



# Overview of the CSSF annual report 2023

## Challenges for the upcoming years

## **This newsletter marks the last 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 challenges market participants will face in the upcoming years.**

On 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 the previous publications, we provided an overview of the key institutions under CSSF's supervision, offering insights into various aspects of CSSF's supervisory practices. Additionally, we highlighted significant past and forthcoming priorities, along with key findings from off-site inspections. In this last publication, we focus on the noteworthy regulatory changes that unfolded in 2023, providing a glimpse into anticipated developments for the years ahead.

### **Key challenges and strategic outlook**

2023 was marked by significant geopolitical and macroeconomic challenges, including the war in Ukraine, rising inflation, high interest rates, and financial instability, such as the collapse of several banks. These developments underscored the importance of robust regulatory frameworks, risk-based supervision, and accelerated efforts to support the digital and green transitions. Against this backdrop, the CSSF prioritized three key areas: Sustainable Finance, Financial Innovation, and Financial Crime.

#### **Sustainable finance**

- The green finance agenda progressed to support the EU Green Deal, requiring €500 billion annually for the transition. Transparency remained key, with the CSRD addressing gaps in non-financial reporting (first reports due in 2025) and the SFDR reform shifting from disclosure to a labelling system.
- The ESAs advanced efforts against greenwashing with reports and guidelines, while the IPCC emphasized the urgent need for increased financing for climate adaptation and mitigation, despite ongoing economic pressures.

#### **Financial innovation**

- The CSSF has been actively preparing for the phased implementation of the Markets in Crypto-Assets Regulation (MiCA), with stablecoin rules set to take effect in June 2024. The regulation introduces comprehensive rules for crypto-asset issuers and service providers, addressing areas such as stablecoins, investor rights, market integrity, and transparency.
- In addition, the CSSF has been offering guidance on Distributed Ledger Technology (DLT), tokenization, and crypto-assets, while taking action against illegal crypto vendors and contributing to over 50 technical standards.

- Artificial intelligence (AI) emerged as a growing focus, with the CSSF collaborating on thematic reports and preparing for the AI Act, alongside strengthening defenses against cyber risks under the DORA framework.

#### **Financial crime**

- The EU adopted a comprehensive AML/CFT package, including a recast of the 4th AML Directive, creation of the AMLA, and enhanced transparency rules for beneficial ownership.
- The CSSF prioritized anti-corruption measures, aligned with the 2023 EU directive on corruption offences, and strengthened enforcement of restrictive measures, including financial sanctions against Russia.
- Luxembourg updated its AML/CFT framework, adding transparency measures for non-profits and addressing risks in fraud, sanctions compliance, and crypto-assets, with the CSSF remaining vigilant in these areas.

**Discover more on these topics in the following pages of this publication.**

## Financial innovation

In 2023, the CSSF faced significant developments that reshaped its landscape and reinforced its mission across multiple fronts. The rapid pace of digitalization, the adoption of new technologies, and the emergence of innovative business models posed fresh challenges for the CSSF's Innovation Hub, compelling it to maintain and expand its regulatory and technical expertise to effectively support its supervisory responsibilities.

### Digital Operational Resilience Act (DORA)

DORA aims to ensure digital resilience in the financial sector, harmonizing rules on digital operational resilience across 20 types of financial entities and ICT third-party service providers. It covers several key areas, such as ICT governance and risk management, harmonized ICT-related incident reporting, and digital operational resilience testing. The CSSF played an active role in fulfilling DORA policy mandates, successfully completing the 12-month mandates by 17 January 2024. Review work on the responses to consultation papers for the 18-month policy mandates is currently underway.

Date of application: **17 January 2025**.

### Markets in Cryptot-Assets Regulation (MiCA)

The Markets in Crypto-Assets Regulation (MiCA) is an EU framework designed to regulate the crypto-asset market, providing legal clarity and fostering innovation while ensuring consumer protection and financial stability. It introduces rules for crypto-asset issuers and service providers, addressing areas such as stablecoins, investor rights, and market integrity. MiCA aims to harmonize regulations across the EU, mitigate risks like market abuse, and enhance transparency and accountability in the rapidly growing crypto sector.

At Forvis Mazars, we are dedicated to keeping you informed and well-prepared. We regularly publish insights and updates on MiCAR and other key topics, providing you with the knowledge and tools needed to navigate this evolving landscape. Access our publications [HERE](#).

Date of application:

- **30 June 2024** (for issuers of stablecoins, i.e., e-money tokens and asset-referenced tokens);
- **30 December 2024** (for remaining provisions).

### Artificial Intelligence (AI) Act

The AI Act introduces the world's first comprehensive legal framework on AI, establishing requirements and obligations for AI developers and deployers. In 2023, the CSSF and BCL published a report on AI usage within Luxembourg's financial sector, showing limited but emerging adoption of AI, particularly in machine learning applications such as AML and fraud detection, marketing and product recommendations, and customer insights.

Date of application:

- **1 February 2025** (prohibitions);
- **1 August 2025** (governance rules and obligations for general-purpose AI models);
- **1 August 2027** (rules for AI systems embedded into regulated products).

### Payments Services Regulation and Directive III (PSR/PSD3)

The PSR and PSD3 proposals aim to address key challenges in the EU payment market, including fraud risks, and competitive imbalances between banks and non-bank payment service providers (PSPs). The revised rules introduce harmonized requirements for payment and electronic money services, ensuring transparent conditions, defined rights and obligations for users and providers, and strengthened fraud prevention measures. In 2023, the CSSF continued its supervision of payment service providers (PSPs).

- Currently **under review** by EU Member States and Parliament.

## Sustainable finance

Sustainable finance continues to hold a pivotal role on the global stage, with the CSSF actively supporting the financial sector's transition through supervisory actions and the regulatory integration of environmental, social, and governance (ESG) considerations. In 2023, significant regulatory developments underscored the ongoing challenges of embedding sustainability into corporate governance and risk management, particularly in addressing the climate-related impacts on the financial sector.

While the EU regulatory framework remains a key driver of transformation, it requires further refinement to ensure harmonized implementation, effectively combat greenwashing, and provide stronger support for the transition to a sustainable economy. As the framework evolves, sustainable finance will remain central to the CSSF's agenda, including initiatives to enhance financial education for both investors and consumers.

### Corporate Sustainability Reporting Directive (CSRD) / European Sustainability Reporting Standards (ESRS)

The implementation of the Corporate Sustainability Reporting Directive (CSRD) advanced in 2023 with the adoption of the European Sustainability Reporting Standards (ESRS). This set of 12 ESG standards expands the scope of non-financial reporting and introduces enhanced requirements for the provision of accurate, comprehensive, and transparent environmental, social, and governance (ESG) information. The ESRS provide the detailed frameworks and guidelines necessary for reporting under the CSRD, ensuring alignment with EU sustainability objectives.

In Luxembourg, the transposition of the CSRD into national law is currently in progress. A legislative bill has been tabled, and its adoption process is underway. The CSRD also amends key EU legislative instruments, including the Accounting Directive, the Audit Directive, the Transparency Directive, and the Audit Regulation, further strengthening the regulatory framework for corporate reporting.

Forvis Mazars has developed a comprehensive CSRD Guide to support your understanding and implementation of the directive. You can access the guide [HERE](#).

Dates of application (for financial years starting on or after):

- **2024:** Large PIE already subject to NFRD;
- **2025:** Large CSRD entities;
- **2026:** Listed SMEs;
- **2028:** Non-EU groups.

### European Green Bonds

The **European Green Bond Regulation** underscores the importance of enabling investors to confidently allocate their funds to activities aligned with the EU Taxonomy. It provides a robust framework for issuers to label their bonds as EU Green Bonds, helping investors identify and finance environmentally sustainable investments based on a reliable and standardized approach.

- Entry into force: **20 December 2023**;
- Date of application: **21 December 2024**.

### European taxonomy

Efforts to implement the European taxonomy advanced in 2023, with non-financial companies required to report their taxonomy alignment starting 1 January. In June, delegated acts were published to supplement existing climate goals by establishing technical criteria for a substantial contribution to sustainable water management, circular economy transitions, pollution prevention, and biodiversity preservation.

### MiFID II

The growing sophistication of sustainable finance products in 2023 was exemplified by the implementation of the ESMA Guidelines on MiFID II suitability and product governance. These guidelines elevated expectations for integrating sustainability preferences into financial advice and product design. Reflecting this shift, the CSSF incorporated these guidelines into its regulatory framework through Circulars CSSF 23/835 and CSSF 23/840, ensuring alignment with enhanced regulatory standards and promoting a more robust approach to sustainable finance oversight.

- Application of ESMA guidelines: **3 October 2023**.

### Greenwashing

Despite significant progress, the demand for sustainable investment products continues to exceed supply, intensifying the need to combat greenwashing—a key focus of regulatory efforts. To address this, the European Supervisory Authorities (ESAs) published comprehensive reports aimed at enhancing the understanding of greenwashing risks within the financial sector and identifying vulnerable points across the investment value chain. These reports set the stage for the introduction of more stringent measures unveiled in 2024, reinforcing the integrity of sustainable finance.

- Publication of the final report: **4 June 2024**.

## Financial crime

In 2023, the fight against financial crime presented both challenges and opportunities, shaping the framework for anti-money laundering and combating the financing of terrorism (AML/CFT). The CSSF reinforced its dedication to AML/CFT by strengthening public-private partnerships and enhancing collaboration with national, European, and international bodies.

A key highlight of the year was the CSSF's organization of two major conferences, fostering dialogue and knowledge sharing among stakeholders. Notably, on 11 December 2023, a virtual conference attracted over 1,000 private sector participants and included contributions from the Financial Intelligence Unit (FIU), focusing on developments in the collective investment sector.

### AML/CFT European package

The European Parliament adopted a comprehensive legislative package to combat money laundering and terrorist financing. This package includes the Sixth Anti-Money Laundering Directive (AMLD 6), the EU Single Rulebook Regulation (AMLR), and the Anti-Money Laundering Authority Regulation (AMLAR), which establishes the AML Authority. Key objectives of this package are to enhance professional obligations and improve transparency by ensuring access to verified beneficial ownership data.

Dates of application:

- AMLAR: **1 July 2025** (AMLA starts operations);
- AMLR: **10 July 2027**;
- AMLD6:
  - New rules under AMLD6 must be implemented by Member States by **10 July 2027**;
  - Amendments to AMLD4 are required to be in place by **10 July 2025**;
  - Beneficial ownership provisions must be implemented by **10 July 2026**.

### FATF AML/CFT recommendations

In 2023, the FATF updated its key recommendations to enhance the recovery of criminal proceeds, combat the misuse of non-profit organizations (NPOs), and strengthen oversight of virtual asset transfers, including the implementation of the Travel Rule. Forvis Mazars has developed a Publication to support your understanding and implementation of the Travel Rule. You can access the Publication [HERE](#).

The organization also advanced measures to improve beneficial ownership transparency, initiated consultations to enhance cross-border payments, and introduced strategies to counter the misuse of shell companies.

Additionally, the FATF recognized Luxembourg for its high level of compliance and commended the strong performance of its financial sector supervision, particularly the efforts led by the CSSF.

### EU Directive on combating corruption

The European Commission proposed a Directive to strengthen the fight against corruption by incorporating preventive measures into EU policies and harmonizing the definitions of criminal offences, including trading in influence and abuse of functions. The Directive also establishes an EU anti-corruption network to enhance collaboration among national authorities, civil society, and experts. In 2023, the CSSF prioritized the oversight of anti-corruption measures implemented by professionals, reinforcing its commitment to ensuring compliance and integrity.

- Currently **under review** by EU Member States and Parliament.

### EU Directive on restrictive measures

The December 2022 proposal for a directive on criminal offences and penalties for breaching Union restrictive measures underwent inter-institutional dialogue in 2023, leading to its adoption and publication in the Official Journal of the EU on 29 April 2024. The directive sets minimum common rules for defining such offences and establishes effective, proportionate, and dissuasive penalties to strengthen enforcement across the EU.

- Date of application: **20 May 2025**.

### Circular CSSF 24/861

The CSSF has issued Circular CSSF 24/861, which amends Circular 19/732 providing key clarifications regarding the identification and verification of the identity of ultimate beneficial owners (UBOs).

**Effective immediately**, the circular revises point 74 of Circular CSSF 19/732 to introduce a risk-based approach for identifying and verifying legal persons or arrangements that exist between the customer and the natural person beneficial owner. This replaces the previously prescribed list of required information and documents, allowing for more tailored and proportionate measures to ensure compliance with AML/CFT requirements.

## Main new Circulars and Updates

### **Circular CSSF 23/846:** *Application of ESMA Guidelines on Reporting Under EMIR (1 December 2023)*

- Implements ESMA guidelines on EMIR reporting to ensure high-quality data for systemic risk monitoring. Focuses on harmonized reporting to reduce costs across counterparties, Trade Repositories (TRs), and supervisory authorities.

### **Circular CSSF 24/847:** *ICT-Related Incident Reporting Framework (5 January 2024)*

- Establishes a structured framework for reporting ICT incidents, expanding beyond computer attacks to include broader operational and security risks, aligned with upcoming DORA requirements.

### **Circular CSSF 24/854:** *Guidelines for the Collective Investment Sector on the AML/CFT Summary Report RC (SRRC) (29 February 2024)*

- Provides guidance on the preparation and submission of the AML/CFT Summary Report (SRRC) to enhance standardized and effective reporting in the collective investment sector.

### **Circular CSSF 24/855:** *Application of ESMA Guidelines on Data Transfer Between Trade Repositories Under EMIR and SFTR (21 March 2024)*

- Implements ESMA guidelines for secure and standardized data transfer between Trade Repositories, ensuring data continuity and oversight in derivative and securities financing markets.

### **Circular CSSF 24/856:** *Investor Protection in Case of NAV Calculation Errors and Investment Rule Non-Compliance (29 March 2024)*

- Updates error management guidelines for UCIs, introducing a 5% NAV error threshold, stricter governance standards, and expanded oversight to additional fund structures like SIFs and SICARs.

### **Circular CSSF 24/860:** *Update of Circular CSSF 12/552 on Central Administration, Internal Governance, and Risk Management (29 August 2024)*

- Updates governance standards with clarified definitions, a proportionate approach for financial holding companies, and revised roles for audit committees and Chief Risk Officers (CROs).

### **Circular CSSF 24/861:** *Amendment to Circular CSSF 19/732 on AML/CFT – Identification and Verification of Ultimate Beneficial Owners (5 September 2024)*

- Introduces a risk-based approach for identifying and verifying Ultimate Beneficial Owners (UBOs) to enhance proportionality and effectiveness in AML/CFT compliance.

### **Circular CSSF 24/863:** *Guidelines on Funds' Names Using ESG or Sustainability-Related Terms (21 October 2024)*

- Provides criteria to ensure fund names using ESG or sustainability terms are clear, fair, and not misleading, aiming to combat greenwashing and enhance investor protection.

This newsletter, the last 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**

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#### **Challenges for the upcoming years**

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## 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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