Centralized administration and local presence:

Confirming the existence of decision-making and administrative centers in Luxembourg, particularly in the context of outsourcing operational or IT functions, as per the requirements of Circular CSSF 22/806.

Ongoing resource enhancement:

Monitoring the continual reassessment and strengthening of human and technical resources to meet the demands of service growth, development, and expansion in payment and electronic money offerings.

The EU's Instant Payments Regulation (EU 2024/886) requires payment service providers (PSPs), such as banks, to offer instant euro transfers available 24/7 with a maximum transfer time of ten seconds. Charges for instant payments must be equal to or lower than those for standard transfers. Additionally, PSPs must implement IBAN-name matching to help prevent errors and fraud. The regulation aims to make instant payments fully accessible across the EU and EEA, with a transition period for implementation that will be shorter in the euro area and longer in non-euro countries needing additional time to adjust.

Payment services

The Annex to the Law of 10 November 2009 on payment services outlines the types of payment services that payment institutions and electronic money institutions may be authorized to offer. As of 31 December 2023, the authorized institutions providing these services are categorized as follows:

| Payment Service | # Institutions |
|--|----------------|
| 1 - Cash placement on a payment account | 0 |
| 2 - Cash withdrawal from a payment account | 1 |
| 3 - Execution of payment transactions, including transfers of funds | 16 |
| 4 - Execution of payment transactions where the funds are covered by a credit line | 3 |
| 5(a) - Issuing of payment instruments | 6 |
| 5(b) - Acquiring of payment transactions | 16 |
| 6 - Money remittance | 7 |
| 7 - Payment initiation service | 3 |
| 8 - Account information service | 1 |
| Issuing, distribution and redemption of electronic money | 10 |

AML/CTF

The CSSF has established a dedicated team within the “Innovation, Payments, Market Infrastructures, and Governance” department to oversee the off-site AML/CFT supervision of payment and electronic money institutions, including their branches, agents, and distributors in Luxembourg.

Each year, these entities complete an AML/CFT questionnaire, and combined with data from on-site and off-site supervision, this information supports risk assessment and resource allocation for AML/CFT controls. Key elements of supervision include analyzing compliance and audit reports, reviewing AML/CFT questionnaires, and assessing ML/TF risk analyses, especially after significant operational changes. Regular meetings with compliance officers and management help monitor AML/CFT practices and address risks.

In 2023, in response to the crisis in the Middle East, the CSSF initiated a sector-wide enquiry with all payment and electronic money institutions. This initiative aimed to heighten awareness around the need to reassess AML/CFT arrangements to address the emerging risks stemming from this crisis.

Moving into 2024, the CSSF will sustain its focus on raising awareness and enhancing supervision, with a particular emphasis on new and evolving risks, including those related to terrorist financing.

Additionally, the CSSF rigorously assesses the ML/TF risk, as well as the AML/CFT policies and procedures submitted in application files from new payment and electronic money institutions. Where deficiencies are identified, the CSSF closely monitors the implementation of AML/CFT remediation plans, especially within the framework of on-site inspections to ensure thorough compliance and risk mitigation.

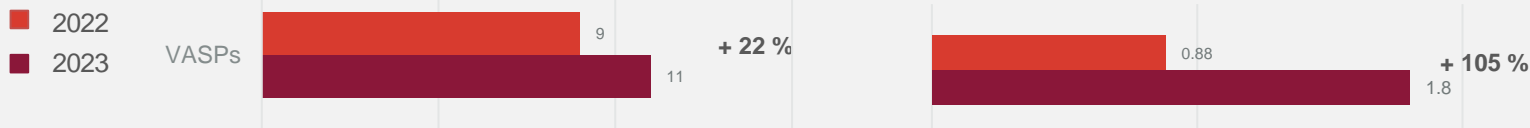


Virtual Asset Service Providers (VASPs)

Number of Authorised Entities

Virtual Assets Custodies
(in billion EUR)

Legend



As of today, the CSSF responsibilities concerning VASPs registered in Luxembourg are limited to the domains of registration, supervision, and enforcement solely for AML/CFT objectives. In 2023, the CSSF continued its supervisory actions by gathering statistical information on customer and transaction volumes, with around EUR 23 billion in virtual asset exchanges conducted primarily in Bitcoin, Ethereum, and XRP.

The **CSSF's off-site supervision** includes reviewing annual compliance reports, internal audit reports (where applicable), quarterly quantitative data, and AML/CFT policies, as well as holding regular meetings with VASP management and compliance officers. A yearly AML/CFT questionnaire also supports comprehensive risk assessment and

harmonized evaluation, allowing the CSSF to allocate resources effectively for risk-based supervision.

Throughout 2023, the CSSF engaged with the private sector to raise awareness of current and upcoming requirements, such as the EU's updated Regulation (EU) 2015/847, known as the "**Travel Rule**" in the virtual asset ecosystem, which mandates information-sharing on funds transfers. These interactions also clarified the CSSF's expectations, answered industry queries, and addressed operational challenges. Forvis Mazars has issued an insight available in [this link](#) on the Travel Rule, providing further guidance and perspectives on compliance and industry best practices.

Crypto Assets Service Providers (CASPs)

The Markets in Crypto-Assets Regulation (MiCA), which took effect in June 2023, provides a legal framework for crypto-assets not covered by existing EU financial regulations. MiCA aims to enhance consumer and investor protection and establish uniform rules for crypto-assets and related services in the EU.

MiCA will be phased in with stablecoin regulations starting on 30 June 2024, and broader provisions on 30 December 2024. The CSSF, having contributed to MiCA's 50+ standards and guidelines, is preparing its internal structure to meet MiCA's requirements. It has created a working group, involving the Innovation Hub and relevant departments, to coordinate MiCA implementation, adapt internal processes, and address cross-cutting compliance issues.

At Forvis Mazars, we are committed to keeping you informed and ahead of the curve. We have already published several insights on MiCAR and related hot topics, and we will continue to provide regular updates, ensuring you're fully equipped with the knowledge you need to succeed. Whether you are navigating regulatory compliance, planning a new crypto-asset initiative, or exploring tokenization, we are here to support you every step of the way.

Unlock your potential under MiCAR with Forvis Mazars by your side. For the latest insights and resources, please visit the below:

[Navigating the Future of Crypto Assets](#)

This newsletter, the fifth in a series of 6 publications.



On-site Inspections

Published 22/10/2024



Credit Institutions

Published 28/10/2024



IFMs and UCIs

Published 04/10/2024



PFS

Published 11/11/2024



Payment, Electronic Money Institutions and VASPs

By 18/11/2024



Challenges for the next years

By 25/11/2024

Why Forvis Mazars for you?

Joined-up Forvis Mazars engagement team

As a truly integrated partnership and firm, we operate seamlessly across borders. Our commitment to clients is absolute – we furnish you with a seasoned senior team well-versed in the intricacies of the field. You will benefit of senior leaders ‘on the ground’, poised to deliver not just insights but transformative, value-enhancing recommendations.

Tailored, pragmatic, joined-up approach

In these challenging times, Forvis Mazars is committed to support you navigating the regulatory challenges. As a service provider, our work is practical, and our conclusions and action plans will be pragmatic and fine-tuned to our clients’ needs. We will tailor our approach to ensure our work meets each and every client's specific requirements.

Personal and personable approach

We strongly believe that this sets us apart from the competition. Our commitment is to invest time and effort in truly understanding the unique environment of each entity we engage with. We approach every interaction with a willingness to listen, to empathize, and to adapt.



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