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Luxembourg, 15 March 2022

Circular letter 22/7 of the Commissariat aux Assurances on the separate report to be provided by the approved auditor of reinsurance undertakings

In accordance with Article 94 of the law of 7 December 2015, as amended, on the insurance sector, every Luxembourg reinsurance undertaking is required to submit itself to an external accounting audit to be performed on annual basis, at the undertaking's expense, by an approved auditor of companies ("Réviseur d'entreprise agréé").

Article 95 of the same law involves the approved auditor in the prudential control to be exercised by the Commissariat aux Assurances.

It is for this reason that the approved auditor must produce for any reinsurance undertaking under Luxembourg law, in addition to the audit report on the annual accounts, a separate report to be sent to the audited undertaking with a copy to be sent directly to the Commissariat aux Assurances.

To facilitate its use by the Commissariat aux Assurances, the separate report is divided into two distinct sections:

- Part 1 is an Excel file with a list of questions mainly of the yes/no type.
- Part 2 is a paper document signed by the approved auditor with additional explanations.

The modalities for transmitting the two sections are communicated on an annual basis to the reinsurance undertakings when the annual reporting files are to be transmitted.

Depending on the answer given to a question in Part 1, a message appears to indicate that further explanations should be given in Part 2. This does not mean that in the absence of such a message the approved auditor cannot provide comments in Part 2. Indeed, not only the approved auditor is always free to comment on a voluntary basis, but some questions are only dealt with in Part 2 without a corresponding question in Part 1.

The date for the separate report is communicated each year when the reporting files are released.

The separate report should include the following sections.

1. Assignment of the approved auditor

Part 1 indicates the name and professional email of the approved auditor in charge of the audit together with the number of hours worked on the statutory audit of the annual account as defined in note 1 of the IRE opinion of 15 February 2007, breaking down the total between the number of hours worked by approved auditors and the number of hours worked by other professionals.

It should be noted that the other tasks covered by the IRE's opinion, such as « other insurance services» or « tax advisory services», are not covered. It is understood that the work of the approved auditor in relation to this separate report is part of the assignment regarding statutory audit of the annual accounts.

Part 1 also indicates whether the statutory engagement includes intra-year reviews, the audit of the consolidation package or other work in the context of group consolidation instructions.

2. Audit report

Part 1 answers the following questions:

2.1 Has the audit report been completed and signed on the date of completion of the separate report?

2.2 If so, does the audit report contain any reservation (qualifications or «matters of emphasis»)?

2.3 If not, does the approved auditor intend to express any reservation (qualifications or «matters of emphasis») in the audit report? »

2.4 What is the date of the general meeting of shareholders that will decide on the audited accounts?

2.5 Does the management report include all the information referred to in Article 85 of the law of 8 December 1994, as amended, on the annual and consolidated accounts of reinsurance undertakings?

In this respect to Point 2.5, the information to be provided by the auditor in the separate report goes beyond the requirements of article 86 of the law on the annual accounts of insurance undertakings, which explicitly refers only to the certification by the auditor of the consistency of the management report with the annual accounts.

2.6 What is the auditor's materiality for the financial statements as a whole?

2.7 What is the sum of the absolute values of the uncorrected misstatements (excluding inappropriate classification, aggregation or disaggregation of information)?

2.8 What is the number of uncorrected misstatements (excluding inappropriate classification, aggregation or disaggregation of information)?

Under point d), the information in the separate report goes beyond the scope of the provisions of Article 86 of the Law of 8 December 1994 on the annual accounts of reinsurance undertakings, which explicitly only aims at certifying the consistency of the management report with the annual accounts.

Part 2 will include, if appropriate:

- explanations for delays in issuing the audit report;
- details of any reservation, including both qualifications and «matters of emphasis», issued or projected
- a description of the nature of any shortcomings in the management report
- a description of the uncorrected misstatements.

3. Publication of the previous year's accounts

Part 1 indicates whether the undertaking has complied with all the obligations to publish its accounts for the previous financial year and whether the legal deadlines have been met.¹

¹ In accordance with Article 87 of the Act on the Annual and Consolidated Financial Statements of Insurance and Reinsurance Undertakings, the financial statements, the annual report and the auditor's report must be submitted within one month of their approval and no later than seven months after the end of the financial year.

4. Valuation of the assets of items C II, III and IV

Part 1 answers the following questions:

4.1 Are there depreciations on assets other than fixed-income securities that are not recognized given that said depreciations are not considered to be long-lasting?

4.2 If so, what is the total amount of the corresponding unrecognized capital losses?

4.3 Are there depreciations on fixed-income securities that are not recognized given that said depreciations are not considered to be long-lasting for reasons relating to the quality of the issuers?

4.4 If so, what is the total amount of the corresponding unrecognized capital losses?

Part 2 will

-deal with the criteria used by the undertaking to decide whether an unrealised loss in value is long-lasting or not, and

-indicate whether these criteria have changed from the previous financial year.

The information in Part 2 shall be given irrespective of the existence or otherwise of such losses, except for undertakings that have a policy of systematically recording all the registered depreciations of value (lower of cost or market).

6. Breach of the principle of specialisation

In light of the principle of specialisation enshrined in the first indent of Article 49, paragraph 1, letter b) of the Law of 7 December 2015 on the insurance sector, Part 1 shall indicate whether the reinsurance undertaking carries on activities which are not directly related to the business of reinsurance within the meaning of Article 43, paragraph 28, letter a) of said law and to operations directly related thereto, excluding any direct insurance activity.

In case of a positive answer, Part 2 provides the corresponding details.

7. Verification of technical provisions

In Part 1 the following questions shall be answered:

7.1 Do you confirm the amounts reported by the undertaking in the table of the report related to the verification of the technical provisions?

7.2 Do you confirm the materiality of the facts which gave rise to the constitution of the reserves for claims incurred and reported; it being understood that this verification is supposed to be positive in the event of the existence of claims declarations made by the ceding companies?

7.3 Has the provision for claims fluctuation been constituted in accordance with the articles from 11 to 15 of the Grand-Ducal Regulation of 5 December 2007 laying down the initial authorisation and operating conditions applicable to reinsurance undertakings?

Part 2 shall:

- in case of a negative answer to one of the 3 previous questions, provide further explanations,
- in the case of adjustments made by the undertaking in relation to the amounts notified by ceding undertakings, describe the method of calculation and valuation of the adjustments made by the undertaking for each item of technical provisions,

and, in particular

- indicate the technical interest rate as well as the mortality tables used in the event of adjustments made by the undertaking to the life assurance provision,
- describe the statistical or other method applied to establish the provision for incurred and unreported claims constituted by the reinsurance undertaking in addition to the one based on ceding companies' notifications.

8. Change in technical provisions

Part 1 will report:

8.1 if, for each of the items and sub-items of technical provisions shown in items C and D on the liabilities side of the balance sheet, the change in the profit and loss account is equal to the difference between the closing provisions of the previous year and the closing provisions of the year under review,

8.2 if, in the event of a deviation, there are causes other than exchange rate differences.

In case of a positive answer to the second question, Part 2 will indicate, provision by provision,

- the difference due to exchange rate differences,
- as well as other differences with their respective explanations and accounting treatment

9. Investment policy

Part 1 will answer the following questions:

9.1 Is the breakdown of all investments held by the undertaking at the end of the reporting period as reported by the undertaking in the related reporting table CPR.R.0080 correct?

9.2 Has an investment policy been approved by the board of directors?

9.5 How often is compliance with the investment policy monitored?

10. Off-balance sheet commitments

Part 1 will indicate whether there are any off-balance sheet commitments stated in the notes to the balance sheet other than those resulting from the rental of real estate, leasing of equipment and software used for own use, rental guarantees granted to the undertaking's employees and derivative instruments.

Part 2 shall indicate the nature and extent of these commitments.

11. Intra-group transactions

Part 1 answers the following questions:

11.1 Does the undertaking have internal written procedures enabling it to list all the transactions that the undertaking carries out with the companies referred to in Article 89 of the Regulation of the Commissariat aux Assurances No. 15/03 of 7 December 2015 on insurance and reinsurance undertakings, as amended?

11.2 If so, are these procedures considered adequate by the approved auditor?

11.3 If the answer to question b) is in the affirmative, are these procedures applied in practice?

The term "intra-group transaction" is to be understood here in a broad manner and covers both positions recorded in the balance sheet at any time during the financial year and transactions recorded in the profit and loss account or off-balance-sheet commitments that existed at any time during the financial year under review.

Transactions to be considered include

- loans (balance sheet) and the corresponding financial income and expenses (profit and loss account)
- deposits (balance sheet)
- transactions relating to solvency margin items (balance sheet)
- reinsurance and retrocession transactions (balance sheet and profit and loss account)
- overhead allocation agreements. (balance sheet and profit and loss account)
- guarantees and off-balance sheet transactions.

Part 2 describes the material intra-group transactions reported in the closing balance sheet, off-balance sheet or profit and loss account of the financial year between the reinsurance undertaking and the undertakings referred to in the aforementioned Article 89. This description shall deal with the nature and volume of these transactions and shall indicate whether the latter were carried out under normal market conditions and, if not, the economic justification for them.

Material transactions shall include all the above-mentioned transactions as well as all other transactions between the reinsurance undertaking and the undertakings referred to in the above-mentioned Article 89 which exceed in value:

- 2% of the balance sheet at the beginning of the year for transactions affecting balance sheet and off-balance sheet items
- 10% of gross premiums written for transactions affecting items in the profit and loss account.

For the application of the above numerical criteria, transactions of the same nature shall be taken into account for the cumulation of their value.

12. On-the-spot inspection

In the event that Part 1 refers to an on-the-spot audit report sent within 24 months prior to the end of the financial year, Section 1 indicates whether all recommendations and injunctions of the Commissariat aux Assurances have been implemented in practice. The purpose is not to determine whether the undertaking has simply responded to the audit report by claiming to remedy the deficiencies reported, but to verify whether the commitments made have been fulfilled.

If the answer is no, Part 2 will give indications on

- the nature of recommendations and injunctions not yet implemented,
- the justifications put forward by the undertaking
- as well as the timetable for the - possibly residual - measures envisaged.

13. Obligations relating to the fight against money laundering and terrorist financing - International financial sanctions

The answers to the questions in Section 13 are not intended to replace the due diligence to be carried out by the approved auditor under Article 47 of CAA Regulation n° 20/03 of 30 July 2020 on the fight against money laundering and terrorist financing.

For reinsurance undertakings which do not accept «credit» or «suretyship» risks only answers to questions 13.1 and 13.8 will be required.

The relevant legal references for questions 13.1 to 13.7 are the amended law of 12 November 2004 on the fight against money laundering and terrorist financing ("AML/CFT Law"), the amended Grand Ducal regulation of 1 February 2010 clarifying certain provisions of the AML/CFT Law, and the CAA regulation 20/03 of 30 July 2020 on the fight against money laundering and terrorist financing.

The relevant legal references for questions 13.8 are the law of 19 December 2020 on the implementation of restrictive measures in financial matters as well as Article 31 and paragraphs 2 and 3 of Article 37 of the CAA regulation 20/03 of 30 July 2020 on the fight against money laundering and terrorist financing.

14. Beneficial owners

Part 1 will indicate whether the undertaking has informed and is up to date with the registration of its beneficial owners in accordance with the law of 13 January 2019.

If this question is answered in the negative, Part 2 of the separate report will provide details of the incorrect or missing information.

15. Derivatives and transactions regulated by EMIR

A derivative is defined as a financial instrument as referred to in Annex I, Section C, points 4 to 10 of Directive 2004/39/EC, in conjunction with Articles 38 and 39 of Regulation (EC) No 1287/2006.

EMIR: Regulation (EU) No 648/2012 on over-the-counter (OTC) derivatives, central counterparties and trade repositories and related regulations.

15.1 Has the board authorised the undertaking to use derivatives by an investment policy or other written instructions?

If so, please provide details:

15.2 Does the undertaking have written procedures for derivatives that have been approved by the relevant body? If no, please explain which procedures apply.

If yes:

15.3 Is compliance with the policy and procedures regarding the use of derivatives monitored annually by a person not involved in investment decisions? If not, please explain how this monitoring is carried out, by whom and how often.

15.4 In the last audit, was compliance deemed to be largely in line?

Irrespective of the previous answers:

15.5 During the financial year, was the undertaking directly exposed to derivatives as defined by EMIR:

a) among the assets covering technical provisions other than those of contracts for which the investment risk is borne by the policyholder?

b) among the assets covering the technical provisions of contracts for which the investment risk is borne by the policyholder?

(c) outside the assets covering technical provisions?

If yes (points a, b or c), please provide in Part 2 of the separate report statistical information on the nature of these derivatives distinguishing between categories a, b and c.

15.6 During the financial year, did the undertaking engage in derivative instruments for purposes other than hedging financial risks directly related to its investments?

15.7 During the financial year, did the firm engage directly in OTC derivatives subject to the clearing obligation under Article 4 of EMIR? (excluding intra-group transactions for which the firm has obtained an exemption)

15.8 During the financial year, did the firm engage directly in OTC derivatives subject to the risk mitigation techniques requirement under Article 11 of EMIR?

15.9 During the financial year, did the firm use an exemption for intra-group transactions from its obligations under Articles 4, 9 or 11 of EMIR?

If so, please indicate in Part 2 of the separate report to which Article(s) of EMIR the exemptions used relate.

15.10 If the firm was directly exposed to derivatives at the year end, did the auditor identify any discrepancies between the QRT S.08.01 required by Solvency II and the trade repository disclosures required under Article 9 of EMIR?

Part 2 of the separate report will provide details of any incorrect or missing information.

16. Financial transactions covered by SFTR

SFTR: Regulation (EU) 2015/2365 on transparency of securities financing transactions and re-use and related regulations.

16.1 Has the board authorised the undertaking to engage in transactions covered by SFTR by an investment policy or other written instructions?

If yes:

16.2 Does the undertaking have written procedures for SFTR transactions approved by the relevant body? If no, please explain which procedures apply.

If yes:

16.3 Is compliance with this SFTR policy and procedures monitored annually by a person not involved in investment decisions? If not, please explain how this monitoring is carried out, by whom and how often.

16.4 In the last audit, was compliance deemed to be largely in line?

Irrespective of the previous answers:

16.5 During the financial year, did the firm engage in any securities financing or collateral reuse transactions covered by SFTR?

If yes, please provide in Part 2 of the separate report statistical information on these transactions (number and amounts, by type of transaction).

Part 2 of the separate report will provide details of any incorrect or missing information.

17. Financial transactions covered by SecReg

SecReg: Regulation (EU) 2017/2402 creating a general framework for securitisation and a concrete framework for simple, transparent and standardised securitisations and related regulations

17.1 Has the board authorised the undertaking to engage in securitisation transactions through an investment policy or other written instructions?

If yes:

17.2 Does the undertaking have written procedures for securitisation approved by the relevant body? If no, please explain which procedures apply.

If yes:

17.3 Is compliance with this securitisation policy and procedures monitored annually by a person not involved in investment decisions? If not, please explain how this monitoring is carried out, by whom and how often.

17.4 In the last audit, was compliance deemed to be largely in line?

Irrespective of the previous answers:

17.5 During the financial year, did the undertaking engage in securitisation transactions covered by SecReg?

If so, please provide in Part 2 of the separate report statistical information on these transactions (number and amounts, by type of transaction).

Part 2 of the separate report will provide details of any incorrect or missing information.

Other provisions

Although the preparation of the separate report is the responsibility of the auditor, the reinsurance undertakings must cooperate fully with the auditor in this respect. They are thus invited to draw up the list of derivative instruments with the breakdowns required in Section 15 or to prepare the list of intra-group transactions.

Circular letter modified 09/02 of the Commissariat aux Assurances concerning the separate report to be provided by the auditor of reinsurance undertakings is repealed.

The Executive Committee

RE-INSURANCE:

Separate Report - Part 1

0.1 Approved auditor's name:

0.2 Personal professional email address of the approved auditor:

1. Assignment of the approved auditor

1.1 Number of hours worked for the statutory audit of the annual accounts

- by approved auditors
- by other professionals

1.2 Does the above-mentioned legal assignment include

- Intra-year revisions
 - the audit of the consolidation package
 - other activities within the framework of group consolidation instructions
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2. Audit report

2.1 Has the audit report been completed and signed on the date of completion of the separate report?

2.2 If so, does the audit report contain any reservation (qualifications or «matters of emphasis»)?

2.3 If not, does the approved auditor intend to express any reservation (qualifications or «matters of emphasis») in the audit report? »

2.4 What is the date of the general meeting of shareholders that will decide on the audited accounts?

2.5 Does the management report include all the information referred to in Article 85 of the law of 8 December 1994, as amended, on the annual and consolidated accounts of reinsurance undertakings?

2.6 What is the auditor's materiality for the financial statements as a whole?

2.7 What is the sum of the absolute values of the uncorrected misstatements (excluding inappropriate classification, aggregation or disaggregation of information)?

2.8 What is the number of uncorrected misstatements (excluding inappropriate classification, aggregation or disaggregation of information)?

3. Publication of the accounts related to the previous financial year

3.1 At the date of signature of this separate report, has the undertaking fulfilled all its obligations to publish its accounts related to the previous financial year?

3.2 Have the legal deadlines been met?

4. Valuation of the assets of items C II, III and IV

4.1 Are there depreciations on assets other than fixed-income securities that are not recognized given that said depreciations are not considered to be long-lasting?

4.2 If so, what is the total amount of the corresponding unrecognized capital losses?

4.3 Are there depreciations on fixed-income securities that are not recognized given that said depreciations are not considered to be long-lasting for reasons relating to the quality of the issuers?

4.4 If so, what is the total amount of the corresponding unrecognized capital losses?

6. Breach of the principle of specialisation

6.1 Does the reinsurance undertaking carry on activities which are not directly related to the business of reinsurance?

7. Verification of technical provisions

7.1 Do you confirm the amounts reported by the undertaking in the table of the report related to the verification of the technical provisions?

7.2 Do you confirm the materiality of the facts which gave rise to the constitution of the reserves for claims incurred and reported; it being understood that this verification is supposed to be positive in the event of the existence of claims declarations made by the ceding companies?

7.3 Has the provision for claims fluctuation been constituted in accordance with the articles from 11 to 15 of the Grand-Ducal Regulation of 5 December 2007 laying down the initial authorisation and operating conditions applicable to reinsurance undertakings?

8. Change in technical provisions

8.1 For each of the items and sub-items of technical provisions shown in items C and D on the liabilities side of the balance sheet, is the change in the profit and loss account is equal to the difference between the closing provisions of the previous year and the closing provisions of the year under review?

8.2 In the event of a deviation, are there causes other than exchange rate differences?

9. Investment policy

9.1 Is the breakdown of all investments held by the undertaking at the end of the reporting period as reported by the undertaking in the related reporting table CPR.R.0080 correct?

- 9.2 Has an investment policy been approved by the board of directors?
- 9.5 How often is compliance with the investment policy monitored?
-

10. Off-balance sheet commitments

- 10.1 Are there any off-balance sheet commitments stated in the notes to the balance sheet other than those resulting from the rental of real estate, leasing of equipment and software used for own use, rental guarantees granted to the undertaking's employees and derivative instruments?
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11. Intra-group transactions

- 11.1 Does the undertaking have internal written procedures enabling it to list all the transactions that the undertaking carries out with the companies referred to in Article 89 of the Regulation of the Commissariat aux Assurances No. 15/03 of 7 December 2015 on insurance and reinsurance undertakings, as amended?
- 11.2 If so, are these procedures considered adequate by the approved auditor
- 11.3 If the answer to question b) is in the affirmative, are these procedures applied in practice?
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12. On-the-spot inspection

No on-the-spot audit report was sent during the 24 months preceding the end of the financial year.

- 12.1 All the recommendations and injunctions of the Commissariat aux Assurances have been followed up in practice?
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13. Obligations relating to the fight against money laundering and terrorist financing - International financial sanctions

- 13.1 Does the undertaking accept «credit» or «suretyship» risks?
- 13.2 Does the undertaking have written internal procedures in place for
- a) customer due diligence
 - b) cooperation with the authorities, including the Commissariat aux Assurances
 - c) keeping of documents and records
 - d) internal control
 - e) risk assessment and management
 - f) customer acceptance
 - g) staff training and awareness
- 13.3 If the answer to question 13.1 is in whole or in part is in the affirmative, are the existing procedures deemed adequate by the approved auditor in relation to the applicable legal and regulatory provisions?
- 13.4 If the answer to question 13.2 is in the affirmative, are these procedures applied in practice?

- 13.5 If the undertaking is part of a group, are there policies and procedures in place that are coordinated at the group level?
- 13.6 Has the undertaking carried out an assessment regarding money laundering and terrorist financing risks to which said undertaking is exposed to?
- 13.7 If the answer to question 13.5 is in the affirmative, does the approved auditor consider the risk assessment to be adequate with regard to the following risk factors: customers, countries or geographical areas, products, services, transactions and distribution channels (including intermediaries)?
- 13.8 Has the undertaking put in place adequate arrangements to implement United Nations Security Council Resolutions and acts adopted by the European Union containing prohibitions and restrictive measures in financial matters against certain persons, entities or groups in connection with the fight against terrorism?
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14 Beneficial owners

- 14.1 Is the undertaking up-to-date with the registration of all its beneficial owners in the Register of Beneficial Owners in accordance with the law of 13 January 2019 on the day this report was completed?
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15 Derivatives and transactions regulated by EMIR

A derivative is defined as a financial instrument as referred to in Annex I, Section C, points 4 to 10 of Directive 2004/39/EC, in conjunction with Articles 38 and 39 of Regulation (EC) No 1287/2006.

EMIR: Regulation (EU) No 648/2012 on over-the-counter (OTC) derivatives, central counterparties and trade repositories and related regulations.

- 15.1 Has the board authorised the undertaking to use derivatives by an investment policy or other written instructions?
- 15.2 Does the undertaking have written procedures for derivatives that have been approved by the relevant body? If no, please explain which procedures apply.
- 15.3 Is compliance with the policy and procedures regarding the use of derivatives monitored annually by a person not involved in investment decisions? If not, please explain how this monitoring is carried out, by whom and how often.
- 15.4 Is the compliance with this policy monitored on a regular basis?
- 15.5 Does the undertaking directly hold derivative instruments at the end of the financial year:
a) among the assets representing technical provisions other than those of contracts for which the investment risk is borne by the policyholder?
b) among the assets representing the technical provisions of contracts for which investment risks are borne by the policyholder?

- c) among the assets that are not representative of technical provisions?
- 15.6 During the financial year, did the undertaking engage in derivative instruments for purposes other than hedging financial risks directly related to its investments?
- 15.7 During the financial year, did the firm engage directly in OTC derivatives subject to the clearing obligation under Article 4 of EMIR? (excluding intra-group transactions for which the firm has obtained an exemption)
- 15.8 During the financial year, did the firm engage directly in OTC derivatives subject to the risk mitigation techniques requirement under Article 11 of EMIR?
- 15.9 During the financial year, did the firm use an exemption for intra-group transactions from its obligations under Articles 4, 9 or 11 of EMIR?
- 15.10 If the firm was directly exposed to derivatives at the year end, did the auditor identify any discrepancies between the QRT S.08.01 required by Solvency II and the trade repository disclosures required under Article 9 of EMIR?
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16 Financial transactions covered by SFTR

SFTR: Regulation (EU) 2015/2365 on transparency of securities financing transactions and re-use and related regulations.

16.1 Has the board authorised the undertaking to engage in securitisation transactions through an investment policy or other written instructions?

If yes:

16.2 Does the undertaking have written procedures for SFTR transactions approved by the relevant body? If no, please explain which procedures apply.

If yes:

16.3 Is compliance with this SFTR policy and procedures monitored annually by a person not involved in investment decisions?

16.4 In the last audit, was compliance deemed to be largely in line?

Irrespective of the previous answers:

16.5 During the financial year, did the firm engage in any securities financing or collateral reuse transactions covered by SFTR?

If yes, please provide in Part 2 of the separate report statistical information on these transactions (number and amounts, by type of transaction).

17 Financial transactions covered by SecReg

SecReg: Regulation (EU) 2017/2402 creating a general framework for securitisation and a concrete framework for simple, transparent and standardised securitisations and related regulations

17.1 Has the board authorised the undertaking to engage in securitisation transactions through an investment policy or other written instructions?

If yes:

17.2 Does the undertaking have written procedures for securitisation approved by the relevant body? If no, please explain which procedures apply.

If yes:

17.3 Is compliance with this securitisation policy and procedures monitored annually by a person not involved in investment decisions? If not, please explain how this monitoring is carried out, by whom and how often.

17.4 In the last audit, was compliance deemed to be largely in line?

Irrespective of the previous answers:

17.5 During the financial year, did the undertaking engage in securitisation transactions covered by SecReg?
