



2015

ANNUAL REPORT
OF THE FINANCIAL
MARKET AUTHORITY

Key figures of the Austrian financial sector 2011–2015

	2011	2012	2013	2014	2015 (prel.)
BANKING SECTOR					
CONSOLIDATED OWN FUNDS ¹					
Tier 1 capital (in € billions)	68.8	69.8	70.6	66.4	68.5
Total own funds (in € billions)	88.1	88.2	89.0	87.8	87.1
Tier 1 capital ratio (in %, Tier I Ratio)	10.3	11.0	11.9	11.8	12.7
Solvency ratio (in %, Solvency Ratio)	13.6	14.2	15.4	15.6	16.2
ASSET COMPOSITION AND QUALITY ²					
Total assets (in € billions)	1014.3	982.1	927.2	896.4	859.1
<i>Sectoral distribution of assets (as % of total)</i>					
Domestic banks	25.2	23.5	22.3	19.8	19.7
Foreign banks	14.0	13.7	13.4	14.1	10.4
Non-bank financial intermediaries	3.0	3.0	2.8	3.1	3.2
Non-financial enterprises	18.9	19.9	20.6	20.8	21.7
Private households	18.2	19.1	19.9	21.3	23.2
Private non-profit organisations	0.4	0.4	0.4	0.3	0.4
Government	4.1	4.2	4.0	4.5	4.7
Foreign non-banks	16.2	16.2	16.5	16.1	16.7
Deposits (excluding interbank) to loans (in %)	78.1	80.3	83.7	87.8	89.6
Share of foreign currency loans to households (in %)	28.3	23.9	20.6	19.0	...
SECTORAL DISTRIBUTION OF LIABILITIES (as % of total) ²					
Domestic interbank liabilities	19.0	17.8	16.5	15.3	15.3
Foreign interbank liabilities	8.9	8.2	7.4	7.4	5.6
Deposits domestic non-banks	28.6	30.2	32.7	34.9	38.0
Deposits foreign non-banks	5.8	5.9	6.4	6.8	6.9
Own domestic issues	15.1	14.5	14.8	13.2	12.7
EARNINGS AND PROFITABILITY (in %) ³					
ROA	0.12	0.32	-0.10	-0.73	0.42
Operating expenses to operating income	60.9	63.8	67.6	69.7	66.2
Personnel expenses to non-interest expenses	51.2	51.2	50.9	53.1	50.2
Balance from allocations to/release of value adjustments for credit risks (in € billions)					
	2.4	1.5	3.4	2.1	1.4
SECTORAL DISTRIBUTION OF INCOME (as % of total) ³					
Net interest income	50.0	46.1	46.5	46.7	43.1
Income from securities and investments	19.0	19.2	15.9	17.8	16.5
Balance of business on commission basis	19.9	20.1	21.5	21.4	21.2
Balance of financial business	1.7	3.3	2.6	1.8	2.5

¹ OeNB, secondary research: reporting data of banking groups and unconsolidated data reported by individual institutions merged. As figures have been calculated based on CRD IV since 2014, comparability with earlier ratios is limited.

² OeNB, including branches from EEA countries in Austria (Article 9 BWG), credit guarantee banks and corporate provision funds.

³ OeNB, based on quarterly reports; income data of individual institutions active in Austria are presented on an unconsolidated basis.

Key figures of the Austrian financial sector 2011–2015

	2011	2012	2013	2014	2015 (vorl.)
INSURANCE SECTOR					
Earned premiums (in € millions)	16 536	16 340	16 608	17 077	17 342
Life insurance (increase in %)	-7.2	-6.7	-0.2	3.8	0.5
Non-life/accident insurance (increase in %)	4.8	2.7	2.6	2.0	1.8
Health insurance (increase in %)	3.6	3.4	3.8	3.2	4.2
Technical account balance (in € millions)	295	455	592	477	475
Financial result (in € millions)	2 964	3 403	3 339	3 211	3 216
Result from ordinary activities (in € millions)	1 162	1 395	1 574	1 421	1 354
Combined ratio (non-life/accident insurance, in %)	97.7	97.8	97.0	94.3	93.2
PENSIONS KASSEN					
Assets managed (in € millions, year-end)	14 764	16 278	17 385	19 011	19 646
Performance (in %)	-3.0	8.4	5.2	7.8	2.3
Beneficiaries (entitled) (in thousands, year-end)	721	744	755	773	791
Beneficiaries (recipients) (in thousands, year-end)	71	76	81	86	89
CORPORATE PROVISION FUNDS					
Assets managed (in € millions, year-end)	4 286	5 274	6 220	7 324	8 306
Performance (in %)	0.2	4.3	2.8	3.9	1.2
INVESTMENT FUNDS					
Assets managed (in € millions, year-end)	134.6	144.4	145.3	157.8	162.7
Net inflow of funds (in € millions)	-4 695	-391	-843	4 170	5 058
Number of domestic investment funds (year-end)	2 232	2 161	2 153	2 092	2 136
CAPITAL MARKET					
ATX at year-end	1 892	2 401	2 547	2 160	2 397
ATX performance (in %)	-34.9	26.9	6.1	-15.2	11.0
Market capitalisation (in € millions, year-end)	63 679	78 124	82 990	77 773	86 162
Market capitalisation/GDP (in %)	20.6	24.6	25.7	23.6	25.6
Sales in share segment (in € millions, double counting)	60 154	36 089	38 722	47 735	58 384
Number of issuers (share segment, year-end)	81	79	75	76	72
Circulation weighted average yields of government bonds ¹ (in %, year-end)	2.15	0.97	1.24	0.95	0.37
Spreads of ten-year gov't bonds compared w. German Bunds (in basis points)	111	43	34	10	27
CDS spreads (5 years, in basis points)	184	45	37	23	22
Sales in bond segment (in € millions)	1 309	238	254	230	218

¹ Up to 2014: secondary market yield.

Key figures of the FMA 2011–2015*

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Prov. act.
INCOME (in € millions)					
Federal government contribution	3.5	3.5	3.5	3.5	3.5
Income from entities liable to pay costs	38.1	40.7	43.5	46.2	53.8
Income from fees, other income	3.2	3.7	4.0	6.7	4.0
Total	44.8	48.0	51.0	56.4	61.3
EXPENSES (in € millions)					
Personnel expenses	26.7	28.9	31.5	34.9	37.8
Material expenses	17.0	17.9	18.3	20.0	21.7
Depreciation and amortisation, other expenses	1.1	1.2	1.2	1.4	1.7
Total	44.8	47.9	51.0	56.4	61.3
Employees at year-end in full-time equivalents	308.38	313.98	334.675	354.713	373.313

Due to the figures summed up in € millions, there might be some rounding differences.
*Data not including the special effects of the 2015 asset quality review or reimbursement of costs pursuant to Article 74 para. 5 no. 2 BaSAG.

Supervised companies 2011–2015

CREDIT INSTITUTIONS	2011	2012	2013	2014	2015
Joint stock and special-purpose banks	89	87	84	77	76
Savings banks	51	51	49	49	49
Raiffeisen cooperatives	530	520	509	498	488
Volksbank cooperatives	67	64	61	53	42
Mortgage banks	11	11	11	11	10
Building societies	4	4	4	4	4
Investment fund management companies	29	29	29	29	29
Corporate provision funds	10	10	10	10	9
Exchange offices/remittance services	3	3	3	3	3
EU branches	30	29	30	30	30
Total	824	808	790	764	740
Representative offices of foreign credit institutions	11	11	10	8	8
INSURANCE UNDERTAKINGS					
Mutual associations (excluding small mutuals)	6	6	6	6	6
Joint stock companies	46	42	40	37	35
Small mutual associations	53	53	53	52	52
Total	105	101	99	95	93
Mutual associations dealing in asset management/private foundations	6	6	6	6	6
Life assurance	31	30	30	28	27
Non-life and accident insurance	42	41	38	38	35
Health insurance	10	8	8	9	9
Reinsurance only	3	3	3	3	2
PENSIONS KASSEN					
Single-employer	9	9	8	7	6
Multi-employer	8	8	8	7	7
Total	17	17	16	14	13
IRG	142	140	124	118	113
INVESTMENT FIRMS, INVESTMENT SERVICE PROVIDERS					
Licence pursuant to Article 3 WAG 2007	92	88	82	74	66
Licence pursuant to Article 4 WAG 2007	83	79	70	65	57
Total	175	167	152	139	123

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The FMA is an independent, autonomous and integrated supervisory authority for the Austrian financial market, established as an institution under public law. It is responsible for supervising credit institutions, payment institutions, insurance undertakings, *Pensionskassen* (pension companies), corporate provision funds, investment funds, licensed investment service providers, credit rating agencies and stock exchanges, as well as for prospectus supervision. The FMA is also responsible for monitoring trading in listed securities to ensure that this is carried out properly and for monitoring issuers' compliance with information and organisation obligations. Further tasks include combating the unauthorised provision of financial services and taking preventive action against money laundering and terrorist financing.

The FMA is an integral part of the European System of Financial Supervisors (ESFS) and represents Austria in the relevant European institutions, closely cooperating with the network of supervisors and actively contributing to its work.

The aims of the FMA are:

- to contribute towards the stability of Austria as a financial market;
- to reinforce confidence in the ability of the Austrian financial market to function;
- to protect in accordance with provisions of law investors, creditors and consumers; and
- to put forth preventive efforts with respect to compliance with supervisory standards while consistently punishing any violations of these standards.

In order to achieve these aims:

- the FMA monitors and takes any measures necessary to ensure compliance with provisions of law;
- the FMA defines minimum standards and publishes regulations putting legal provisions into concrete terms;
- in dialogue with market participants the FMA works out proposals for ensuring that the Austrian financial market permanently adheres to high standards;
- the FMA represents Austria's interests in the EU and other international bodies and supports cooperation with other supervisory authorities;
- the FMA utilises and further develops modern analysis systems;
- the FMA places great emphasis on employing highly qualified and motivated staff as well as deploying the most modern technology; and
- its staff works as a team towards solving problems in a holistic manner so as to accomplish its integrated supervisory tasks efficiently and effectively.

We as staff members of the FMA identify with these aims and base our actions on the values of independence and objectivity. We fulfil our commission with confidence and in the knowledge of the significance of our efforts for the Austrian financial market.

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PREFACE BY THE FEDERAL MINISTER OF FINANCE



The year 2015 was a particularly challenging year for all market participants, on both the European and the Austrian financial market. The fact that interest rates have remained low, with the monetary policy decisions of the European Central Bank (ECB) even triggering negative interest levels in the short-term sector, and the exceptionally volatile capital markets have combined to erode the income of many financial service providers, be they banks, insurance undertakings, *Pensionskassen* or investment funds.

In this difficult environment, the measures born out of the lessons learned from the global financial crisis at European and at national level have proven their worth. I would like to highlight just two of these, namely the creation of the Single Supervisory Mechanism in the context of a greater European focus in banking supervision, and also the newly established European resolution regime for banks and investment firms.

The Single Supervisory Mechanism, within which the ECB and national supervisory authorities from the euro area countries work closely together, began its work in November 2014. By last year it was already able to demonstrate the enormous progress that has been made in cross-border supervision within the euro area. What was also very clear is that the FMA remains at the heart of supervisory activity as far as Austrian banks and the Austrian banking market are concerned. The quantitative and qualitative rules imposed by the ECB, as well as the various new rules at EU level, are creating a more intense form of supervision with the result that the remit and workload of the FMA, rather than being reduced as a result of this increasingly European approach, are actually growing.

Last year also saw a regulatory and supervisory first with the creation of the European resolution regime for banks and investment firms, marking a further milestone on the path towards European banking union. We in Austria entrusted the role of national resolution authority to the FMA, which has been performing this task in full since 1 January 2015. This means that, from the outset, the FMA has not only had to prepare resolution plans but also, where necessary, has been responsible for implementing the resolution of an institution in practice. Indeed, this challenge arose after a matter of weeks, with the FMA required to place Heta Asset Resolution AG under the new European resolution regime. The FMA's achievement in this regard deserves huge respect.

In its capacity as the national resolution authority, the FMA forms an integral part of the new European resolution regime and is required to represent Austria's interests in the European Single Resolution Board. The Board coordinates cross-border cooperation on resolution but is also responsible for the resolution of large-scale institutions in Europe that take the form of "significant institutions".

The available tools for resolution are defined in the Bank Recovery and Resolution Directive (BRRD), which was transposed into Austrian law through the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*). Crucially important in this regard is the principle that any losses in the event of a resolution are, as far as possible, borne by the owners and creditors. For me, as Finance Minister, this is particularly important, as the costs of resolution have often been picked up by the taxpayer in the past.

As you know, one of the central aims of banking union is to bring an end to the dangerous downwards spiral of contagion effects whenever a banking crisis or government debt crisis arises. The creation of the Single Supervisory Mechanism and the Single Resolution Mechanism, together with our initial experience of these mechanisms in action, makes me very optimistic that we have succeeded in escaping this vicious circle.

The smooth functioning and stability of the financial market are key prerequisites for sustainable economic growth and an affluent society. Moreover, I, as Finance Minister, place particular importance on Austria's financial market being a clean market. This is why I unconditionally support the fight against money laundering and the financing of terrorism.

The mutual evaluations carried out by the Financial Action Task Force (FATF) are key in this regard. These review compliance of statutory provisions with the FATF recommendations, as well as their operational enforcement on the ground. Last year, the FATF evaluated Austria as part of the fourth round of mutual evaluations since its creation in 1989. I am proud to be able to report that the deficiencies identified in the 2008 evaluation have been addressed and all recommendations implemented. In particular, Austria was able during the latest evaluation to present the risk-based approach, which forms the backbone of efforts to combat money laundering and terrorist financing in the FATF principles, as an integral part of supervision by the FMA. In the meantime, however, the benchmark, namely the FATF high-level principles, has been extended further and tightened up. Furthermore, particular attention was paid during the evaluation to the effectiveness of the Austrian system. This is based on supervisory audit benchmarks, as well as the concepts of prevention and sanctions. Implementation of the resulting points of criticism and recommendations will help to further strengthen Austria's position as an exemplary financial market.

I would therefore like to pay tribute to each and every FMA employee for their excellent work, and express my particular thanks for their ongoing dedication and commitment. It is also important, however, that I thank my colleagues at the Federal Ministry of Finance and at Oesterreichische Nationalbank, as it is only by working together as a team and in a spirit of partnership that we can be successful together for the good of the Austrian financial market.

I look forward to continuing to work together constructively for Austria in the future.

HANS JÖRG SCHELLING

PREFACE BY THE EXECUTIVE BOARD



Huge progress is being made with regard to the creation of a European system for supervising the financial markets. Europe's supervisory architecture with its three sector-based authorities – the EBA, ESMA and EIOPA – alongside the European Systemic Risk Board (ESRB) is operating very smoothly. The euro area countries have developed a Single Supervisory Mechanism. This means that, as well as sharing a common currency, these states now also share responsibility for supervising the banks. In addition, the Single Resolution Mechanism has been established for the banking sector, while vigorous efforts are being made to develop a single deposit guarantee scheme. Signifi-

cant progress has also been made in reviewing whether the rules governing the single market for financial services are fit for purpose and whether there exists a level playing field. Indeed, harmonisation is advancing at a rapid pace.

In short, the financial markets are being supervised at a European level and thus on a cross-border basis. And this is the right approach. It shows that one of the key lessons from the global financial crisis has been learned, implemented and turned into practical reality.

Yet this European approach to supervision does not make our national supervisory system obsolete. Quite the contrary, in fact. The European system of supervision builds on national supervision, with a decentralised structure based around the principle of subsidiarity. This means that the European element is as dominant as necessary, combined with the required level of national action and market proximity. We, in our capacity as the Austrian financial market supervisor, are therefore an integral part of the European supervisory system and have always faced up to this European challenge proactively. We represent Austrian interests by sitting on and voting in these bodies and are working constructively to take the rules and system of supervision forward.

A key advantage in this regard is that the FMA, as an integrated supervisory authority, brings the entire Austrian financial market under one roof. It supervises every sector and industry within the financial market and can therefore ensure that the rules and supervisory system do not distort competition. The FMA integrates prudential supervision and conduct supervision, thereby making sure that experience and findings from each area can also be fed into the other areas. It also brings together micro and macro-level supervision, ensuring that any risks detected at the level of an individual institution are incorporated into macro-analysis too, and that analysis of macroprudential risks is similarly taken into account when considering individual institutions. In this way the FMA is able to exploit synergies to the full in terms of knowledge, while also taking advantage of cost synergies.

It should be noted that the boundaries between different sectors, industries and products on the financial market are becoming increasingly blurred. The low level of interest rates is not just presenting the banks with major challenges but also insurance undertakings, investment funds, corporate provision funds and *Pensionskassen*. And investors who want to provide for their future will not restrict themselves to savings accounts but

will also be considering life insurance, investment funds, pension investments or securities. Yet the choice of product can have huge consequences in terms of the related opportunities and risks, rights and obligations. From the perspective of collective investor protection, the added value of an integrated supervisory approach lies in the fact that, as well as carrying out prudential supervision of financial companies, it can also take into account rules of conduct with regard to the sale of products, as well as prospectus and transparency rules and, where applicable, the law on market abuse. Financial reporting enforcement, preventing money laundering, combating unlawful operations and investment fraud, and consumer, saver and investor protection are all integrated topics in themselves.

The integrated supervisory approach has a proven track record and is perfectly tailored to the small but closely interwoven Austrian financial market. However, the integrated approach to supervision is also the perfect response from a small and open national economy as rules and supervision become increasingly European and increasingly international in character. The FMA has been proving this ever since it was created. This is the experience from international developments and the lessons from the financial crisis.

As the Executive Board of the FMA we therefore owe a debt of gratitude to our Austrian partners in supervision, at the Federal Ministry of Finance and at Oesterreichische Nationalbank. We have been able to rely on their unwavering support as we shape supervision for the future, and they continue to support us today.

Our thanks also go, in particular, to the FMA staff, who work hard to make the concept of integrated supervision an everyday reality. We are doing our utmost to support our employees and have deliberately designed our range of training and career development options to reflect our integrated approach. The basic training provides an overview of the financial market as a whole and how it is supervised, while our university course in financial market supervision (offered alongside Vienna University of Economics and Business) also adheres to the bancassurance model. Meanwhile, job rotation, integrated supervisory functions and secondments to our partner authorities abroad and to international organisations are fully established components of our personnel development approach.

Without the commitment of our FMA employees to our supervisory concept and strategy, we would not hold the reputable position on the Austrian financial market and within the European supervisory system that we enjoy today.

HELMUT Ettl, KLAUS KUMPFMÜLLER

THE ECONOMIC ENVIRONMENT

In the past year the global economy and financial markets again had to struggle in the face of a challenging environment. Europe was experiencing a sovereign debt crisis, focused on the difficult task of preventing Greece from falling into bankruptcy and having to leave the common currency. The USA, in contrast, took the long-awaited step of reversing the interest rate trend, raising key interest rates for the first time since the outbreak of the global financial crisis. Meanwhile, the upswing in China, up to now the motor driving global economic growth, gradually lost momentum, taking with it many other emerging economies and slowing down the business cycle worldwide.

EUROPE

Tedious negotiations were held between Greece and the four institutions – the European Commission (EC), the European Central Bank (ECB), the European Stability Mechanism (ESM) and the International Monetary Fund (IMF). A successful outcome, at least preliminarily, was not reached until after mid-year, when a rescue package worth € 86 billion over a three-year period was agreed, bringing some calm to the troubled euro area. The measures adopted as part of the package include privatisation of state property, recapitalisation of Greece's banks and the definition of targets for a primary surplus. During the latter six months of the year, the refugee crisis in Europe stole the spotlight from the European debt crisis to become the focus of EU policy efforts. As of March 2015 the ECB expanded its current asset purchase programme to a monthly volume of € 60 billion, in an attempt to stimulate the European economy and move closer to the inflation goal set at two per cent.

National economies in Europe showed widely diverging tendencies in 2015.

The euro area's largest national economy Germany recorded a stable level of 1.7% growth in gross domestic product, despite the abundance of economic and political challenges. This growth was largely driven by robust consumption among households, which increased by nearly 2% and reached a 15-year high. Other positive factors were the sound labour market and rising real wages, with the latter profiting from developments such as falling energy prices and the introduction of a minimum wage.

It was a mixed year for foreign trade: even as the volume of global trade stagnated, exports could nonetheless be maintained at the same level during the first half of the year, which is attributed to factors such as healthy US growth and the recovery of European economies. Exports also received initial impetus from the falling euro. In the second half of the year, however, the detrimental effects of negative developments in the emerging markets came to be increasingly felt.

Germany was again able to increase the surplus in its current account balance on the previous year by 8.8%, while the budget surplus at 0.5% was the highest in the entire euro area. The unemployment rate of 4.6% was the lowest in the EU.

In France, the euro area's second largest national economy, more growth was recorded than in the previous year, when the increase had been only by 0.2%. The GDP rose by 1.2% in 2015. Like Germany, France

profited from cheap energy prices, a falling euro and low interest levels. At 10% the unemployment rate reached an 18-year high and was above the average for the EU-28. The deficit in the current account balance fell from the previous year by -1.4%. With a budget deficit of -3.7%, the rate remained well above the comparable average for the euro area. Particularly in the final quarter of the year, France's economy suffered as a result of the terrorist attacks in November. The French economy was characterised on the whole by strongly erratic growth.

The UK succeeded in achieving a solid growth rate of 2.2%. The development within individual economic sectors nonetheless varied appreciably. While the services sector was able to expand, the industrial sector and the construction industry slowed down. Seen in a long-term perspective, the UK economy has been following a steady growth path since 2013, supported by a low unemployment rate and a low inflation level. In Q2 per capita GDP regained the all-time record level last recorded in 2008 prior to the outbreak of the financial crisis. At 31 million, the number of individuals holding regular employment was at a record level. Like the rest of the EU, the UK is plagued by strong deflationary tendencies. The country fell short of the inflation target of two per cent set for 2015, with prices falling marginally year on year. The 4.2% budget deficit was well above the EU average, while government debt amounted to 88.6% of GDP.

In the remaining EU countries, high growth rates were recorded, especially in Eastern Europe. The Czech Republic (+4.3 %), Hungary (+2.9 %), Poland (+3.5 %), Romania (+3.5 %), Slovakia (+3.2 %) and Slovenia (+2.6 %) were all able to achieve substantial increases. The main driver was private consumption, which profited from falling unemployment, rising real wages, growing credit volumes and the low oil price. The economic cool-down in China, on the other hand, like the speculations surrounding a possible Grexit had little impact. In 2015 Greece was the only euro area member to record a negative growth rate. The Greek economy shrunk by 1.4% on the previous year. The rescue package agreed with the European institutions and the troika, while calming the situation, is intended as the basis for a gradual recovery of the country.

AUSTRIA

Growth of the Austrian economy was below average compared with the rest of Europe. The gross domestic product rose by 0.6%, a rate well below the average recorded for the euro area (+1.6%) and the EU (+1.9%). Highly varying growth was seen in the individual sectors. While the export sector showed healthy performance at +2.8%, private consumption grew only little (+0.7%). The export economy benefited from strong demand from the USA and Germany. On the other hand, falling levels of exports were recorded to China and other emerging economies. Specifically, demand from Russia and Ukraine dropped drastically, leading to fewer exports in the services and tourism sectors, with the latter especially having to bear the brunt of the fallen rouble. At 5.7%, the unemployment rate was 0.1% higher than in the previous year.

The number of registered unemployed persons climbed to new record levels as the year progressed, to reach over 410 000 by the end of the year. In spite of these developments, consumer prices were 0.8% above that recorded in the previous year and thus considerably higher than the average for the euro area. The

Chart 1: Real GDP growth rates, 2011-2015 (in %; source: Eurostat)

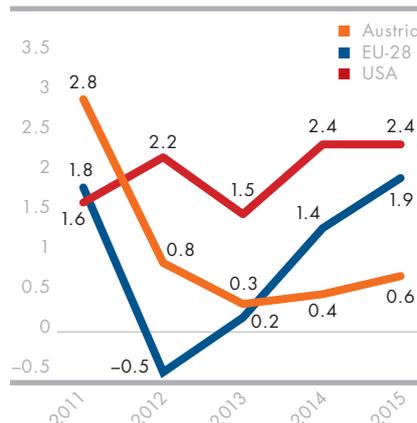
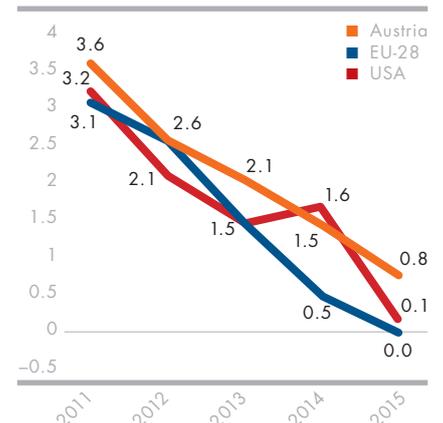


Chart 2: Changes in consumer prices 2011-2015 (in %; source: Eurostat)



budget deficit of 1.8% was lower than in 2014, while national debt climbed slightly to 85.7% (after 84.5% in 2014).

NORTH AMERICA

The US economy displayed healthy growth in 2015 despite challenging global economic conditions. Growth in GDP was the highest since 2010 and 2.4% above the average rate in the EU. The labour market in particular continued to show an upward trend and contributed decisively to encouraging consumer demand, while this trend grew weaker as the year closed. By the end of the year, consumer confidence had fallen to a 14-month low. The purchasing power of many oil-exporting nations became increasingly limited as a result of falling oil prices, negatively impacting the United States' manufacturing industry. Similarly, the strong US dollar led to rising prices for US products in the global market.

The increase in the value of the dollar was driven largely by the anticipation of rising US interest rates, which in turn led to detrimental shifts among many emerging economies. These countries took advantage of the low interest rate policy pursued since the outbreak of the financial crisis by accumulating US-dollar debt and are now confronted with mounting real debt in their local currencies as the US dollar rises.

The US unemployment rate amounted to 5.3% by the end of the year, almost a full percentage point below the 2014 average. A total of more than 2.7 million jobs were created in 2015 (compared with 3.1 million in 2014). At 105.6%, the US national debt was slightly larger than in the previous year, and the deficit in the current account balance also increased slightly on 2014, by 3.3%.

The long-awaited reversal of the interest rate trend in December reflects the growing strength of the US economy. For the first time since the onset of the financial crisis in 2008, the Federal Reserve raised the key interest rate (federal funds rate) to a range between 25 and 50 basis points. The interest hike marked the end of a period of accommodative monetary policy lasting more than seven years.

OTHER REGIONS OF THE GLOBE

The emerging markets continued to find themselves in a challenging environment in 2015. In particular the countries that mainly export commodities faced a downward price spiral in practically every market segment. GDP in Brazil declined by 3.8% in 2015, with the economy shrinking again for the first time since 2009. Structural problems, a high inflation rate and the vast corruption scandal surrounding national oil company Petrobras were factors seriously aggravating the general situation. Credit rating agency Standard & Poor's downgraded Brazilian sovereign debt in September, both in terms of the local currency (to BBB-) as well as foreign currency (to junk).

The Russian market came under pressure, both as a result of the drop in crude oil prices and also due to the sanctions imposed on the country by the West in response to the Ukraine crisis. The rouble lost ground heavily against the USD, especially in the latter half of the year, listing at 72.5 USD per RUB by the end of December. One US dollar had cost just under 49 roubles in May 2015. Boosted by the manufacturing and agricultural sectors, GDP did in fact become more stable from Q3 on, yet a significant drop of 3.7% was nonetheless recorded relative to the year before.

The events in China had even more decisive impact on global economic development. For several years now China has been restructuring its economy, shifting it from heavy dependence on investments and exports to a greater focus on domestic consumption and services. As a result of these efforts, the growth of the Chinese economy slowed down to the lowest rate in 25 years, achieving only 6.9% of GDP. Due to the investment boom in earlier years, China today suffers from industrial overcapacity and an overly abundant supply in the real estate market. Particularly during the latter six months of the year, China's slow growth figures led to major turbulence in the global financial markets and in international commodity markets, where marked price drops were recorded. The repercussions were especially negative in those emerging economies highly

dependent on commodity exports, such as Brazil and Russia. In addition, the oil market was marked by an oversupply, being contributed by new market participants such as Iran, as well as by dwindling demand – especially among emerging markets.

THE INTERNATIONAL FINANCIAL AND CAPITAL MARKETS

In 2015 the international financial and capital markets were wholly fixated on the monetary policy of the European Central Bank (ECB) and the United States Federal Reserve (Fed). The ECB continued to pursue and expand its relaxed monetary policy by lowering key interest rates even further and through large-volume bond purchase programmes, while achieving only moderate or barely measurable success. The Federal Reserve, meanwhile, recognising an upswing of the real US economy towards the end of last year, raised the key interest rate for the first time since the outbreak of the financial crisis in 2008.

MONETARY POLICY

Under its mandate to maintain price stability in the euro area, the ECB launched an expanded asset purchase programme (EAPP) in late January 2015. Running until March 2017, the programme involves purchasing a volume of € 60 billion in interest-bearing assets each month. The EAPP is subdivided into a total of three sub-programmes, which are dedicated to purchasing various asset classes: in addition to programmes for purchasing covered bonds (CBPP3) and asset-backed securities (ABSPP), the public sector purchase programme (PSPP) is dedicated to the purchase of securities issued by public issuers such as governments, international organisations and multilateral development banks. The largest purchase volumes have been generated under the PSPP, with the accumulated volume totalling € 491 billion by the end of the year and additional monthly purchases of € 50 billion since March 2015. Roughly € 10 billion were purchased monthly as part of CBPP3, while holdings totalled € 143 billion as at the end of the year. A total of € 15 billion had been purchased through the ABSPP by the end of 2015. The additional volumes purchased became considerably smaller, particularly in December 2015, with the amount reduced to € 144 million.

The Federal Reserve, in contrast, had already discontinued its third large-scale asset purchase (LSAP) programme in October 2014. Raising the federal funds rate by 25 basis points in December 2015, the US central bank initiated the reversal of interest trends long expected by the market. As at the end of the year, the federal funds rate was set within a range between 25 and 50 basis points. Comparing Europe with the USA, there have been striking differences in the growth of total assets since the beginning of 2008, despite the reduction of the United States' asset purchase programme. Whereas the US central bank's total assets had increased by a factor of five to reach \$ 4 486 billion by the end of 2015, the comparable figure for the euro system doubled to € 2 781 billion. The People's Bank of China responded to the declining growth rate as well as to turbulence in China's securities exchanges by devaluing the yuan several times in August 2015, with the currency

Chart 3: Key interest rates in the USA and in the euro area 1999–2015 (in %; source: Federal Reserve Bank St. Louis, ECB)

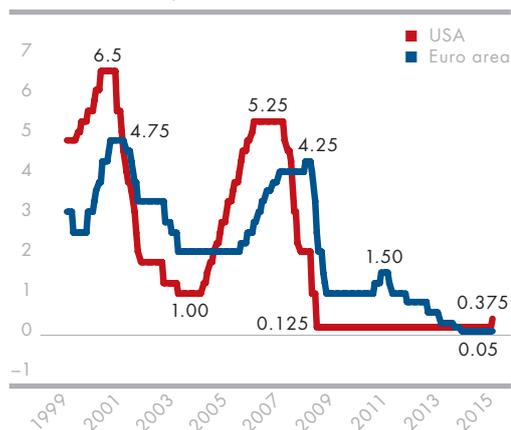


Table 1: **International financial market figures 2011–2015** (source: OECD, Eurostat, European Commission, ECB, OeNB)

	2011	2012	2013	2014	2015 (prel.)
INTEREST AND CREDIT					
Domestic credit to non-banks (changes in %)	2.7	0.0	-1.3	0.1	1.8
Credit to non-financial enterprises	2.7	0.8	-0.5	-3.5	0.1
Credit to households	2.6	0.7	0.2	2.1	4.3
Three-month interbank rate (EURIBOR, average)	1.4	0.6	0.2	0.2	0.0
10-year reference government bond (average)	3.3	2.4	2.0	1.5	0.7
EXCHANGE RATES					
Nominal effective exchange rate (period average)	112.2	107.1	111.9	114.6	106.6
Real effective exchange rate (period average)	97.3	92.5	95.6	96.2	87.9
EUR/USD (average)	1.39	1.29	1.33	1.33	1.11
EUR/JPY (average)	111.0	102.6	129.6	140.4	134.3
EUR/CHF (average)	1.23	1.21	1.23	1.21	1.07

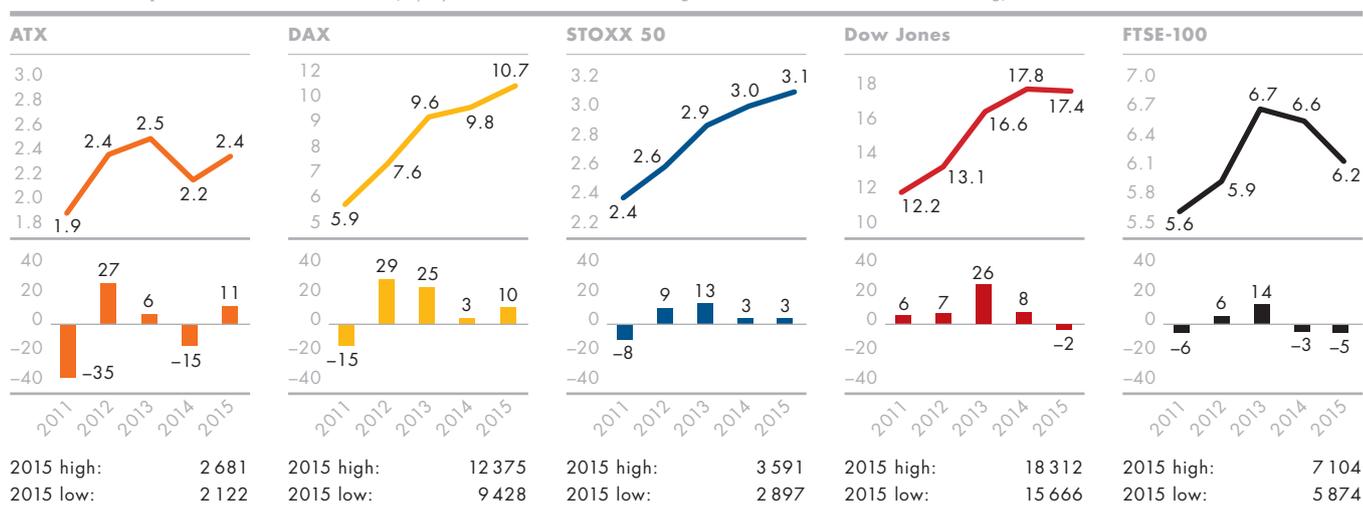
listing at 6.49 yuan to the dollar by the end of the year (compared with 6.21 yuan per dollar at the end of 2014).

THE EQUITY MARKETS

Spurred by the relaxed monetary policy, the equity markets by and large showed a positive trend despite the still challenging economic environment. The German DAX, for example, reached a new all-time high of 12 400 points in Q2 but, unable to hold the level due to the crisis in China, dropped to below the 10 000 mark by the end of September. Nonetheless, the healthy fundamental data for the German economy bolstered recovery of the index, so that the DAX finished the year at 10 743 points for an overall increase of 9.6%. Similar to the DAX, the Paris blue-chip index CAC 40 also managed a 10.2% increase. This was in contrast to London's FTSE 100 index, which showed a slight loss of 4.2% to finish well behind the markets in Germany and France.

The year 2015 was marked overall by high levels of market volatility. The VSTOXX index, a benchmark of implied volatilities among options listed under EURO STOXX 50, climbed to a level of 33.5% by the end of September. The volatility level recorded as at the end of the year was 22.2%, representing an overall decline of four percentage points year on year.

In North America, the New York Stock Exchange (NYSE) blue-chip index S&P 500 lost only little ground to finish the year with a 0.7% decrease. Meanwhile, certain sub-indices showed highly varying performance.

Chart 4: **Index performance 2011–2015** (equity indices in thousands, changes in %, rounded; source: Bloomberg)

Whereas the price of shares in information technology and healthcare rose on average, by 4.3% and 5.2% respectively, financials dropped by 3.5%. Impacted by turbulence in international commodity markets, the energy sector lost an average of 23.5%.

In the US equity market as well, 2015 was marked by heavy uncertainty: the VIX, which reflects implied volatilities of options listed under S&P 500, ultimately lost one percentage point compared with the previous year, after displaying high fluctuation during the year and reaching a high of 25.6% in September. The maximum for the year, whereas far lower than the rate of 40% recorded at the end of 2011, still represents the highest mark reached since early 2012.

The market bubble that had been building up in China since 2014, caused by private Chinese investors purchasing equities against borrowed funds, finally burst in June 2015. The Chinese government responded by passing a series of measures, including a ban on short selling, a stop to new issues, and supporting purchases by Chinese brokerages acting under the direction of the central bank. In addition, the China Securities Regulatory Commission (CSRC) prohibited sales of large share packages (larger than 5%) held in individual companies and suspended 1 300 companies or almost 45% of total market capitalisation from trading. Despite the turbulence in the market, the Shanghai Stock Exchange Composite Index recorded a 4.7% increase on the previous year.

The market turbulence in China proved contagious for the equity markets of other emerging economies and aggravated problems already existing in some of these markets. Examples include Brazil's BOVESPA index, which dropped year-on-year by 13.2%, and the 7.4% decrease of Russia's RTX.

THE BOND MARKETS

The turbulence occurring with increasing frequency during the latter six months was reflected in the yields on European government bonds. After dropping to less than nine basis points, the yields on ten-year German government bonds climbed to a level of 63 basis points to close the year. The ten-year yields also declined preliminarily in the Netherlands, Finland and Austria, only to recover somewhat during the last two quarters. Greece was the only country to display an opposite trend. Starting the year at 9.6%, Greek yields doubled in magnitude during negotiations with the creditors' troika to reach 19.1% by July, while finally settling at 8.4%.

THE COMMODITY MARKETS

Plagued by turbulence in national economies, particularly in China, global commodity markets recorded major price drops. The price for a barrel of Brent declined by 38% as the year progressed and reached \$ 36.43, a value far below the \$ 128.22 high recorded in March 2012. Numerous factors underlie the oil price drop. On the one hand, the supply of oil has increased tremendously. With the emergence of the fracking and shale oil industry in the USA and Iran's return to the world market, two new prominent producers have claimed their shares of the market. At its meeting in December, OPEC failed to agree on a production ceiling as a measure to push up the price. Meanwhile, there was a decline in demand for crude oil among emerging markets, which especially in the Asian-Pacific region suffered from the developments in China.

FOREIGN EXCHANGE RATES

The EUR/USD exchange rate varied last year mostly within a range of 1.05 to 1.15 dollars to the euro. The relative strength of the dollar is to be largely attributed to the expectation of rising US interest rates, a factor that resulted in major turbulence in the foreign exchange markets of certain emerging economies. The euro increased in value against the Swiss franc from the beginning of the year, reaching a rate just under 1.09 francs to the euro by the end of the year. At the start of the year the Swiss National Bank abandoned the fixed exchange rate with the euro. This resulted in drastic rate fluctuations, with the franc soaring and then again temporarily losing value to list below parity.

THE AUSTRIAN FINANCIAL MARKET

The situation at the Vienna Stock Exchange was satisfactory throughout 2015 despite the highly challenging global environment. The Vienna blue-chip index ATX celebrated its 25th anniversary this year, and achieved a roughly 11% increase to finish the year at 2397 points. The index has thus grown by 240% since its introduction on 2 January 1991. Alongside sluggish economic growth in Austria, for the most

part negative factors from the outside caused occasional disturbances in the Austrian capital market. Examples of such factors include the continued turbulence in Greece and the Syrian crisis, both of which periodically triggered falling prices. But also the mass selling at the Shanghai Stock Exchange and the subsequent suspension of trading caused renewed uncertainty among investors and led to another drop in the ATX late in the year. The basic mood at virtually every European exchange was on the other hand positive in general, buoyed by the European Central Bank's (ECB) relaxed monetary policy and its religiously repeated avowal to maintain this policy for as long as necessary.

The year 2015 was an unbroken success for the prime market of the Vienna Stock Exchange, with considerably more gains than losses recorded. Investors that already at the start of 2015 had held shares in the listings Kapsch Trafficcom AG (+112.65%) and Cross Industries AG (+101.20%) could celebrate the doubling of these companies' market values in the end. Striking gains were also tallied for AT&S AG (+62.65%), Do & Co AG (+60.31%) and Wienerberger AG (+49.32%). Among banking heavyweights, Erste Group

Chart 5: **Development of the equitymarket.at segment of the Vienna Stock Exchange**
(quarter-end results; source: Wiener Börse AG)



Table 2: **Trade statistics of equity market.at segment 2011–2015** (source: Wiener Börse AG)

	2011	2012	2013	2014	2015
Capitalisation of domestic shares as at last trading day (in € billions)	63.7	78.1	83	77.8	86.2
Annual sales on equitymarket.at (in € billions)	60.2	36.1	38.7	47.7	58.4
Daily average sales (in € millions)	242.6	146.1	156.	193.3	235.4
ATX at year-end	1891.68	2401.21	2546.54	2160.08	2396.94
Performance ATX (in %)	-34.87	26.94	6.05	-15.18	10.97

Bank AG at +50.30% clearly finished on top over Raiffeisen Bank International AG (+8.54%). Vienna Insurance Group AG showed the feeblest performance of all stocks listed in the ATX, having to absorb a 31.80% drop in equity prices, while shares of Verbund AG also plummeted (-22.46) in 2015. A total of 13 of the 20 equity prices listed in the index contributed to it positively through gains, whereas seven lost value on the whole.

Companies were also delisted in several cases, on the occasion either of restructuring, a takeover or a change in the ownership structure. ATB Austria Antriebstechnik AG, Head N.V., MIBA AG and Bene AG all disappeared from Vienna Stock Exchange listings. New listings were observed only in the second regulated market (WP AG) and in the third market (Roy Ceramics SE).

The capital market activities of issuers developed positively during the year under review. A total of 36 corporate bonds were issued and capital was increased in three cases for a total volume of € 5.3 billion (€ 2.28 billion by Austrian issuers and € 3.06 billion by foreign issuers).

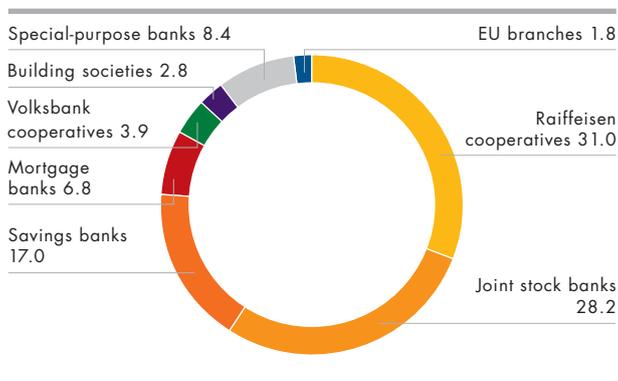
Trading volumes in the equity market also increased considerably in 2015, to € 58.3 billion after € 47.7 billion the previous year, rendering a total rise of € 10.7 billion or +22.3% from one year to the next. Average daily trading also rose by 21.8% to reach € 235.4 million.

At € 86.2 billion, capitalisation of the Austrian market (in the equitymarket.at segment) was € 8.4 billion above the previous year's level.

BANKING

The business volume¹ of Austrian credit institutions totalled € 835 billion by the end of 2015 and had thus decreased by 3.2% compared with the previous year. Positive growth rates were recorded by special-purpose banks (+11.85) and by building societies (+3.1%). The biggest decrease was recorded by the Volksbank cooperative sector (-21.3%), followed by the joint stock banks (-7.1%) and the savings banks (-3.0%). In terms of business volume, Raiffeisen cooperatives were again able to slightly expand their market share, by 0.8 percentage points to 31.9%. Joint stock banks continue to hold the second largest market share (29.0%), followed by savings banks (17.5%). The total market shares, including branches from EEA countries in Austria (Article 9 of the Austrian Banking Act – BWG; *Bankwesengesetz*) and corporate provision funds, are shown for the purposes of comparison in Chart 6.

Chart 6: Market shares of banks including branches from EEA countries in Austria (Article 9 BWG) and corporate provision funds 2015 (included under special-purpose banks) (in %)



In 2015 claims on non-banks rose by 1.1%, accounting for the largest share on the asset side of the Austrian banking sector, at 51.1%. Since total assets decreased, the share of the balance sheet item attributed to claims on non-banks could be increased by 2.2 percentage points compared with 2014. Liabilities to non-banks increased both in terms of volume (3.2%) and of share (2.7 percentage points), and at 44.7% accounted for the largest share on the liability side. At 21.5%, claims on credit institutions accounted for the second-largest entry on the asset side of the balance sheet, while at 21.1% liabilities to credit institutions represented the second-largest item on the liability side. Both of these balance sheet items decreased in a year-on-year comparison, claims by 15.9% and liabilities by 13.2%.

¹ The following data is based on that provided as part of credit institutions' financial statements for 2011 to 2014 and their quarterly reporting in the form of asset, income and risk statements (on a non-consolidated basis) for 2015 as at the reporting date of 31 December 2015. In order to guarantee comparability of the values reported in the audited financial statements with those from the asset, income and risk statements, branches from EEA countries in Austria (Article 9 BWG), credit guarantee banks and corporate provision funds are not considered.

Table 3: **Market development of the Austrian banking sector 2011–2015**

(Source: OeNB, 2011–2014 financial statement figures, 2015 asset, income and risk statements)

	2011	2012	2013	2014	2015 (prel.)
TOTAL ASSETS IN TERMS OF SECTORS (non-consolidated, in € millions)					
Total assets non-consolidated (sum total) ¹	992 536	952 804	898 549	862 370	834 897
Joint stock banks	257 415	258 681	246 483	260 704	242 234
Savings banks	167 818	171 821	159 778	150 908	146 319
Mortgage banks	88 646	84 141	78 145	59 775	58 827
Raiffeisen cooperatives	309 043	292 316	281 222	268 462	266 621
Volksbank cooperatives	70 791	57 307	50 554	42 426	33 390
Building societies	21 935	22 382	22 730	23 242	23 953
Special-purpose banks ²	76 887	66 157	59 639	56 854	63 555
NET INCOME IN TERMS OF SECTORS (non-consolidated, in € millions)					
Total assets non-consolidated (sum total) ¹	849	2 078	-1 761	-8 014	3 640
Joint stock banks	-189	246	-1 047	-1 763	935
Savings banks	396	616	373	-5 462	1 354
Mortgage banks	-133	5	-2 567	-38	169
Raiffeisen cooperatives	2 509	1 433	1 532	-225	816
Volksbank cooperatives	-1 394	-104	-210	-884	53
Building societies	71	79	66	112	69
Special-purpose banks ²	-412	-198	93	246	244
DEVELOPMENT OF ASSETS AND LIABILITIES (non-consolidated, in € millions)					
Total assets non-consolidated (sum total) ²	992 536	952 804	898 549	862 370	834 897
Claims on credit institutions	288 876	258 320	237 762	213 043	179 106
Claims on non-banks	442 267	437 079	429 096	421 707	426 500
Debt securities and other fixed-income securities	93 461	78 696	69 583	65 382	51 182
Shares and other variable-yield securities	14 406	12 341	10 960	10 021	9 985
Other asset items	153 526	166 368	151 149	152 217	168 124
Liabilities to credit institutions	284 436	255 924	221 069	203 102	176 377
Liabilities to non-banks	340 307	344 826	352 032	361 926	373 334
Securitised liabilities	223 882	203 959	189 728	164 675	147 289
Other liability items	143 910	148 096	135 721	132 667	137 898
EARNINGS (non-consolidated¹, in € millions)					
Net interest income	9 489	8 696	8 657	9 119	8 825
Operating income	19 110	18 525	18 468	19 449	20 328
Operating expenses	11 499	11 973	12 515	14 027	13 440
Operating result	7 611	6 552	5 953	5 422	6 888
Cost-income ratio (in %)	60.17	64.63	67.77	72.12	66.12
EARNINGS AND PROFITABILITY (non-consolidated, in %)					
ROA	0.12	0.32	-0.10	-0.73	0.42
Operating expenses to operating income	60.9	63.8	67.6	69.7	66.2
Personnel expenses to non-interest expenses	51.2	51.2	50.9	53.1	50.2
Balance from allocations to/release of value adjustments for credit risks (in € billions)	2.4	1.5	3.4	2.1	1.4
LIQUIDITY (non-consolidated, in %)					
Cover ratio of liquid resources of the first degree	920.5	2368.8	2042.2	1783.5	...
Cover ratio of liquid resources of the second degree	218.2	223.0	212.6	220.4	...
REGULATORY CAPITAL (consolidated)³					
Tier 1 capital (in € billions)	68.8	69.8	70.6	66.4	68.5
Total own funds (in € billions)	88.1	88.2	89.0	87.8	87.1
Tier 1 capital ratio (in %, Tier 1 ratio)	10.3	11.0	11.9	11.8	12.7
Solvency ratio (in %)	13.6	14.2	15.4	15.6	16.2

¹ Excluding branches from EEA countries in Austria (Article 9 BWG), credit guarantee banks and corporate provision funds.² Excluding credit guarantee banks as specified in Article 5 no. 3 KStG.³ OeNB, secondary research: reporting data of banking groups and unconsolidated data reported by individual institutions merged. As figures have been calculated based on CRD IV since 2014, comparability with earlier ratios is limited.

**MARKET PRESENCE OF AUSTRIA'S MAJOR BANKS
IN CENTRAL, EASTERN AND SOUTH-EASTERN EUROPE**

Chart 7: Total assets of CESEE subsidiaries 2011-2015 (in € millions)

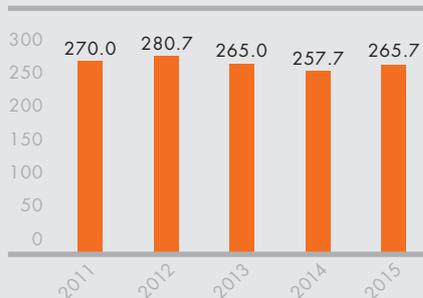
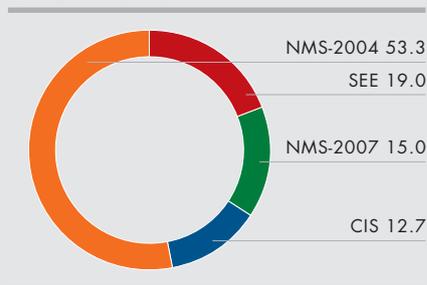


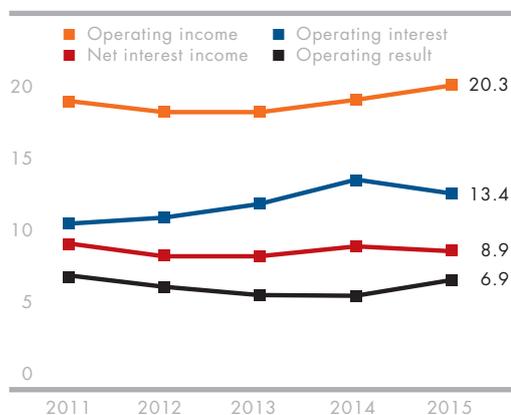
Chart: Share of 2014 total assets by regions (in %)



At the end of the fourth quarter of 2015, the 60 fully consolidated subsidiary banks in Central, Eastern and South-Eastern Europe (CESEE) reported aggregate total assets of € 265.7 billion. Over half of this figure (53.3%) was accounted for by the Member States that acceded to the EU in 2004 (NMS-2004)², followed by the South-Eastern European countries (SEE)³ at 19.0%, the Member States that joined the EU in 2007 (NMS-2007)⁴ at 15.0%, and the countries in the Commonwealth of Independent States (CIS)⁵ at 12.7%. After two negative years in sequence, growth among Austrian CESEE subsidiary banks in the 2015 financial year was again positive, at 4.2%. The return on assets of Austrian subsidiary banks in CESEE came to 1.0% in 2015 (2014: 0.5%), and the return on equity rose to 9.0% (2013: 0.8%). The cost-income ratio increased to 58.1% (2014: 54.1%). It is noticeable that a good two thirds of Austrian banks' exposure to the markets of CESEE relate to EU Member States.

A non-consolidated operating result of € 6.9 billion is expected for Austrian banks as at the end of 2015. This represents a year-on-year increase of 27%. Underlying this positive trend is a drop in operating expenses (-4.2%) accompanied by a rise in operating income (+4.5%). Following a sound 6% increase in 2014, net interest income declined by 3.2% in 2015. At 43%, net interest income nonetheless continues to account for a significant share of operating income.

Chart 9: Development of earnings in the Austrian banking sector 2011-2015 (in € billions)



While Austria's credit institutions as a whole recorded a shortfall of -€ 8,0 billion for the 2014 financial year, total net income can again be expected for 2015. Although the final figures are not yet available, the credit institutions are forecasting net income of approximately € 3.6 billion for 2015, with every sector without exception recording a positive result. After suffering a sizeable loss of € 5.5 billion in 2014, the savings banks are expected to achieve the largest share of total net income at € 1.4 billion, followed by the joint stock banks and the Raiffeisen cooperatives. For 2015 Austrian credit institutions are reckoning with a substantial decrease in provisions for risk (value adjustments) to € 2.1 billion. Risks provisions had amounted to € 6.9 billion back in 2014.

² NMS-2004: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

³ SEE: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, Turkey.

⁴ NMS-2007: Bulgaria, Romania.

⁵ CIS: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

Table 4: Market development of corporate provision funds 2011–2015 (source: Association of Occupational Provision Funds)

	2011	2012	2013	2014	2015
GENERAL DATA					
Number of membership contracts	926 341	997 691	1 078 551	1 152 870	1 224 952
Assets of corporate provision funds (in € millions)	4 286	5 274	6 220	7 324	8 306
Current contributions (in € millions)	944	1 043	1 123	1 200	1 289
Payouts (in € millions)	229	296	314	351	388
Performance of corporate provision funds (in %)	0.20	4.28	2.82	3.94	1.22
DISPOSAL OPTIONS (in € millions)					
Payouts	229.08	295.99	314.11	351.27	387.88
Transfer to another corporate provision fund	9.59	11.00	15.42	14.59	20.00
Transfer to a <i>Pensionskasse</i>	0.39	0.37	0.47	1.11	1.22
Total	239.06	307.36	330.00	366.97	409.10

CORPORATE PROVISION FUNDS

The market for corporate provision funds continues to grow steadily. This is not least the result of legal provisions, as the new severance pay scheme comes to apply to an increasing number of employees and self-employed individuals. As at the reporting date of 31 December 2015, the number of membership contracts, measured on the basis of employer account numbers, had increased by 6.25% from 1 152 870 to 1 224 952 (see Table 4).

Provision for employees grew by 5.36% during the year under review (from 573 631 to 604 393 contracts), while provision for the self-employed rose by 7.13% (from 579 239 to 620 559 contracts). It should be kept in mind, however, that several employer account numbers may be assigned to one and the same employer.

Measured in terms of current contributions, the corporate provision funds received a total of € 1.29 billion last year, of which € 1.18 billion was paid into the fund for employees and € 105 million into self-employed provision. This compares with a total of € 1.20 billion for the previous year (of which € 1.10 billion represented contributions for employees and € 99.17 million for the self-employed). Overall, this equates to an increase of 7.50%, with employee provision growing by 7.27% and provision for the self-employed up by 5.88%.

The total assets managed during the year under review by all of the corporate provision funds rose from € 7.32 billion to € 8.31 billion, a jump of € 982.22 billion or 13.41% (see Chart 10).

During the period from the system's introduction on 1 January 2004 until the end of 2015, a total of € 2.20 billion has been paid out to 2 678 667 beneficiaries (entitled). Over the same period, 116 946 beneficiaries (entitled) have taken advantage of the legal option of transferring their pension expectancies to another corporate provision fund, moving a

total of € 95.66 million. Additionally, 1 162 individuals have remitted a total of € 3.97 million to a *Pensionskasse* or supplementary pension insurance scheme. As in the previous year, most severance pay expectancies were paid out by the corporate provision funds in the form of a capital sum.

The corporate provision funds are required to guarantee their beneficiaries (entitled) a minimum claim. This encompasses the total accrued severance pay funds and any trans-

Chart 10: Total assets of corporate provision funds 2011–2015 (in € billions)

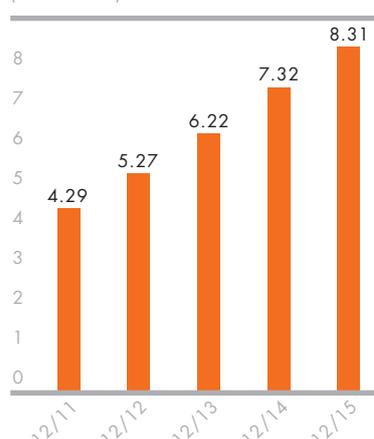
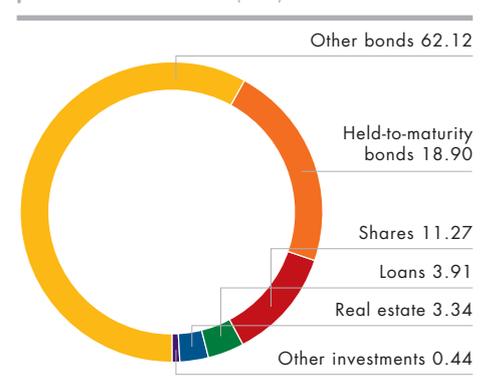


Chart 11: Investment instruments of corporate provision funds 2015 (in %)



ferred existing severance pay expectancy, as well as any severance pay expectancies transferred from another corporate provision fund. It is also referred to as a capital guarantee. Thus, the corporate provision funds pursue a highly conservative investment policy. In compliance with statutory provisions, the majority of corporate provision funds invest in bonds either directly or indirectly via investment funds (see Chart 11).

During the reporting year the corporate provision funds recorded an investment result of 1.22% (2011: +0.2 %, 2012: +4.28%; 2013: +2.82%; 2014: +3.94%).

PENSIONSKASSEN

As at 31 December 2015, about € 19.6 billion was being managed within the Austrian pension company market. This figure represents an increase of about 3.3% on the previous year (see Table 5 and Chart 12). The change in assets managed can be attributed for the most part to contributions, pension benefits, inflows of funds from first-time pension company contracts and to the investment result.

The three largest providers, namely VBV Pensionskasse AG, Valida Pension AG and APK Pensionskasse AG, combine to account for a 76.7% share of the market, measured in terms of assets under management. This share is almost the same as that held the previous year. Measured within the market overall, single-employer *Pensionskassen* account for around 9.4% of the assets under management.

The share of assets managed under the company old-age provision scheme thus amounted to about 5.8% of Austria's gross domestic product.⁶

There were about 880 000 beneficiaries at the end of the year, representing a year-on-year increase of approximately 2.5%, 10% of whom are already drawing pension benefits. The vast majority of the beneficia-

Table 5: **Market development of Pensionskassen 2011–2015** (source: FMA, unless indicated otherwise)

	2011	2012	2013	2014	2015
ASSETS MANAGED IN THE PENSION COMPANY MARKET					
Assets managed by <i>Pensionskassen</i> (total, in € millions)	14 764	16 278	17 385	19 011	19 646
Single-employer	1 805	2 077	1 953	1 921	1 850
Multi-employer	12 959	14 201	15 431	17 090	17 796
Market share of the three largest <i>Pensionskassen</i> (as a % of total)	71.54	71.32	73.03	76.81	76.68
NUMBER OF BENEFICIARIES IN THE PENSION COMPANY SYSTEM					
Number of beneficiaries (total)	791 971	820 109	835 128	858 433	880 141
Single-employer	244 313	250 158	252 474	256 087	254 122
Multi-employer	547 658	569 951	582 654	602 346	626 019
Beneficiaries (entitled)	720 649	743 612	754 571	772 835	791 124
Beneficiaries (recipients)	71 322	76 497	80 557	85 598	89 017
Beneficiaries (recipients) (as a % of total)	9.01	9.33	9.65	9.97	10.11
Beneficiaries (entitled) (as a % of dependently employed persons in Austria) ¹	19.83	19.57	20.52	20.96	21.92
NUMBER OF PENSIONSKASSEN AND IRGS					
Number of <i>Pensionskassen</i>	17	17	16	14	13
Number of investment and risk sharing groups	142	140	124	118	113
Number of security-oriented IRGs ²	–	–	5	5	5
Number of sub-IGs	–	–	16	23	28
INVESTMENT PERFORMANCE (in %)³					
Investment performance (total)	–2.96	8.40	5.10	7.82	2.32
Single-employer	–0.47	9.23	3.90	8.27	2.53
Multi-employer	–3.30	8.28	5.30	7.77	2.30

¹ Number of dependently employed persons: Statistics Austria. The annual average was used for the years from 2011 to 2015.

² Number of security-oriented investment and risk sharing groups and number of sub-investment groups collated for the first time in 2013.

³ Source: OeKB.

⁶ Since the Austrian gross domestic product figures for 2015 were not yet available at the time of this report being prepared, the GDP for 2014 amounting to € 329 billion was used (source: Statistics Austria).

ries are therefore still in the savings period for a pension benefit. The number of beneficiaries (recipients) is, however, rising in absolute terms. In 2015 around 22% of all dependently employed persons in Austria held an entitlement to a pension from a *Pensionskasse*.

The number of *Pensionskassen* has decreased during the last seven years from 16 to 13 companies. This can be attributed to single-employer *Pensionskassen* discontinuing activities, with their investment and risk sharing groups (IRGs) being transferred to

existing multi-employer *Pensionskassen*. At the end of 2015 there were 113 investment and risk sharing groups (IRGs), five security-oriented IRGs and 28 sub-IGs.

The Oesterreichische Kontrollbank AG (OeKB) is mandated by the *Pensionskassen* to calculate their investment performance figures each quarter on the basis of the investment data that they provide. It should be noted, however, that actual performance does not have an automatic bearing on the monthly pension benefit as other factors also play a role, including the technical account balance, the amount of the volatility reserve and any deficits arising from changes in mortality charts. All *Pensionskassen* taken together achieved an average investment result of 2.32% in 2015. The results for the individual investment and risk sharing groups range from -0.3% to +5.0%. The average performance recorded by the *Pensionskassen* is 5.1% per year for the past three years, 4.1% during the past five years and 2.9% for the last ten years.

INSURANCE UNDERTAKINGS

The volume of domestic premiums written (direct gross amount) rose by 1.6% in 2015 compared with the previous year (2014: +2.82%) and totalled € 17.3 billion.

With regard to the life insurance balance sheet group, premiums were up by +0.5% from € 6.66 billion in 2014 to € 6.70 billion in 2015. The proportion of premiums from unit-linked and index-linked life insurance fell once again and amounted to 21.9% as at the 2015 year-end (2014: 22.9%). Totalling € 8.46 billion, payments for claims were up by 19.5% in 2015. The equivalent figure for 2014 was € 7.08 billion.

The balance sheet group of non-life and accident insurance showed an increase on the previous year, with premiums written rising by 1.80% to a total of € 8.69 billion. Claims payments rose to € 5.38 billion, representing an increase of 4.9%.

With premiums written totalling close to € 1.96 billion in 2015, the health insurance balance sheet group achieved an increase of 4.21% on the previous year. Premiums have continuously increased in the long term. Totalling € 1.30 billion, payments for claims were up by some 3.4% in this group.

The technical account balance totalled € 475 million in 2015 (2014: € 477 million). At € 3.2 billion, the financial result in 2015 varied only marginally from the previous year. Overall, the result from ordinary activities was € 1.35 billion in 2015, falling by 4.7% from the previous year (2014: € 1.42 billion).

Chart 12: Total assets of all *Pensionskassen* 2011–2015 (in Mrd. €)



Chart 13: Investment performance of *Pensionskassen* 2011–2015 (in %)



Chart 14: Premiums written by insurance undertakings 2011–2015 (in € billions)

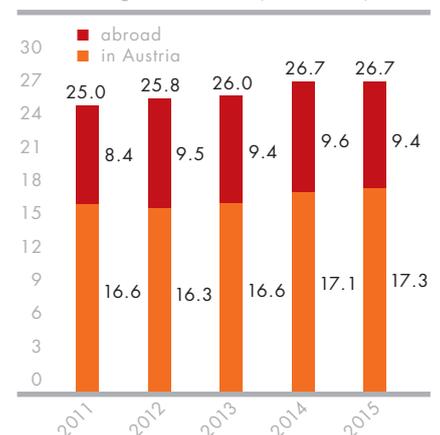
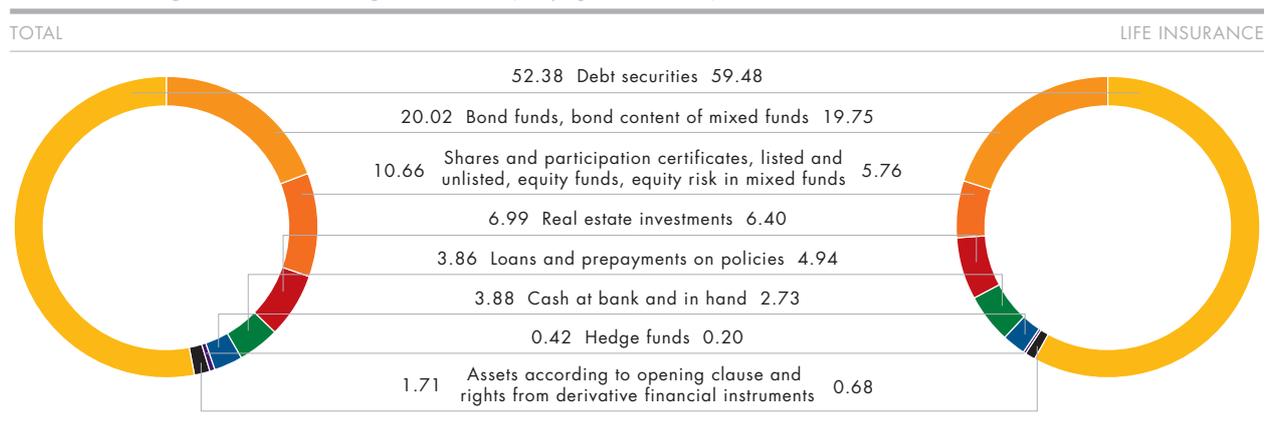


Table 6: Market development of Austrian insurance undertakings **2011–2015**
 (Source: FMA, Statistics Austria, CEA, www.economic-growth.eu)

	2011	2012	2013	2014	2015
PREMIUMS WRITTEN IN AUSTRIA (direct gross amount, in € millions)					
Life insurance	6 899	6 434	6 420	6 663	6 695
Unit-linked life insurance	1 766	1 537	1 638	1 400	1 401
Index-linked life insurance	489	309	184	129	66
Health insurance	1 697	1 754	1 821	1 880	1 959
Non-life and accident insurance	7 940	8 152	8 367	8 534	8 688
Total premiums written in Austria	16 536	16 340	16 608	17 077	17 342
PREMIUMS WRITTEN IN CLAIMS (in € millions)					
Life insurance	6 624	6 328	6 315	7 081	8 463
Health insurance	1 134	1 129	1 217	1 254	1 297
Non-life and accident insurance	4 749	4 975	5 258	5 131	5 382
PREMIUMS WRITTEN IN OTHER COUNTRIES (groups, in € millions)					
Western Europe	1 834	1 660	2 150	2 519	2 596
CESEE – EEA	5 857	6 845	6 465	6 320	6 098
CESEE – non-EEA	753	941	794	714	716
Total premiums written in other countries	8 444	9 446	9 409	9 553	9 410
Percentage in other countries (groups, in %)	44.05	46.10	49.08	49.00	48.28
EARNINGS AND PROFITABILITY					
Technical account balance (in € millions)	295	455	592	477	475
Financial result (in € millions)	2 964	3 403	3 339	3 211	3 216
Result from ordinary activities (in € millions)	1 162	1 395	1 574	1 421	1 354
DECKUNGSSTOCK AND COVERING ASSETS (carrying amounts; in € millions)					
Debt securities	37 168	36 967	38 574	40 939	40 617
Shares and participation certificates, listed and unlisted, equity funds, equity risk in mixed funds	7 923	8 224	8 083	8 402	8 264
Bond funds, bond content of mixed funds	14 442	15 960	15 942	14 782	15 522
Loans and prepayments on policies	3 758	3 481	3 189	3 352	2 993
Real estate investments	4 816	4 926	5 223	5 384	5 417
Hedge funds	581	444	239	294	323
Cash at bank and in hand	2 368	2 217	2 308	2 458	3 085
Assets according to opening clause and rights from derivative financial instruments	1 551	1 690	1 499	1 270	1 323
Total	72 606	73 909	75 058	76 881	77 544
DECKUNGSSTOCK AND COVERING ASSETS CLASSIC LIFE INSURANCE (in € millions)					
Debt securities	28 429	28 034	28 695	29 513	29 244
Shares and participation certificates, listed and unlisted, equity funds, equity risk in mixed funds	3 140	3 174	3 017	3 011	2 833
Bond funds, bond content of mixed funds	9 217	9 856	9 749	9 221	9 712
Loans and prepayments on policies	3 057	2 836	2 626	2 768	2 427
Real estate investments	3 001	3 098	3 312	3 247	3 148
Hedge funds	298	222	131	133	99
Cash at bank and in hand	1 031	1 101	1 129	1 003	1 342
Assets according to opening clause and rights from derivative financial instruments	838	662	542	336	362
Total	49 011	48 983	49 200	49 233	49 167

As at the end of December 2015, assets totalled € 86.5 billion (excluding deposits retained, investments in relation to unit-linked and index-linked life insurance and pro rata interest), which corresponds to a rise of 1% compared with the previous year.

*Deckungsstock*⁷ and covering assets account for by far the largest share of investments. Such funds are used to cover technical provisions, thereby providing security for the obligations of the insurance undertaking towards the insured parties. At the 2015 year-end, including unit-linked and index-linked life insurance and state-

Chart 15: *Deckungsstock and covering assets 2015* (carrying amounts, in %)

sponsored retirement provision plans, they totalled € 99 billion, which represents an increase of 0.26% compared with the previous year. The biggest share, at € 40.6 billion, is accounted for by debt securities, representing a 0.8% decrease from the year before. At 44%, the percentage of government bonds in the debt securities segment remains high. The core share ratio (listed shares, equity funds, equity risk in mixed funds), which had been falling ever since 2006, grew slightly in 2014 to subsequently reach 4.4% by the end of 2015. The extended share ratio (listed shares, unlisted shares, equity funds, equity risk in mixed funds, structured debt securities without capital guarantee, structured loans without capital guarantee) dropped from 17.7% in 2014 to 17.0% in 2015.

The sum of all assets secured as special funds in the life insurance sector (excluding unit-linked and index-linked life insurance) amounted to € 49.17 billion as at the end of 2015, marking a marginal decrease of 0.13% on the previous year. Accounting for 59%, debt securities made up more than half of the investments in life insurance *Deckungsstock*. The proportion of government bonds in life insurance assets overall grew from 26% in 2014 to 26.3% in the reporting year. During the same period the share ratio contracted slightly, from 4.4% to 4.3%. The extended share ratio also shrunk, from 9.9% at the 2014 year-end to 8.9% by the end of 2015.

AUSTRIA'S INSURANCE INDUSTRY COMPARED WITH OTHER COUNTRIES

The level of development of a country's insurance sector can be rated using the indicators of insurance density and insurance penetration. Insurance density specifically refers to the ratio of premium revenues to total population. In the life insurance sector, insurance density dropped compared with 2014, from € 786 to € 784. Meanwhile, in the non-life sector, there was an increase of 1.4% to € 1 246. These results continue to place Austria in a mid-table position compared with the rest of Europe. In 2014 premium revenues per person within the EU averaged € 1 202 for life insurance, € 765 for non-life and € 203 for health insurance.

Insurance penetration is defined as the ratio of premiums to gross domestic product. In Austria insurance penetration in 2015, at 5.27%, was almost identical to the previous year (5.29%). The European average for insurance penetration was 7.46% in 2014.⁸

⁷ Translator's note: The *Deckungsstock* is a fund which is administered separately from the other assets of the insurance undertakings. It is exempt from creditors' attachment and designed to satisfy the claims of the policyholders in the event of an insolvency of the insurance undertaking.

⁸ Source: Insurance Europe: European Insurance – Key Facts; August 2015, p. 10 et seq. Figures for 2015 were not yet available when this report went to press.

FOREIGN BUSINESS

Austrian insurance groups operate outside Austria in 28 different countries through holdings. Of the 102 foreign holdings of Austrian insurance groups in 2015 (2014: 103 foreign holdings), 92 (2014: 98) are located in Central, Eastern and South-Eastern Europe (CESEE) and ten are based in Western Europe (2014: 12).

Austrian insurance groups recorded € 9.4 billion of premiums written abroad in 2015 (2014: € 9.5 billion), € 6.8 billion of which was attributable to CESEE countries (2014: € 7 billion). This meant that 72% (2014: 74%) of premiums written abroad by Austrian insurance groups was achieved through holdings in CESEE. From the perspective of Austrian insurance groups, the Czech Republic, Poland and the Slovak Republic are vitally important markets, accounting for two thirds of the total CESEE premiums generated.

The share of premiums from abroad relative to the total premium volume of Austrian insurance groups has increased constantly since 2006. While equalling only 32.31% in 2006, the figure reached 48% by the end of 2015.

INVESTMENT FUNDS

The 24 Austrian investment fund management companies managed fund assets totalling € 162.70 billion as at 31 December 2015, with this figure not including the fund assets managed by real estate investment fund management companies. This represents growth in assets of about € 4.93 billion or a percentage increase of 3.12% on 31 December 2014. By way of comparison, the total fund assets as at 31 December 2011 were € 134.59 billion (see Chart 16).

There were considerable net inflows of funds in 2015, amounting to € 5.06 billion. These contributions were much higher than the € 4.17 billion seen for the previous year. The biggest inflows were recorded for February and April. Analysed by fund category, bond funds at € 779.89 million and mixed funds at € 4.4 billion showed the strongest growth. The highest amounts of net outflows were recorded in the months of September and December. The categories of money market funds (MMFs) at –€ 62.68 million and derivative funds at –€ 43.39 million stand out in particular in this regard (see Chart 17).

The two categories of bond funds and mixed funds play a prominent role: this is reflected in both the net inflows and the distribution of fund assets overall. These two categories accounted for the largest fund assets as at 31 December 2015, namely € 63.10 billion or 38.78% and € 67.78 billion or 41.66%. In comparison, € 23.75 billion or 14.60% of fund assets were held in equity funds and € 7.63 billion or 4.69% in short-term bond funds. The smallest percentages were held in derivative funds at 0.12%, hedge funds of funds at 0.10% and MMFs at 0.05% (see Chart 18).

Chart 16: Fund assets of investment funds 2011–2015 (in € billions)

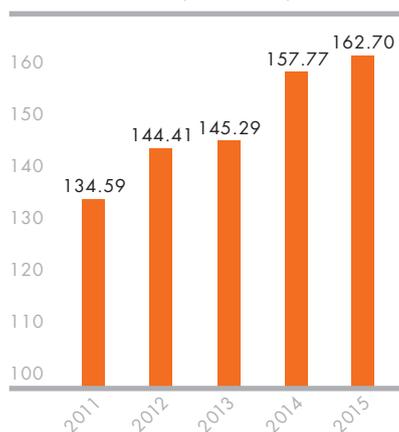


Chart 17: Net growth/outflows by fund category (in € millions)

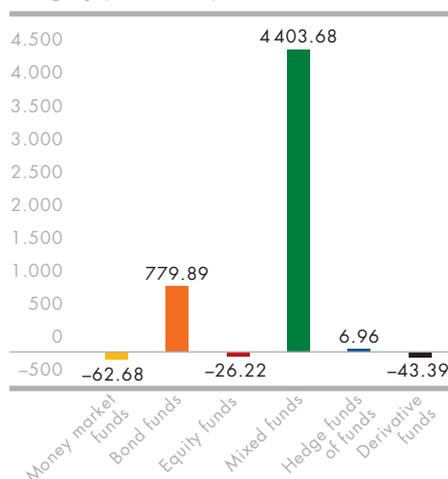
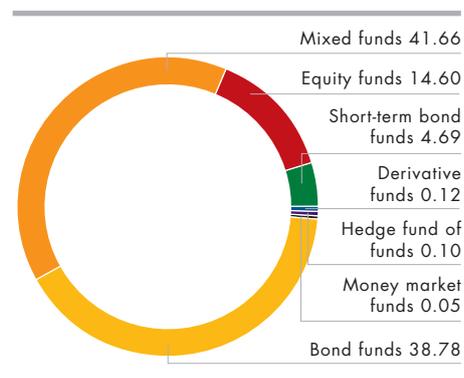


Chart 18: Fund assets by category (as at 31 Dec. 2014; in %)



Similar to the previous year, when broken down by target group, 47.22% of investors held retail funds, 46.70% special funds and 6.08% retail funds for large-scale investors as at the end of 2015. These figures also include alternative investment funds (AIFs) as defined in the 2011 Investment Fund Act (InvFG 2011; *Investmentfondsgesetz*).

Alternative investment fund managers (AIFMs), who are only licensed or registered according to the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*), managed total assets amounting to € 1.04 billion as at 31 December 2015, with € 0.56 billion accounted for by private equity funds, € 0.22 billion by real estate funds, € 0.18 billion by hedge funds and € 0.08 billion by other funds. Of these assets, € 0.68 billion were managed by registered AIFMs and € 0.36 billion by licensed AIFMs.

As at the reporting date of 31 December 2015, the five Austrian real estate investment fund management companies administered total fund assets of € 5.56 billion, which equates to a year-on-year increase of 17.14% in the assets under management. In comparison, fund assets had totalled € 4.74 billion as at the end of 2014. The assets held in real estate funds have grown during the past five years by an average of 17.64% each year.

Last year Austria experienced considerable demand for investment property and very little increase in newly leased space. With online shopping gaining market shares, prices for commercial space can hardly be hiked any further, while new projects for erecting office facilities can currently be realised only where leases are signed for most of the space in advance. Prices for residential property are not rising any further, while the current trend in this sector is towards growing supply.

INVESTMENT FIRMS AND INVESTMENT SERVICE PROVIDERS

The market for investment firms and investment service providers licensed pursuant to the 2007 Securities Supervision Act (WAG 2007; *Wertpapieraufsichtsgesetz*) experienced in the reporting year a continuation of the trend towards stronger segmentation that had been observed in previous periods. Despite the decline in the number of licences and customers, the total customer assets managed by licensed investment firms and investment service providers grew considerably to reach a figure above € 50 billion for the first time since 2010 (see Chart 19). This growth was driven mostly by the more favourable development of the securities brokerage business and by the increase in customer assets managed in individual portfolios.

The customer assets that, despite the difficult economic environment, are increasingly being managed by this market are concentrated with a few financially strong companies holding their own licences. There are several reasons for this, with the main one probably being ever stronger regulation by the EU. Austrian providers focused on the domestic market are responding by intentionally relinquishing their status as European-scale investment firms to seek other options that allow them to provide investment services to Austrian customers without having to hold a licence. One such option, which is also open to legal persons, is to become a tied agent for a licensed investment firm or a credit institution. While such a relationship is limited exclusively to a single licence holder, the arrangement entails several cost advantages, for example through saving the expense of an auditor, investor compensation or supervision fees. An agent can also become tied to

Chart 19: Customer assets under management 2013–2015 (in € billions)

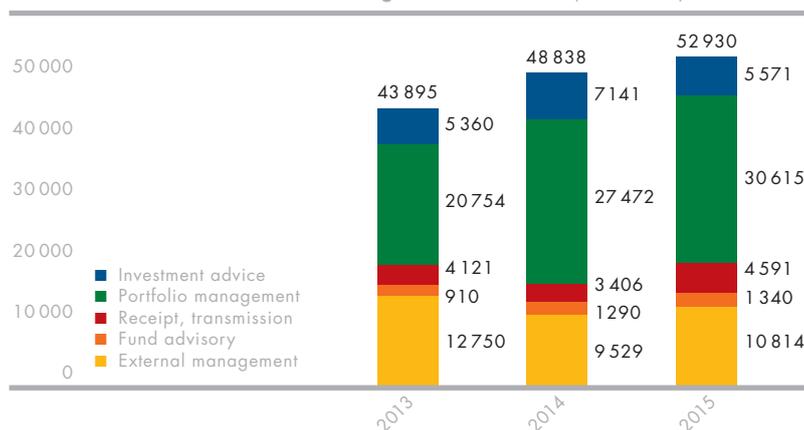


Table 7: **Key figures for Austrian investment firms, investment service providers and alternative investment fund managers with additional licence 2011-2015** (source: FMA licence database as specified in Article 92 para. 12 WAG 2007, FMA register as specified in Article 28 para. 6 WAG 2007, 2014 analysis survey)

	2011	2012	2013	2014	2015
All companies	175	167	152	141	126
LICENCES					
Investment firms	92	88	82	74	66
Investment service providers	83	79	70	65	57
AIFMs with additional licence	0	0	0	2	3
Investment advice	175	167	152	141	126
Portfolio management	58	54	51	50	45
Receipt and transmission of orders	169	161	146	136	123
Multilateral trading facility	0	0	0	0	0
European passport for services	53	54	54	46	45
European passport for branches	7	7	6	4	5
Cooperation with financial services assistants/securities brokers	105	98	91	82	73
LEGAL FORM					
Joint stock company (AG)	19	18	16	14	11
Limited liability company (GmbH)	121	117	108	103	93
Partnerships	5	5	5	3	3
Sole proprietorships	30	27	23	21	19
BUSINESS ACTIVITY					
Investment advice	112	99	94	79	63
Portfolio management	48	42	42	37	32
Receipt and transmission of orders	111	106	95	89	83
Investment funds advisory	27	23	22	–	–
– UCITS advisory	–	–	–	20	23
– AIF advisory	–	–	–	6	6
External management of investment funds	32	29	29	–	–
– UCITS management	–	–	–	24	23
– AIF management	–	–	–	14	11
Appointment of tied agents	28	27	25	27	26
Cooperation with securities brokers	–	23	31	38	37
Sale of own products	62	59	55	58	50
Key account customer services	49	43	34	33	41

an investment firm from the European Economic Area (EEA) holding a “European passport” for Austria, which is of strategic interest especially for companies belonging to the same group as a larger investment firm based in the EEA.

As a result, the number of legal persons holding their own licence decreased by 13 firms in 2015, while an additional 14 companies registered as tied agents.

Another option for sole proprietors without their own licence is to provide investment services as a securities broker under a trade licence, allowing them to provide such services on behalf of up to three investment firms or investment service providers. The licences of only two sole proprietors expired in 2015, while the number of securities brokers remained unchanged from the previous year.

FINANCIAL CONGLOMERATES

The 2014 financial statements identify a total of 78 financial conglomerates as referred to in EU Directives with an ultimate parent undertaking established in the EEA. Three of them have their head offices in Austria (Bausparkasse Wüstenrot and Wüstenrot Versicherung AG, Grazer Wechselseitige Versicherung AG with the Hypo-Bank Burgenland AG-Kreditinstitutgruppe, Raiffeisenzentralbank Österreich AG and UNIQA Insurance

Group AG). Another four financial conglomerates were identified within the European Union with an ultimate parent company outside the EEA.

Steps towards consolidation were observable across all of Europe in 2015, precipitated by the overall economic conditions in combination with an increase in regulatory requirements. In some cases, financial conglomerates were dissolved owing to the sale of individual sector holdings.

Yet the developments also demonstrate that groups with cross-sectoral activities are continuing to pursue their business models. The previous tendency towards capital links has nonetheless been replaced by a trend towards holding minority interests and, increasingly, towards cooperation. In addition to financial conglomerates, which due to their structure are subject to supplementary supervision as defined by law, cooperation among companies from different financial sectors (banking and insurance) is also becoming increasingly common in the form of cooperation models and the provision of equity and liquidity support. This also leads to the rise of potential sources of risk, such as contagion effects becoming virulent across sectors.

Measured in terms of average solvency ratio, the position of Austrian financial conglomerates with regard to own funds decreased slightly to 173.7% as at the reporting date of 30 June 2015 (31 December 2014: 186.7%). Nevertheless, the situation of all Austrian financial conglomerates in terms of own funds is judged to be appropriate.

Chart 20: **Changes in average solvency ratio among Austrian financial conglomerates 2005–2015** (unweighted, in %)



THE INTEGRATED SUPERVISORY MODEL

The FMA is the independent, autonomous and integrated supervisory authority covering nearly all of Austria's financial market. In accordance with its statutory remit, it is responsible for supervising credit institutions, payment institutions, insurance undertakings, *Pensionskassen* (pension companies), corporate provision funds, investment funds, licensed investment service providers, stock exchanges and capital market prospectuses.

With effect from 1 January 2015, the FMA also assumed the function of national resolution authority for banks. The FMA is additionally responsible for monitoring trading in listed securities to ensure that it is carried out properly and for monitoring issuers' compliance with information and organisation obligations. Further tasks include combating the unauthorised provision of financial services and taking preventive action to combat money laundering and terrorist financing. Pursuant to the Transparency Directive, the FMA is also the authority responsible for financial reporting enforcement in Austria.

In figures, the FMA therefore supervised a total of 973 undertakings with assets totalling € 1 293 billion during the year under review. These included in particular:

- 740 credit institutions with total assets of € 859.1 billion;
- 9 corporate provision funds with assets under management of € 8.30 billion;
- 93 insurance undertakings with assets under management of € 107.93 billion;
- 13 *Pensionskassen* encompassing 113 investment and risk sharing groups and assets under management of € 19.64 billion;
- 66 investment firms and 57 investment service providers with customer assets under management totalling € 42.11 billion;
- 2 136 domestic investment funds managed by 24 investment fund management companies (18 of which are licensed as AIFMs) with a managed fund volume of € 162.7 billion, as well as 7 026 foreign funds sold in Austria. A further 4 companies licensed solely under the terms of the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*) as well as 22 registered AIFMs manage a total fund volume of € 1.04 billion;
- 5 real estate investment fund management companies (also AIFMs) with fund assets under management of € 5.56 billion;
- 494 issuers with 9 354 listed securities and 34.01 million reported transactions.

In its capacity as a cross-sectoral integrated supervisory body, the FMA tackles the major challenges created by the exceptionally high degree of interweaving within the Austrian financial market due to ownership structures, sales cooperation agreements, financial transactions and the assumption of guarantees. By way of example:

- three financial conglomerates account for a market share of just under 20% in the banking sector and of approximately 30% in the insurance sector (measured against total assets);
- investment funds hold € 5.3 billion in securities issued by Austrian banks;
- Austrian credit institutions hold a stake of more than 25% in 18 out of 24 investment fund management companies;

- Austrian insurance undertakings hold a stake of more than 25% in six out of 14 *Pensionskassen*;
- Austrian credit institutions, insurance undertakings and *Pensionkassen* have an interest of more than 25% in seven out of nine corporate provision funds;
- the exposure of Austrian insurance undertakings to Austrian banks represents around 13% of all of their assets;
- 27 out of the 72 members of the Vienna Stock Exchange are Austrian banks.

The FMA's integrated supervisory regime spanning all sectors of the financial market and bringing together prudential supervision and conduct supervision, as well as combining a micro and a macro approach to supervision, tackles and monitors cross-sector risk transfer. It also incorporates the findings of conduct supervision into prudential supervision and uses knowledge about sector developments at the level of individual institutions, and vice versa. Moreover, the integrated approach to supervision enables:

- a harmonised and rapid form of supervision across all sectors and industries;
- uniform standards across all sectors;
- consistent interpretation of the law across all of its areas;
- uniform administrative practice;
- minimisation of regulatory arbitrage; and
- avoids potential evasive reactions from the supervised entities through the relocation of business activities or shifting of risks to other sectors.

AIMS OF THE FMA

In line with its statutory remit, the FMA must comply with the following overriding goals as it carries out its supervisory activity:

1. to contribute towards the stability of Austria as a financial market and to reinforce confidence in the ability of the financial market to function;
2. to protect in accordance with provisions of law investors, creditors and consumers;
3. to put forth preventive efforts with respect to compliance with supervisory standards while consistently punishing any violations of these standards.

Some examples of specific measures taken by the FMA to realise these aims are given below.

FINANCIAL MARKET STABILITY

BANKS' CAPITAL POSITION

The global financial crisis demonstrated in dramatic fashion the extent to which the quality and quantity of bank's capital resources impact on their risk-bearing capacity and stability. Consequently, the FMA has introduced comprehensive measures designed to improve the quality and increase the quantity of Austrian banks' capital bases. Strict benchmarks have been set in relation to the risk-bearing capacity of certain capital components, and published in the form of circular letters, minimum standards and regulations. Through brief inspections and on-site inspections, compliance with these rules has been monitored, while the FMA has also used management talks as an opportunity to reiterate the importance of improving equity ratios and capital structures. Indeed, these measures have generated success. The Tier 1 capital ratio of Austrian banks has increased from 7.7% to 12.7% during the period from 2008 to 2015 (see Chart 21), with equity ratios up from 11% to 16.2%.

SUSTAINABILITY PACKAGE FOR BANKS

Another measure designed to strengthen financial market stability has been the sustainability package made available to the major Austrian banks with particular exposure to Central, Eastern and South-Eastern Europe (CESEE). The main aim is to stem excessive growth through the transfer of capital from the parent company to subsidiaries. With this in mind, the FMA has introduced a rule to the effect that lending may only advance at

Chart 21: **Changes in Tier 1 capital ratio 2008-2015** (unweighted, in %)



Chart 22: **Loan deposit ratio 2011-2015** (in %)

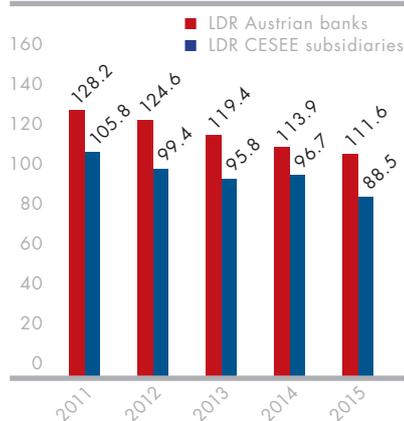


Chart 23: **Changes in average solvency ratio 2008-2015** (unweighted, in %)



the same pace as deposits from the regional market, with a target loan-to-local stable funding ratio (LLSFR) of 110% for the CESEE subsidiaries of Austrian banks. In this context, the loan deposit ratio during the period from 2008 to 2015 also improved from 117.3% to 88.5% (see Chart 22).

SOLVENCY INSURANCE

In terms of the Austrian insurance industry, the FMA’s measures to strengthen risk-bearing capacity are reflected in an improvement in the solvency ratio, up from 325.3% in 2008 to 374.9% by 2015 (see Chart 23).

SECURITIES BROKERS AND TIED AGENTS

Natural and legal persons may, under certain circumstances, engage in the commercial provision of investment services without themselves holding a licence. Such companies must be registered with the FMA and operate on behalf and for the account of licensed legal entities (credit institutions, investment firms or investment service providers).

The decline in the number of these companies, which mainly operate in sales, during the eight-year period since the introduction of the current Securities Supervision Act (WAG; *Wertpapieraufsichtsgesetz*) clearly shows the extent of market consolidation, above all in the area of the now replaced “financial services assistant”, previously a free profession. The introduction between 2012 and 2014 of the registered trade qualification of “securities broker”, replacing financial services assistants, has resulted in a fall of almost 90% in the number of sales persons operating in this form. At the same time, “tied agents”, which are governed by European law and require a licence as a commercial investment adviser in Austria, have become established as an important form for companies that do not hold a licence of their own for the provision of investment services. Particularly noticeable is the ongoing increase in the number of tied agents registered in the capacity of legal

persons, some of whom, with several employees from their own organisation, provide investment services on behalf and for the account of other non-affiliated licensed companies. As these companies that are simply registered largely look after “their” customers independently,

Table 8: **Securities brokers and tied agents 2008-2015**

REGISTERED SALES STAFF AT LEGAL ENTITIES (investment firms and service providers, banks) IN AUSTRIA	2008	2009	2010	2011	2012	2013	2014	2015
Financial services assistants/ securities brokers – natural persons	6753	5118	4408	3724	2171	1343	692	695
Tied agents – natural persons	3072	2558	2111	1902	2384	2487	2440	2424
Total – natural persons	9825	7676	6519	5626	4555	3830	3132	3119
Tied agents – legal persons	74	96	96	100	122	203	222	241

Financial services assistant: Article 2 para. 1 no. 15 WAG 2007 old version (up to 31 August 2014)
 Securities broker: Article 2 para. 1 no. 15 WAG 2007 new version (from 1 September 2014)
 Tied agent: Article 1 no. 20 WAG 2007
 Investment firm: Article 3 WAG 2007
 Investment service provider: Article 4 WAG 2007

monitoring of these tied agents represents a very specific supervisory challenge, both for the licensee and for the FMA. This needs to be addressed further.

PREVENTION

COMBATING MONEY LAUNDERING

In the fight against money laundering and terrorist financing, it has been the FMA's role since 2011 to monitor whether the supervised companies have appropriate preventive systems in place and are applying these to avoid any such abuse of the Austrian financial system. Since then, the FMA has massively stepped up its information and inspection activities. The number of target group-based information events and presentations has been increased to 58 per year, the number of company visits has risen from 18 to 30, and the number of on-site inspections has been raised from 12 to 28. Through these targeted measures, the preventive work to raise market participants' awareness of this issue has been further improved in the year under review.

ALTERNATIVE INVESTMENT FUNDS

In 2013 the FMA was also given official responsibility for supervision of alternative investment fund managers (AIFMs). Since then, all AIFMs have required a licence or, in some specific circumstances, simply need to be registered. In 2015 there were 27 AIFMs in possession of a licence, with a further 21 AIFMs registered with the FMA. Licensed AIFMs are now also subject to ongoing supervision by the FMA.

SOLVENCY II

With effect from 1 January 2016, the new supervisory regime for insurance undertakings, known as Solvency II, entered into force. To ensure that the new rules can be applied in a market-based manner and in a way that takes Austria's economic structure into account, the FMA carried out eight Quantitative Impact Studies (QIS) in advance of introduction, analysing the impact and calibration for Austrian providers, as well as discussing these during intensive talks with the companies concerned. Stress tests assuming Solvency II conditions have also been carried out. In this way, the Austrian insurance industry has been optimally prepared for the launch of the new supervisory regime.

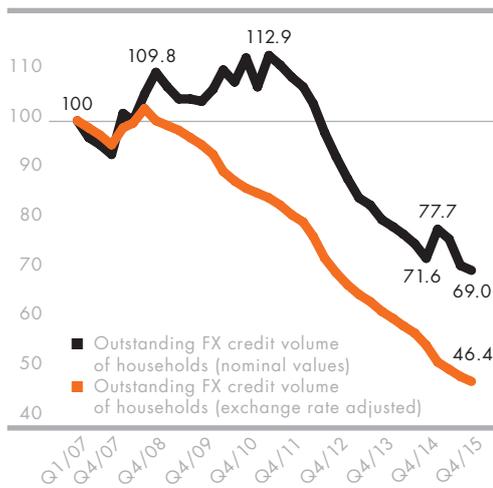
INVESTOR, SAVER AND CONSUMER PROTECTION

FOREIGN CURRENCY LOANS

The FMA has consistently issued serious warnings about the cumulative risks associated with foreign currency loans. Back in 2003 it drew up minimum standards for the lending industry governing the granting and management of foreign currency loans and of bullet loans with repayment vehicles. These standards have been tightened up and extended several times. In addition, the FMA produced an information folder setting out the particular risks associated with foreign currency loans using simple language and with practical illustrations. The FMA has also ensured that banks always provide their customers with a copy of this information sheet before a foreign currency loan is agreed. All of these measures and warnings did not go far enough in curbing the boom in foreign currency lending. Consequently, in autumn 2008, the FMA issued a de-facto ban on the issuing of any new foreign currency loans to Austrian households due to the risk they were posing to financial market stability. At the same time, the FMA obliged credit institutions to monitor and evaluate the risk associated with any outstanding foreign currency loan on an ongoing basis so that appropriate measures to limit the risk could be discussed with the customer.

So far, this package of measures has been successful. Between autumn 2008 and the end of 2015, the volume of outstanding foreign currency loans fell by 54.5% to € 24.62 billion (allowing for exchange rate fluctuations) (see Chart 24). In absolute terms, households still owed foreign currency loans amounting to a total of € 23.8 billion as at 31 December 2015. A critical factor here has been the 52.7% appreciation in the value of the

Chart 24: Limitation of FX loan risk 2008–2015 (in %)



Swiss franc against the euro during the period since early 2008. Anyone who took out a loan in Swiss francs for € 100 000 at the start of 2008 would have to repay € 153 000 if they wanted to redeem the loan today, simply as a result of the strength of the Swiss currency and excluding any interest. The exchange rate developed particularly dramatically in early 2015 when the Swiss National Bank unexpectedly found itself unable to maintain the exchange rate cap of CHF 1.20 per euro that had been in place for years, scrapping this minimum exchange rate on 15 January 2015. In response the CHF/EUR rate fluctuated unusually strongly throughout 2015, ranging from 0.982 to 1.103.

The FMA’s response involved measures to remove the exchange rate risk from foreign currency loans altogether, either by converting them to the euro or by using hedging methods. More than 140 000 foreign currency loans have been tackled in this way since 2008. However, there are still 138 000 Austrian households with an

outstanding foreign currency loan, with average repayment amounts of just over € 180 000. Yet three out of every four foreign currency loans that are still outstanding are not being repaid monthly but take the form of bullet loans. The idea is that a repayment vehicle linked to the loan will be used to pay off the full loan amount at the end of the term. Given the very optimistic assumptions made when the loan agreements were taken out and the very challenging developments on the financial markets since then, these repayment vehicles currently face an average shortfall of 24% based on the finance plans. As more than 80% of the outstanding foreign currency loans still have longer than five years to run, there must be no let up in the joint efforts to limit the risk further.

ADDITIONAL INTEREST PROVISION

With interest rates remaining persistently low, there is a risk that providers of classic life insurance products will no longer be able to generate the minimum rates of return for this old-age provision product that were guaranteed during periods of high interest rates. Consequently, the FMA took timely action, introducing a regulation specifying the requirement to establish an additional interest provision back in 2013. The Maximum Interest Rate Regulation (*Höchstzinssatzverordnung*) forces insurance undertakings to create provisions from their own profits as a means of ensuring that they can pay the guaranteed returns when the promised payments fall due, even in a low interest rate environment.

In 2015 the FMA amended the Maximum Interest Rate Regulation, tightening up the requirements with regard to the provisions that need to be formed for interest obligations. The period during which these are to be created was cut to seven years (up to 2022). A formula based around the indicator “circulation weighted average yields of government bonds” is now used to determine the required allocation to the provisions depending on future interest rate levels. Based on the current situation, Austrian insurance undertakings will be required to allocate at least € 1.5 billion to the additional interest provision between now and 2022, primarily to the detriment of their own profits. Moreover, the maximum guaranteed rate for new life insurance policies has been cut to 1% with effect from 1 January 2016.

TRANSPARENCY

As part of its transparency initiative, the FMA has introduced various minimum standards governing the information requirements relating to certain old-age provision products (e.g. life insurance, health insurance, *Pensionskassen*, corporate provision funds). These standards ensure that consumers are provided with comprehensive, impartial and comparable information prior to concluding contracts, during their term and upon pay-out. The information tools now implemented in accordance with an EU initiative (e.g. key investor information

document – KIID, packaged retail investment products – PRIPs) are also helping to improve the comprehensibility, transparency and comparability of investment products.

UNAUTHORISED CONDUCT OF BUSINESS/INVESTMENT ADVICE

To protect investors and consumers from shady or fraudulent providers of financial services, the FMA publishes warning notices as soon as it learns of anyone offering financial services that require a licence on the Austrian market without complying with the statutory requirements. These warning notices can be consulted on the FMA website at any time, sorted both alphabetically and chronologically. The FMA has also made it possible for interested parties to access warnings issued by its partner authorities in other countries via its website. This database has proven its worth and should always be consulted before investing with a new provider that was previously unknown to the investor. Moreover, the FMA's database of providers that it has licensed and therefore supervises can also be accessed via the FMA website.

COMPETENCE – CONTROL – CONSISTENCY

In order to achieve its supervisory goals, the FMA bases its supervisory concept on three pillars, which are summed up by the three principles of competence, control and consistency as enshrined in its corporate claim.

COMPETENCE

In its capacity as an expert organisation, the FMA prioritises training and continuing professional development for its employees. Around three quarters of all FMA employees have a degree, with around 40% holding an additional qualification such as a second degree, MBA or professional qualification in law or auditing. FMA employees speak a total of 37 different languages. 69 FMA employees have already graduated from the two-year postgraduate, vocational university programme in Financial Market Supervision, developed jointly by the FMA, OeNB and Vienna University of Economics and Business. Additionally, FMA staff attended more than 458 specialist CPD events in 2015. During the year under review the FMA invested an average of € 3 500 per employee in CPD measures.

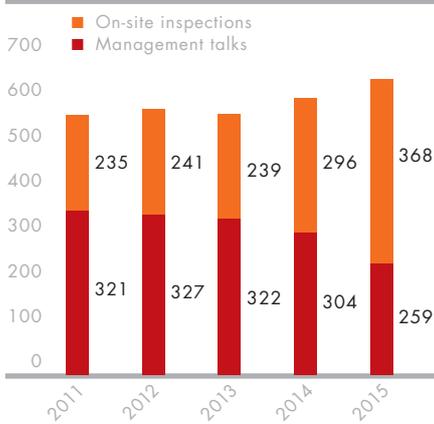
In addition, as the competent national supervisory authority, the FMA represents Austrian interests at a European level, doing so within the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), among other bodies that make up the European supervisory system. The FMA is also the national competent authority in the Single Supervisory Mechanism (SSM), the decentralised system of banking supervision for the euro area headed by the European Central Bank. Meanwhile, the FMA also holds the function of national resolution authority for banks and forms part of the Single Resolution Mechanism (SRM). Thus the FMA is an integral component of the supervisory system for the financial market, contributing its expertise and practical experience from all areas of supervision in its capacity as an integrated authority. It is also able to input the knowledge gained throughout Europe into its work on the Austrian market as a whole, and vice versa. The FMA is therefore one of the authorities with an overview of the entire financial market, enabling it to observe and analyse developments across all areas before devising strategies and measures.

CONTROL

A comprehensive reporting system for the relevant key figures is at the heart of any efficient and effective supervision, providing the foundation for high-quality off-site analyses. However, in order to be able to monitor the quality of the reporting data and key figures and of the underlying processes at any time, an appropriate on-site presence at the supervised companies is of particular importance.

In its 2007 review of financial market supervision, which analysed and evaluated the early years of the FMA,

Chart 25: On-site inspections (incl. company visits and brief inspections) and management talks 2011–2015 (source: FMA)



the Austrian Court of Audit rightly established that the resources available for on-site inspections were insufficient. One striking example was used to back up this criticism: purely statistically, an investment service provider could expect to be subjected to an on-site inspection roughly once every 38 years.

The findings of this Court of Audit report, together with the 2008 findings of the parliamentary banking enquiry committee, resulted in supervisory reform that cleared the way for the provision of appropriate resources, eliminating as it did frictional losses and redundancies.

Correspondingly, the FMA was able to arrange 368 on-site inspections during the 2015 reporting year (see Chart 25). This means that 25% of all supervised companies are now inspected on site every year. In statistical terms, it means that every supervised company must now expect to have an inspection every three to four years. Systemically important institutions are now inspected annually.

CONSISTENCY

The FMA’s objective is to take preventive action with regard to compliance with the statutory rules included in its supervisory remit. To this end, it engages in proactive dialogue with the supervised companies, publishes circular letters and minimum standards, and issues regulations as a means of presenting and communicating the interpretation of the law and supervisory practice in a transparent manner. Should this preventive action not work, however, the FMA punishes any violations of the supervisory rules in line with its strategy of competence, control and consistency, with the requisite level of severity and consistency, and with resulting success. While the consistent punishment of breaches of supervisory rules during the period from 2009 to 2011 generated a huge increase in the number of administrative penal proceedings being launched by the FMA, namely from 196 in 2008 to a high of 569 in 2011, this number has consistently fallen since then, down by two thirds to 181 cases by 2015. This is firstly due to the preventive effect the penalties had, improving compliance with the statutory reporting and information obligations towards the supervisor. Secondly, the legal option of voluntary self-disclosure to avoid penalty, introduced on the FMA’s initiative, created a positive incentive for the supervised companies to submit their late notifications and reports without further delay. Furthermore, the consistent penalisation of breaches has generated a significant improvement in compliance with the information rules set out in the Capital Market Act (KMG; *Kapitalmarktgesetz*) regarding risk information and reference to the capital market prospectus.

SUPERVISION OF BANKS

BANKING SUPERVISION AT EUROPEAN AND NATIONAL LEVEL

In order to ensure that multinational banking groups with highly complex corporate structures straddling national boundaries could be supervised uniformly and on a supranational basis, the Single Supervisory Mechanism (SSM) was established for the euro area countries. The SSM came into operation in November 2014. Since then, responsibility for supervising banks in the euro area has been shared between the European Central Bank (ECB) and the national competent authorities (NCAs). The NCA for Austria is the FMA.

With the SSM in place, banks in the participating Member States¹ are now supervised by means of a decentralised system involving close cooperation between the ECB and the NCAs. Since the SSM was launched, eight Austrian banking groups in total have been classified as “significant institutions” (SIs), resulting in around 150 individual credit institutions being placed under the direct supervision of the ECB.² The remaining credit institutions based in Austria, classed as “less significant institutions” (LSIs), continue to be supervised directly by the FMA. This means that the FMA, in addition to its role as supervisor of the SIs, remains directly responsible for around 550 of Austria’s credit institutions. For its part, the ECB only carries out indirect supervision in this regard. It goes without saying that, when supervising the LSIs, the FMA also bases its approach on the rules applicable throughout the SSM.

The facts and figures on the FMA’s supervisory activities that are presented below relate in part to areas that fall within the ECB’s scope of competence. These are still listed in this report, however, as the ECB makes considerable use of the FMA’s resources and/or services. Even within the SSM, by far the main share of the work entailed in banking supervision remains with the NCAs. As far as the FMA is concerned, there has therefore been a huge increase in its workload.

One of the reasons for this increase is that the Joint Supervisory Teams (JSTs), who carry out the supervisory work for the banks placed under the direct supervision of the ECB, are staffed by employees from the national competent authorities and account for between 75% and 90% of the team members. In addition, compared with other states, Austria has a high number of LSIs, and these remain under the direct supervision of the FMA. The “common procedures” also generate additional work. These relate to cases where the ECB, regardless of whether a credit institution is classed as significant or less significant, still has the final decision on licensing, the withdrawal of a licence or assessing banks’ acquisition and disposal of qualifying holdings. The common procedures are predominantly prepared at NCA level.

Decisions that are made at ECB level are prepared by the Supervisory Board of the SSM. This is composed of

¹ The SSM basically covers the Member States of the euro area, i.e. those that have the euro as their currency. There are 19 such Member States, although EU countries with a currency other than the euro may participate in the new European banking supervision system on a voluntary basis. To date, no state has opted in to the system on this basis.

² These are Raiffeisen Zentralbank Österreich AG, Erste Group Bank AG, BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG, Österreichische Volksbanken AG, Raiffeisen-Holding Niederösterreich-Wien reg. Gen.m.b.H., Raiffeisenlandesbank Oberösterreich AG, Sberbank Europe AG and VTB Bank (Austria) AG.

six representatives appointed by the ECB, including a Chair and Vice-Chair, and one representative of each of the NCAs, currently numbering 19. The ECB Governing Council may accept or reject decisions proposed by the SSM Supervisory Board but is not entitled to change their content. If the ECB Governing Council does not object to a decision of the SSM Supervisory Board within ten days, the decision shall be deemed to have been accepted (non-objection procedure). Any change to a proposal may only be adopted by the SSM Supervisory Board, before being re-submitted to the ECB Governing Council.

Reference should be made to the much higher levels of coordination, liaison and harmonisation in banking supervision as a result of the interaction of the pan-European regulator, the European Banking Authority (EBA) in London, and the ECB in the capacity of the supervisory authority within the SSM.

FMA employees are represented on numerous committees, working groups and horizontal networks of the ECB and EBA, contributing to the debate on supervisory, legal and institution-specific issues and participating in the subsequent decision-making processes. This means that matters of concern to the Austrian supervisory authority can be raised efficiently, also thanks to the parallel staffing, where possible, of the working groups dedicated to comparable topics at the ECB and EBA. The FMA is represented, for example, on the Authorisations, the Supervisory Policies, the Supervisory Quality Assurance and the Methods and Standards networks. The work carried out in these networks during the reporting year included developing general definitions for the implementation of common procedures, harmonising the methodological basis for implementing the Supervisory Review and Evaluation Process (SREP) for the euro area, and comprehensive measures in relation to SSM-wide processes and positioning on relevant issues. With regard to the indirect supervision of less significant institutions there are also several committees working on the development of Joint Supervisory Standards (JSS) on key supervisory issues. The aim here is to expand the supervisory approaches devised for SIs to the area of LSIs while adhering to the principle of proportionality.

The High Level Group on Options and Discretions (HLG O&D) also played a particularly significant role during the year under review, working to ensure as much harmonisation as possible of existing national options and types of licence arising out of the Fourth Capital Requirements Directive (CRD IV) and the related Capital Requirements Regulation (CRR). The aim is to ensure that significant credit institutions in the euro area are supervised on the basis of uniform rules. The HLG O&D drafted an ECB regulation on the exercising of the discretion provided by the CRR and CRD IV, as well as an internal set of guidelines intended to provide the JSTs with an instruction manual. Both documents were the subject of a public consultation in the fourth quarter of 2015 and will be adopted towards the end of the first quarter of 2016.

OFFICIAL TASKS

SUPERVISED COMPANIES

As at 31 December 2015 there were 710 credit institutions in Austria, as well as 30 branches of credit institutions that pursue activities in Austria as specified in Article 9 of the Austrian Banking Act (BWG; *Bankwesengesetz*) under the European Union's freedom of establishment (see Table 9). To be categorised as a "credit institution" within the meaning of the BWG, a legal entity must hold a licence to carry out at least one type of banking transaction pursuant to Article 1 para. 1 BWG. The total number of credit institutions compared with 2014 fell by 24, marking the continuation of a trend in evidence for some years now. As in previous years, further consolidation affected the decentralised sectors (Raiffeisen and Volksbank cooperatives, savings banks), with a drop in the number of credit institutions from 600 to 579.

PAYMENT INSTITUTIONS

Payment institutions are legal entities that are entitled to provide payment services on a commercial basis. Examples of such services include credit transfers and the issuing of payment instruments. Three payment service providers were licensed in Austria as at 31 December 2015. One institution applied for a licence

pursuant to the Payment Services Act (ZaDiG; *Zahlungsdienstegesetz*) during the year under review (see Table 10).

In addition, there were five branches of payment institutions active in Austria under the EU's freedom of establishment.

LICENSING PROCESSES

The granting of licences to institutions subject to the Capital Requirements Regulation (CRR) now falls exclusively within the competence of the ECB. These CRR institutions are SIs or LSIs that are licensed to receive funds from the public and also to issue loans. Although it is the ECB that makes the final decision on whether to award a banking licence, applications for the process to be initiated must still be submitted to the FMA. The FMA is responsible for subsequently forwarding the application, along with a draft decision and the relevant documents, to the ECB for an official decision.

The FMA will continue in future to be the sole competent authority for the licensing of all credit institutions that are not subject to the CRR and of all payment institutions, i.e. institutions as referred to in Article 1a para. 2 BWG or institutions as defined in the ZaDiG.

One new licence pursuant to the BWG was granted in 2015. The number of approved licence extensions rose from one in 2014 to two in 2015 (see Table 11). Overall, 15 licences awarded in accordance with Articles 6 and 7 BWG were declared lapsed, were revoked or relinquished during the reporting year. As at the reporting date of 31 December 2015, there were no licence (extension) processes pursuant to the BWG pending.

No special licence is required by credit institutions and financial institutions that are licensed in another Member State of the European Economic Area (EEA). Such institutions may, on the basis of the fundamental freedoms applicable in the EEA, also offer their services in Austria. This may be done either under the freedom of establishment by setting up a branch or under the freedom to provide services through direct cross-border service operations. In both cases, the institutions concerned simply need to complete a notification process.³

In the period under review, 102 credit institutions and 255 payment institutions from other Member States provided notification of taking up activities in Austria ("passive notification"). A total of 76 Austrian credit institutions provided notification via the FMA to the supervisory authorities in other

Table 9: Number of credit institutions 2011–2015

	2011	2012	2013	2014	2015
Joint stock and special-purpose banks	89	87	84	77	76
Savings banks	51	51	49	49	49
Raiffeisen cooperatives	530	520	509	498	488
Volksbank cooperatives	67	64	61	53	42
Mortgage banks	11	11	11	11	10
Building societies	4	4	4	4	4
Investment fund management companies	29	29	29	29	29
Corporate provision funds	10	10	10	10	9
Exchange offices/remittance services	3	3	3	3	3
EU branches	30	29	30	30	30
Total	824	808	790	764	740

Table 10: Number of payment institutions 2011–2015

	2011	2012	2013	2014	2015
Licensed payment institutions	3	4	3	3	3
Licensing processes pending as at 31 December	3	1	0	1	1
Passive notifications	53	34	66	100	255

Table 11: Licensing processes 2011–2015

	2011	2012	2013	2014	2015
Valid licences*	794	779	760	734	710
Licences granted (new licences incl. ZaDiG)	3	3	0	2	1
Licences extended	10	3	9	0	2
Licence refused pursuant to Article 5 para. 1 BWG	2	1	0	0	0
Licence revoked or lapsed pursuant to Articles 6 and 7 BWG	9	5	18	28	15

FREEDOM TO PROVIDE SERVICES AND FREEDOM OF ESTABLISHMENT

Passive notification pursuant to Article 9 BWG	30	25	33	40	102
Active notification pursuant to Article 10 BWG	8	21	53	32	76

*Number of credit institutions licensed in Austria (excl. branches from EEA/non-EEA countries)

³ The SSM affected the passport regime in some cases in that the official notification process is no longer necessary in several Member States where the ECB is the competent authority. Related matters are now discussed in the Joint Supervisory Teams.

Member States of their plans to make use of the freedom of establishment or the freedom to provide services (“active notification”). These figures include new notifications and changes to existing notifications in 2015.

SOURCES OF INFORMATION FOR SUPERVISION

REPORTING, NOTIFICATION AND INFORMATION OBLIGATIONS OF CREDIT INSTITUTIONS AND PAYMENT INSTITUTIONS

Banking supervision in Austria is based on a system of control bodies at different levels. The first level involves the credit institution itself. Here, the managing directors, the internal audit unit and the supervisory board function as an internal control body. This control must be carried out as stipulated in the relevant law, namely the BWG. The second level of control is that performed by the external bank auditors. It is only beyond this level that state supervision applies, performed by the FMA in the capacity of competent authority and the Oesterreichische Nationalbank (OeNB) as its partner responsible for data collection, analysis and on-site inspections. In keeping with the hierarchy of this supervisory structure, the primary and most important source of information for supervision purposes is the credit institutions themselves. They must comply with comprehensive reporting, notification and information obligations. The main reporting obligations in this regard are defined in Article 74 BWG and in Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) for credit institutions, and in Article 20 ZaDiG for payment institutions. According to these provisions, credit institutions and payment institutions are obliged to provide the supervisory authority with key economic figures at periodic intervals.

The annual asset, income and risk statement (VERA) contains the figures required to be submitted to the supervisory authority to enable an assessment of the institution’s economic situation and of its compliance with risk-specific due diligence obligations. The reports from CRR institutions provide an overview on whether the credit institution is complying with essential provisions of supervisory law, particularly with regard to own funds requirements and the limits on large exposures. Further details, such as information on any foreign currency risks, any real estate losses, etc. must also be reported.

In 2015 the FMA received notification of a change in managing director in a total of 229 cases, with changes to the supervisory board chairperson being notified in 99 cases (see Table 12). In each of these cases, the competent authority (either the FMA or the ECB) is required to verify that the individual holding the new position is personally and professionally qualified (fit and proper) to meet the responsibilities. The application must however always be submitted via the FMA.

Apart from obtaining information through institutions’ reporting and notification obligations, the FMA may also actively approach the supervised institutions and/or their bank auditors, auditing associations, protection

Table 12: Sources of information 2011–2015

	2011	2012	2013	2014	2015
Notification of changes in the persons appointed as directors pursuant to Article 73 para. 1 no. 3 BWG	149	166	191	198	229
Notification of the election of a new chairperson of the supervisory board pursuant to Article 28a para. 4 BWG	34	24	33	168*	99
Notification by the director of danger to creditors, possible insolvency or over-indebtedness pursuant to Article 73 para. 1 nos. 5 or 6 BWG or Article 11 para. 1 nos. 5 or 6 ZaDiG	1	0	2	3	0
Information obtained from or inspection at credit institution pursuant to Article 70 para. 1 no. 1 BWG	384	402	433	401	445
Information obtained from bank auditor, protection scheme or government commissioner pursuant to Article 70 para. 1 no. 2 BWG	13	29	19	19	18
Notification of facts required to be reported by bank auditors pursuant to Article 63 para. 3 BWG	42	39	29	14	36
Bank auditor/early recognition meetings	52	43	40	46	41
Management talks	63	61	62	54	50

* The marked increase in the number compared with previous periods is a result of the transition to the Basel III regulations. As of 1 January 2014 the previous requirement to notify chairpersons was extended to include all members of the supervisory board. In addition, until August 2014 a reappointment had to be notified as well.

schemes and government commissioners, and make a request for additional information. The FMA issued 18 such requests for information in 2015.

Pursuant to Article 70 para. 1 no. 1 BWG or Article 63 para. 2 no. 2 ZaDiG as applicable, the FMA may request information at any time from the supervised credit institutions and payment institutions and inspect their business documents. There were 445 instances of information being obtained or of documentation being inspected in this context in 2015.

BANK AUDITORS AND STATE COMMISSIONERS

The financial statements of each credit institution and payment institution as well as the consolidated financial statements of each group of credit institutions, including the accounting and the management report as well as the consolidated report, where applicable, must be examined by the bank or statutory auditors to verify their compliance with the law. This is specified in Article 59 para. 1 BWG. Among other things this involves verifying compliance with the regulatory provisions, particularly own funds requirements, liquidity and large exposures, as well as the allocation of items in the trading book and other provisions relevant to supervision.⁴ The result of this audit is included in an annex to the audit report and, pursuant to Article 63 para. 5 BWG, represents an assurance from the bank auditor. This annex must be submitted to the directors and the supervisory body under company law, together with the audit report on the financial statements, and be submitted to the supervisory authority via the Incoming Platform no later than six months after the balance sheet date.

If the auditors detect any relevant facts of particular significance during their audit such as, for example, a threat to the institution's continued existence, a material deterioration in the risk situation or serious breaches of statutory provisions, they must notify the FMA without delay (obligation to report deficiencies).

The FMA holds regular discussions with all the bank auditors of Austrian credit institutions. Of particular relevance in this regard are the meetings with the auditing associations of the decentralised sectors, held at regular intervals, as well as the meetings with the bank auditors, held at least once every quarter, and ad-hoc meetings. The FMA holds such meetings, referred to as early recognition meetings, with representatives of the protection schemes for each of the sectors. Leaving aside ad-hoc meetings with the bank auditors, 41 bank auditor and early recognition meetings were held in total in 2015.

The Federal Minister of Finance must appoint state commissioners for all credit institutions with total assets of € 1 billion upwards. The commissioners are appointed for a term of no more than five years⁵ and operate in the capacity of an FMA body. This means that they are subject to instructions issued by the FMA when exercising their activity. By virtue of their function, these officials are entitled to attend all AGMs or general meetings and supervisory board meetings, and sit on all supervisory board committees that adopt resolutions and have decision-making powers. During these meetings they must be allowed to speak at their request. They should also be provided with copies of the minutes of the meetings. State commissioners must also report to the FMA on their activity.

State commissioners must immediately inform the FMA of any threat to the credit institution that becomes known to them in the course of their activities. State commissioners are obliged to raise objections against any resolution by the above-mentioned bodies that they consider to violate banking supervision rules. In the event of such an objection, the resolution shall not take effect until a decision has been made by the supervisory authority. The credit institution, in contrast, may apply for an FMA decision within one week. If the FMA does not reach a decision within one week, the objection shall cease to apply. If, however, the objection is upheld, the resolution may not be enforced. Where resolutions are made outside of a meeting or abroad, the state commissioner and deputy commissioner must be informed accordingly without delay. In such a case, the state commissioner (or the deputy commissioner if representing the state commissioner) has the option of submitting a written objection within two bank working days. All other rights and obligations associated with the function of the state commissioner are defined in Article 76 BWG.

⁴ As defined in the Securities Supervision Act (WAG; *Wertpapieraufsichtsgesetz*), Investment Fund Act (InvFG; *Investmentfondsgesetz*), etc.

⁵ They may however be reappointed when their term of office expires.

MANAGEMENT TALKS

The FMA conducts regular structured talks with the management of the credit institutions. Such talks represent a valuable source of supplementary information. Management talks held at major banks according to a set schedule play a significant role in routine analysis. One of the purposes of the meetings is to maintain contact with the management of credit institutions and to examine in greater detail their risk assessment and strategy. Depending on the issue being focused on, a distinction is made in this context between management talks and risk talks. During the period under review, 50 such talks were held in total.

ON-SITE INSPECTIONS

The FMA is required to commission the Oesterreichische Nationalbank (OeNB) to carry out on-site inspections in normal circumstances. For this purpose, the two meet at management level in a joint body to draw up a risk-based inspection plan for the coming year, reserving resources that might be needed for any ad-hoc inspections commissioned at short notice.

Table 13: Inspection mandates 2011–2015

	2011	2012	2013	2014	2015
Inspection mandates issued to the OeNB pursuant to Article 70 para. 1 no. 3 BWG and Article 63 para. 1 no. 4 ZaDiG	43	47	47	42	32
ECB inspection mandates for SIs in Austria assigned to the OeNB, ECB, Banca d'Italia pursuant to Article 12 of Council Regulation (EU) No 1024/2013 and Articles 143 to 146 of Regulation (EU) No 468/2014 of the European Central Bank					23

The OeNB was commissioned to carry out a total of 32 inspections in 2015 (see Table 13), the main focuses of which were counterparty risk and overall risk management on the part of banks. The fall in the number of inspection mandates compared with earlier years can be attributed to the fact that, as a result of the setting-up of the SSM, significant institutions are now supervised by the ECB, which is therefore also responsible for planning and carrying out on-site inspections of

SIs. For the period from 2015 onwards, the Table referred to above therefore only includes audits of LSIs. In view of the significance of the CESEE region for Austrian credit institutions, on-site inspections of credit institutions in that region have been conducted with greater frequency within the framework of consolidated supervision. Such inspections are held with the consent of the national competent authority in the particular case and of the ECB where required.

SUPERVISORY PROCEDURES

GENERAL AND OFFICIAL MEASURES PURSUANT TO ARTICLE 70 BWG AND ARTICLE 64 ZaDiG

In accordance with its mandate, the FMA is responsible for monitoring compliance with statutory provisions pertaining to banking, for ascertaining facts in cases involving the endangering of creditors' interests and for introducing appropriate remedial measures where necessary. The relevant statutory provisions in this regard are Article 70 et seq. BWG and Article 64 ZaDiG.

MEASURES IN THE EVENT OF A RISK TO CREDITORS

If there is a risk of a credit institution or payment institution being unable to fulfil its obligations to creditors and customers, pursuant to Article 70 para. 2 BWG the FMA may prohibit distributions of capital or profits, appoint a government commissioner, relieve directors of their duties or prohibit the further pursuit of business activities. The FMA ordered such measures on two occasions in 2015.

MEASURES TO RESTORE COMPLIANCE WITH THE STATUTORY PROVISIONS

One official power held by the FMA that is particularly relevant in practice is that specified in Article 70 para. 4 BWG. In cases where a licensing requirement is no longer met or where a credit institution violates provisions of the BWG or another specific law, the FMA may introduce various measures. Firstly, the credit

institution will be issued with a request to restore compliance with the statutory provisions or be subject to a coercive penalty. Should the institution fail to comply with this request, the FMA is required to completely or partially prohibit the directors from managing the business, except where such would be an inappropriate measure given the type and severity of the breach and it is expected that renewed imposition of the first measure will result in compliance with the statutory provisions. In such a case, the FMA is required to enforce the threatened coercive penalty and to re-issue the request under threat of a more severe penalty. If these measures are not sufficient to guarantee the ability of the credit institution to function, its licence is to be revoked as a last resort.

On nine occasions during the period under review the FMA ordered credit institutions, under threat of a coercive penalty, to establish compliance with statutory provisions within an appropriate period of time. The orders were issued in the form of administrative decisions.

CAPITAL ADD-ON/RESTRICTION OF DISTRIBUTION OF CAPITAL OR PROFITS

Further supervisory measures are contained in Article 70 para. 4a to 4c BWG. These serve as a means of effectively addressing any risk situations. For example, where for a credit institution, affiliation of credit institutions or group of credit institutions the risks arising from banking transactions and banking operations are inadequately limited, and where such risks are not expected to become limited in the short term, the FMA must, irrespective of any other measures, impose a minimum capital requirement that is higher than the statutory minimum capital requirement ("capital add-on" measure). Such a capital add-on was prescribed once during the year under review. Additionally, one measure pursuant to Article 70 para. 4a no. 9 BWG was imposed (restriction of distribution of capital/profits).

PENALTY INTEREST

A further official instrument is defined in Article 97 BWG. Specifically, the FMA is required to charge penalty interest in the event of breaches of the law involving failure to comply with thresholds, either by exceeding or falling below them. This occurs in cases where, for instance, limits for large exposures are exceeded or the minimum own funds requirements are not met. The intention here is to offset any competitive advantages that could be gained from failing to observe the law. Interest was charged in 23 such cases (pursuant to Article 97 BWG) in 2015 (see Table 14).

Table 14: Official measures pursuant to Articles 70 and 97 BWG 2011–2015

	2011	2012	2013	2014	2015
Measures against danger to creditors pursuant to Article 70 para. 2 BWG	1	0	2	2	2
Measures to restore legal compliance pursuant to Article 70 para. 4 nos. 1 to 3 BWG	5	9	7	16	9
Interest imposed pursuant to Article 97 BWG	32	24	16	15	23

OWNERSHIP PROVISIONS AND APPROVALS

Qualifying holdings exist where a party acquires more than 10% of the capital or the voting rights in a credit institution or payment institution. Any person intending to acquire such holdings or to increase an existing holding such that the thresholds of 20%, 30% or 50% of the capital or the voting rights will be exceeded must notify the FMA. This obligation to notify the FMA also applies to persons acting jointly who, when considered together, would be acquiring a qualifying holding or reaching one of the thresholds. Conversely, the same procedure applies in the event of holdings being sold and the total falling below such a threshold.

A transaction of this type may be prohibited by the FMA within 60 working days. This applies for instance where the new owners do not meet the requirements set in the interests of sound and prudent management of a credit institution. This is specified in Article 20 para. 2 in conjunction with Article 20b BWG.

A total of eleven notifications of a planned acquisition of holdings in an Austrian credit institution or payment institution were submitted to the FMA in 2015. Eight resulted in the acquisition not being prohibited. There was one instance of an acquisition being prohibited. The proceedings in the remaining two cases had not yet

Table 15: Notifications and approvals pursuant to Article 20 et seq. BWG 2011–2015

NOTIFICATIONS AND APPROVALS pursuant to the BWG	2011	2012	2013	2014	2015
Notification of qualifying holdings in an Austrian credit institution pursuant to Article 20 para. 1 BWG	20	14	68	27	11
Procedure completed with expiry of assessment period (i.e. non-prohibition of acquisition) or non-prohibiting administrative decision prior to expiry of the period pursuant to Article 20a para. 2 BWG	4 (exkl. 2 current procedures from 2010)	12 (exkl. 1 current procedure from 2011)	55	8	8
Procedure completed with prohibition of the acquisition pursuant to Article 20a para. 2 BWG	1	0	0	0	1
Procedure completed through withdrawal of the notification pursuant to Article 20a para. 2 BWG	15	1	2	1	0
Current procedures pursuant to Article 20 para. 1 BWG	1 (from 2010)	0	11	18	2
Approval of mergers pursuant to Article 21 para. 1 no. 1 BWG	10	13	21	21	10
Approval of demergers pursuant to Article 21 para. 1 no. 6 BWG	2	4	1	1	3

been completed at the end of 2015. The FMA also approved 10 mergers of credit institutions and 3 demerger during the reporting period (see Table 15)

MODEL APPROVALS

Since 2007 credit institutions have had the option of calculating their own funds requirements for credit risk on the basis of the Internal Ratings Based (IRB) Approach. Additionally, they have been able to apply the Advanced Measurement Approach (AMA) for operational risk. Models may also be used to calculate market risk. The vast majority of Austrian banks with model approvals are now subject to supervision by the SSM, in other words the ECB is the authority responsible for supervising them. Supervision of the models is now enforced via the JSTs.

Applications for approval of a model solely for the Austrian market or for cross-border purposes follow procedures that have been tried and tested for many years.

SUPERVISION OF DEPOSIT GUARANTEE SCHEMES

With the Deposit Guarantee Schemes and Investor Compensation Act (ESAEG; *Einlagensicherungs- und Anlegerentschädigungsgesetz*) entering into force on 15 August 2015, the FMA has also been assigned supervision of Austrian deposit guarantee schemes (DGSs). The supervisory system is basically modelled on the system as defined in the BWG. Above all, the FMA has a right to inspect and request information, may arrange for on-site inspections to be carried out and order the restoration of legal compliance.

Until the single national deposit guarantee scheme enters into force on 1 January 2019, the five existing sector-specific protection schemes will continue to operate during the transition period: *Einlagensicherung der Banken und Bankiers Ges.m.b.H.*, *Volksbank Einlagensicherung eG*, *Sparkassen-Haftungs AG*, *Österreichische Raiffeisen-Einlagensicherung eGen* and *Hypo-Haftungs-Gesellschaft m.b.H.* In the short financial year of 2015, supervision of DGSs focused on looking into the current situation, planning the transition to the single scheme and starting collection of ex-ante contributions.

Accordingly, in 2015 the FMA approved by administrative decision the method of calculating contributions and extraordinary contributions pursuant to Article 23 para. 2 ESAEG for each of the five protection schemes. For the short financial year 2015, a total of € 86 million was determined and paid ex ante into the deposit guarantee fund.

In addition the FMA introduced the Protection Schemes Reporting Regulation (*SiEi-MV; Sicherungseinrichtungen-Meldeverordnung*), and the Regulation on the Annex to the Audit Report for Protection Schemes (*SiEi-APV; Verordnung zur Anlage zum Prüfbericht für Sicherungseinrichtungen*).

A detailed description of the recast deposit guarantee scheme in accordance with the ESAEG, the single national scheme applicable as of 1 January 2019 including all stages of the transition period, as well as the

European perspective can be found in the FMA publication "Facts and figures, trends and strategies 2016".

CONSOLIDATED SUPERVISION

COLLEGES AS AN INSTRUMENT OF CONSOLIDATED SUPERVISION

Colleges of supervisors are a key instrument for the consolidated supervision of cross-border credit institutions. These colleges are where joint decisions are taken during model approval procedures, while also serving as a forum for discussing issues related to ongoing supervision in the context of overall risk management. The members of the college, specifically the home supervisor and all host supervisors, must arrive at a "joint risk assessment" for the particular group of credit institutions every year. Based on this assessment, a joint decision is made regarding capital adequacy. This is referred to as the Joint Risk Assessment and Decision Process (JRAD process). Based on this decision, the members of the college annually stipulate a supervisory action plan, defining the further procedures of the supervisory authorities in the case of the particular banking group. Colleges within the SSM are carried out by the JSTs and are therefore not included in the FMA statistics.

SUPERVISION OF CORPORATE PROVISION FUNDS

The Company Employee and Self-Employment Provisions Act (BMSVG; *Betriebliches Mitarbeiter- und Selbständigenvorsorgegesetz*) defines the activities of corporate provision funds and places them under the supervision of the FMA. Moreover, in accordance with the BMSVG, the acceptance and investment of severance payment contributions are deemed to be banking transactions pursuant to Article 1 para. 1 no. 21 of the Austrian Banking Act (BWG; *Bankwesengesetz*) that require a licence. Consequently, corporate provision funds are to be regarded as special-purpose credit institutions and, as well as complying with the terms of the BMSVG, must also adhere to the provisions of the BWG, albeit with some exceptions.

SUPERVISED COMPANIES/LICENSING

As at 31 December 2015, nine corporate provision funds held licences in Austria, while one fund relinquished its licence. The collective investment undertaking of the corporate provision fund that gave up its licence was transferred to another fund, with effect from 1 January 2015, following approval by the FMA. One corporate provision fund now manages two collective investment undertakings. The other funds each manage one collective investment undertaking.

CONTINUED SUPERVISION

REPORTING AND INFORMATION SOURCES

Corporate provision funds are subject to extensive reporting obligations. Pursuant to the Regulation on the Quarterly Financial Statements for Corporate Provision Funds (BVQA-V; *Betriebliche Vorsorgekassen-Quartalsverordnung*), corporate provision funds must submit reports on their quarterly financial statements to the OeNB within four weeks of the end of each calendar quarter. The information to be provided in the BVQA reports by the corporate provision funds includes details on own funds and a statement of net assets for the collective investment undertaking. In addition, corporate provision funds are obliged to submit their audited financial statements, the annex to the audit report, as well as the audited report on activities of the collective investment undertaking and the audit report on the report on activities to the FMA every year in good time. The state commissioners appointed for the corporate provision funds are additionally required to report regularly to the FMA.

Furthermore, the FMA Regulation on the Reporting of Own Funds by Management Companies, Real Estate Investment Fund Management Companies and Corporate Provision Funds (SK-EMV; *Sonderkreditinstitute-Eigenmittelmeldeverordnung*) entered into force on 16 April 2015. Consequently, corporate provision funds must now report the own funds items defined in detail in the SK-EMV every quarter.

DISCLOSURE OBLIGATIONS

Beneficiaries (entitled) are to be informed every year of the severance pay expectancy acquired as of the last balance sheet date, the contributions made by the employer during that financial year, the cash and administrative expenses charged to them, the investment income allocated to them and the acquired total severance pay expectancy. This information is to be provided by their respective corporate provision fund in the form of an account statement.

The FMA has published Minimum Standards on how this account information is to be presented in order to ensure that the structure of these account statements is standardised and clearer. Upon request, corporate provision funds are also required to send the reports on activities of the collective investment undertakings to the employers who have paid contributions and to the responsible works council members.

ON-SITE EXAMINATIONS AND INSPECTIONS

For the purposes of fulfilling its statutory remit, the FMA may use a number of different supervisory measures. It may, for example, inspect the documents held by corporate provision funds and request information. It also has the right to prohibit or intervene in activities, and may carry out on-site examinations and inspections. In 2015 on-site inspections were carried out at three corporate provision funds.

MANAGEMENT TALKS

The FMA annually invites representatives of the corporate provision funds to attend management talks. During these talks, aspects such as their performance and results during the past year, investment activities, changes in their organisational structure or deviations from the business plan may be discussed, and any current concerns raised.

In 2015 management talks were held with each of the nine existing corporate provision funds.

SUPERVISORY PROCEDURES

From the time they receive a licence, corporate provision funds are subject to continued supervision by the FMA. The FMA, in the context of its supervisory activities, is responsible for introducing and managing supervisory procedures and for processing notifications and reports submitted in accordance with the BWG. The FMA must thus also assess the suitability of the directors and supervisory board members, conducting a "fit and proper" test where applicable. In addition, any changes to the investment conditions must also be approved by the FMA. Further areas for which it is responsible include monitoring corporate provision funds' compliance with the own funds requirements as referred to in Article 20 BMSVG and with the investment provisions of Article 30 BMSVG. Finally, the FMA also needs to approve any appointment or change of custodian bank. During the reporting year, the FMA approved changes to the investment conditions of corporate provision funds in a total of five cases in the course of its supervisory activities.

In 2015 five owner control procedures were carried out in relation to corporate provision funds, in accordance with Article 3 para. 7 in conjunction with Article 20 para. 1 BWG. One owner control procedure was discontinued due to the licence being relinquished.

No supervisory procedures pursuant to Article 70 para. 4 BWG needed to be initiated for the purposes of restoring compliance with the statutory provisions of the BMSVG.

SUPERVISION OF PENSION COMPANIES

SUPERVISED COMPANIES/LICENSING

With regard to *Pensionskassen*, a distinction is made between two different types of pension company: single-employer and multi-employer *Pensionskassen*. Single-employer *Pensionskassen* are entitled to carry out pension company activities for the beneficiaries of only one employer or company group. Single-employer *Pensionskassen* were primarily founded as subsidiaries of international groups. Employees can thus be offered benefits from their “own” *Pensionskasse* while at the same time the parent companies can exert a stronger influence on the type of and conditions for investment. In the 2015 financial year, seven companies held a licence for the provision of single-employer pension company services. Multi-employer *Pensionskassen* can carry out pension company activities for the beneficiaries of more than one employer. In the 2015 financial year, seven companies held a licence for the provision of multi-employer pension company services.

Companies with head offices in Austria that hold the appropriate licence granted by the FMA are entitled to pursue pension company activities in this country. Such a licence is to be granted if the conditions laid down in the *Pensionskassen Act* (PKG; *Pensionskassengesetz*) are fulfilled. These are specifically: sufficient capital, submission of an approvable business plan which includes suitable actuarial bases, as well as management board members and shareholders that are fit and proper. To be eligible for a licence, the company must also have the legal form of a joint stock company (*Aktiengesellschaft*).

In 2015 no applications for the granting of a licence were filed. The BONUS *Pensionskassen Aktiengesellschaft* (transferee company) was merged with Generali *Pensionskasse AG* (transferor company) in the reporting year.

CONTINUED SUPERVISION

Among the most important tasks making up the FMA’s remit are the ongoing analysis of the development of the pension company market and of individual *Pensionskassen* as well as investment and risk sharing groups (IRGs), the verification of compliance with the provisions stipulated in the PKG, i. e. concerning investment limits, coverage of the technical provisions and an adequate level of own funds as prescribed, as well as verification of compliance with the Risk Management Regulation for *Pensionskassen* (PK-RIMAV; *Pensionskassen-Risikomanagementverordnung*).

SOURCES OF INFORMATION

Several standardised sources of information are available to Pension Supervision. These are:

- the quarterly report on investment data;
- performance figures (reported quarterly);
- reports by the state commissioners on the meetings of the pension company bodies (provided quarterly);

- audit reports and reports on activities of the *Pensionskassen* and IRGs;
- risk management manuals;
- v each IRG's set of investment policy principles.

Apart from the information that originates from these standardised reporting sources, Pension Supervision may also, pursuant to Article 33 para. 3 no. 1 PKG, at any time demand information on all business matters from the *Pensionskassen* and inspect all of their books, documents and data media. In addition, *Pensionskassen* are subject to the notification obligations as set out in Article 36 PKG.

ON-SITE INSPECTIONS AND MANAGEMENT TALKS

In 2015 on-site inspections were performed at five *Pensionskassen* (see Table 16). The focus of inspections was on compliance with the PK-RIMAV, the minimum standards for the risk management process and the structure of risk management at *Pensionskassen*.

In addition to the five on-site inspections, the FMA held nine management talks during the reporting year. In these talks, the FMA discusses topical economic and supervisory issues, as well as any current issues with the management board members. One of the main subjects of these talks is the result of the analysis of the financial statements of the *Pensionskassen* and any consequent issues.

Table 16: **On-site activities 2011–2015** (source: FMA)

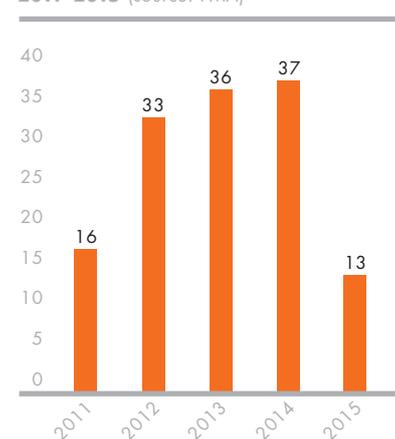
	2011	2012	2013	2014	2015
ON-SITE INSPECTIONS					
According to inspection plan	3	6	6	5	5
Non-scheduled	0	0	0	0	0
MANAGEMENT TALKS					
According to inspection plan	17	15	11	22	9

APPROVAL OF BUSINESS PLANS

Pursuant to Article 20 PKG, the *Pensionskasse* must draw up a business plan containing all details and actuarial bases required for pension company activities. The business plan, as well as any amendment to the business plan, requires the FMA's approval, which may also stipulate related conditions and time limits. The application for approval must include a report of the auditing actuary, who must audit the business plan as well as any amendment to it.

In the 2015 reporting year, 13 business plans were submitted for approval (see Chart 26).

Chart 26: **Approval of business plans 2011–2015** (source: FMA)



SUPERVISION OF INSURANCE UNDERTAKINGS

The Insurance Supervision Act (VAG; *Versicherungsaufsichtsgesetz*), the 1994 Motor Insurance Act (KHVG 1994; *Kraftfahrzeug-Haftpflichtversicherungsgesetz*) and the regulations issued on the basis of the VAG determine the FMA's remit with regard to insurance supervision. The FMA is responsible for monitoring the sector's entire business operations, particularly compliance with the statutory provisions, as well as the net assets, financial position and results of operations of insurance undertakings. This activity, in accordance with the EU principle of supervision by the home country, extends to all operations within the European Economic Area (EEA). Safeguarding the interests of the insured and ensuring ongoing compliance with the obligations under the insurance contracts are the core tasks of insurance supervision.

SUPERVISED COMPANIES

As at the end of 2015, 93 Austrian insurance undertakings had a licence granted by the FMA and were thus subject to continued supervision by the Authority (see Table 17). The number of insurance companies has therefore fallen by 28 since 2000.

JOINT STOCK COMPANIES AND LARGE MUTUAL ASSOCIATIONS

Excluding small mutual associations, a total of 41 domestic insurance undertakings were pursuing activities in Austria. Six of these were mutual associations, and 35 joint stock companies. The classes of insurance in

which these joint stock companies and large mutual associations operate are detailed in Table 18.

Austria is traditionally dominated by composite insurers. This refers to insurance undertakings that, besides life insurance, pursue activities in at least one other balance sheet group too (i.e. health insurance or non-life and accident insurance). The regulation on the separation of insurance classes, which became effective in Austria with the signing of the EEA Treaty on 2 May 1992, does not apply to numerous Austrian insurance undertakings. This is because they were already operating as composite insurers before the Treaty was signed and are thus permitted to continue their business activities without limitation.

Table 17: **Legal forms of domestic insurance undertakings 2011–2015**
(Source: FMA)

	2011	2012	2013	2014	2015
Mutual associations (excluding small mutuals)	6	6	6	6	6
Small mutual associations	53	53	53	52	52
Joint stock companies	46	42	40	37	35
Total	105	101	99	95	93
Mutual associations dealing in asset management/private foundations	6	6	6	6	6

Table 18: **Business areas of insurance undertakings 2011–2015**
(excluding small mutuals; source: FMA)

	2011	2012	2013	2014	2015
Reinsurance only	3	3	3	3	2
Life insurance	31	30	30	28	27
Health insurance	10	8	8	9	9
Non-life and accident insurance	42	41	38	38	35

SMALL MUTUALS

As at the end of December 2015 the FMA was supervising a total of 52 small mutuals (see Table 19), of which around two thirds are active as fire insurers, with the remaining third involved in animal insurance. In addition, there is one reinsurance association for small mutual associations.

EEA AND THIRD-COUNTRY INSURERS

Since the beginning of July 1994, the country of origin principle has applied to Europe-wide licensing of insurance undertakings within the European internal insurance market, which covers all countries of the European Economic Area (EEA). Consequently, Austrian policyholders and policyholders from other EEA countries may also take out insurance with insurance undertakings that have their head office in another EEA Member State, rather than being restricted to insurance undertakings based in their own country. The European internal insurance market allows insurance undertakings that have their head office in another EEA Member State as well as a valid licence there to operate through a branch and/or under the freedom to provide services without needing to acquire a new licence (single licence principle) from the competent foreign supervisory authority (host authority). In order to take up insurance activities in another EEA country, the insurance undertaking is required to register with the authority of its country of origin and to submit certain documents. The home country authority is the authority in the country where the insurance undertaking has its head office.

It is the home country authority and not the foreign supervisory authority of the country where the insurance undertaking pursues activities that is principally responsible for supervision.

As at the end of December 2015, 30 insurance undertakings from within the EEA were operating in Austria through a branch. An additional 967 companies were registered to provide services here, which is 14 more than in 2014 (see Table 20).

Since 2010 only one foreign insurance undertaking from a third country (outside the EEA) has remained licensed in Austria, namely Helvetia Versicherungen AG from Switzerland.

CONTINUED SUPERVISION

ANALYSES

Once every three months, the FMA carries out a risk-oriented analysis of the net assets, financial position and results of operations of the supervised insurance undertakings. The data required for the analysis is reported by the companies electronically. Based on these routine analyses, the FMA has published a report on the performance of the Austrian insurance sector once every quarter since 2010. The reports can be viewed (in German) on the FMA website. In addition, the FMA may at any time make use of its right to information pursuant to Article 272 para. 1 VAG 2016.

Where necessary, and with a view to recognising any potential threats to capital requirements at the earliest possible time, the FMA may also require insurance undertakings to provide information on their solvency status and the monthly development of hidden reserves during the year. A cash flow forecast for a five-year period additionally helps to reveal whether sufficient liquidity is available to fulfil the obligations under the insurance contracts. It can also be recognised whether companies will be able to hold conservatively valued

Table 19: **Small mutual associations by field of activity 2011–2015**
(Source: FMA)

	2011	2012	2013	2014	2015
Fire insurance associations	35	35	35	34	34
Animal insurance associations	17	17	17	17	17
Death benefit funds	0	0	0	0	0
Reinsurance associations for small mutuals	1	1	1	1	1
Total number of associations	53	53	53	52	52

Table 20: **EEA insurers in Austria 2011–2015**
(excluding small mutuals; source: FMA)

	2011	2012	2013	2014	2015
Operating through branches	26	28	29	30	30
Providing services directly	878	897	903	953	967

securities until redemption or be forced to realise losses through the premature sale of the securities. The data, which is reported to the FMA as part of standard procedures, together with the analyses based on this data, also serves as a basis for deciding whether any additional supervisory measures¹ are required:

- Insurance undertakings will be asked to submit a solvency plan where the solvency margin is insufficient or there is legitimate reason to assume that an undertaking will no longer have sufficient own funds at its disposal in the foreseeable future.
- Article 104a para. 2a VAG: If, due to a deterioration in the financial situation of an insurance undertaking, the supervisory authority has reason to assume that a sufficient solvency margin is no longer likely to be guaranteed in the long term, the FMA may call on the undertaking to submit a recovery plan setting out the planned development for the next three financial years.
- Article 104a para. 2 VAG: If the own funds of an insurance undertaking are not in line with the scope of the guarantee fund, the FMA will require a financing plan, which it must approve, detailing how the necessary own funds will be procured in the short term.

In addition to routine tasks, the EIOPA (European Insurance and Occupational Pensions Authority) Insurance Stress Test 2014 and the national stress test for the same year were further analysed in 2015, primarily with respect to financial market stability. One focus of this analysis was the comparably high assumed interest rate in old contracts, considering the current economic environment. As a result, the FMA ordered the insurance undertakings concerned to increase their additional interest provision, which they have been required to establish since 2013. In response to the environment of consistently low interest rates, the FMA cut the maximum interest rate for calculating technical provisions in the sectors of life insurance and state-sponsored retirement provision, from 1.75% to 1.5% as of 1 January 2015.

In order to prepare for Solvency II, insurance undertakings also had to submit Solvency II reports to the supervisory authority in 2015. These included quantitative and qualitative information as at 31 December 2014 and a quarterly report for Q3 2015. At group level, separate reports with extended reporting deadlines had to be provided. Furthermore, in 2015 undertakings also had to provide the FMA with a supervisory report on the forward-looking assessment of own risks. The results of these reports basically confirmed the FMA's assessments deduced from the 2014 national stress testing. Also using this information, the risk of each insurance undertaking was ranked and the required intensity of FMA monitoring determined.

OFFICIAL PROCESSES, DISCLOSURES, LICENSING, ON-SITE ACTIVITIES

Pursuant to Article 116 para. 1 VAG, the FMA periodically publishes information on legal requirements relevant to the insurance industry and on activities involving individual insurance undertakings. The latter includes information regarding licences granted, transformations of companies, liquidations, the establishment of branches and the taking-up of the provision of services by EEA-based companies. Such disclosures have been available on the FMA website since 2001. From 2016 onwards, the FMA will have to comply with extensive disclosure requirements imposed by European law, which also provide for a uniform structure for that information. This is to ensure that the information is comparable across the whole internal insurance market.

Undertakings with their head office in Austria and foreign insurers with their head office situated outside the EEA (third-country insurers) require a licence from the FMA in order to pursue contractual insurance activities in Austria. According to the single licence principle, the licences granted to Austrian insurance undertakings are valid throughout the entire EEA, while a licence granted to a third-country insurer is only valid within Austria. An undertaking applying for a licence must fulfil a range of conditions before being granted a licence by the FMA. Having the legal form of a joint stock company or mutual association is one such condition. Funding with the required level of own funds must also be ensured. The members of the management board must be personally and professionally qualified for their functions (fit and proper), and shareholders must also

¹ Article 104a VAG 1978 and/or Articles 278 to 281 VAG 2016.

meet certain requirements. A business plan must provide precise information on the field and scope of activities, as well as a plan regarding future business activities. A separate licence is granted for each individual insurance class.

The FMA's official tasks relating to insurance supervision are listed in Table 21. Compared with previous years, 2015 saw the additional task of approving Solvency II transitional measures. These measures refer – pursuant to Article 337 para. 1 VAG 2016 – to FMA approvals for applying the transitional deduction to the technical provisions. The FMA has been able to decide on such approvals since 1 April 2015.

In compliance with the legal requirements set forth in Article 18 para. 2 VAG, 84 business plans disclosing the actuarial bases were submitted to the supervisory authority in 2015 (see Table 22).

With regard to on-site activities, the following terminology is used in insurance supervision:

- **On-site inspections:** Inspections as referred to in Article 101 of the VAG or Article 33 of the *Pensionskassen Act* (PKG; *Pensionskassengesetz*) adhere to a predefined inspection plan. They may also be carried out on an ad hoc basis if necessary.
- **Brief inspections:** This on-site activity focuses on a specific item of inspection or investigation.
- **Management talks:** Meetings with senior representatives of an insurance undertaking concerning topics specifically related to the undertaking are regarded as management talks.
- **Company visits:** This on-site presence is for the purpose of discussing current information.

On-site inspections were held during 2015 with regard to such subject areas as risk management, product governance, reinsurance, formation of an appropriate level of provisions for outstanding insurance claims, best estimate calculations, governance in general and specifically with regard to the state-sponsored retirement provision product, focussing particularly on the related guarantees. In addition, the FMA checked on site whether the measures imposed following inspections in the previous year had been implemented. Inspections in relation to combating money laundering and terrorist financing, as well as one on-site inspection of a small mutual association, were also carried out as scheduled.

Apart from on-site inspections, several brief inspections were also performed at insurance undertakings in 2015. The key focus of these inspections was on checking internal models in accordance with the new VAG 2016, both within the scope of the pre-application and the application phase for permission to use an internal solvency model.

An inspection database has been established to store information on the current status of insurance undertakings and to enable developments to be traced at a later stage.

Company visits and management talks were primarily dedicated to discussing the preparations for Solvency II, the annual financial statements for 2014, current developments in 2015, as well as corporate strategies and additional company-specific issues.

As far as the topic of Solvency II preparation was concerned, the FMA also discussed the level of preparation reached on an informal basis with many insurance undertakings.

Table 21: **Official tasks 2011–2015** (source: FMA)

	2011	2012	2013	2014	2015
Licensing issues	3	5	0	3	3
Transfers of portfolio	2	5	1	4	3
Outsourcing pursuant to Article 17a VAG	12	24	12	24	8
Amendments to articles of association (insurers and small mutuals)	8	19	20	12	15
Trustee appointments	11	24	25	11	5
Solvency II transitional measures	0	0	0	0	4
Branches	2	2	0	3	3
Services	55	91	78	55	99

Table 22: **Business plans / actuarial bases 2011–2015** (source: FMA)

	2011	2012	2013	2014	2015
Number of annually submitted premiums	156	136	99	104	84

Table 23: **On-site-presence 2011–2015** (source: FMA)

	2011	2012	2013	2014	2015
Inspections	14	14	15	19	11
Brief inspections	7	9	6	9	12
Management talks and company visits	19	34	37	61	109

ACTIVITIES ABROAD IN CONNECTION WITH INSURANCE GROUPS

Alongside supervision of insurance undertakings at the level of the individual companies involved, supplementary supervision of insurance groups represents an important aspect of supervisory activity. Such supplementary supervision comprises the monitoring of sufficient solvency at group level, as well as changes in levels of foreign business in relation to the associated risk exposure.

Austrian insurance groups operate outside Austria in 28 different countries through holdings. Of the 102 foreign holdings of Austrian insurance groups in 2015 (2014: 103 foreign holdings), 92 (2014: 98) are located in Central, Eastern and South-Eastern Europe (CESEE) and ten are based in Western Europe (2014: 12).

Table 24 shows which insurance groups are active through a subsidiary in which countries.

The Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) and UNIQA Insurance Group AG (UNIQA Group) have the most foreign holdings. Additionally,

Grazer Wechselseitige Versicherung Aktiengesellschaft (GRAWE Group) also engages in a high level of foreign activity. Whilst the VIG and the UNIQA Group began by extending their business activities to neighbouring states, the GRAWE Group was primarily active in the Balkans from the outset.

In order to ensure efficient supplementary supervision of cross-border insurance groups, the regular exchange of information between the national competent insurance supervisors is vital. One of the ways through which this is being achieved is the establishment of colleges of supervisors for each cross-border insurance group. The objective of the colleges of supervisors, by integrating the local insurance supervisor’s knowledge of the market and companies it supervises, is to provide a thorough overview of the business activities and risk profile of an insurance group, and to ensure a common level of knowledge among the relevant national competent authorities.

In 2015 supervisory college meetings were held for VIG, UNIQA Group, GRAWE Group and Merkur Versicherung Aktiengesellschaft (Merkur Group).

In addition to the exchange of information amongst the supervisory authorities in attendance, the meetings also focused on the approval process for the partial internal models, an issue that is becoming vitally important in the context of the Solvency II regime. As in the previous year, supervisory authorities from countries outside the EEA were also included in the work of the supervisory colleges. To prepare for the entry into force of the Solvency II regime, the FMA entered into coordination arrangements with all of the active colleges in 2015.

Table 24: Activities of Austrian insurance groups in Western Europe and CESEE (as at 18 Feb. 2015; source: FMA)

	VIG	UNIQA	GRAWE	Merkur	Wüstenrot	Ergo
WESTERN EUROPE						
Germany	■					
Italy		■				
Liechtenstein	■	■				
Switzerland		■				
CESEE COUNTRIES						
Albania	■	■				
Belarus	■					
Bosnia & Herzegovina	■	■	■	■		
Bulgaria	■	■	■			
Croatia	■	■	■	■	■	■
Cyprus			■			
Czech Republic	■	■				■
Estonia	■					
Georgia	■					
Hungary	■	■	■			■
Kosovo		■	■			
Latvia	■					
Lithuania	■					
Macedonia	■	■	■			
Moldavia	■		■			
Montenegro	■	■	■	■		
Poland	■	■				
Romania	■	■	■			■
Russia		■				
Serbia	■	■	■	■		
Slovakia	■	■			■	■
Slovenia	■		■	■		■
Turkey	■					
Ukraine	■	■	■			

SUPERVISION OF INVESTMENT FUNDS, REAL ESTATE FUNDS AND ALTERNATIVE INVESTMENT FUNDS

The management of investment funds pursuant to the 2011 Investment Fund Act (InvFG 2011; *Investmentfondsgesetz*) is deemed to be a banking transaction that requires a licence in accordance with Article 1 para. 1 no. 13 of the Austrian Banking Act (BWG; *Bankwesengesetz*). Investment fund management companies should therefore be viewed as special-purpose credit institutions and, as well as complying with the terms of the InvFG 2011, must also adhere to the provisions of the BWG. Pursuant to Article 5 para. 2 nos. 3 and 4 InvFG 2011, it is possible for the licence to be extended to cover the provision of certain financial service transactions, specifically (individual) portfolio management for individual customers (Article 5 para. 2 no. 3 InvFG 2011), investment advice relating to financial instruments (Article 5 para. 2 no. 4a InvFG 2011) and the holding in custody and technical management of units in undertakings for collective investment (Article 5 para. 2 no. 4b InvFG 2011).

Real estate investment fund management companies that hold a banking licence in accordance with Article 1 para. 1 no. 13a BWG are subject first and foremost to the provisions of the Real Estate Investment Fund Act (ImmoInvFG; *Immobilien-Investmentfondsgesetz*) including the provisions of the BWG. Additionally, real estate investment fund management companies also hold a licence pursuant to the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*), as real estate funds and special real estate funds are classed as alternative investment funds (AIFs). The provisions of the AIFMG therefore also apply to real estate investment fund management companies.

The AIFMG regulates the activities of alternative investment fund managers (AIFMs) and also places them under the supervision of the FMA. According to the AIFMG, it is also possible for an additional licence to be granted for the provision of individual portfolio management for individual customers (Article 4 para. 4 no. 1 AIFMG), the provision of investment advice as an ancillary service (Article 4 para. 4 no. 2a), the holding in custody and technical management of units in undertakings for collective investment (Article 4 para. 4 no. 2b) and also, in contrast to the scope of the InvFG 2011, for the receipt and transmission of orders relating to financial instruments (Article 4 para. 4 no. 2c).

On 9 December 2015, Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds (ELTIF Regulation) entered into force. European long-term investment funds (ELTIFs) provide finance of lasting duration to various infrastructure projects, unlisted companies, or listed small and medium-sized enterprises (SMEs).

By definition, ELTIFs are EU AIFs that are managed by AIFMs authorised in accordance with the ELTIF Regulation. Specific investment rules apply to ELTIFs, including the requirement that they should invest at least 70% of their capital in eligible investment assets from precisely defined categories. An ELTIF may only trade in assets other than long-term investments up to a maximum threshold of 30% of its capital. ELTIFs may be sold to both professional and retail investors in the European Union, with the ELTIF Regulation containing rules to protect investors, and retail investors in particular.

The provisions of the AIFMG also apply to investment fund management companies if these also manage AIFs.

Table 25: **Key figures of the Austrian investment fund market 2011–2015** (source: FMA)

	2011	2012	2013	2014	2015
DOMESTIC UCITs of (real estate) investment fund management companies					
Article 2 paras. 1 and 2 InvFG	1 100	1 095	1 102	1 096	1 071
Article 75 InvFG	6	3	3	4	2
Total	1 106	1 098	1 105	1 100	1 073
FOREIGN UCITs					
Article 181 InvFG	29	34	27	15	1
Article 140 InvFG	5 558	5 626	5 669	6 094	6 544
Article 181 Immo-InvFG	4	3	3	1	–
Total	5 591	5 663	5 699	6 110	6 545
DOMESTIC AIFs of (real-estate) investment fund management companies as well as of licensed and registered AIFMs					
Article 166 InvFG	333	308	220	181	165
Article 168 InvFG	22	22	22	20	16
Real estate funds and special real estate funds	7	7	8	8	9
Special funds	765	795	831	813	835
AIFs of registered AIFMs	–	–	–	30	29
EuVECA	–	–	–	–	3
Other managed AIFs	–	–	–	–	6
Total	1 127	1 132	1 081	1 052	1 063
FOREIGN AIFs					
Article 29 AIFMG	–	–	–	–	3
Article 31 AIFMG	–	–	–	–	437
Article 31 in conj. with Article 29 AIFMG	–	–	–	–	5
EUSEF	–	–	–	–	2
EuVECA	–	–	–	–	31
Other AIFs	–	–	–	–	3
Total	–	–	–	–	481

SUPERVISED COMPANIES/LICENSING

As at the reporting date of 31 December 2015, 24 investment fund management companies held a licence pursuant to the InvFG 2011. No new licences were issued in accordance with the InvFG 2011, and no licences were extended pursuant to Article 5 para. 2 nos. 3 and 4 InvFG 2011.

Six licensing processes were implemented in accordance with the AIFMG in 2015. As at 31 December 2015, 27 AIFMs were licensed with the FMA. One additional licence for the provision of individual portfolio management for individual customers (Article 4 para. 4 no. 1 AIFMG) and for the provision of investment advice as an ancillary service (Article 4 para. 4 no. 2a AIFMG) was granted during the reporting year.

If an AIF manages assets of less than € 100 million or if an AIF manages assets of less than € 500 million but does not make use of leverage, and the investors are not permitted to exercise any redemption rights for a period of five years in both cases, no FMA licence is required but the AIF must at least register with the FMA. The FMA received three such registration notifications in 2015. Following review, the three notifications were acknowledged by the FMA. In total, the FMA has registered 22 AIFMs to date. One AIFM was deregistered in 2015. Consequently, at the end of the year there were 21 AIFMs registered with the FMA.

As at 31 December 2015, five real estate investment fund management companies were licensed in Austria, managing a total of six retail real estate funds and three special real estate funds, all of which were AIFs. No new licences for real estate investment fund management companies were granted in 2015. All five real estate investment fund management companies were licensed with the FMA as AIFMs as at 31 December 2015.

In total, 2 136 funds of domestic investment fund management companies and/or AIFMs were registered for sale in Austria (2014 year-end: 2 152). As at the year-end, 21 registered AIFMs were managing a total of 32 AIFs (of which three EuVECAs) in Austria. The changing number of domestic funds over the past five years,

including both UCITS (undertakings for collective investment in transferable securities) and AIFs, is shown in Table 25.

FREEDOM TO PROVIDE SERVICES AND FREEDOM OF ESTABLISHMENT

Investment fund management companies based in the European Economic Area (EEA) that make use of the freedom to provide services or establish a branch in another Member State in accordance with the Undertakings for Collective Investment in Transferable Securities Directive (UCITS Directive) may offer the activities for which they hold a licence in their home state throughout the EEA following notification. This similarly applies to licensed AIFMs who, pursuant to the AIFM Directive, are authorised to manage AIFs on a cross-border basis and/or to sell AIFs on a cross-border basis throughout the EU after having completed the notification process.

In total, 7 026 funds of domestic investment fund management companies and/or AIFMs were registered for sale (2014 year-end: 6 382). Also during the reporting year, 448 EU AIFs, 31 European Venture Capital Funds (EuVECAs) and two European Social Entrepreneurship Funds (EuSEFs) from other Member States were licensed for sale in Austria. The changing number of domestic funds over the past five years, including both UCITS and AIFs, is shown in Table 25.

UCITS

There were ten Austrian investment fund management companies operating in the EEA outside Austria during 2015 and therefore making use of the freedom to provide services in the Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Liechtenstein, Luxembourg, Malta, the Netherlands, Poland, Slovakia, Slovenia, Spain, Sweden and the UK. Conversely, a total of 61 companies from Belgium, Denmark, France, Gibraltar, Germany, Italy, Liechtenstein, Luxembourg, the Netherlands, Norway, Spain and the UK were represented in Austria under the freedom to provide services in 2015. With regard to the freedom of establishment applicable to UCITS, two Austrian investment fund management companies have a branch office abroad. One investment fund management company has a branch in both Germany and Italy, and another operates a branch in the Czech Republic. Conversely, four foreign companies (three from Luxembourg and one from France) are currently active in Austria under the freedom of establishment.

AIFs

Two Austrian AIFMs availed themselves of the freedom to provide services in the EEA during the 2015 reporting year. These two AIFMs operate in Germany, Italy, Liechtenstein, Luxembourg, Slovenia and the UK. Meanwhile, there were 67 EU AIFMs, primarily from the UK but also from France, Luxembourg, Malta and the Netherlands, active in Austria through the freedom to provide services, based on the passport regime defined in the AIFM Directive. One company from Luxembourg took advantage of the freedom of establishment set out in the AIFMG by setting up a branch in Austria.

SUPERVISORY PROCEDURES

The supervisory procedures encompass both notification and approval processes. The fund-specific notification procedures relate in particular to the submission of reports on activities, half-yearly reports and special fund reports, as well as the submission of notifications regarding the closure of any funds and material changes as defined in Article 29 para. 5 AIFMG. Mention should also be made in this regard of the notification procedures (known as the "European passport"), during which the FMA passes documents to the responsible authority of the Member State in question. The approval procedures covered by the InvFG 2011 relate, for example, to the issuing of new funds and any changes to existing investment fund regulations, as well as the approval of mergers, management transfers and custodian bank changes. With regard to the AIFMG, the granting of marketing licences is a key area.

The number of official notification and approval processes in 2015, at 5 364, was down on the previous year (2014: 6 547 processes). This decrease is mainly attributable to the fact that, during 2014, a marketing licence in accordance with Article 29 para. 3 AIFMG needed to be granted for each individual managed AIF following the respective AIFMG licensing process. As in 2014, there were numerous mergers of investment funds during the reporting year. One of these involved a cross-border transaction, with four Austrian UCITS being merged into four receiving UCITS based in Luxembourg. Notably, for the first time, an Austrian investment fund management company transferred eight UCITS to a foreign company using the management company passport scheme. The management company passport enables the German company in question to manage and sell Austrian UCITS.

Two changes to fund regulations were approved in total in relation to all five real estate management companies. There was one instance of a decision imposing the appropriate measures on a real estate investment fund management company pursuant to Article 70 para. 4 BWG. Compliance with statutory provisions was restored in good time.

Owner control procedures in relation to investment fund management companies were implemented in eight cases in 2015. The number of such procedures relating to real estate investment fund management companies totalled four during the same period.

One cross-border merger related to an investment fund management company, while one investment fund management company from another Member State was merged into an Austrian company. In addition, one investment firm was merged into an investment fund management company pursuant to Article 10 para. 6 InvFG 2011 in conjunction with Article 21 para. 1 BWG.

CONTINUED SUPERVISION

REPORTING AND INFORMATION SOURCES

Investment fund management companies are required to comply with the notification and reporting provisions contained in the BWG and the InvFG 2011 and must also meet the reporting obligations specified in the Fourth Regulation on Risk Calculation and Reporting of Derivative Instruments (*4. Derivate-Risikoberechnungs- und Meldeverordnung*) by reporting the derivatives belonging to the fund assets and the related overall risk using a standardised reporting format. Similarly, the state commissioners appointed at (real estate) investment fund management companies are obliged to prepare regular reports for submission to the FMA. Investment fund management companies, real estate investment fund management companies and AIFMs are also required to submit their annual audited financial statements to the FMA in good time, with the fund management companies also being required to submit the annex to the audit report.

The reporting process for licensed AIFMs is defined in Article 22 AIFMG, while registered AIFMs are covered by the provisions of Article 1 para. 5 no. 4 AIFMG. These are fleshed out in the AIFM Reporting Regulation (AIFM-MV; *Alternative Investmentfonds Manager-Meldeverordnung*) with regard to the reporting obligations of AIFMs and the reporting type, format and systems applicable to the data being reported. On this basis, the AIFMs must inform the FMA regularly of the main markets and instruments in or with which they are trading for the account of the AIFs that they manage. The AIFM must also submit information on matters such as the greatest risks and concentrations of each of the AIFs being managed. So that systemic risks can be effectively monitored, the FMA must forward the data that it collects to the OeNB for the purposes of macroprudential analysis. The OeNB, in turn, must forward the results of its analysis to the FMA without delay if any systemic risks are detected. Additionally, the FMA must, where necessary to perform the required tasks, make all of the above information available to the responsible authorities in other affected Member States, to ESMA and to the ESRB. For the purposes of improved assessment and monitoring of systemic risks facing Austrian AIFMs pursuant to Article 23 AIFMG, securities supervision has therefore been extended to include an element of macroprudential supervision.

DISCLOSURE OBLIGATIONS

Investment fund management companies must publish a current prospectus, a half-yearly report and a report on activities for each investment fund in addition to their current annual financial statements. These disclosure obligations are defined in the InvFG 2011.

The obligations also encompass the requirement that the company itself or its custodian bank, where one has been appointed, must publish the issue and repurchase price of units on every occasion on which units are issued or repurchased, but no less frequently than twice per month. Any major changes to the prospectus must also be published. Their customers must also be provided with a Key Investor Information Document (KIID).

The ImmoInvFG also stipulates disclosure obligations for real estate investment fund companies, with these being the same as those defined in the InvFG 2011. The only difference in the provisions concerns the KIID, which was not included in the ImmoInvFG. By way of a substitute, the real estate investment fund management company therefore continues to be required to publish a complete prospectus and a simplified prospectus, as well as any major changes to these documents.

An AIFM managing an AIF that falls under Directive 2004/109/EC (Transparency Directive) is required to publish the audited annual reports for that AIF. The AIF may also be obliged pursuant to Directive 2003/71/EC (Prospectus Directive) to publish a prospectus. An AIFM selling an AIF to retail customers is required to publish the AIF's net asset value either once a month (in the case of AIFs in real estate, managed futures funds) or twice a month (for private equity funds of funds and AIFs in company holdings). In the case of AIFs that have been authorised for sale to retail clients, a half-yearly report and a KIID must also be prepared.

ON-SITE INSPECTIONS

In accordance with Federal Law Gazette I No. 72/2010 of 18 August 2010, the FMA is responsible for on-site inspections of investment fund management companies, real estate investment fund management companies and corporate provision funds. The FMA is also responsible for carrying out on-site inspections pursuant to the AIFMG, as well as being charged with the task of on-site inspections of custodian banks pursuant to the InvFG 2011 and depositaries as defined in the AIFMG.

During 2015 there were nine on-site inspections of investment fund management companies, three at real estate investment fund management companies, three at corporate provision funds and five at custodian banks/depositaries. Eleven of these took the form of follow-up inspections.

MANAGEMENT TALKS

Management talks were held with all 24 investment fund management companies and five real estate investment fund management companies in 2015. Management talks were also held with four AIFMs that are only licensed or registered pursuant to the AIFMG. These talks focus on the performance and results of the previous year, investments, organisational changes and deviations from the business plan, and any other relevant issues.

SUPERVISION OF INVESTMENT FIRMS AND INVESTMENT SERVICE PROVIDERS

In accordance with Article 3 para. 2 of the 2007 Securities Supervision Act (WAG 2007; *Wertpapieraufsichtsgesetz*), the following investment services may only be provided commercially with the relevant licence granted by the Financial Market Authority (FMA): investment advice relating to financial instruments; portfolio management by managing portfolios for individual customers who authorise a certain degree of management discretion, provided that the customer portfolio contains one or more financial instruments; receipt and transmission of orders, provided that such activity involves one or more financial instruments; operation of a multilateral trading facility.

According to Article 1 no. 6 WAG 2007, financial instruments take the form of transferable securities, money market instruments, units in undertakings for collective investment in securities (UCITS) and in open-ended alternative investment funds (AIF), derivative contracts (particularly options, futures, forwards, swaps) relating to securities, currencies, interest rates, interest income, financial indices, derivative contracts relating to goods, derivatives designed to transfer credit risk, financial margin trading and derivative contracts relating to climate variables, freight rates, emission allowances, inflation rates and official economic statistics.

OFFICIAL TASKS

SUPERVISED COMPANIES

For the commercial provision of investment services the WAG 2007 stipulates two kinds of licences, each with a separate scope of authorisation in terms of type of investment service and the financial instruments related to these services: the licence for an investment firm as specified in Article 3 WAG 2007; and the licence for an investment service provider as specified in Article 4 WAG 2007.

The authorisation of an investment firm to provide one or more investment services can be without limitation, thus including all financial instruments stipulated in Article 1 no. 6 WAG 2007, and can be extended to the entire European Economic Area (EEA) through the issuing of a “European passport”.

With regard to the provision of investment services, investment service providers (unlike investment firms) are subject to the limitation that they may only provide investment advice and receive or transmit orders relating to financial instruments pursuant to Article 1 no. 6 lit. a and c WAG 2007, and they may only pursue these activities in Austria. Pursuant to Article 4 para. 2 WAG 2007, various relaxed licensing requirements apply to investment service providers. For instance, the appointment of a single managing director, who may also have another full-time occupation outside the banking, insurance or pension company sector, is sufficient. Also permitted are a free choice in the legal form of the company (in addition to corporations, partnerships and sole proprietorships may also offer investment services as investment service providers that require a licence) and substitution of the capital requirements with a professional liability insurance policy, while relaxations are in place concerning accounting and auditing.

The amendment of the WAG 2007, which entered into force in 2014, changed the legal framework for invest-

ment service providers such that companies may now be licensed as investment service providers up to a threshold of € 2 million of sales revenues generated by providing investment services; providers with sales revenues exceeding that figure may be exclusively licensed as investment firms. Previously, the threshold had been € 730 000 of total sales revenues.

Pursuant to Article 4 para. 4 of the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*), the FMA may grant an external alternative investment fund manager (AFIM) an additional licence to provide investment services. This encompasses the individual management of individual portfolios and, as ancillary services, investment advice, the holding in custody and technical management of AIF units, as well as the receipt and transmission of orders relating to financial instruments.

As at the reporting date of 31 December 2015, there were 123 companies in possession of a valid licence from the FMA entitling them to provide investment services pursuant to the WAG 2007. Of these companies, 66 held a licence as an investment firm pursuant to Article 3 WAG 2007 and 57 a licence as an investment service provider pursuant to Article 4 WAG 2007 (see Chart 27).

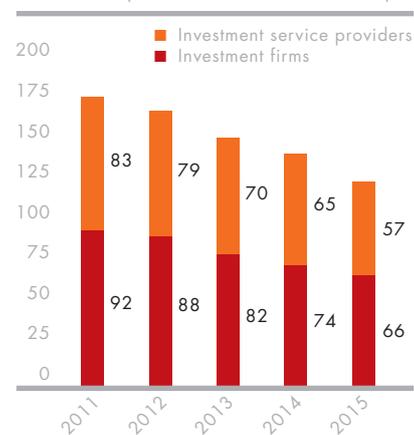
The comparison with data from previous years shows that the number of licences pursuant to WAG 2007 has dropped further in 2015. One licence was given up by an investment firm that had been authorised as an AIFM with an additional licence in 2015 and that continued to provide investment services on that basis. Formerly licensed investment firms and investment service providers generally continue to work in the field, as tied agents or securities brokers for another entity authorised to provide investment services, but without their own licence.

All of the 123 companies with a valid licence pursuant to the WAG 2007 were entitled to provide investment advice relating to financial instruments, with 42 investment firms authorised to manage client portfolios. In all, 120 investment firms and investment service providers were entitled to receive and transmit orders, to the extent that such activity involved one or more financial

instruments. As at the end of the reporting year, 45 Austrian investment firms held a European passport for the provision of investment services in the EEA, with five of these undertakings maintaining branches in the EEA.

In terms of the geographical distribution of the licensed investment firms and investment service providers within Austria, a total of 67 undertakings or nearly 54.5% of all licensed undertakings had their registered office in Vienna as at the reporting date of 31 December 2015. Upper Austria was the next federal province in the list, with 13 companies, followed by Salzburg with 11 licensed companies.

Chart 27: **Number of valid licences 2011–2015** (source: FMA licence database)



NEW LICENCES GRANTED TO INVESTMENT FIRMS AND INVESTMENT SERVICE PROVIDERS

In 2015 one new licence application was submitted to the FMA pursuant to the WAG 2007. Two new licences were awarded in accordance with the WAG 2007, one to an investment firm and one to an investment service provider. Thus the trend towards corporations continued, as seen in previous years, with this form of company now accounting for around 82.11% of all firms licensed pursuant to the WAG 2007.

Using the FMA website at www.fma.gv.at investors and interested members of the public can access the corporate database at any time to check whether a provider holds an FMA licence. The information available online also includes the scope of the licences held by the respective investment firms and investment service providers, and contact addresses for the licensed undertakings.

AGENTS OF INVESTMENT FIRMS AND INVESTMENT SERVICE PROVIDERS

Investment firms and investment service providers are allowed to use vicarious agents for the provision of

investment services. These agents may, without themselves having to hold a licence pursuant to the WAG 2007, perform investment services on behalf and for the account of the licensed firm. There are two legal forms for such agents, the tied agent and the securities broker.

TIED AGENTS

Tied agents may be natural or legal persons. They are bound by the principle of exclusivity, which means that a tied agent may only work for one single investment firm, credit institution, insurance undertaking or branch of an investment firm or credit institution. Tied agents may be appointed for the purposes of promoting the services of the investment firm, soliciting new business or receiving orders from clients and transmitting them, and for providing investment advice with regard to financial instruments and services offered by the legal entity.

An investment firm that appoints a tied agent is liable pursuant to Article 1313a of the General Civil Code (ABGB; *Allgemeines Bürgerliches Gesetzbuch*) for each and every act or failure to act of the agent where that agent is acting in the name of the legal entity. Therefore, the investment firm is obliged to monitor the agent's activities accordingly. If tied agents reside in Austria, they must hold a trade licence for the commercial provision of investment advice pursuant to Article 136a of the Trade Act (GewO; *Gewerbeordnung*) and must be entered in the public register kept by the FMA.

As at the reporting date of 31 December 2015, 26 Austrian investment firms were using 1 731 tied agents for the provision of investment services. There were 15 tied agents registered with investment firms from the EEA based in Austria and 678 such agents working with Austrian credit institutions. All in all, 241 companies in the form of a legal entity were registered with the FMA as tied agents.

SECURITIES BROKERS

Unlike the remit of tied agents, the scope of activities to be performed by a securities broker is limited. Only natural persons may serve as securities brokers. The securities broker may only provide services in Austria and requires a trade licence pursuant to Article 136a or 136b GewO. The profession of securities broker is a regulated trade, which means that a certificate of qualification is required to obtain the authorisation to exercise the profession. Unlike the activity of tied agents, that of the securities broker is limited to investment advice and the receipt and transmission of orders in relation to financial instruments pursuant to Article 1 no. 6 lit. a and c WAG 2007. This relates to transferable securities and units in investment funds and open-ended alternative investment funds. The securities broker may act on behalf and for the account of a maximum of three investment firms/investment service providers, but not for credit institutions or insurance undertakings. Securities brokers provide their services for investment firms and investment service providers in the capacity of vicarious agents, and their actions are attributed to the respective legal entity. This is why the investment firm or investment service provider is liable for their vicarious agent pursuant to Article 1313a ABGB regardless of whether the securities broker discloses the respective principal or not. The provisions of Article 136d GewO on the joint and several liability of all investment firms and investment service providers that have entered the same securities broker in the FMA register apply accordingly. This joint and several liability applies where the securities broker has not clearly disclosed the identity of the principal under the terms of the contract.

Like tied agents, securities brokers must also be entered in the public register kept by the FMA. Appointing securities brokers for the provision of investment services presupposes that this has been approved in the administrative decision granting the licence issued to the investment firm or the investment service provider.

As at 31 December 2015, 73 Austrian investment firms and investment service providers were entitled to provide services through securities brokers. Of these, only 37 actually exercised the right granted to them. As at 31 December 2015, 833 individuals acting as securities brokers for investment firms or investment service providers had been registered with the FMA.

Up-to-date information on the tied agents and securities brokers registered with the FMA can be found on the FMA website at www.fma.gv.at. This gives investors a means of checking whether or not a particular individ-

ual is actually registered with the FMA as a tied agent or securities broker and entitled to provide investment services.

CONTINUED SUPERVISION OF INVESTMENT FIRMS, INVESTMENT SERVICE PROVIDERS AND ALTERNATIVE INVESTMENT FUND MANAGERS WITH AN ADDITIONAL LICENCE

The FMA supervises all licensed investment firms and investment service providers, as well as AIFMs with an additional licence, in terms of their compliance with the obligations set forth in the WAG 2007. These obligations include, in particular, adherence to the extensive organisational requirements of the WAG 2007, such as for example the obligation to establish an independent compliance function, a risk management function and an internal audit function, as well as observance of recording duties. A central aspect is the supervision of compliance with the statutory codes of conduct based on classification of the respective institution's clients as retail customers, professional clients or eligible counterparties. Further obligations of the WAG 2007 covered by securities supervision include adherence to the licensing requirements, the scope of the licence granted, the notification and reporting obligations and the duties of presentation, as well as the provisions on accounting and the annual audit.

Once a year, investment firms and investment service providers must appoint an auditor to prepare an audit report pursuant to Articles 73 and 74 WAG 2007. This report serves to document verification of compliance with the statutory provisions and must be submitted to the FMA no later than six months after the audited company's financial year-end, which in the case of most investment firms and investment service providers means by 30 June.

Pursuant to the FMA Cost Regulation (FMA-KVO; *FMA-Kostenverordnung*), the companies liable to pay costs also have to report the sales revenues from their investment services activities to the FMA by this date. The preparation, verification and analysis of the financial statements, audit reports and reporting data provide decisive indicators with regard to implementation of and compliance with statutory standards governing the provision of investment services by the supervised companies; they also provide a starting point for supervisory measures.

A further important supervision tool is the electronic analysis questionnaire for investment firms and investment service providers, which must be completed online on the FMA website. The questionnaire consists of six modules and contains 42 questions. These are grouped into the following topics: company information, own funds and insurance cover, corporate structure – branches and staff, organisational structure pursuant to the WAG 2007, business activities and customer structure. The evaluation of the analysis questionnaires gives the FMA valuable insights into the activities of the supervised companies as well as into the market of investment service providers, and also provides every evaluated company with information and tips that can be used to review and optimise their internal processes.

EEA INVESTMENT FIRMS

The Markets in Financial Instruments Directive (MiFID) provides the basis on which investment firms from the EEA may operate throughout the entire EEA both through branches and under the freedom to provide services. To make use of this freedom of establishment and freedom to provide services, investment firms, having obtained the corresponding licence, must provide notification of their operations in the respective country through their home supervisory authority. Having this "European passport" means that investment firms are entitled, pursuant to MiFID, to provide any investment services that they are licensed to provide in their home Member State also in those Member States that are included in the notification process, without the need for any further licensing processes.

In 2015 there were 2 510 investment firms with their head offices situated in another EEA Member State that were authorised to provide investment services in Austria under the freedom to provide services. Such authorisation is provided in the form of the European Passport. It may, however, also apply if there is a branch in

Austria with regard to which the competent partner authority abroad has provided appropriate notification to Austria. As at the end of 2015, 18 branches of EEA investment firms were operating in Austria on the basis of such notification. Compared with the 2 439 firms that had provided notification of their operations in Austria in 2014, the number of EEA investment firms entitled to provide investment services in Austria has therefore increased. During the reporting year, 1 820 firms or around 72% of the firms that had provided notification of their operations in Austria came from the UK. This was followed by Germany with 177 notified companies, Cyprus with 155 and the Netherlands with 54.

ON-SITE INSPECTIONS AND MANAGEMENT TALKS

During the year under review, on-site inspections were carried out with regard to 34 investment firms and investment service providers, two of which were conducted in response to current issues (see Table 26). By way of comparison, 30 on-site inspections were carried out in 2014, seven of which tackling a current issue. Within the scope of an on-site inspection, the FMA is entitled to request information from the companies and their bodies concerning any business matter, and examine all books, documents and data media of the companies under inspection. In addition, statutory auditors can obtain audit reports and information. On-site inspections focus on verifying compliance with the provisions of the WAG 2007 according to the specific inspection mandate, particularly compliance with organisational obligations and the rules of conduct. Compliance with the scope of the licence and with any stipulations or limitations prescribed by administrative decision is also monitored.

In 2015 the FMA made 13 company visits to investment firms and investment service providers, two of which in response to a current issue. Company visits are usually conducted on site of the licensed companies and primarily focus on obtaining site-related information from the supervised companies. Where critical operational functions of a licensed company are outsourced to third parties (service providers), the FMA is also

entitled to make use of its right to obtain access and to demand information from the service provider.

A total of 67 management talks were held with investment firms and investment service providers in the reporting year. These talks with the management of supervised companies usually take place at the offices of the FMA and are particularly used to discuss mutual issues and to exchange information between the supervisor and management in a direct and swift manner. Such talks are also used within the context of official processes as a means of observing the obligation to hear the parties involved, as well as within the framework of “fit and proper” tests of prospective directors of supervised companies.

The number of administrative penal proceedings was slightly up again, after having declined markedly in previous years.

Table 26: **On-site activities 2011–2015** (source: FMA)

	2011	2012	2013	2014	2015
On-site inspections	38	36	30	30	34
Scheduled	29	29	22	23	32
Current issue-related	9	7	8	7	2
Management talks	143	135	118	92	67
Company visits	38	36	30	30	13
Scheduled	–	–	–	–	11
Current issue-related	–	–	–	–	2

Table 27: **Administrative penal proceedings concluded in relation to the WAG – investment firms incl. unauthorised business 2011–2015** (source: FMA register)

	2011	2012	2013	2014	2015
Suspensions	18	15	1	13	9
Admonition orders	0	0	2	1	3
Penal decisions	53	19	21	8	7
Penal orders	12	18	15	4	11
Total	83	52	39	26	30

SUPERVISION OF FINANCIAL CONGLOMERATES

The worldwide trend of credit institutions, insurance undertakings and investment firms increasingly operating across more than one sector brings with it additional and cumulative risks. In the event of a crisis, this interlinking of the different areas of activity means that the impact would be felt across all of the sectors through risk transfer (in relation to catastrophe bonds or asset backed securities, for example) or the emergence of synchronised risks, on both the asset and the liability side of the balance sheet. This is why all types of risk, regardless of the financial sector in which they originate, must also be tracked at conglomerate level.

Directive 2002/87/EC (Financial Conglomerates Directive) subjects conglomerates to supplementary supervision, responsibility for which, as far as Austria is concerned, lies with the FMA. A financial conglomerate is defined as a group comprised of full or pro rata participations in companies from different financial sectors (insurance undertakings, banks, investment service providers) that has some relevance to the stability of the financial market.

SUPERVISED COMPANIES

In Austria, based on the statutory rules, the following groups are subject to supplementary supervision pursuant to the Financial Conglomerates Act (FKG; *Finanzkonglomeratengesetz*), which transposes the European directive into Austrian law:

- Bausparkasse Wüstenrot AG and Wüstenrot Versicherung AG – Coordinator FMA;
- Grazer Wechselseitige Versicherung AG with the Hypo-Bank Burgenland AG banking group (whose member companies include Hypo-Bank Burgenland AG, Sopron Bank Burgenland Rt., Capital Bank – GRAWE Gruppe AG, Brüll Kallmus Bank AG, Bankhaus Schelhammer & Schattera Aktiengesellschaft) – Coordinator FMA; and
- Raiffeisenzentralbank Österreich AG and its significant investment in UNIQA Insurance Group AG – Coordinator ECB.

An amendment to the FKG in relation to the implementation of a change to the Directive means that the FMA may now exclude conglomerates from supplementary supervision at conglomerate level if the group exceeds the threshold defined in Article 3 para. 2 FKG (10% of activity in one of the two financial sectors in each case) and the smaller of the financial sectors does not exceed total assets of € 6 billion. This would apply to two groups in Austria. To date, the FMA has yet to make use of this option, however, as both of the financial conglomerates concerned are major players on the domestic financial market and the provisions of the FKG provide for a supervisory perspective that extends beyond individual sectors.

As part of the implementation of the new supervisory rules in banking and insurance supervision (CRD IV and Solvency II), the respective industry laws now stipulate that a consolidated overview of the financial conglomerate should be maintained in some areas. The impact of these new rules on the exemption option described above will be subject to ongoing monitoring and analysis.

Where a financial conglomerate includes a credit institution that is directly supervised by the ECB within the Single Supervisory Mechanism (SSM), that financial conglomerate will also be supervised directly by the ECB. In Austria, this applies to the financial conglomerate Raiffeisenzentralbank Österreich AG with its investment in UNIQA Insurance Group. As with banking supervision in the SSM, the supervision of financial conglomerates is, however, based on a decentralised approach under the leadership of the ECB, in other words with key input from the FMA.

CONTINUED SUPERVISION

In addition to the task of using the annual financial statements to determine which groups based in Austria are subject to separate supervision under the FKG, the FMA is also responsible for observing and analysing the groups' risk situation and how this develops on an ongoing basis. To this end, the groups concerned are required to report certain data and key figures to the supervisory authority on a regular basis pursuant to the Financial Conglomerate Quarterly Reporting Regulation (FK-QUAB-V; *Finanzkonglomeratequartalsberichtsverordnung*).

Pursuant to Article 15 para. 1 FKG, the FMA may also perform on-site inspections at companies that are subject to supplementary supervision. The focus of such inspections is on the group structure, group strategy, financial position and organisation, risk management and internal control system at the level of the respective financial conglomerate.

In addition to the sector-based supervision requirements at group level, comprising the Austrian Banking Act (BWG; *Bankwesengesetz*), the Capital Requirements Regulation (CRR) and the Insurance Supervision Act (VAG; *Versicherungsaufsichtsgesetz*), which already make provision for sector-wide risk management, an appropriate sector-wide risk management system encompassing also the financial conglomerate as a whole is required under Article 11 para. 2 FKG. Against the background of developments since the financial crisis, the FMA has focused its supervision here on risk management and internal control systems. Additionally, from the FMA's perspective, scenario analysis at conglomerate level is crucial in order to arrive at a group-wide risk assessment and position.

COMPLIANCE SUPERVISION

Compliance contributes significantly towards strengthening the confidence of market participants in the Austrian capital market. The concept generally denotes adherence to laws, guidelines, rules of conduct, regulations and established practices. Appropriate compliance has the purpose of avoiding administrative sanctions as well as penalties defined by criminal or civil law. As a management responsibility, compliance is specifically a means of controlling business and reputational risks.

Compliance, in the sense of establishing an efficient company organisation for the purpose of fulfilling and meeting supervisory requirements that are aimed at strengthening financial market stability, has become increasingly important in recent years. Supervisory legislation now includes highly concrete and detailed requirements for a company's compliance plan and for establishing a compliance function.

In the context of its compliance supervision duties, the Financial Market Authority (FMA) monitors adherence by credit institutions, management companies (investment fund management companies), issuers, insurance undertakings and *Pensionskassen* to the rules of conduct and compliance-related provisions contained in the relevant supervisory laws such as the Stock Exchange Act (*BörseG; Börsegesetz*), 2007 Securities Supervision Act (*WAG 2007; Wertpapieraufsichtsgesetz*) and the 2011 Investment Fund Act (*InvFG 2011; Investmentfondsgesetz*).

SUPERVISED COMPANIES

As at the reporting date of 31 December 2015, the following entities were subject to compliance supervision by the FMA (comparable figures for 2014 given in brackets):

- 742 credit institutions licensed in Austria (748), including 29 investment fund management companies (29);
- 41 insurance undertakings established and licensed in Austria (43), including six mutual associations;
- 13 Austrian *Pensionskassen* (14), including six single-employer and seven multi-employer; and
- 143 issuers (157), including 72 subject to the provisions of the 2007 Compliance Decree for Issuers (*ECV 2007; Emittenten-Compliance-Verordnung*¹).

CONTINUED SUPERVISION

ON-SITE INSPECTIONS, COMPANY VISITS AND MANAGEMENT TALKS

On-site inspections are a particular means of verifying adherence to compliance-related provisions of law in a targeted way. These provisions are specified in Article 91 para. 3 no. 3 WAG 2007, Article 48q para. 1 no. 3 in conjunction with Article 86 para. 6 no. 8 *BörseG*, Article 3 para. 8 of the Austrian Banking Act (*BWG; Bankwesengesetz*) in conjunction with Article 147 paras. 1 and 2 *InvFG 2011*, as well as Article 56 paras. 1 and 2 no. 3 of the Alternative Investment Fund Managers Act (*AIFMG; Alternatives Investmentfonds Manager-*

¹ Issuers whose shares or securities similar to shares are admitted to trading on a regulated market in Austria are governed by the terms of the ECV 2007.

Gesetz). The FMA reviews the extent to which the compliance mechanisms in place meet the statutory requirements and whether the rules of conduct are actually being upheld in practice.

Additional supervisory measures include company visits and management talks. These are used above all as a means of maintaining ongoing contact with the supervised companies in order to raise the market standard in the area of compliance and to enable discussions of specific problems in response to current issues. Targeted

use is also made of management talks as a follow-up measure. In total, 87 on-site measures/management talks were conducted in 2015 (see Table 28).

The FMA also analyses the annexes to audit reports prepared by the auditors in accordance with Article 63 paras. 5 and 7 BWG, as well as analysing the compliance guidelines submitted by supervised companies and the annual reports on activities submitted by issuers.

Where necessary, the FMA uses a fit and proper test to determine whether compliance officers and managers of credit institutions have the requisite expertise in the area of rules of conduct and compliance.

Table 28: Supervisory measures 2011–2015

	2011	2012	2013	2014	2015
On-site inspections	12	11	11	15	14
Management talks	32	32	36	36	26
Company visits	20	18	25	35	47
Total	64	61	72	86	87

OFFICIAL PROCESSES

If facts emerge in a specific case during the FMA’s supervisory activities indicating that a supervised company has possibly acted in breach of its rules of conduct in accordance with the relevant legal provisions, an investigation is launched to examine and clarify the case.

The FMA initiated a total of 68 such investigations during the reporting year.

Where an existing situation of non-compliance with statutory provisions is identified in the course of supervisory activities, the FMA’s primary interest is to have legal compliance restored. The FMA will confront the company concerned with the existing defects and call upon it to define and implement remedial measures. To determine the extent to which the defects have been eliminated, the FMA will then implement regular follow-up measures.

Within the context of compliance supervision, supervisory measures are therefore implemented both on a scheduled basis and as cases arise. Such measures may either serve to review the complete range of supervisory issues relating to compliance supervision or may be limited to individual topics or cases subject to supervision.

DIALOGUE WITH STAKEHOLDERS

The FMA’s Compliance Division maintains a continuous dialogue with representatives of the supervised companies and their interest groups. The key objective of compliance supervision – in line with the notion that prevention is better than cure – is to create more awareness of adherence to rules of conduct and compliance, thus ensuring that the supervised companies comply with the relevant regulations. To this end, the FMA experts regularly provide information about compliance rules and the FMA’s supervisory practice in workshops, training sessions, seminars, meetings and public discussions. Specifically, 21 talks on compliance supervision were given in 2015. All of this is done to enforce uniform high standards in investor protection in the Austrian capital market, to strengthen investor confidence and consequently to contribute to the smooth functioning of the capital market.

LEGAL SUPERVISION OF EXCHANGE OPERATING COMPANIES

During the period under review, the only exchange operating company established in Austria was, once again, the Vienna Stock Exchange, for which the licensed operator and assigned legal entity under private law is Wiener Börse AG. The Vienna Stock Exchange does however also execute some official functions itself (e.g. in the admission of financial instruments to trading). To this extent it may be viewed as an “enterprise charged with the fulfilment of sovereign functions”, or as being a partly official entity. In addition to two regulated markets (official market and second regulated market), it also operates the “third market”, which, in the capacity of a multilateral trading facility (MTF), is only subject to the terms of the Stock Exchange Act (BörseG; *Börsegesetz*) and to supervision to a limited extent. The level of protection available to investors in this third market segment is therefore greatly reduced.

The FMA’s supervisory competence for the stock exchange is based on a large number of regulations contained in the BörseG, which in turn are derived from provisions found in various EU directives. Article 45 of the BörseG plays a key role in this regard: the provision authorises the FMA to take measures affecting the exchange operating company and also serves as a general guideline, specifying the criteria for exercising other powers as an authority.

Once again in 2015, the FMA was required to deal with various requests from the exchange operating company relating to changes to its General Terms and Conditions of Business (one of the specific responsibilities of the FMA in the area of legal supervision). Examples included adjustments to the “Rules for the Technical Installations of the Trading Systems” of Wiener Börse AG in which new obligations regarding the marking of orders generated on the basis of trading algorithms were implemented. While the ESMA Guidelines on “Systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities” (ESMA/2012/122) anticipated the regulation of algorithmic trading, further changes are to be expected in this area with the imminent application of Directive 2014/65/EU (MiFID II).

The institutional environment (in terms of company law and with regard to cooperation) in which the Vienna Stock Exchange operates was subject to change during the reporting period. Wiener Börse AG remains part of the CEE Stock Exchange Group (CEESEG), which is ultimately owned by Austrian credit institutions and issuers. However, the CEESEG sold its holding in the Budapest Stock Exchange, as well as its stake in the Ljubljana Stock Exchange (it was sold to Zagreb Stock Exchange, with which, however, a parallel cooperation agreement on the sharing of trading technology was put in place), which means that the CEESEG now essentially comprises the holdings in Wiener Börse AG and in the Prague Stock Exchange.

Central Counterparty Austria GmbH (CCP.A), which is a joint subsidiary of the Vienna Stock Exchange and Österreichische Kontrollbank AG, remains the clearing agency for securities trading. In terms of energy trading, cooperation arrangements are still in place between Wiener Börse AG and Energy Exchange Austria Abwicklungsstelle für Energieprodukte AG (EXAA) with regard to the commodities but not the securities sector, and between Wiener Börse AG and Central European Gas Hub AG (CEGH) with regard to both the commodities and the securities trading sector.

As far as the strategic direction of Wiener Börse AG itself is concerned, greater involvement on the part of

market makers has been observed. In exchange for more favourable fees, the market makers assume responsibility for offering stable buy and sell prices or “quotes” on the market, thereby improving its liquidity.

SUPERVISION OF THE STOCK EXCHANGE AND SECURITIES TRADING



With regard to supervision of the stock exchange and securities trading, the FMA monitors compliance with the provisions of the Stock Exchange Act (*BörseG; Börsegesetz*) and the 2007 Securities Supervision Act (*WAG 2007; Wertpapieraufsichtsgesetz*). The overriding objective as laid down in the law is to ensure orderly and fair trading in listed securities.

The FMA's core responsibilities in this area of supervision are as follows:

- To expose the misuse of inside information and, in accordance with statutory responsibilities, to introduce measures to prosecute these offences. Insider dealing is a criminal offence which, when reported by the FMA, is liable to prosecution by the Central Public Prosecutor for Economic Crime and Corruption (WKStA) and to punishment by the courts of law. The FMA is responsible for monitoring trading to ensure that it is orderly and fair, and for reporting to the WKStA the facts ascertained in cases where reasonable suspicion exists that the prohibition of insider dealing has been violated. As a rule, the FMA is subsequently commissioned with further investigations.
- To expose market manipulation and the violation of trading rules of the Vienna Stock Exchange and to prosecute these offences.
- To monitor compliance with statutory disclosure, reporting and information obligations and to prosecute any violations within the framework of administrative penal proceedings.

SUPERVISED COMPANIES

As at 31 December 2015, a total of 7 912 securities from 141 issuers were listed on the official market and the second regulated market of the Vienna Stock Exchange. An additional 1 442 securities from a total of 353 issuers were listed on the third market, which has been operated as a multilateral trading facility (MTF) since 2007 (see Table 29).

Compared with the previous year, the number of issuers on the official market and the second regulated market fell slightly (2014: 146 issuers), whereas there were clearly more issuers on the third market (2014: 221).

REPORTING AND INFORMATION OBLIGATIONS

INSTITUTIONS UNDER REPORTING OBLIGATIONS

Companies that conclude transactions in listed financial instruments are required pursuant to Article 64 WAG 2007 to report each transaction to the FMA. Such companies include Austrian credit institutions and Austrian branches of foreign credit institutions. Instruments subject to reporting obligations are financial instruments, such as for example transferable securities that are admitted to trading on a regulated market or for which an application for admission to trading on a regulated market has been made. It is of no importance in this regard whether the transaction was concluded or executed on a regulated market. Companies under reporting

Table 29: **Supervised markets, issuers and securities 2011–2015** (source: Wiener Börse AG)

NUMBER OF ISSUERS	2011	2012	2013	2014	2015
OFFICIAL MARKET AND SECOND REGULATED MARKET					
Foreign shares	6	6	7	6	5
Domestic shares	70	67	65	67	64
Profitsharing certificates	1	1	1	1	1
Warrants	3	3	2	2	2
Participation certificates	2	2	2	2	1
Bonds	91	97	95	93	93
Certificates	12	12	10	7	6
Exchange traded funds	4	3	3	2	2
Total issuers	158	157	152	146	141
THIRD MARKET					
Foreign shares	11	9	13	11	8
Domestic shares	18	17	17	15	15
Profitsharing certificates	4	3	4	4	4
Warrants	4	2	1	1	2
Participation certificates	1	1	1	1	1
Bonds	172	182	175	188	322
Certificates	12	11	11	9	6
Investment funds	0	1	1	1	1
Total issuers	210	216	213	221	353
NUMBER OF LISTED SECURITIES					
OFFICIAL MARKET AND SECOND REGULATED MARKET					
Foreign shares	6	6	7	6	5
Domestic shares	76	73	71	73	70
Profitsharing certificates	2	2	2	2	2
Warrants	2 286	1 857	1 684	1 529	1 510
Participation certificates	2	2	2	2	1
Bonds	2 802	2 808	2 616	2 359	2 051
Certificates	3 389	3 336	4 084	4 064	4 264
Exchange traded funds	22	21	20	20	9
Total issuers	8 585	8 105	8 486	8 055	7 912
THIRD MARKET					
Foreign shares	11	9	13	11	8
Domestic shares	18	18	17	15	15
Participation certificates	4	3	4	4	4
Warrants	7	4	2	2	3
Participation certificates	1	1	1	1	1
Bonds	836	818	802	868	1 253
Certificates	108	82	151	179	157
Investment funds	0	1	1	1	1
Total issuers	985	936	991	1 081	1 442

obligations are required to report each transaction to the FMA; 709 companies were subject to this reporting obligation in 2015.

OTHER STOCK EXCHANGE MEMBERS

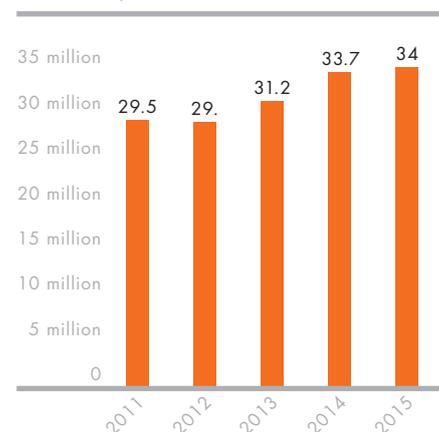
In addition, market participants that are based within the EU are required to report the securities transactions they carried out at the Vienna Stock Exchange to the authority of their home country, which subsequently forwards the reported data to the FMA. This regulation has been in effect since the implementation of the Markets in Financial Instruments Directive (MiFID) in 2007.

TRANSACTION REPORTING

In addition to ongoing activities such as monitoring compliance with the reporting obligation as defined in

Article 64 WAG 2007, special attention was given in 2015, as in previous years, to ensuring compliance with reporting deadlines and to general irregularities within the scope of the routine analyses of reports. In 2015, 10 614 814 securities transaction reports (including changes and cancellations) were submitted to the FMA by the institutions under reporting obligations pursuant to Article 64 WAG 2007. Of these roughly 10.6 million reports, 5 405 385 were forwarded to the partner authority within the EU competent in the particular case. In its role as competent authority, the FMA additionally received 23 399 889 transaction reports from other European supervisory authorities. This meant that the FMA received 34 014 703 transaction reports in total, which represents a slight increase (+0.8%) compared with the previous year (33 736 370 reports; see Chart 28).

Chart 28: **Transaction reports received 2011–2015** (acc. to Article 64 WAG 2007; source: FMA)



EMIR REPORTING

As one of the first European supervisory authorities, the FMA was able to change its interfaces to the six trade repositories authorised under EMIR to ensure an automated, daily flow of data. Efforts in 2015 also concentrated on measures to improve data quality.

MARKET SUPERVISION

The FMA's task is to ensure orderly and fair trading in listed securities, with specific obligations to expose any misuse of inside information, any market manipulation and any breaches of the Vienna Stock Exchange's trading rules.

Irregularities in trading become known to the FMA either through its own monitoring of the market, e.g. routine analyses performed on an ongoing basis, or through third-party observations. In this regard, the reporting requirement specified in Article 48d para. 9 BörseG is becoming increasingly relevant. In accordance with this provision, professionals who engage in transactions with financial instruments are required to notify the FMA immediately in the event that they become aware of facts and information leading to reasonable suspicion of a transaction constituting a case of insider dealing or market manipulation. Irregularities are subsequently investigated to determine either a plausible explanation or whether evidence exists pointing to a potential breach of a provision of law falling within the FMA's supervisory remit.

Where evidence pointing to a breach of law exists, further investigative measures suited to substantiating the suspicion are selected depending on the type of irregularity identified. For this purpose the FMA would, for example, investigate the trading behaviour of specific market participants or traders, or assess the investment behaviour of a client on the basis of previously reported transactions and identify recurrent trading patterns. Another example would be to examine trading days before and after a suspicious transaction. More in-depth information such as professional securities analyses are included in any detailed analysis of the order and/or transaction data. When conducting investigations, the FMA also makes full use of its rights to demand information and carry out inspections pursuant to the WAG 2007 and the BörseG, examining various documents, performing on-site inspections and interviewing the individuals involved.

In 2015, 1 402 routine analyses were carried out. Suspicions were substantiated in 79 cases and further analysis was performed. This subsequently led to the opening of an investigation, in 11 of those cases on account of suspected misuse of inside information and in 35 cases on suspicion of market manipulation or of a breach of trading rules. The number of investigations initiated in response to suspected misuse of inside information declined substantially on the previous year (2014: 20 investigations), while the number of investigations initiated on suspicion of market manipulation or breach of trading rules rose significantly (2014: 19 investigations, see Table 30).

Table 30: Market supervision 2011–2015

	ROUTINE ANALYSES	INVESTIGATIONS INTO MISUSE OF INSIDE INFORMATION, MARKET MANIPULATION AND VIOLATION OF TRADING RULES			
	Warnings computed	Investigations initiated	Investigations forwarded for internal legal processing	Investigations dropped/completed	Reports forwarded to the Central Public Prosecutor for Economic Crime and Corruption (WKStA)
2011	1 436	52	6	38	2
2012	1 209	61	7	25	1
2013	1 376	67	9	50	2
2014	1 380	61	10	31	3
2015	1 402	79	16	73	4

Table 31: Official assistance market supervision 2011–2015

	Enquiries addressed to foreign supervisory authorities			Enquiries received from foreign supervisory authorities		
	BaFin	FCA	Other	BaFin	FCA	Other
2011	2	2	9	25	0	27
2012	7	7	7	13	0	11
2013	6	5	11	34	0	21
2014	26	5	50	21	0	17
2015	13	2	18	22	0	16

During the period under review, 33 requests for official assistance were addressed to authorities in other countries, a figure reduced by more than half compared with the previous year (81 requests, see Table 31). There was not only a reduction in the number of enquiries made to the German Federal Financial Authority (BaFin), down from 26 requests in 2014 to 13 in 2015, and in the number of enquiries to the UK Financial Conduct Authority (FCA), falling from

five in 2014 to two in 2015, but also a considerable fall in the number of enquires made to other partner authorities, down from 50 to 18 requests. Considered over several years, however, it becomes clear that the number of enquiries addressed to foreign supervisory authorities had been exceptionally high in 2014, but moved back to around the medium-term average in 2015.

In contrast, the number of enquiries received from foreign authorities remained unchanged. As in the previous year, 38 enquiries were received in 2015, with

the majority (22 enquiries) having been made by the German partner authority BaFin.

As part of its investigative activities, the FMA also carried out special inspections on various subject areas in the reporting year. Rather than being induced by specific irregularities, such focus activities investigate and analyse in their entirety subject areas that have general relevance for investigative activities. The goal of these special investigations is to derive additional benefits for ongoing market observation. Special inspections can be launched in response to both insights gathered from ongoing market observation and information or reports submitted by external parties. Examples of activities during special inspections include investigating securities trading in certain sectors, analysing new trading strategies, selected market areas or the trading behaviour of a market participant over an extended period of time, or researching the risks entailed in electronic trading platforms that exist as alternatives to conventional exchanges.

MISUSE OF INSIDE INFORMATION

The law defines inside information as any information of a precise nature which has not been made public and relates directly or indirectly to one or more issuers of financial instruments or to one or more financial instruments, and which would be likely to have a significant effect on the price of those financial instruments or their derivatives were it to be disclosed, since an informed investor would be likely to use such information as part of the basis of their investment decision. Austrian law prohibits the misuse of inside information in Article 48b BörseG.

Anyone who as an insider intentionally takes advantage of inside information to secure a pecuniary benefit for themselves or a third party, either by buying or selling securities or by disclosing the information to third parties, shall be deemed to have committed the offence described above. A pecuniary benefit in this case refers not only to the generation of a profit but also to the avoidance of a loss. Misuse of inside information is punishable by imprisonment for up to five years or by a fine.

In 2015 a total of eleven investigations involving inside information were opened, and 23 were closed. In four cases, the FMA submitted a report pursuant to Article 48i para. 3 BörseG to the Central Public Prosecutor for Economic Crime and Corruption (WKStA) concerning the suspected misuse of inside information.

MARKET MANIPULATION

Austrian law defines market manipulation as transactions or buy/sell orders that:

- give, or are likely to give, false or misleading signals as to the supply of, demand for or price of financial instruments; or
- influence the price of one or several financial instruments by one person or several persons acting in collaboration in the intent to drive up prices to an abnormal or artificial level.

However, cases do not qualify as market manipulation where there were legitimate reasons for entering into the transactions or placing the orders, or the transactions or orders did not violate accepted market practices in the regulated market concerned.

Other actions falling under the criminal offence of market manipulation include transactions entered into or buy or sell orders placed under false pretences or by any other deceitful actions, and the dissemination, via the media, of information that sends out or may send out false or misleading signals relating to financial instruments; examples of the latter include disseminating rumours or false or misleading news where the individual who disseminated that information knew or should have known that it was false or misleading.

The FMA may impose a fine of up to € 150 000 for market manipulation as a criminal offence under administrative law.

In the year under review 35 investigations of suspected market manipulation were initiated, and 50 were completed.

SUPERVISION OF ISSUERS

The Austrian Stock Exchange Act specifies extensive transparency obligations, and the purpose of these regulations results from the recitals in Directive 2004/109/EC (Transparency Directive). First and foremost, the European lawmakers intended to strengthen investor protection and to boost market efficiency. Point (1) in the Transparency Directive's recitals states: "The disclosure of accurate, comprehensive and timely information about security issuers builds sustained investor confidence and allows an informed assessment of their business performance and assets. This enhances both investor protection and market efficiency."

Transparency obligations as specified in legislation governing securities exchanges must be met as soon as a security is listed in a regulated market. Examples of such include the official market and the second regulated market of the Vienna Stock Exchange.

As at 31 December 2015, a total of 141 issuers, accounting for a total of 7 912 securities listed on the official market and the second regulated market of the Vienna Stock Exchange, were subject to these disclosure obligations (source: Vienna Stock Exchange).

AD HOC DISCLOSURE

Ad hoc disclosure requirements apply in the event of inside information that relates directly to the issuer. Every issuer is required to first inform the FMA and the exchange operating company of the information that is subject to disclosure obligations before publishing it. The issuer must both pre-disclose and publicise the information independently of trading hours; this is to be done immediately, i. e. avoiding any negligent delay. In view of the immediacy required, the issuer is obliged to make appropriate preparations in order to avoid any delay as far as possible. The issuer must also take organisational measures to ensure that the information is immediately forwarded to an individual authorised to take decisions.

The ad hoc reporting requirement is therefore the regulatory instrument designed to prevent insider dealing,

Table 32: Ad hoc reports by subject matter 2011–2015 (source: FMA)

	2011	2012	2013	2014	2015
Share buyback/resale	29	18	14	27	11
Peculiarities/other items of ongoing business operations	71	110	116	112	87
Participations (acquisition, sale), partnerships	49	29	24	60	45
Financial reports/business figures	214	197	187	121	151
Large-scale order	10	5	2	3	2
Capital measures	68	28	29	36	44
Staff details	38	45	45	43	46
Forecasts, profit warning	8	1	5	13	3
Restructuring, recovery, insolvency	11	7	17	4	16
Strategic corporate decisions, investments	22	10	10	17	11
Management board meetings, resolutions	8	0	3	8	3
Total	539	450	462	444	419

inside information subject to ad hoc disclosure requirements or of publicising such information only with delay, incorrectly or incompletely. With respect to issuers taking advantage of the option of postponing ad hoc disclosure, the FMA also verifies whether appropriate legitimate interests existed at the time of postponement. In 2015, 419 ad hoc reports were published, compared with 444 in 2014 (see table 32). In 18 cases issuers notified the FMA that they were postponing the disclosure of inside information.

PERIODIC DISCLOSURE

Financial reporting is the main form of reporting carried out by listed companies, and all market participants (investors, banks, analysts, supervisory authorities) must be able to rely on it. Financial reporting is the basis for drawing up analyses and credit ratings, and helps investors to reach a decision regarding investments. The BörseG stipulates a number of periodic disclosure requirements, including annual financial reports, half-yearly financial reports and interim reports for issuers of shares that do not prepare quarterly reports in accordance with the International Financial Reporting Standards (IFRS) as adopted in Regulation 1606/2002/EC.

Any business results qualifying as inside information will trigger an ad hoc reporting requirement. The ad hoc disclosure requirement applies independently of the periodic disclosure obligation, and the latter is no substitute for the former. Where the supervisory board has not yet approved the business figures, this fact would as a rule not be relevant to a case of inside information, since the effectiveness of the financial reports prepared by the management board does not depend on approval by another body. The ad hoc reporting requirement may also become applicable when financial reports that have already been published are determined to be incorrect, in full or in part.

Since the implementation of the Transparency Directive (2013/50/EU) in national law as at 26 November 2015,

it has no longer been obligatory to publish quarterly reports. The primary goal of the revised Transparency Directive is to make it easier for small and medium-sized issuers to take up capital on regulated markets. To this end, the administrative burden associ-

Table 33: Supervision of issuers 2011–2015

	Ad hoc disclosure	Periodic disclosure	Reports pursuant to Article 48d para. 4 BörseG	Reports of major holdings	INVESTIGATIONS		
	Ad hoc reports received	Annual and quarterly reports received		Reports of voting rights received	Investigations initiated	Investigations forwarded	Investigations dropped/completed
2011	539	558	516	107	30	17	43
2012	459	511	287	118	41	27	40
2013	462	526	283	293	17	14	30
2014	444	645	374	293	27	6	31
2015	419	518	363	261	33	14	29

ated with the obligations linked to admission to trading on a regulated market should be reduced for these issuers.

However, it must not be forgotten that regular financial reporting is a prerequisite, particularly for those issuers that are of interest to international investors and analysts (ATX companies at any rate), in order to meet the high demands prevalent in international capital markets. Since Point (5) in the Transparency Directive stipulates that a regulated market can require issuers which have their securities admitted to trading thereon to publish additional periodic financial information in all or some of the segments of that market, the Vienna Stock Exchange adapted its General Terms and Conditions to include Quarterly Reporting Rules for the Prime Market, applicable as from 26 November 2015, and is now requiring quarterly reports in this segment.

In 2015 the FMA received 518 annual and quarterly reports, compared with 645 one year earlier (see Table 33).

DISCLOSURE OF MAJOR HOLDINGS

The reporting thresholds set in the BörseG are 4%, 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 75% and 90%. Issuers have the option of stipulating an additional participation threshold of 3% as the relevant threshold in their articles of association. In order for this to become effective, the clause must be published on the issuer's website and notified to the FMA.

If one of these thresholds is reached, exceeded or not met, the shareholder must notify the fact immediately, and no later than after two trading days, to the issuer, the FMA and the Vienna Stock Exchange. As soon as the issuer receives this notification, and no later than two days after receipt, the issuer must disclose all of the information contained in the notification. The main aim of the disclosure requirement is to ensure transparency in cases where investors progressively acquire major holdings with the aim of making a takeover bid.

In 2015 the FMA received 261 reports of major holdings, 32 fewer than in 2014.

DIRECTORS' DEALINGS

To require greater transparency with respect to transactions conducted by persons discharging managerial responsibilities with an issuer and, where applicable, persons closely associated with them, is one measure in place to prevent market abuse. The notification of such transactions may be a valuable piece of information for investors.

The information is published on the website of the FMA subject to the consent of the person bound by the reporting obligation. Transactions involving amounts below the petty amount of € 5 000 are not subject to the reporting requirement. The amount is based on the total of all transactions concluded in one year. Purchases and sales are to be added in determining this amount, both in the case of managers and of individuals closely associated with them. Notification must be made within five working days of completing the transaction. This FMA database is used not only by market participants but particularly also by analysts and the press as an important source of information.

The management and supervisory boards of listed companies and individuals closely associated with them reported a total of 363 securities transactions in 2015. This represents a slight decrease in the number of reports compared with 2014, when 374 directors' dealings were reported.

SUPERVISION OF CAPITAL MARKET PROSPECTUSES

An issuer publicly offering securities or intending to apply for admission to a regulated market (of Wiener Börse AG) must prepare a comprehensive securities prospectus containing key information on the issuer and the securities to be issued. The legal basis is laid down in the Capital Market Act (KMG; *Kapitalmarktgesetz*), which transposes the Prospectus Directive (Directive 2003/71/EC as amended) into national law, and in Regulation (EC) No 809/2004 as amended (legal basis for preparing securities prospectuses). In cases where the prospectus includes securities for admission to the stock exchange, the Stock Exchange Act (BörseG; *Börsegesetz*) also applies accordingly.

With regard to its remit of supervising capital market prospectuses, the FMA is in essence responsible for the following tasks:

- Auditing and approval of prospectuses and supplements when securities are offered to the public and/or admitted to trading on a regulated market. The audit benchmark applied in this case includes, in accordance with Article 8a para. 1 KMG, completeness, coherence and comprehensibility.
- Conducting investigations of any alleged infringements of the KMG or of any provisions of the BörseG that apply to prospectuses.
- Cooperation with other European supervisory authorities: notifications, official assistance and the exchange of information, as well as the further development of relevant European legislation as part of expert groups of the European Securities and Markets Authority (ESMA).
- Tasks related to organisation, coordination and information, such as publishing lists of eligible prospectus auditors, of approved securities prospectuses and of incoming notifications on the FMA website.

APPROVAL PROCEDURES

A prospectus is required to be issued whenever securities or investments are publicly offered and when securities are admitted to trading on a regulated market of the stock exchange. The prospectus must include all details which are required based on the nature of the issuer and the publicly offered securities or investments, or the securities admitted to trading on the regulated market. The purpose is to allow investors to make a sound judgement on the issuer's, and any guarantor's, assets and liabilities, financial situation, profits and losses, and future prospects, as well as on any rights associated with these securities or investments.

The prospectus must not be published until it has been approved by the FMA. On approval, however, the prospectus must be published at the earliest possible date, and no later than one banking day before the public offering commences or one banking day before the particular security is admitted to trading.

Any supplement pursuant to Article 6 KMG to a previously approved securities prospectus must be published and filed according to the same procedure as for the prospectus. A supplement must be issued for any important new fact or material error or inaccuracy with respect to the information contained in the prospectus that could affect the valuation of the securities or investments and that occurs or is identified between approval of the prospectus and final closure of the public offering or, if occurring later, opening of trading on a regulated market.

AUDIT BENCHMARK APPLIED BY THE FMA IN APPROVAL PROCEDURES

In accordance with the legal basis stipulated in the KMG, the FMA audits securities prospectuses in terms of completeness, coherence and comprehensibility. It is not part of the FMA's remit to evaluate the correctness of the information contained in the prospectus during the approval procedure. The issuer is liable, pursuant to Article 11 KMG, for the correctness of the information provided in the prospectus or for any material incompleteness, such as undisclosed details.

COMPLETENESS

Within an approval procedure, completeness is verified on the basis of the minimum requirements as contained in the relevant provisions under European law. These provisions have been set forth in standardised form in Regulation (EC) No 809/2004 as amended. They stipulate a broad range of compulsory information applicable to various different securities and issuer categories.

COHERENCE

The key to verifying coherence is to ensure that the information contained in the prospectus does not include any contradictory statements. Any specific items that are inconsistent will require closer examination and possibly adaptation by the provider or issuer.

COMPREHENSIBILITY

When verifying comprehensibility, the average informed investor is to be used as the benchmark. The prospectus must convey the information in such a way that the details are easy to analyse and follow. While technical terms may be used, such language should not predominate in the prospectus. An explanation of any such terms should be included in the prospectus. In particular, the summary to be included in the prospectus and the presentation of the risk factors associated with the security should be written in generally comprehensible language.

The issuer has a legal claim to approval where a prospectus submitted for approval meets all of the requirements in full.

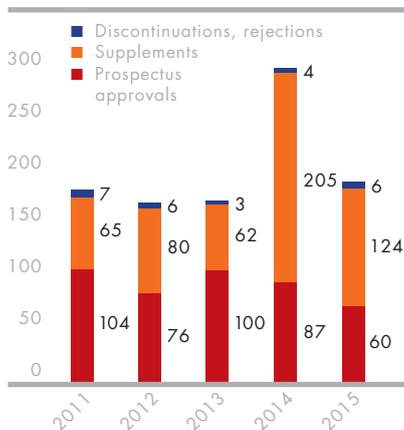
Unlike the procedures for approving securities prospectuses, which are harmonised by EU law, prospectuses for the public offering of investments are subject to the national law of the country concerned. The notification process within the framework of the European passport is therefore not applicable to such prospectuses. The audit of the investment prospectus with regard to correctness and completeness must be performed by a prospectus auditor as specified in Article 8 KMG. The FMA publishes a list of eligible prospectus auditors on its website.

OFFICIAL TASKS

The number of prospectus approvals has declined in the reporting year. At 60 approved prospectuses, the number was below the average 92 approvals seen in the past four years. Chart 29 shows the number of prospectus approval procedures, approved supplements and procedures discontinued during 2011 to 2015. This development can be partly attributed to the fact that, since 2014, the Austrian housing bank sector has been making use of the base prospectus regime as the basis for its issuing activity. This means that most housing banks now publish a base prospectus instead of a stand-alone prospectus, which is restricted to the issuance of one specific security. This sector of the Austrian banking industry has thus now also been made more

flexible with regard to the proposed timing of issues and the design of the securities, by way of depositing final terms with the FMA prior to making the public offering.

Chart 29: **Approval procedures 2011–2015**
(Source: FMA)



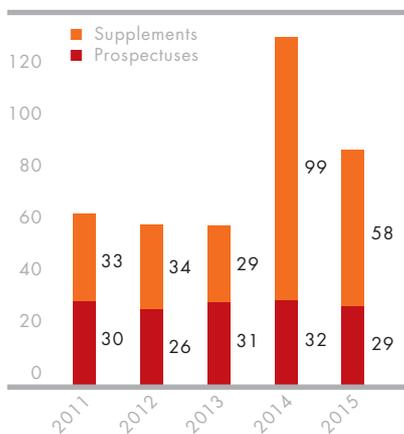
This resulted in 16 fewer prospectuses being recorded for the housing bank sector in 2015. In addition, a downward trend in the number of approvals was also noticeable in the area of industrial bonds as well as in the Volksbank cooperative sector, which has been completely overhauled since 2014.

The number of approved supplements dropped from 205 in 2014 to 124 in 2015. It should be noted in this context that the large number in 2014 was due to special factors (e.g. changes in the legal situation for credit institutions, the downgrading of Austrian banks' credit rating by European credit rating agencies, structural reforms in the Austrian Volksbank cooperative sector). The number of supplements, at 124 in 2015 is still clearly above the annual average of 69 supplements (average adjusted to take account of the 2014 hike).

EEA NOTIFICATIONS

The primary objective of the Prospectus Directive was to create a European passport for securities prospectuses. Accordingly, once a prospectus or a compulsory supplement is approved in one Member State of the European Economic Area (EEA) it is also valid, for the duration of its validity, for a public offering or admission to trading on a regulated market in any other EEA Member State. In order to use a prospectus or a supplement in another EEA Member State, the competent authority in the respective host country must first be notified. It should also be noted that the prospectus must be drawn up in an admissible prospectus language. In Austria, prospectuses must be drawn up in either German or English. It may be necessary to translate the summary into the particular language of the EEA Member State.

Chart 30: **Outgoing notifications 2011–2015**
(source: FMA)



The number of prospectuses from Austria notified in other EEA Member States was relatively constant between 2011 and 2015 (see Chart 30). As in the past few years, about half of the supplements approved by the FMA were also notified to EEA partner authorities in 2015. The majority of the outgoing notifications related to Germany. Some prospectuses or supplements were submitted to countries in Eastern Europe and to Luxembourg.

The number of prospectuses notified in Austria by other EEA Member States declined for the first time in 2014, after having risen continuously, and was also lower than in previous years in 2015. Incoming notifications to the FMA in 2015 amounted to 347 prospectuses, signifying an increase of around 2% (2014: 340 notified prospectuses). The number of notified supplements rose by some 5%, from 1 083 in 2014 to 1 138 in 2015. The majority of incoming notifications to the FMA were submitted by the competent authorities in Germany and Luxembourg.

INVESTIGATION OF BREACHES OF THE RULES ON PROSPECTUSES AND ADVERTISING

The FMA is additionally responsible for monitoring the Austrian financial market in order to identify any breach of statutory provisions that may occur in connection with the issuing and advertising of securities and investments. Investigations were completed in 31 such cases in 2015, representing an increase of around 29% when compared with the 24 procedures concluded in 2014.

COMBATING UNAUTHORISED BUSINESS

There are providers on the financial market who avoid supervision, and who offer and perform services that require a licence without being authorised to do so. Such providers pose a serious threat to the integrity of the Austrian financial market and could damage investor confidence, causing investors to doubt that the market is functioning as it should. The performance of services that require a licence without having the necessary authorisation is referred to as unauthorised business.

As well as identifying cases where business operations are being carried out without authorisation, the FMA also frequently encounters cases involving genuine financial crime during its investigations. The diverse range of cases shows that there are no limits to the imagination of the fraudsters behind these crimes.

Typical advance-fee scams involve the victims being presented with a fictitious set of circumstances and promises of absurdly high returns (up to 100% or even higher), and encouraged on this basis to make an advance payment to the providers. This is frequently done through a mass e-mail in which the sender claims to have knowledge of accounts held by former rulers or large corporations in developing countries and to require the recipient's help in transferring huge sums of money abroad. The promised commissions entice the victims to make upfront payments, allegedly to cover fees, bribes, etc. The victims then wait in vain for the promised consideration.

Boiler rooms are call centres from which sellers attempt to persuade customers to enter into dubious investment transactions over the telephone. The sellers use high-pressure sales techniques as they attempt to coerce customers into buying shares in certain companies. Having transferred the money, the customer ends up with worthless shares, while the providers can no longer be reached.

Phishing is a type of online fraud whereby the fraudsters attempt to obtain access details to online bank accounts (user names, passwords, PINs and TANs) by means of phishing e-mails or trojans. These details are subsequently used to withdraw money from the accounts, with the funds being transferred abroad.

OFFICIAL TASKS

INVESTIGATIONS

Article 22b of the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*) stipulates the specific investigative powers held by the FMA in relation to the prosecution of unauthorised business operations. Under these powers, the FMA is entitled to obtain information from natural and legal persons and other entities with legal personality, and to process the required data. This right also encompasses the FMA's power to carry out on-site examinations of documents and electronic data media, e.g. on the business premises of the suspected party and also on those of third parties.

The suspicion that business operations are being carried out without authorisation may be founded on:

- information, enquiries or complaints from market participants;
- information acquired by the FMA as part of its continued supervision of licensed companies;

- active observation of the market; or
- notifications from other authorities.

The FMA begins its investigations by carrying out research on the Internet, in the company register, trade register and register of residents, as well as in internal databases and enquiry tools. Subsequently, individuals may be called upon to submit a written statement or be summoned to appear at the FMA's premises for questioning. In 2015 the FMA initiated a total of 218 investigations, 254 of which could be completed. Furthermore, 20 cases were examined on site.

PROCEDURES TO PROHIBIT BUSINESS OPERATIONS

Based on the results of its investigations, the FMA will introduce a procedure to prohibit business operations pursuant to Article 22d FMABG in the event of a current case of unauthorised business. In a first step, the suspected party will be requested, by means of a procedural order, to remedy the situation such that it complies with the statutory provisions. If the party concerned fails to meet this request by the stipulated deadline, the FMA will issue an administrative decision ordering the necessary measures to be taken (extending as far as closure of the business operation) to ensure that a lawful situation is created. The issuing of such an administrative decision routinely involves the threat of a coercive penalty, up to the amount of € 30 000 (Article 26a FMABG).

In 2015 a total of 52 parties were called upon by means of a procedural order pursuant to Article 22d FMABG to remedy the situation such that it complies with the statutory provisions. In four cases an administrative decision prohibiting business operations, simultaneously threatening a coercive penalty, had to be issued due to non-compliance with the procedural order.

PUBLICATIONS

The provisions in the relevant supervisory laws (Article 4 para. 7 BWG, Article 64 para. 9 ZaDiG, Article 92 para. 11 WAG 2007 and Article 4 para. 11 VAG) enable the FMA to inform the public, by making an announcement on the Internet, in the official gazette "Amtsblatt zur Wiener Zeitung", or in any newspaper with nationwide circulation, to the effect that a person is not authorised to carry out particular transactions that require a licence.

In total, 40 such announcements were made in 2015. Experience has shown that this is a very efficient way of tackling unauthorised business conducted via the Internet, as dubious providers can be countered with publicity.

ADMINISTRATIVE PENAL PROCEEDINGS

A key pillar in the fight against unauthorised business is also the rapid implementation of administrative penal proceedings based on the terms of the relevant supervisory laws, which provide for penalties of up to € 100 000. In addition, Article 22c FMABG also authorises the FMA – taking into account above all the stability of the financial markets and the interests of those concerned – to publish details of any penal decisions and administrative decisions prohibiting business operations, and to disclose the details of these.

There were six cases of administrative penal proceedings being initiated in 2015. Five penal decisions and three penal orders were issued.

ENFORCEMENT

In accordance with Article 22 para. 1 FMAGB, the FMA is responsible for enforcing its own administrative decisions, with the exception of administrative penal decisions. For this purpose – particularly in the case of coercive penalties – an application is made with the relevant court to initiate enforcement proceedings. The penal decisions are then enforced by the district administration authority responsible.

REPORTED OFFENCES AND REPORTS FORWARDED TO ADMINISTRATIVE AUTHORITIES

If an authority or public office becomes aware of a suspected criminal act that falls within its statutory remit, it is obliged under Article 78 para. 1 of the Code of Criminal Procedure (StPO; *Strafprozessordnung*) to report the case in question to the criminal investigation department or public prosecutor's office. In cases involving cold calling (marketing calls without the participant's prior permission) or involving the sending of unsolicited electronic messages, including text messages, the FMA also forwards the relevant details of the case to the responsible telecommunications authorities, in addition to reporting the offence in question.

In 2015 the FMA submitted a total of 49 statements of the facts to the public prosecutors or police authorities and made 27 reports to the administrative authorities.

COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

The FMA monitors the companies under its supervision to ensure compliance with the due diligence and disclosure obligations aimed at preventing money laundering and terrorist financing. The efforts to combat money laundering and terrorist financing are based on the FATF Recommendations, the internationally accepted anti-money laundering and combating the financing of terrorism and proliferation (AML/CFT) standards drawn up by the Financial Action Task Force.

The Financial Action Task Force (FATF) is an independent intergovernmental body based at the Organisation for Economic Co-operation and Development (OECD). The FATF develops standards to protect the global financial system against money laundering, financing of terrorism and proliferation of weapons of mass destruction, and it regularly conducts country evaluations to assess member states' implementation of these standards. Relevant European legislation also draws on the FATF Recommendations.

Money laundering is a criminal offence in Austria. It therefore falls upon the police and the public prosecutors to investigate suspicious cases and to prosecute, while the courts are responsible for sanctioning. Any suspicious transaction reports must be addressed to the Financial Intelligence Unit at the Federal Ministry of the Interior.

OFFICIAL TASKS

ON-SITE INSPECTIONS AND COMPANY VISITS

The FMA conducts on-site inspections to verify that the supervised companies have implemented suitable systems for the prevention of money laundering and terrorist financing. In these inspections, the FMA evaluates the extent to which the implemented systems and control mechanisms are suited to ensuring effective prevention. This involves in particular inspecting in detail the IT systems that are deployed as a means of monitoring business relationships on an ongoing basis, verifying the effectiveness of the scenarios and related thresholds that have been defined as part of the monitoring systems. The system review also entails an in-depth inspection of the workflows and measures that the supervised companies have defined in order to safeguard compliance with due diligence requirements. Besides the system review, individual test cases are evaluated as a means of checking the performance of the implemented systems and measures.

For the purpose of preventing money laundering and terrorist financing, 58 on-site measures were carried out in total during 2015 (see Table 34). Specifically, 28 on-site inspections were carried out within the framework of combating money laundering and terrorist financing during the year under review. These included 19 on-site inspections of credit institutions, two at insurance undertakings and seven at invest-

Table 34: **On-site measures to prevent money laundering and terrorist financing 2011-2015**

	2011	2012	2013	2014	2015
On-site inspections	12	18	15	24	28
Company visits	18	20	20	30	30
Total	30	38	35	54	58

ment firms. Additionally, in relation to preventing money laundering and terrorist financing, the FMA carried out a total of 30 company visits during the year under review. Of those visits, 26 were held at credit institutions and four at insurance undertakings.

SUPERVISORY PROCEDURES

If during the FMA's supervisory activities facts emerge in a specific case indicating that a supervised company has possibly violated due diligence or disclosure obligations aimed at combating money laundering and terrorist financing, an investigation is launched to examine and clarify the case. Where a situation of non-compliance with statutory provisions is identified, it is the FMA's responsibility to enforce restoration of legal compliance and/or remedy of the associated defects.

In so doing, the FMA conducts a procedure to restore legal compliance, in the framework of which the company concerned is confronted with the existing defects and called upon to define and implement measures towards remedying them. In this context, the FMA subsequently also examines the suitability of these measures. If any suspicion of systematic or serious violation of the due diligence requirements aimed at combating money laundering and terrorist financing arises, it is unconditionally necessary to initiate administrative penal proceedings.

A total of 13 penal decisions and six penal orders were issued in 2015 due to breaches of money laundering provisions. In addition, the FMA filed suspicious transaction reports with the Financial Intelligence Unit in 21 cases.

In 2015 there were 222 cases in total of supervisory procedures being initiated to prevent money laundering and terrorist financing. The procedures included 125 investigations, 42 procedural orders requesting compliance with statutory provisions to be restored and 55 cases of administrative penal proceedings.

EXCHANGE OF INFORMATION AND PUBLIC SPEAKING ACTIVITIES

To intensify the exchange of information and to strengthen cooperation with the supervised companies, the FMA took part in a substantial number of talks and discussions on how to prevent money laundering and terrorist financing in the year under review. For instance, the FMA gave numerous talks at events, participated in discussions and again organised its own practical conference dedicated to "Compliance and Prevention of Money Laundering", this time held in Innsbruck.

RISK CLASSIFICATION SYSTEM

In January 2015 the FMA launched a "Risk classification system" project. The aim of the project was to subject all Austrian credit institutions or branches of foreign credit institutions in Austria to a money laundering risk classification, based on an analysis of certain risk factors. To this end, the abstract risk of individual credit institutions was established according to four main risk criteria (risk of customer structure, geographical risk, product risk and sales risk).

The automated calculations and classifications of credit institutions into the risk classification system allows examinations to be planned more objectively, with credit institutions that are associated with an increased risk of being misused for the purposes of money laundering or terrorist financing consequently being monitored on a stricter level.

FINANCIAL REPORTING ENFORCEMENT

In accordance with Austria's Accounting Control Act (RL-KG; *Rechnungslegungs-Kontrollgesetz*), the FMA is the authority responsible for verifying and legally enforcing proper financial reporting by capital market-based companies. The companies affected are those whose securities are admitted to trading on a regulated market of the Vienna Stock Exchange. Financial reporting enforcement is to be carried out in close cooperation with the Austrian Financial Reporting Enforcement Panel (AFREP), a private-law association. The review benchmark is compliance with national and international accounting standards, in the form of the International Financial Reporting Standards (IFRS).

SUPERVISED COMPANIES

In 2015 there were 149 companies subject to financial reporting supervision by the FMA due to their having securities listed for trading on a regulated market of the Vienna Stock Exchange as at 31 December 2014. The total figure in 2014 was also 149.

REVIEW ACTIVITY

The 2015 financial year was the first full review year, after the short 2014 financial year. In all, AFREP reviewed the (consolidated) financial statements as at 31 December 2013 or later of 26 companies using a risk-based sample approach (the originally selected sample was reduced in size due to delistings). Reviews of a further two companies were carried out by AFREP with the FMA raising these to the second level and carrying out a further review. AFREP performed one event-driven review, which the FMA also elevated to the second level.

The second review by the FMA was due to the company concerned objecting to the findings of the AFREP review, coupled with significant doubts on the part of the FMA regarding the AFREP review outcome (Article 3 para. 1 nos. 1 and 2 RL-KG). The detection of errors by the FMA differed from that of AFREP in each case. In one case the company's objection to a supposed error was largely upheld by the FMA, while additional errors were determined in two cases.

In addition, the FMA carried out five reviews of its own for reasons of public interest (Article 3 para. 1 no. 3 RL-KG), with the assistance of AFREP being enlisted in one instance due to it already being involved in the case. Three of the five reviews resulted in errors being detected. One review had not yet been completed as at the reporting date for the FMA Annual Report.

FMA reviews (process for determining errors) generally last between six and twelve months. This involves an average of two to three rounds of questions, the statutory periods for hearing the parties involved, and the frequently required coordination of the findings with the European Securities and Markets Authority (ESMA), whose guidelines are binding on the FMA. This duration is in line with those experienced elsewhere in Europe. During the European Enforcers Coordination Sessions (EECS) of ESMA, the FMA raised and discussed a total of eight FMA cases in 2015 (six of which were emerging issues and two ex-post decisions). The FMA was also

involved in numerous ESMA analyses and surveys, and cooperated in reviews carried out by its partner authorities.

The main focuses of the reviews carried out during the first review season were impairments (IAS 36), pension provisions (IAS 19), fair value measurements (IFRS 13), disclosures on methods and estimates (IAS 1), financial instruments (IAS 39 and IFRS 7) and management reports.

PROCESSES FOR DETERMINING AND DISCLOSING ERRORS

If a review shows that a company's financial reports contain material errors, the FMA must carry out a process to determine and disclose errors and order the company concerned, by means of an administrative decision if necessary, to disclose the error(s) along with the material parts of the justification of findings as specified in Article 10 para. 4 of the Capital Market Act (KMG, *Kapitalmarktgesetz*). The official process for disclosing errors conducted by the FMA generally lasts between one and two months, depending on whether companies object to the disclosure or not.

Overall, during the first review season (up to the 2015 year-end), 37 significant errors were detected in the financial statements of 16 issuers, with 20 being found by AFREP and 17 by the FMA (see Table 35). To date, there have been no instances of non-disclosure of the errors, although disclosure had not yet been ordered in all 37 cases by the end of 2015. The error rate for all of the randomly selected reviews carried out by AFREP and FMA is 39%, confirming the importance of active financial reporting enforcement, as now also being implemented in Austria.

The relatively high number of errors detected during the FMA's own reviews can be attributed to its event-driven approach, in contrast to the random nature of the reviews carried out by AFREP. The FMA's approach is based on intensive observation of the market, interlinked supervisory knowledge within the FMA in the capacity of integrated authority, cooperation with ESMA in pan-European investigations and on external reports. An FMA review is only carried out if there is a significant initial suspicion that it is required or in the event of justified doubts, while AFREP carries out regular reviews where there is no initial suspicion, focusing on the main priorities as published by the FMA.

The errors detected primarily related to consolidation, financial instruments, interim reporting and obligatory disclosures. Some of the errors also relate to fair value measurement pursuant to IFRS 13, although these also arose in conjunction with other standards and are recorded under these.¹

The reviews and working relationship between the FMA and AFREP proceeded efficiently, with the companies cooperating regularly and the AFREP responding to FMA queries on its reviews. The two-level system involving a private-law body and a state authority has proven its worth in this regard.

Table 35: **Reviews** (source: FMA)²

	AFREP reviews	FMA reviews	Total
Completed	31	8	39
of which with errors detected	11	5	16
Proportion of reporting containing errors	35%	63%	41%
Proportion of reporting containing errors for all completed sample reviews			39%
NUMBER OF ERRORS BY AREA			
Figures and notes	2	2	4
Financial instruments	5	2	7
Intangible assets	–	1	1
Impairment of non-financial assets	2	–	2
Deferred taxes	–	1	1
Revenue recognition	3	–	3
Consolidation and business combinations	4	4	8
IFRS 5	–	1	1
Share-based payments	–	1	1
Cash flow statement	2	1	3
Segment reporting	1	1	2
Interim reporting	1	3	4
Total number of errors detected	20	17	37

² As far as AFREP is concerned, all results submitted by 31 December 2015 have been included. Reviews taken over by the FMA are given as FMA reviews to avoid double counting. In the second list, errors have been assigned to those areas where they were first detected. Where errors were detected, they were counted per company with reporting errors and not per number of financial statements concerned, i. e. the same error repeated in subsequent statements was counted only once.

¹ The possibility, however, of similar error rates in the areas not focused on during the reviews cannot be excluded.

PRE-CLEARANCE AND INFORMATION NOTICES

The FMA's aim is, in particular, to prevent and avoid errors from the outset. With this in mind, it proactively publishes information notices on critical areas of interpretation and now also offers the pre-clearance process.

INFORMATION NOTICES

If the FMA's own reviews or routine analysis of the AFREP review findings reveal potential (non-material) errors or other weaknesses in reporting, the FMA will inform the companies concerned in writing. Overall, the FMA has sent out eleven such information notices, generally indicating between five and ten areas that could be improved.

PRE-CLEARANCE

Since 2015 the FMA has offered companies the opportunity to have prior questions on financial reporting answered on a case-specific basis. Companies have made good use of this option. This pre-clearance process is based on a guideline developed in cooperation with the Austrian Financial Reporting and Auditing Committee (AFRAC) and available on the FMA website. Generally, the pre-clearance process takes place before the financial statements are published and therefore does not clash with AFREP or FMA reviews. Several companies have already availed themselves of the pre-clearance service.

ONLINE INFORMATION

For the purposes of prevention, the FMA has compiled comprehensive information on financial reporting enforcement for companies on its website, such as detailed information on pre-clearance and the main areas covered by reviews. Previously published errors can also be downloaded. This enables companies to obtain full information on typical sources of mistakes, helping them to avoid such errors in future.

RECOVERY AND RESOLUTION OF BANKS

The Austrian Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*) entered into force on 1 January 2015. This legislation transposes the European Bank Recovery and Resolution Directive (BRRD) into national law. The BaSAG assigns the newly created role of national resolution authority to the FMA. The main responsibilities of the resolution authority are resolution planning, the analysis and elimination of obstacles to resolution, and the conducting of resolution procedures in cases of credit institutions that have failed or are likely to fail. To allow the FMA to fulfil its role as national resolution authority for banks, pursuant to Article 3 para. 3 BaSAG, a separate organisational unit has been created that is operatively independent of all other units of the FMA.

As national resolution authority for Austria, the FMA is an integral part of the European Single Resolution Mechanism (SRM). The SRM represents the second pillar of the European banking union, alongside the Single Supervisory Mechanism (SSM), which is the new European banking supervision system under the leadership of the European Central Bank (ECB). The third pillar is the common deposit guarantee scheme.

SINGLE RESOLUTION MECHANISM (SRM)

The Single Resolution Mechanism, implemented through the BRRD, is responsible for the harmonised resolution of euro area banks. It consists of the Single Resolution Board (SRB), the Single Resolution Fund (SRF) and the national resolution authorities (NRAs). The FMA as the national resolution authority has a seat and voting rights in the Board and represents Austria's interests in that body.

The SRB takes decisions during its executive and plenary sessions. All resolution decisions, including such involving use of the resolution fund up to a maximum of € 5 billion, are taken during executive sessions. Where decisions concern specific companies, representatives of the NRAs of the Member States in which the bank affected by the decision pursues most of its activities attend the executive session but are not eligible to vote, with the SRB basically being obliged to reach consensus with the NRAs as far as possible. Representatives of the ECB and of the European Commission are always present with observer status. At the plenary sessions, held at least twice a year, decisions of a general nature are taken. Such include proposals that are not related to any specific resolution measure or that concern the use of the SRF where funding for a specific resolution measure exceeds € 5 billion. In addition to the SRB, the plenary sessions are attended by representatives of all NRAs in the participating Member States.

The SRB's activities in 2015 were limited to taking care of responsibilities related to resolution planning, alongside further developing the new authority's structures. The specific responsibility for the resolution of banks was taken up only as of 1 January 2016.

COMPANIES SUPERVISED BY THE FMA AS RESOLUTION AUTHORITY

In 2015, 589 institutions in Austria fell under the SRM regime, with ten of these falling within the direct com-

petence of the SRB and 579 within the direct competence of the FMA. In the case of the ten banking groups directly under the SRB, supervision, resolution planning and any necessary resolution nonetheless are carried out in close cooperation with the national resolution authorities affected. Resolution plans for the 579 institutions directly under the FMA are drawn up under the sole responsibility of the FMA. In this task the FMA as resolution authority is supported by the Oesterreichische Nationalbank (OeNB), as specified in Article 3 para. 5 BaSAG.

RESOLUTION PLANNING

In its capacity as resolution authority, the FMA has the general responsibility of preparing a resolution plan for every institution established in Austria that is not part of a group and not under consolidated supervision (Article 19 para. 1 BaSAG). In this context, resolution planning can be seen as an ongoing process.

Any resolution plan includes the following main components:

- Strategic business analysis
- Preferred resolution strategy
- Financial and operational continuity
- Resolution governance
- Communication plan
- Conclusion of the resolvability assessment

As resolution authority, the FMA held meetings in the first six months of 2015 with banks that had drafted resolution plans in 2014 based on the then valid Banking Intervention and Restructuring Act (BIRG; *Bankeninterventions- und -restrukturierungsgesetz*). The aim of these discussions was to critically evaluate the existing BIRG plans. These plans will be used as a basis for jointly preparing the resolution plans required by the BaSAG. Further steps will be taken in close consultation with the SRB.

The content of resolution planning at the FMA in 2015 was focused on the issues of bank structure, analysing loss absorption capacity and identifying critical functions. As defined in Article 2(35) BRRD, 'critical functions' refers to a credit institution's activities, services or operations involving third parties, where discontinuing this chain would have significant negative impact on the real economy and/or financial stability. Additionally, it would not be possible to substitute this chain due to the size, market share, external and internal interconnectedness of the individual credit institutions that pursue cross-border activities. The concern here is therefore with those parts or functions of a bank that are generally to be preserved and kept operational through resolution proceedings as a means of avoiding negative impact on the financial market.

On 21 October 2015, an information event on the subject of resolution planning was held for the Austrian credit institutions under the responsibility of the FMA, in cooperation with the Austrian Federal Economic Chamber (WKO).

In the capacity of resolution authority, the FMA subsequently circulated a template on loss absorption capacity/minimum requirement for own funds and eligible liabilities (MREL) to the Austrian banks for which the FMA is directly responsible and is required to prepare a resolution plan as a first step. The goal of the information survey was to develop an overview of loss absorption capacity/MREL among the individual banks. Meanwhile the SRB also began activities in the area of resolution planning. In collecting information and detailing resolution plans, the Board depends on the close assistance of the national resolution authorities.

For 2015 the Board selected three of the ten Austrian banks under its responsibility, requesting that initial preliminary resolution plans be prepared by the end of the year. The plans were to cover all of the items of resolution planning in very rough detail, including critical functions, obstacles to resolution, initial hypotheses for the resolution strategy, etc. The FMA prepared these three preliminary resolution plans in its capacity as resolution authority, submitting them to the SRB in late December.

In 2016 further details will be added to those initial draft resolution plans already prepared for SRB banks and Austrian credit institutions, while at the same time drawing up resolution plans for several institutions based on risk considerations.

Article 4 para. 1 BaSAG places responsibility for defining the content of resolution plans on the FMA. This to be done while giving consideration to factors such as risk profile, and the size and complexity of the institution or group (proportionality). For this purpose the FMA has come to apply a set of methods that is largely aligned with the specifications of the European Banking Authority (EBA) and the banking supervision classification for preparing recovery plans.

Four categories of resolution plans have been identified for 2015:

- **Standard:** institutions under this category have no critical functions, hence their failure would not threaten stability. A 'private sector solution' or insolvency would be feasible for CRR institutions within this group.
- **Low:** such institutions are mostly small joint stock banks and institutions that will be subject to another, more in-depth analysis in 2016. Institutions belonging to this category have relatively straightforward structures and only little significance for the national economy.
- **Medium:** institutions belonging to this category are relatively complex, strongly interconnected, in some cases members of a banking group and have some significance for the national economy.
- **Complex:** this category applies to all institutions active on a cross-border basis and/or under the direct responsibility of the SRB.

The BaSAG requires this classification to be reviewed and validated each year. This review is planned for the first six months of 2016, while fully considering the EBA guidelines and any guidelines issued by the SRB.

RESOLUTION FUND

As a result of transposing the BRRD into their bodies of national legislation, in 2015 most of the countries belonging to the banking union established national resolution funds that are financed by the banks and can be used in any future crisis. These funds are – in the case of euro area countries – to be merged into a Single Resolution Fund (SRF) in accordance with Regulation (EU) No 806/2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions in the framework of a Single Resolution Mechanism and a Single Resolution Fund as well as Council Implementing Regulation (EU) 2015/81 and the Intergovernmental Agreement on the Single Resolution Mechanism. The fund is financed by ex ante contributions paid annually by all credit institutions that are subject to the Capital Requirements Regulation (CRR) in the 19 participating Member States. The fund supports the resolution of distressed CRR institutions, allowing orderly withdrawal from the market without causing any undesired market turbulence. This fund also enables the resolution of CRR institutions having fallen into difficulties, without the need for government or public funding (tax money).

The FMA as resolution authority organised two workshops jointly with the Austrian Federal Economic Chamber (WKO) in mid-2015, for the purpose of familiarising institutions with the calculation of contributions and payment procedures. Contributions for 2015 are based on the total covered deposits of all institutions as per 31 July 2015.

In the third quarter the credit institutions supplied the data required for calculating the contributions to the fund in each case. Data is collected in cooperation with the OeNB. The deposit guarantee schemes additionally reported the data that, when totalled, serve as the basis for contributions to the national resolution fund. Pursuant to Article 20 para. 1 of Commission Delegated Regulation (EU) 2015/63, the institutions are to be notified of the contribution due by 30 November 2015; this obligation was met in timely manner on 25 November 2015.

From receiving the notification, the institutions had the period until 15 December 2015 to pay their contributions to the resolution financing arrangement. The contributions collected were deposited with the OeNB on behalf of the FMA by the Austrian Treasury (OeBFA).

The "Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund" and on the joint use of those contributions was ratified by a sufficient number of participating Member States by the end of December 2015, entering into force in time to allow the contributions for 2015 to be transferred to the SRF.

In compliance with this Intergovernmental Agreement (IGA), the contributions to the resolution financing arrangement (a total of € 198 million) are to be transferred to the SRF by 28 January 2016.

The templates for collecting the data the SRB uses to calculate the contributions for 2016 were sent out to the sector already in early December.

The goal is to have available by 2024 a Europe-wide resolution fund of about € 55 billion (1% of covered deposits in the euro area), provided by the credit institution sector. This will realise a central pillar of the banking union and further strengthen financial stability in the euro area.

RESOLUTION PROCEDURES AND SUPERVISION OF RESOLUTION UNITS

HETA ASSET RESOLUTION AG (HETA)

In its capacity as Austrian resolution authority as specified in the BaSAG, the FMA issued an emergency administrative decision on 1 March 2015 initiating the resolution of HETA Asset Resolution AG (HETA) in accordance with the new European resolution regime for banks.

Based on the statutory resolution powers accorded to it, the FMA took the measure of imposing until 31 May 2016 a temporary moratorium on the liabilities that HETA holds towards its creditors.

Orderly resolution of HETA ensures continuance of critical functions and avoids any substantial negative impact on financial market stability.

A large number of the parties affected (including both legal and natural persons) objected to the FMA's emergency administrative decision of 1 March 2015 by availing themselves of the legal remedy of formally remonstrating. The FMA subsequently initiated an investigation in accordance with Article 116 para. 9 BaSAG.

At the same time the resolution authority compiled an extensive data pool with the support of an auditing firm (an independent valuer as specified in the BaSAG). The information will later be used as the basis for the HETA resolution. Drawing on the data pool, the auditor has begun preparation of the valuation report. Various expert opinions to clarify open business and legal issues have been prepared or requested. This has required consultations with the auditor, the OeNB and the EBA. Once the valuation report is submitted and the related legal issues are clarified, the resolution authority will consider whether or to what extent to take any further steps towards resolution and take appropriate action based on procedural law.

ÖSTERREICHISCHE VOLKSBANKEN AG (ÖVAG)

As a result of the demerger of Österreichische Volksbanken AG, which was approved by the SSM in late June, the resolution authority authorised continued operations in the form of the wind-down entity *immigon portfolio-abbau ag* (*immigon*). With the demerger of ÖVAG and the accompanying transfer of the demerged portion to Volksbank Wien AG – the new head institution of the affiliation of Volksbank cooperatives –, *immigon* took up operations as a wind-down entity under Article 162 BaSAG on 4 July 2015.

Pursuant to Article 162 in conjunction with Article 84 BaSAG, the FMA in its capacity as resolution authority took up ongoing supervision of the wind-down entity as of the same date and installed a continuous reporting system.

LEGAL AND ENFORCEMENT AFFAIRS

The Financial Market Authority (FMA) has administrative penal jurisdiction in the first instance and is therefore authorised to conduct administrative penal proceedings where provisions of the supervisory laws are breached. If necessary, the FMA represents itself during all stages of appeal, that is in all proceedings before the Federal Administrative Court (BVwG), the courts of public law and the European courts of law, and in proceedings on appeal within the scope of the European supervisory structure. Where the FMA recognises a breach of a provision of law within its scope of supervision that is punishable as a criminal offence, it is required to file a report with the public prosecutor's office, providing a statement of the facts of the case. Where as part of supervisory activities facts come to light that are grounds for suspecting a breach of a legal provision to be prosecuted by another authority, the FMA is obliged to report the case to that authority. Such reports are usually submitted to the public prosecutor's office, district administration authorities and other authorities, such as the telecommunications supervisory authority, and originate in all supervisory departments of the FMA.

ADMINISTRATIVE PENAL PROCEEDINGS

As at the beginning of 2015, 112 proceedings were pending at the FMA. A further 234 administrative penal proceedings were initiated, and 181 cases were concluded with an administrative decision during the year under review. Of the administrative penal proceedings concluded, 79 resulted in penal decisions, 46 in penal orders and 56 in admonitions. In all, 92 cases were dropped, and in 224 cases no administrative penal proceedings were initiated. As at the end of 2015, proceedings were still pending in 104 cases.

In the case of a penal decision, an administrative decision imposing a fine is issued following investigation procedures. A penal order can be issued without any additional investigation procedures if the evidence for the offence is sufficiently unequivocal. In this case the fine must not exceed € 600 per violation, but fines incurred for several breaches may be imposed on a cumulative basis. Where the significance of the right protected under criminal law, the magnitude of the impairment resulting from the offence and the fault of the accused are negligible, the FMA may refrain from a penalty while issuing a formal admonition calling attention to the unlawfulness of their conduct.

In 2015 the FMA imposed 125 fines totalling € 293 000, of which € 267 830 related to penal decisions and € 25 200 to penal orders. The average fine resulting from a penal decision was thus € 3 390 in 2015, with fines from penal orders averaging € 548. The highest fine imposed was € 27 000.

Article 98 para. 6 of the Austrian Banking Act (BWG; *Bankwesengesetz*), Article 190 para. 7 of the 2011 Investment Fund Act (InvFG 2011; *Investmentfondsgesetz*), Article 95 para. 12 of the 2007 Securities Supervision Act (WAG 2007; *Wertpapieraufsichtsgesetz*) and Article 67 para. 12 of the Payment Services Act (ZaDiG; *Zahlungsdienstegesetz*) entered into force on 1 January 2014; as a result, failure to comply with certain notification obligations is no longer a criminal offence provided that institutions subsequently comply with the obligations before the FMA becomes aware of non-compliance. In this context, a resulting decrease

Chart 31: Administrative penal proceedings 2011–2015 (source: FMA)

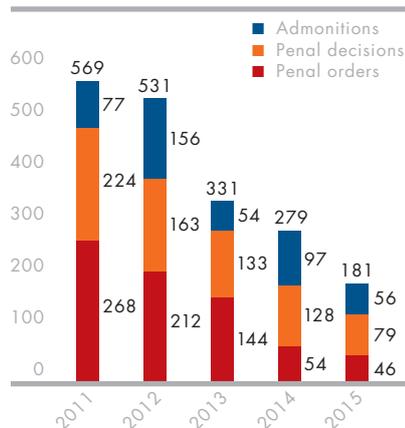


Chart 32: Facts reported to public prosecutors 2011–2015 (source: FMA)

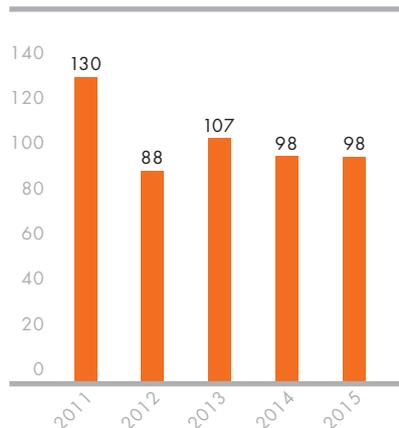
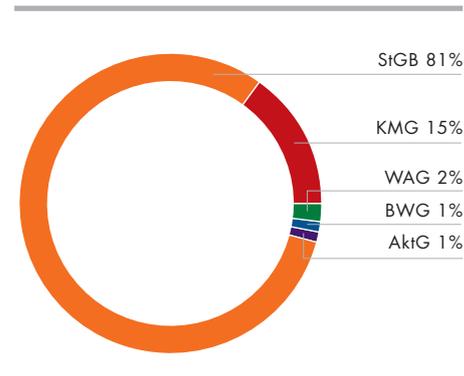


Chart 33: Facts reported to public prosecutors by subject (source: FMA)



in ‘minor’ proceedings could be observed again this year, while in a substantial number of cases the penalty was replaced by a positive incentive for the company concerned to make up the notification, which is lastly also in the interests of supervision. The total number of penalties imposed on account of notification obligations, at twelve penal orders, was limited in the end. Only four penal decisions had to be issued additionally.

STATEMENTS OF FACTS AND REPORTS TO OTHER AUTHORITIES

Some of the laws included in the FMA’s supervisory remit also cover criminal offences. Where the FMA has reasonable grounds to suspect the breach of such a law, a report must be filed with the public prosecutor’s office or the criminal investigation department. The courts of law are then responsible for imposing any sanctions. Examples of such offences include insider dealing as prohibited by the Stock Exchange Act (BörseG; *Börsengesetz*) and the public offering of investments without submitting a prospectus as required by the Capital Market Act (KMG; *Kapitalmarktgesetz*). In the course of supervisory duties, the FMA is also frequently confronted with circumstances leading to suspicion of a breach of criminal law, which must also be reported. The most frequent cases of this type involve suspected breaches of trust and/or fraud, as well as public offers issued without a prospectus pursuant to the KMG.

In 2015 the FMA forwarded 98 statements of facts to the public prosecutor’s office, while four of these reports related to suspected insider dealing as defined in the BörseG (see Chart 32). In 81% of these cases, the statements of facts related to reports made on suspected breaches of the Criminal Code (StGB; *Strafgesetzbuch*), 15% were based on suspected breaches of the KMG, 2% were based on suspected violations of the WAG 2007 and 1% pertained to the suspicion of having breached provisions of the Stock Corporation Act (AktG; *Aktiengesetz*) and the BWG (see Chart 33).

SELECTED PENAL DECISIONS ACCORDING TO AREA OF THE LAW CONCERNED¹

ANTI-MONEY LAUNDERING PROVISIONS

During the year under review the FMA issued twelve penal decisions against the parties responsible at credit institutions due to breaches of provisions intended to prevent money laundering and to combat terrorist financing. Apart from one serious case of continued unauthorised processing of transactions, eight penal decisions were issued on account of inadequate systems for the identification of politically exposed persons. Three of the penal decisions related to inadequate strategies and procedures for the disclosure of trusteeships. In one case

¹ Some of the penal decisions relate to breaches of various material laws.

Table 36: Administrative penal proceedings concluded 2011–2015 (by law)

	2011	2012	2013	2014	2015
BWG Violations of notification obligations	113	93	64	37	26
BWG Bank auditor provisions	–	–	–	–	–
BWG Protection of designations	2	1	–	–	–
BWG <i>Deckungsstock</i>	6	22	8	46	8
BWG Owner control	25	22	18	–	–
BWG Deposit guarantee and investor compensation	–	4	2	–	–
BWG Money laundering	21	37	29	10	31
BWG Violations of reporting requirements	37	81	51	14	7
BWG Accounting	–	16	11	14	14
BWG Unauthorised business	63	55	22	17	8
BWG Consumer protection provisions	–	2	–	2	–
BWG Presentation obligations	2	–	–	1	–
ZaDiG Consumer protection	4	4	1	20	26
ZaDiG Unauthorised business	5	3	1	–	1
PKG Violations of notification obligations	3	–	–	–	–
PKG Approval requirements	–	3	–	–	–
PKG Protection of designations	–	–	–	4	–
PKG Violations of information requirements	3	–	–	–	–
PKG Unauthorised pension company business	–	–	–	–	–
PKG Violations of investment provisions	–	5	–	–	–
VAG Violations of notification obligations	32	12	10	13	–
VAG Instructions	–	–	–	2	–
VAG Unauthorised business	–	–	–	1	–
InvFG Violations of notification obligations	17	17	9	6	23
InvFG Protection of designations provisions	13	7	1	3	3
InvFG Fund rules	–	–	–	2	6
InvFG Organisational requirements	–	–	5	10	4
InvFG Accounting	–	14	5	2	–
InvFG Violations of advertising provisions	51	10	3	2	7
InvFG Protection of investors' interests/ investment provisions	17	6	57	67	25
ImmInvFG Violations of notification obligations	–	–	–	–	2
ImmInvFG Protection of designations	2	–	–	–	–
ImmInvFG Violations of advertising provisions	5	4	–	–	–
BeteilFG Violations of protection of designations provisions	10	–	–	–	–
WAG Violations of notification obligations	6	5	10	4	1
WAG Capital requirements	6	3	2	4	3
WAG Owner control	11	4	8	–	4
WAG Organisational requirements	53	40	26	27	17
WAG Unauthorised business	7	2	1	3	–
WAG Conduct of business	33	55	23	28	15
BörseG Violations of obligation to report holdings	28	33	22	–	6
BörseG Directors' Dealings	9	3	5	8	5
BörseG Market manipulation	18	7	9	22	4
BörseG Non-disclosure of inside information	29	15	4	10	4
BörseG Violations of periodic disclosure obligation	15	7	3	7	3
BörseG Other violations	6	7	1	1	–
BörseG Unauthorised business	–	–	–	–	2
BörseG Violations of Vienna Stock Exchange trading rules	17	6	–	–	–
KMG Other violations of prospectus rules	33	25	5	4	18
KMG Violations of advertising provisions	6	–	1	–	–
Total	708	630	417	391	273

an individual was fined due to a serious instance of failing to disclose a trusteeship to a bank.

SECURITIES SUPERVISION ACT (WAG)
Of the 19 penal decisions issued in response to breaches of the terms of the WAG 2007, twelve concerned credit institutions and seven involved other investment service providers. The penal decisions issued against credit institutions were based in particular on the failure to take appropriate precautions to prevent unauthorised staff transactions, on the failure to comply with rules governing the suitability and appropriateness of investment services, and on inappropriate business structures, which resulted in potential conflicts of interest. The penal decisions involving investment firms and investment service providers sanctioned in particular the failure to comply with minimum capital requirements as well as the late submission of the annex to the audit report on the financial statements.

STOCK EXCHANGE ACT (BörseG)
Eight penal decisions were issued in response to breaches of the terms of the BörseG. The penalty in one case was for trade-based market manipulation, specifically due to cross-trading carried out negligently in non-liquid markets. In addition to four penal decisions on account of breaches of directors' dealings requirements and one case of failing to report holdings, two penal decisions were in response to the failure to publicise inside information in time.

INVESTMENT FUND ACT (InvFG 2011)
Seven penal decisions were issued in response to breaches of the terms of the InvFG 2011. The penal deci-

sions were related in particular to referring inadequately to the prospectus and the product information sheet known as Key Investor Information Document (KIID). The KIID replaces the simplified prospectus.

CAPITAL MARKET ACT (KMG)

Eight penal decisions were issued in response to breaches of the terms of the KMG. The penalties were issued on account of publicly offering real estate investments in the context of collective investment undertakings, using prospectuses that did not comply with the provisions of the KMG. Other cases involved breaches of the requirement to report for the new-issue calendar and of the obligation to publish notifications.

AUSTRIAN BANKING ACT (BWG)

One credit institution was late in submitting the audited annual (group) financial statements and reports for two years in succession. Penal decisions were subsequently issued in each case against the two directors and against the credit institution as a legal entity.

PAYMENT SERVICES ACT (ZaDiG)

A total of 13 penal decisions were issued in cases involving companies not under supervision by the FMA that required the customer's payment account to be maintained in Austria.

SELECTED PROCEEDINGS BEFORE THE FEDERAL ADMINISTRATIVE COURT

The main subject of the decisions handed down by the BVwG during the court's second year of activity concerned issues falling under the Administrative Penal Act (VStG; *Verwaltungsstrafgesetz*), while only in isolated cases did rulings pertain to the Code of Administrative Procedure (AVG; *Allgemeines Verwaltungsverfahrensgesetz*).

INVESTMENT FUND MANAGEMENT COMPANY

The BVwG sustained the legal opinion that an investment fund management company is required to perform independent stress tests of market liquidity and repurchase behaviour to assess the liquidity risk. It further ruled that taking out a loan must not be referred to as a temporary measure but is a component of a long-term investment strategy where the funds are borrowed via a credit line on 38 or 49 days with the intention of pre-empting anticipated premium payments.

SUITABILITY FOR INVESTMENT OF TRUST MONEY

In an advertising leaflet laid out in the departments responsible for non-contentious legal proceedings at Austrian district courts, a debt security was represented as suitable without exception for the investment of trust money. This was in fact only the case when invested as part of normal business affairs conducted on behalf of the ward. Since the leaflet was missing this additional information, the BVwG ruled the statement to be unclear and misleading as defined in Article 41 WAG 2007.

MARKET MANIPULATION THROUGH CROSS-TRADING

Among the accusations one individual had to respond to was that of allegedly having affected prices continuously with intent by several times buying one share of a particular stock, because this had resulted in marked price jumps due to a lack of liquidity. The accused person was unable to demonstrate any business-related reason for his action, especially considering that the fees for each transaction far exceeded the price paid for the share. The BVwG concurred with the opinion of the FMA, namely that in placing the one-share orders the accused aimed to drive the price up artificially.

AD HOC REPORTING/MARKET MANIPULATION

In one case the BVwG held that the piece of information in dispute did not represent inside information subject

to ad hoc reporting requirements, especially considering that, at the time of the Memorandum of Understanding (MoU) there was no sufficient degree of probability of the final event occurring. The court consequently rejected reviewing whether the information had been likely to have an effect on prices. The FMA subsequently filed an extraordinary high-court appeal against the ruling with the Administrative Court (VwGH), arguing that a piece of information relevant to prices that originated from interim action could also represent inside information – regardless of the probability of the final event occurring. In a related case, the BVwG confirmed a penal decision issued by the FMA on account of illicit market manipulation. Here a management board member had claimed in an interview with a daily newspaper that the particular transaction was not under consideration, even though the MoU had in fact already been signed. In the meantime the VwGH has also confirmed the disputed penal decision on account of illicit market manipulation.

EXCEPTION FROM THE PROSPECTUS OBLIGATION

In one case concerning a breach of the KMG, the accused party asserted in particular that the case fell under the exceptions from the prospectus obligation, arguing that only a small number of persons had actually viewed the company's related web pages. The BVwG was not able to follow these arguments either, ruling that, firstly, because an unlimited number of persons had access to the web pages a public offering had indeed been made, and, secondly, the disclaimers used in the specific case only had any legal effect if their contents did not contradict actual possibilities.

FMA PAYMENT NOTICES

Referring also to the relevant high-court rulings handed down in the interim, the BVwG has clarified that the data reports submitted by the entities liable to pay costs are to be used as the basis for determining that party's cost share, while any subsequently reported corrections are no longer to be considered.

INVESTOR INFORMATION

For one product presented on the website of a credit institution, only the average performance since establishment of the fund, covering a period of more than 25 years, was shown. The BVwG found that this fails to comply with the requirement that any performance information has to refer to full twelve-month periods. In addition, there was no clear warning that the figures were historical and that past performance was no reliable indication of future earnings.

MINIMUM REQUIREMENTS FOR MANAGEMENT COMPANIES

The BVwG ruled that the minimum requirements applying to management companies for certain securities transactions, specified in Article 18 para. 2 no. 2 InvFG, have to be met even in the absence of any real risk of misuse through private transactions. The VwGH has rejected the related high-court appeal in the meantime.

FINANCIAL STATEMENTS REQUIRED TO BE SUBMITTED

The BVwG determined that a company should have prepared and submitted on schedule the financial statements for a given financial year, despite the fact that proceedings to collect an unknown amount of taxes had just been initiated and were pending; the court ruled that the company was instead obliged to set aside appropriate provisions.

SELECTED PROCEEDINGS BEFORE THE COURTS OF PUBLIC LAW

CORPORATE PROVISION FUNDS

The VwGH rejected as unfounded the complaint filed by a corporate provision fund against an administrative decision by the FMA that had refused the fund's request based on Article 31 para. 3a of the Company Employee and Self-Employment Provisions Act (BMSVG; *Betriebliches Mitarbeiter- und Selbständigenvorsorge-*

gesetz) for permission to dispose of securities from two issuers that had been classed as securities to be held to maturity.

AD HOC REPORTING REQUIREMENT

In one case involving late disclosure of inside information, the VwGH ruled that a contractual declaration is of itself a sufficiently precise fact able to be disclosed and that such a fact must be reported where all other conditions are met (in particular the likelihood of affecting prices). The court noted that the case differed from the Daimler-Chrysler case, which (merely) involved intentions which could be subjected to an ex ante review of their probability of being implemented, at a time prior to when they could have been implemented. The VwGH ruled that a review of the probability of an event occurring was not the main consideration in the complaint case.

In another case related to issues involving the ad hoc reporting requirement, the VwGH found that exceeding construction costs or schedule was a sufficiently precise piece of information and did not concern a still uncertain event. The court consequently rejected the argument that the item of information that had been cited as triggering the ad hoc reporting requirement was only abstractly capable of affecting prices.

INTERNAL AUDIT

The VwGH ruled that neither Article 20 WAG 2007 or the related explanatory comments, nor the Markets in Financial Instruments Directive (MiFID) contained specific rules concerning the timetable according to which the internal audit unit had to implement the audit programme. Consequently, both the establishment of internal auditing as well as the preparation and implementation of the audit programme depend on the particular circumstances of the legal entity involved.

CREDIT INSTITUTION GROUPS

The BWG specifies that an overall examination of the legal and other relationships between primary banks and a central institution is to be made when evaluating the issue of whether such banks are 'connected' to that central institution. The VwGH ruled that intertwining statutory rights and obligations as well as a common presentation to the public are sufficient indications of affiliation to a particular sector. In the specific case, business relationships were additionally found to exist that were obligatory in some instances and considerable in number. The court stated that sufficiently extensive relationships under civil and cooperative law existed to warrant the conclusion of these institutions being 'connected'. This conclusion was not seen as contradicted either by the fact that no provision requiring the holding of liquidity reserves exclusively with the central institution had been stipulated or the fact that the primary banks' articles of association stipulated their legal and economic independence. The VwGH additionally ruled that the provision specified in Article 27a BWG did not oppose the CRR or CRD IV, since they provide for institutions to hold liquidity with a central institution within a sector organised along the lines of a cooperative.

As a result of the extraordinary high-court appeals filed by the Raiffeisen cooperatives in the continued proceedings, the VwGH also had to assess whether Article 27a BWG contradicted primary law. The VwGH emphasised in this context that the good reputation of the financial sector represents necessary grounds within the public interest and can serve as justification for limiting the free flow of capital under certain circumstances.

OWNER CONTROL CASES

In one set of cases, the VwGH examined the alleged failure of the party filing a high-court appeal to provide notification of the intention to acquire major holdings in a credit institution. Where a company has resolved to acquire qualifying holdings in an Austrian credit institution, the managing director of the company can be expected to have knowledge of fundamental reporting and notification requirements that have been laid down clearly in the relevant provisions of law, and to verify that any commissioned third party complies with these requirements.

DIRECTORS' RESPONSIBILITY

In a case involving an investment firm fined for failing to meet capital requirements, the VfGH ruled that, where the shareholders prevent the director from carrying out duties, the latter is immediately obliged either to take legal action to allow him/her to carry out his/her responsibilities without impediment or to vacate the position and withdraw as director. The same principle applies to the case where the shareholders fail to increase the level of equity in compliance with provisions of law.

EXAMINATION OF UNCONSTITUTIONALITY AND ILLEGALITY

Banks, insurance undertakings and funds filed independent petitions requesting the Constitutional Court (VfGH) to examine the Federal Act on Restructuring Measures for Hypo Alpe Adria Bank International AG (HaaSanG; *Bundesgesetz über Sanierungsmaßnahmen für die Hypo*), the related HaaSanV regulation by the FMA and the Federal Act on the Creation of a Wind-down Entity (GSA; *Bundesgesetz zur Schaffung einer Abbaueinheit*). The VfGH rejected all of the petitions on lack of grounds for admissibility. In the opinion of the VfGH, the parallel civil proceedings initiated by the petitioners represented an indirect path they could reasonably be expected to take as a means of objecting on grounds of unconstitutionality and illegality to the provisions of law concerned, so that individual petitions were inadmissible.

The VfGH repealed the HaaSanG in its entirety on grounds of unconstitutionality, ruling that it treated subordinated creditors unequally and that cancelling the liability of the province of Carinthia represented a disproportionate intervention in property rights. The entire HaaSanV was subsequently lifted as being illegal, as a result of the repeal of the HaaSanG. No period for repairing these bodies of law was conceded. The VfGH additionally ruled that the GSA was not unconstitutional, thus rejecting the petition filed against the order to transfer shares as specified in Article 1 GSA and against the special provisions of company law laid down in the GSA. The petitioners had also raised doubts with regard to assigning the FMA with enforcement of the HaaSanG within the framework of banking supervision as specified in Article 2 para. 1 of the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*). On this point the VfGH recognised that Articles 81 et seq. BWG undisputedly specify the powers to supervise business transactions under special insolvency law as belonging to banking supervision and that mandating the FMA with tasks through a simple act of law was admissible within the framework of the FMABG.

COMPANY EMPLOYEE AND SELF-EMPLOYMENT PROVISION FUNDS

The BVwG confirmed an administrative decision issued by the FMA that, based on Article 43 para. 1 no. 2 BMSVG, had imposed interest of € 1 697 260.27 on a corporate provision fund. The VfGH rejected dealing with the complaint against the decision handed down by the BVwG, citing the insufficient prospects of success. The VfGH ruled that Article 43 para. 2 no. 2 BMSVG is a provision of economic law without any penal character. The court could accordingly recognise no objection on constitutional grounds to the flat interest rate of 5%.

INTERNATIONAL COOPERATION

In the age of a globalised financial economy, cross-border cooperation between the regulatory and supervisory authorities is becoming ever more important. One reason is that regulatory standards are being prepared and imposed increasingly frequently at international level rather than on a national basis. On the other hand, in their day-to-day operations national supervisory authorities encounter more and more often financial service providers that are active on a cross-border basis.

With this in mind, the FMA is a member of many European, global and transnational organisations and associations, enabling it to represent the interests of the Austrian market and its providers in these bodies. FMA employees are permanently involved in around 180 different international organisations, committees and working groups, the most important of which are described in brief below.

GLOBAL COOPERATION

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

The global body of insurance supervisors and regulators, IAIS has members from approximately 140 different countries. Austria is represented by the FMA in the person of Peter Braumüller, Director of the Insurance and Pension Supervision Department, who holds voting rights.

As in previous years, the IAIS focused on the issue of global financial market stability during 2015. The Financial Stability Board (FSB) published an updated list of global systemically important banks in November 2015, even though the IAIS methodology for identifying global systemically important insurers is currently being revised. Because these undertakings will be subject to enhanced supervision, the IAIS is developing supervisory standards to be applied to insurance groups with international operations and systemically important insurers. To this end, and in addition to the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), tools such as the Basic Capital Requirements (BCR), Higher Loss Absorbency (HLA) requirements and a risk-based group-wide global insurance capital standard (ICS) are being developed over several stages. The HLA requirements were adopted by the IAIS at its General Meeting in late 2015 and subsequently endorsed by the FSB and the G20. In addition, the IAIS intensified work in the area of recovery and resolution of insurance undertakings. Alongside work on the capital standards, the IAIS also continued to focus on the revision and worldwide implementation of the Insurance Core Principles (ICPs).

As of December 2015, supervisory authorities from 54 jurisdictions, among them the FMA, had signed the IAIS Multilateral Memorandum of Understanding (IAIS MMoU), designed to promote the exchange of information and cooperation between IAIS members.

The IAIS held its 2015 General Meeting and Annual Conference in Marrakesh, Morocco. The theme of the event was "The supervisor's role within policyholder protection, financial stability and market development". Further information on the IAIS is available at www.iaisweb.org.

INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS (IOPS)

A founding member of the IOPS, the FMA has sat on the organisation's Executive Committee since October 2014. The IOPS was set up in July 2014 and now comprises some 80 countries holding member or observer status. These countries display highly varying pension and supervision schemes, especially with regard to pension funds and *Pensionskassen* (pension companies).

In the year under review, the IOPS published working papers on the topics of the "Role of Pension Supervisory Authorities in Automatic Enrolment", "Supervising the Distribution of Annuities and other Forms of Pension Pay-Out" and "The role of actuarial calculations and reviews in pension supervision". The Organisation also discussed issues including "The Concept of Target Retirement Income", "Supervision of investment management, including non-traditional investment, infrastructure and long-term investment", "Macro- and micro dimensions of supervision of large pension funds" as well as the topic of the project under FMA leadership "The role of supervision related to consumer protection in private pension systems".

Further information on the IOPS is available at www.iopsweb.org.

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

IOSCO, the International Organization of Securities Commissions, currently has 124 ordinary members. In total, 106 of these have signed the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU), which lays the foundation for the worldwide exchange of information. International cooperation is becoming increasingly extensive in the face of globally active investment firms. This is reflected among other things by the number of information requests. Since 2004 the number of enquiries has climbed from 300 to over 3 000 in 2015.

At the Annual Conference in June, the Presidents Committee adopted IOSCO's Strategic Direction 2015 to 2020, intended to reinforce IOSCO's position as the key global reference point for markets regulation. This is to be achieved by pursuing the following priorities:

- research and risk identification;
- standard setting and implementation monitoring;
- cooperation and information exchange;
- collaboration with other international organisations.

Detailed action plans support the implementation of these objectives. Paul P. Andrews was appointed new Secretary General by the IOSCO Board on 16 December 2015. He follows David Wright, who had held the position since March 2012. Paul P. Andrews will serve as head of the IOSCO Secretariat for three years as of March 2016.

Further information on IOSCO is available at www.iosco.org.

FATF - MONEYVAL - AMLC

The FMA participates in various international bodies dedicated to the prevention of money laundering and the financing of terrorism. It is a member of the Austrian delegation to the Financial Action Task Force (FATF), to the Expert Group on Money Laundering and Terrorist Financing (EGMLTF), to the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and to the Anti-Money Laundering Sub-Committee (AMLC), an expert group of the Joint Committee of the three European Supervisory Authorities, namely EBA, EIOPA and ESMA.

Highlights of the past year included the FATF country evaluation of Austria and the entry into force of the new Fourth Anti-Money Laundering Directive. The FATF country evaluation is taking place between May 2015 and June 2016. The methodology for evaluating effectiveness in implementing the FATF standards is based on a catalogue of objectives that encompasses three levels. At the highest level, the objective is that: "Financial

systems and the broader economy are protected from the threats of money laundering and the financing of terrorism and proliferation, thereby strengthening financial sector integrity and contributing to safety and security.” In the context of the country evaluation, the FATF assessors made a two-week on-site visit to Austria in November 2015. Following a period of commenting lasting several months, the country report will be discussed and adopted at the FATF Plenary in June 2016.

The Fourth Anti-Money Laundering Directive (AMLD) entered into effect in June 2015. The Directive provides for a stronger risk-based approach. One of the items specified is that obliged entities will directly decide, based on a preceding risk analysis, whether to apply simplified or enhanced due diligence measures. Specific details will ensue, especially in the form of various guidelines and regulatory technical standards to be prepared by the AMLC. A two-year period has been allowed for transposing the Directive into national law. Further information on FATF is available at www.fatf-gafi.org.

EUROPEAN COOPERATION

The European System of Financial Supervision (ESFS) consists of three components:

- macroprudential supervision through the European Systemic Risk Board (ESRB);
- microprudential supervision through the European Supervisory Authorities (ESAs);
- the national competent authorities (NCAs), which continue to be responsible for the ongoing supervision of individual institutions/groups of institutions.

The ESRB, an independent body, is based at the European Central Bank (ECB). It is tasked with evaluating and monitoring systemic risks within the financial system, with the aim of strengthening the shock resilience of financial markets. To this end, the ESRB provides the Council of the European Union with regular assessments of the current situation, as well as providing warnings or recommendations as and when required to the EU, one or more Member States, ESAs or NCAs.

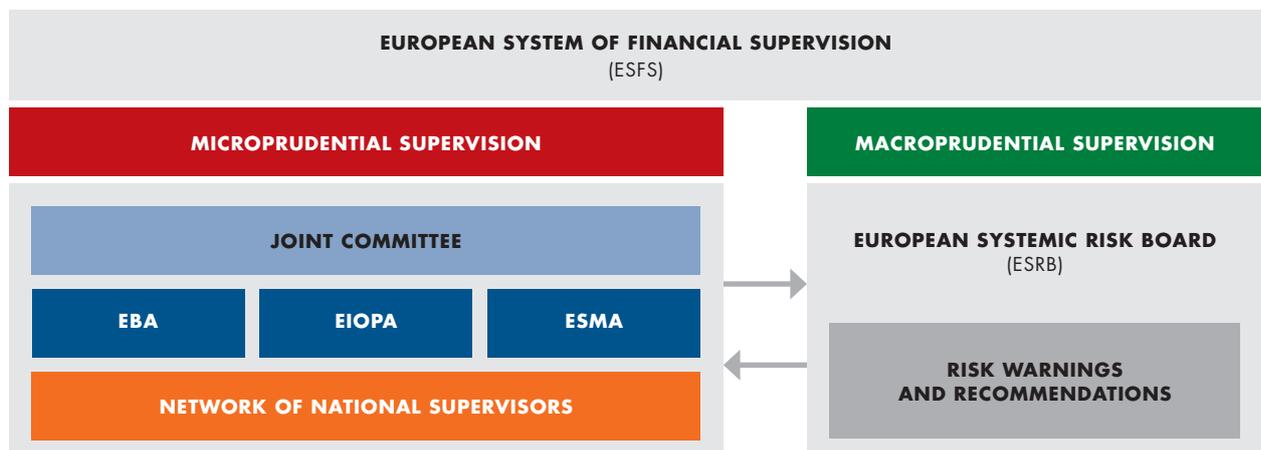
Microprudential supervision at European level (see Figure 1) is the role of:

- the European Banking Authority (EBA) in London;
- the European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt; and
- the European Securities and Markets Authority (ESMA) in Paris.

A Joint Committee coordinates cooperation between the ESAs and deals with cross-sectoral issues in four Sub-Committees: financial conglomerates, anti-money laundering, microprudential analyses of cross-sectoral developments, and consumer protection and financial innovation. This system ensures that microprudential and macroprudential supervision mesh together perfectly.

The ESAs are authorities with legal personality and both administrative and financial autonomy. They are

Figure 1: European supervisory architecture



accountable to the European Parliament and the Council, and have been entrusted with the following responsibilities and powers:

- preparing Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS);
- issuing guidelines and recommendations;
- monitoring and enforcing supervisory convergence; and
- consumer protection.

In this way they have a key role to play in creating a level playing field for financial services in the European single market. For the purposes of securing financial stability, half-yearly financial stability reports are prepared by the ESAs and the Joint Committee for the attention of the Financial Stability Table (FST) of the EU's Economic and Financial Committee.

In terms of their organisational structure, the ESAs share the same features. The Board of Supervisors (BoS) is the decision-making body, on which the FMA sits as a voting member. With regard to the EBA, the Oesterreichische Nationalbank (OeNB) is also a non-voting representative. The BoS sets the guidelines for the authority's activities, prepares its work programme and takes decisions on regulatory matters. The BoS is headed in each case by a full-time chair who is elected by the BoS members and represents the ESA externally. The current Chairpersons are Andrea Enria (EBA), Gabriel Bernardino (EIOPA) and Steven Maijoor (ESMA).

The BoS elects a Management Board, composed of the Chairperson and six further voting members. Meanwhile, an Executive Director is responsible for the administrative management of the authority, preparing the work of the Management Board. Currently serving as Executive Directors are Adam Farkas (EBA), Carlos Montalvo (EIOPA, until March 2016) and Verena Ross (ESMA). A Board of Appeal has been set up to decide on appeals against decisions of the ESAs. Stakeholder Groups have also been created to facilitate the process of consulting stakeholder representatives.

With effect from 4 November 2014, operational banking supervision in the euro area has been restructured, with the setting up of the Single Supervisory Mechanism (SSM) headed by the ECB. The SSM forms part of the ESFS. However, the members of the national competent authorities continue to hold the voting rights in the EBA Board of Supervisors.

EUROPEAN BANKING AUTHORITY (EBA)

With the creation of the SSM, the EBA's key remit has become focused on regulation. The EBA plays a key role in the development of the Single Rulebook, thus contributing in a major way to creating a level playing field for financial institutions and to enhancing financial regulation standards. In this context, the EBA has fleshed out the detail of some of the key provisions of the Capital Requirements Regulation (CRR) and the Bank Recovery and Resolution Directive (BRRD), submitting draft technical standards, opinions and recommendations to the European Commission. Falling within the scope of these provisions are issues such as internal models, recovery plans, the methodology of the EU-wide stress test in 2016, maximum dividends when falling short of capital requirements, crowdfunding, bail-in, minimum requirements for eligible liabilities and bank resolution.

Other key items have been the discussion paper published on the future of internal models and the guidelines on remuneration policies, for which the EBA has submitted a related proposal for legislation to the European Commission. The EBA has also become increasingly involved in the area of consumer protection (specifically in issues including payment accounts, mortgages, product oversight and remuneration) and has issued related guidelines.

The EBA has formerly submitted to the European Commission advice, reports and (legal) opinions on topics such as shadow banking, prudential recommendations for investment firms, draft EC legislation on securitisation and remuneration issues. Reports have also been published on contingent convertible (CoCo) bonds, the conduct risk in the banking and insurance sectors (issued as a Joint Committee report), and on asset encumbrance, in addition to the results of the peer review of fit and properness (i. e. requirements to be met

by senior management and key function holders). As an activity intended to supplement the disclosure requirement, an EU-wide banking transparency exercise was also conducted.

With the unanimous support of the voting representatives of the Board of Supervisors, the EBA adopted a voluntary Memorandum of Understanding (MoU) for the sharing of key risk indicators (KRIs) in banking as well as an MoU concerning the sharing of information between the EBA and certain SEE countries for the purpose of further developing the colleges of supervisors and the Single Rulebook.

Upon expiry after five years, the term of office of the EBA Chairperson and the Executive Director was extended for another five years.

Further information on EBA is available at www.eba.europa.eu.

EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

Several packages of technical standards, the most extensive of their kind up to now, relating to MiFID II, the Market Abuse Regulation (MAR) and the Central Securities Depositories Regulation (CSDR) were adopted in September 2015. This represents a further milestone on the path to finalising the Single Rulebook. ESMA will now shift its focus, from detailing regulatory measures to implementing and ensuring convergence in supervisory practices. This shift results from an extensive discussion process, which has been documented in the ESMA Strategic Orientation 2016-2020. The new approach is underscored by external reviews.

To take concrete steps in this new direction, a work programme for supervisory convergence has been agreed for the first time, scheduled to be adopted in early 2016. Meanwhile, the Review Panel has been given additional responsibilities and restructured as a Supervisory Convergence Standing Committee that will take a more active role in cross-cutting issues. Another consequence at ESMA has been to restructure its organisation. The most significant changes apparent in its organisation are the installation of a new supervision unit for credit rating agencies (CRAs) and trade repositories (TRs), a more prominent position of risk analysis, and a new Corporate Affairs Department, responsible for communication within the organisation and with external bodies. The priority given to the direct supervision of CRAs and TRs is reflected in the merging of supervisory responsibilities. The first fine ever was imposed on a CRA in 2015, for failure to keep proper records.

During the same period, ESMA published two peer reviews relating to supervisory convergence. Teams of experts reviewed the implementation and application of the guidelines on automated trading as well as best execution supervisory practices under MiFID. The objective was to identify best practices in the interests of improved convergence across Member States.

A key concern at ESMA is collaboration with the SSM. In line with this concern, three agreements were adopted:

- Memorandum of Understanding on cooperation between the ECB and ESMA;
- Template MoU to be used between national authorities responsible for markets in financial instruments and the ECB;
- T2S cooperative arrangement between supervisors and overseers.

As proposed by the Board of Supervisors, Steven Maijoor was confirmed in his role as ESMA Chair for another five-year term by the European Parliament. Verena Ross was likewise confirmed in the position of Executive Director for another five years by the BoS. The ESMA Chair visited the FMA on 2 March 2015. Mr Maijoor's itinerary included meetings with high-level financial sector representatives.

In November ESMA elected Klaus Kumpfmüller to sit on the Management Board for another two and a half years, assuring a continued active role in shaping the budget, staff planning and work programmes. Representatives from France, Germany, Ireland, Poland and Spain also participate in this body.

Further information on ESMA is available at www.esma.europa.eu.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

One of EIOPA's priorities in the year under review continued to be the finalisation and publication of the

guidelines and draft Implementing Technical Standards required for putting into practice the new supervisory regime for insurance undertakings, Solvency II, which will enter into force in 2016. Further measures were taken to ensure the effectiveness and efficiency of the colleges of supervisors under Solvency II.

In response to a call by the European Commission, EIOPA submitted advice on the identification and calibration of infrastructure investment risk categories. The European Commission considered this advice already when preparing the draft amendments of the delegated acts relating to Solvency II in late November.

In the area of pensions, EIOPA published reports on the costs and charges of IORPs, good practices on individual transfers of occupational pension rights, and on investment options for occupational DC scheme members, as well as the results of a peer review conducted to examine supervisory practices in respect of Article 9 of Directive 2003/41/EC (“Conditions of operation”). The annual “Market Development Report on occupational pensions and cross-border IORPs” was also issued. EIOPA’s advice to the European Commission on the introduction of a standardised Pan-European Personal Pension product (PEPP) and a proposal for communication tools and channels for communicating to occupational pension scheme members were both put out for consultation.

The EIOPA Fourth Consumer Trends Report presents an update on developments in insurance as well as, for the first time, a related analysis of the pensions sector. Another report was published on consumer protection issues arising from the sale of mobile phone insurance.

The FMA is represented on the Board of Supervisors by its Director for Insurance and Pension Supervision, Peter Braumüller, who in 2015 was elected as EIOPA’s Alternate Chair.

Further information on EIOPA is available at www.eiopa.europa.eu.

SINGLE SUPERVISORY MECHANISM (SSM)

As the first year in which the SSM exercised its full scope of responsibilities, 2015 was marked by the first complete cycle of annual supervisory activities involving significant institutions under the SSM and by the preparation of methods to be applied in operational supervision.

One focus in operational activities was to evaluate the results revealed by the comprehensive assessment performed in 2014, consisting mainly of an asset quality review and a stringent stress test based on the AQR. This involved discussing the capital plans and taking appropriate measures in response. Activities also focused on banks that had been subject to comprehensive assessments in 2015 but not in 2014, as they had only been classified as significant later, as well as on banks identified as having a poor business model or facing challenging business conditions. The SSM also agreed on a sample of banks to put through the EBA stress test in 2016. The sample includes the 38 largest banking groups under the SSM, collectively accounting for about 70% of total assets. As a result of the annual criteria-based review of the significance of banks under the SSM, nine additional institutions were identified as significant while two significant banks were reclassified as less significant, with a transition period set. Another major activity was to adopt the decisions arising from the Supervisory Review and Evaluation Process (SREP) in 2015, which for the first time followed a uniform SSM methodology. Specifically, based on the risk assessments developed by the Joint Supervisory Teams (JSTs), a first comprehensive horizontal analysis of each significant bank was performed, which then served as the basis of the decision process. Another item worth mentioning relates to the discussions centred on the crisis in Greece’s banking sector.

Several projects focused on harmonisation were launched in 2015, including the first phase of a project aimed at a harmonised methodology for the SREP in 2015, a project dedicated to harmonising internal models and another aimed at the harmonisation of options and national discretions arising from the CRR and CRD IV. A high level group was installed to prepare the decisions for the Supervisory Board. In the third quarter, the Supervisory Board reached agreement on 123 of the options and national discretions identified, with the public consultation being held in Q4 and the final resolution scheduled for early 2016. At the same time, other options and national discretions were examined with the goal of harmonising them in the latter half of

2016. The Supervisory Board also discussed policies in the areas of eligibility of own funds, remuneration, fit and proper testing, owner control cases and the supervision of institutional protection schemes (IPs).

Attention in 2015 was also centred on cooperation in Europe and on preparation for the launch of the Single Resolution Mechanism (SRM) on 1 January 2016. A related Memorandum of Understanding (MoU) between the Single Resolution Board and the European Central Bank in respect of cooperation and information exchange was agreed, and another MoU was signed by the ECB and ESMA. With the change of competence for banking supervision entailed in the SSM, internal processes were developed within the mechanism to ensure harmonised procedures in the SSM's activities as well as clearly delineated roles in conducting the International Monetary Fund's Financial Sector Assessment Programs (FSAPs), to be completed at national level by 2018.

In late 2015 the SSM adopted the following five priorities for the 2016 work programme: business models and profitability, credit risk and especially non-performing loans and concentration of exposures in specific sectors, capitalisation, internal risk management and data quality, and liquidity.

Further information on the SSM is available at www.bankingsupervision.europa.eu.

Table 37: **Bilateral Memoranda of Understanding concluded**
(incl. year of conclusion)

COUNTRY	Banking	Insurance	Securities	AIFMD-MoU
Albania		2009		
Australia				2013
Bahamas				2015
Bermuda				2013
British Virgin Islands				2013
Bosnia and Herzegovina	2015			
Bulgaria	2005			
Canada				2013
Cayman Islands				2013
China			2008	
Croatia	2005	2008	2000	
Cyprus	2007		2002	
Czech Republic	2001	2004	1999	
Dubai				2013
France	1995			
Germany	2000			
Guernsey				2013
Hongkong				2013
Hungary	2001	2002	1998	
Isle of Man				2013
Italy	1998			
Japan				2013
Jersey				2013
Liechtenstein	2009			
Macedonia		2010		
Malaysia				2013
Malta	2007			
Montenegro		2009		
Netherlands	1997			
Poland			1999	
Romania	2006	2005		
Russian Federation	2010			
Serbia		2009		
Singapore				2013
Slovakia	2003	2002		
Slovenia	2001		2001	
Switzerland	2012	2006		2013
Thailand				2014
United Kingdom	1994/1998			
USA				2013

BILATERAL AND MULTILATERAL COOPERATION

MEMORANDA OF UNDERSTANDING

The FMA has entered into bilateral cooperation agreements (Memoranda of Understanding – MoUs) with foreign supervisory authorities. These make practical supervisory activities in cross-border cases simpler and swifter. They also serve as a confidence-building measure, towards non-EEA Member States in particular, and as an instrument in the FMA's efforts to continually strengthen operational cooperation with its partner authorities, mainly those situated in Central, Eastern and South-Eastern European countries. The main function of the MoUs is to define in practical terms the responsibilities and obligations in relation to cross-border cooperation with the other supervisory authority in question.

An MoU on cooperation and the exchange of information within the framework of banking supervision was signed with the Banking Agencies of the Federation of Bosnia and Herzegovina and of Republika Srpska in 2015, along with another related to the monitoring of alternative investment fund managers (AIFMs) that was concluded with the Securities Commission of the Bahamas.

Multilateral Memoranda of Understanding

(MMoU) are also concluded with multilateral bodies in the interests of international cooperation on supervision. Of particular importance are those MMoUs that place the exchange of relevant information on a multilaterally agreed basis, thus helping to harmonise and simplify the exchange of information between the participating authorities. The IOSCO MMoU in relation to the securities sector and the IAIS MMoU covering the insurance sector are particularly relevant to the FMA.

BODIES

The executive bodies of the FMA comprise the Executive Board and the Supervisory Board. The Executive Board is responsible for managing the entire operation as well as the FMA's business transactions in accordance with the law and the Rules of Procedure. The Supervisory Board is responsible for monitoring the management and business operations of the FMA.

EXECUTIVE BOARD

In accordance with the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*), the Executive Board consists of two members with equal rights, one of whom is nominated by the Federal Minister of Finance and the other by the Oesterreichische Nationalbank (OeNB). Both are to be appointed by the Federal President upon the proposal of the Federal Government for a five-year term of office, and may be reappointed for a second term. During the year under review, Helmut Ettl and Klaus Kumpfmüller made up the Executive Board of the FMA.

SUPERVISORY BOARD

The Supervisory Board of the FMA is composed of eight members. Of these, the Federal Minister of Finance (BMF) as well as the Oesterreichische Nationalbank (OeNB) appoint three members each, who are eligible to vote, while the Austrian Federal Economic Chamber (WKO) nominates two co-opted members without voting rights to represent the supervised institutions. The latter members have clearly delineated rights to obtain information. The ordinary members of the Supervisory Board are to be appointed by the BMF, whilst the members nominated by the WKO are co-opted by the Supervisory Board itself.

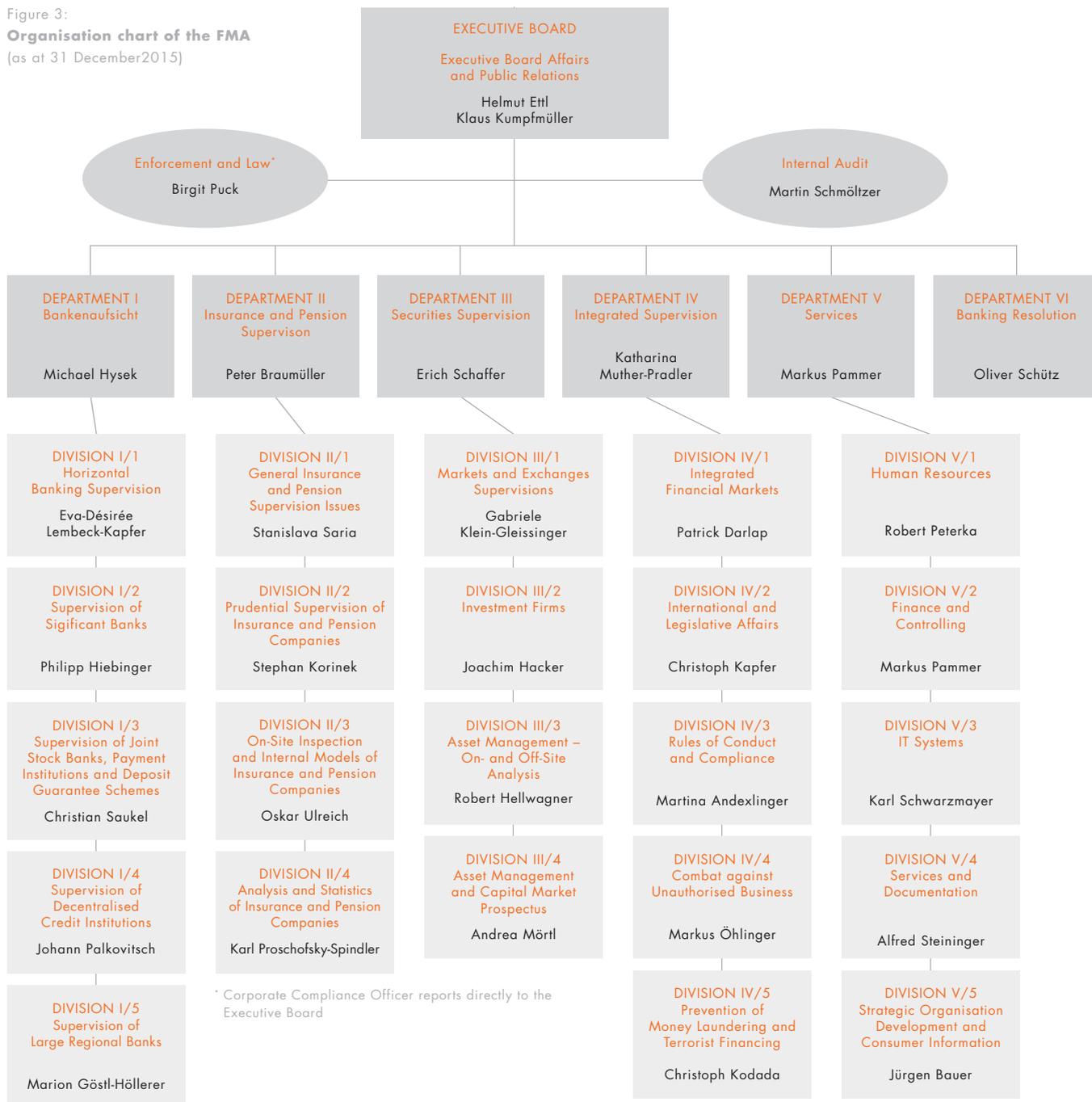
Pursuant to Article 10 para. 2 FMABG, the following measures require the approval of the Supervisory Board:

- the financial plan to be drawn up by the Executive Board including the investment and staff plan;
- investments, to the extent that they are not authorised in the investment plan, and the taking out of loans that exceed € 75 000 each;
- the acquisition, disposal and encumbrance of real estate;

Figure 2: Supervisory Board of the FMA

APPOINTED BY THE BMF	APPOINTED BY THE OeNB	APPOINTED BY THE WKO
Alfred Lejsek (Chair)	Ewald Nowotny (Deputy chair)	Franz Rudorfer
Beate Schaffer	Andreas Ittner	Walter Knirsch
Bernhard Perner	Gabriela De Raaij	

Figure 3:
Organisation chart of the FMA
 (as at 31 December 2015)



- the financial statements to be drawn up by the Executive Board;
- the Rules of Procedure pursuant to Article 6 para. 2 FMABG and changes thereto;
- the Compliance Code pursuant to Article 6 para. 4 FMABG and changes thereto;
- the appointment of employees of the FMA to leading functions directly subordinate to the Executive Board (second management level), as well as their dismissal and termination of employment;
- the Annual Report to be drawn up pursuant to Article 16 para. 3 FMABG;
- the conclusion of collective bargaining and works agreements.

In accordance with Article 9 para. 1 FMABG, the Supervisory Board is required to hold meetings at least once every calendar quarter. In 2015 the Supervisory Board convened on 10 March, 19 June and 2 October. At its meeting on 19 June 2015, the Supervisory Board unanimously discharged the Executive Board for the 2014 financial year pursuant to Article 18 para. 4 FMABG.

STAFF

NUMBER OF STAFF

The Supervisory Board had approved a staffing target of 389 full-time equivalents (FTEs) for 2015. The actual number of staff employed by the FMA as at 31 December 2015 was 373.32 FTEs, which corresponds to 401 employees (excluding those on leave). A breakdown of the planned distribution of staff among the individual departments compared with the actual figures is shown in Table 38.

The staff turnover rate fell for the fourth year in a row and amounted to only 2.51% in 2015, which compares with a figure of 4.09% in 2014 and 5.68% in 2013. Employees whose fixed-term contracts expired during the year are not included. This development is a welcome effect of staff's increased identification with the FMA as an employer, and proves the success of the staff retention measures that the Authority has been implementing for years. These measures include the option of adding an international element to careers, an attractive performance-based salary scheme, an appealing continuous professional development programme, and measures designed to help employees reconcile their work and family life.

The number of civil servants assigned to duty at the FMA by the Federal Ministry of Finance remained almost unchanged compared with the previous year, at 18.25 FTEs. The proportion of civil servants dipped from 5.13% to 4.89% at the 2015 year-end. There was a slight decrease in the number of contractual employees, due to periods of leave, from 5.68 to 4.65 FTEs. Consequently, the proportion of contractual employees, based on the total FMA staff, dropped from 1.60% to 1.25%.

The average age of FMA employees was unchanged at 39. The share of part-time employees was 18.95% in 2015; most of these were parents taking part-time leave. Women accounted for 53.12% of the total workforce, up further from 52.11% in the previous year, and made up 39% of all managerial positions. The share of university graduates remained almost unchanged, at a high level of 72.07%. The proportion of employees with additional qualifications, such as a second degree, a postgraduate qualification, or professional qualifications in law or tax accountancy, was 40.15% in 2015. Including those 69 employees who graduated from

the two-year postgraduate, vocational university programme in Financial Market Supervision, developed jointly by the FMA, Oesterreichische Nationalbank and Vienna University of Economics and Business (WU), the percentage rises to 57.36%.

Table 38: Planned and actual staffing levels in FTEs in 2015*

	Planned staffing level as at 31 Dec.	Actual staffing level as at 31 Dec.	Difference in %
Executive Board Affairs, Enforcement and Law, Internal Audit	27.00	25.00	-7.41
Banking Supervision Department	76.50	74.05	-3.20
Insurance and Pension Supervision Department	59.00	56.70	-3.90
Securities Supervision Department	82.15	81.40	-0.91
Integrated Supervision Department	91.25	85.13	-6.71
Services Department	53.10	51.04	-3.88
Total	389.00	373.32	-4.03

* Differences due to rounding to two decimal places are ignored.

TRAINING AND CAREER DEVELOPMENT

As an expert organisation, the FMA

considers it especially important to provide training and career development for its employees. Its training programme encompasses a range of measures for the different target groups and training needs:

- the university programme in Financial Market Supervision offered in conjunction with the OeNB (since 2010), which has been upgraded to an MBA course (as of the 2013 intake of students);
- the executive development programme “Basic and Advanced Leadership” (since 2011) and the new executive development programme “Proactive Leadership at the FMA” (since 2015);
- the FMA Academy (since 2005);
- international seminars organised by the European Supervisory Authorities (ESAs); and
- third-party seminars offered individually.

EXECUTIVE DEVELOPMENT PROGRAMMES

The “Basic and Advanced Leadership” executive development programme, developed specifically for the FMA, has been offered since 2011. More than 75% of all executives have already successfully completed the four modules that make up the programme.

In 2015 a new CPD offer was made in the form of another programme entitled “Proactive Leadership at the FMA”. Here FMA executives are taught how to lead their teams in an increasingly anticipatory manner, how to tackle current leadership challenges and take appropriate steps. In order to respond to the different leadership personalities individually, the programme also includes individual coaching sessions in addition to the three workshops that make up this new programme.

FMA ACADEMY

The seminars offered by the FMA Academy are grouped around target groups and subject areas:

- | | |
|--------------------------------|---|
| ■ New employees/basic seminars | ■ Specialist knowledge |
| ■ Assistants | ■ IT seminars |
| ■ Trainees | ■ Language skills |
| ■ Heads of office | ■ E-learning |
| ■ Specialists | ■ Decentralised measures |
| ■ Executives | ■ International seminars |
| | ■ Study visits and staff exchange |
| | ■ University programme in Financial Market Supervision and upgrade to MBA programme |

In 2015 the FMA Academy organised a total of 157 seminars, workshops and lectures in which 2 583 individuals participated. In addition to these centrally organised seminars, FMA staff attended more than 458 specialised training courses at third-party educational establishments targeted at individual career development in their specific fields.

INTERNATIONAL COOPERATION

INTERNATIONAL SEMINARS

Besides numerous attendances at international seminars held by the European Supervisory Authorities and the European Central Bank (ECB) within the scope of the Single Supervisory Mechanism (SSM), the FMA organised a European Insurance and Occupational Pensions Authority (EIOPA) seminar for insurance supervisors entitled “Risk-based Supervision” in Vienna.

The international training sessions focused on supporting FMA staff in their active roles in the Joint Supervisory Teams (JST) as part of the SSM and on increasing efficiency in a matrix management environment.

COOPERATION WITH THE EUROPEAN CENTRAL BANK

The FMA continued to cooperate with the ECB in 2015 in relation to the personnel issues associated with the Single Supervisory Mechanism (SSM). The main priorities were target setting, performance feedback and human resources development, as well as the establishment of general guidelines for the purposes of harmonisation in a range of areas (e.g. travel expenses, methodology). The FMA is involved in the process through its active role in Human Resources Committee meetings (in SSM composition) and motivates staff to work at the ECB within the scope of SSM by offering favourable secondment conditions and regular information on the available opportunities. The FMA also contributed to the advancement of SSM seminars and the ECB's trainee programme. Four employees from the FMA's Banking Supervision and the Integrated Supervision Departments are now on fixed-term secondments at the ECB. Furthermore, two employees were sent on temporary secondment to the ECB in 2015.

COOPERATION WITH THE SINGLE RESOLUTION BOARD

As part of the new European recovery and resolution regime for banks and investment firms, the FMA made initial contact with the Board and worked jointly on current training offers, in which some FMA employees have already participated.

COOPERATION WITH EUROPEAN PARTNER AUTHORITIES

OUTGOING STUDY VISITS

In 2015 six FMA employees made study visits and were thus able to engage more closely with their international contacts at partner authorities. One employee from Securities Supervision and one from Insurance Supervision spent time at the Bank of Ireland. Two employees from Banking Supervision worked at the ECB in Frankfurt, broadening their expert horizons. One employee from Securities Supervision exchanged experiences with his colleagues from the Financial Conduct Authority (FCA) in London, while another employee from the Integrated Supervision Department intensified his contacts within the European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt.

INCOMING STUDY VISITS

For the first time, in 2015 the FMA offered more opportunities for incoming study visits than FMA employees took up abroad. Seven colleagues from the German Federal Financial Supervisory Authority (BaFin) and two colleagues from Deutsche Bundesbank were given a work placement. One colleague from the Bank of Ireland also made a study visit to the FMA.

GLOBAL COOPERATION

One FMA employee from Banking Supervision moved from the International Monetary Fund (IMF) in Washington, USA to the Hong Kong Monetary Authority (HKMA), with his secondment lasting until the end of 2015. One employee from the Executive Board Affairs division was seconded to the European Commission in Brussels.

RECRUITMENT

In 2015 an applicant management tool, designed to make the recruitment process much simpler and more efficient, was introduced at the FMA. It has now become possible to administer double and multiple applications in a transparent fashion, and to ensure that the information received is kept on file effectively. Furthermore, the new software makes the process significantly easier for applicants, as they can now import their profile

from social media platforms directly, and they receive replies more rapidly and reliably, which boosts the FMA as an employer brand. By preselecting applicants through the Human Resources Department and holding a first round of interviews (in consultation with the specialist division, which may also opt to take part in the interviews), the whole process has been adapted to current needs.

HUMAN RESOURCES MARKETING

In addition to taking part in the three recruitment fairs that were of particular relevance to the FMA, and besides several in-house events for students, the FMA used social media as channel in its employer branding efforts for the first time during the reporting year. A campaign was launched in the form of testimonials via Facebook for a pre-defined select group of business and law graduates, using the FMA's homepage as the "landing page". Due to the widespread coverage and high conversion rate achieved, at relatively low cost, this campaign is to be continued in 2016.

RECONCILIATION OF WORK AND FAMILY LIFE

A family-friendly corporate culture is an integral component of the FMA's human resources policy. Measures such as the opportunity to work from home, or for fathers to take leave in the form of a "Daddy month", and a workplace kindergarten were all introduced. Additionally, meetings for employees on temporary leave were also held in 2015. These included a presentation and the opportunity for the employees concerned to talk to others about their experience. The aim is to promote more flexible working models and to enable employees with families to achieve an optimum work/life balance.

FINANCE AND CONTROLLING

FINANCING

The FMA's finances are based on three pillars, as stipulated in the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*):

The FMA receives an annual lump sum of € 3.5 million from the federal budget as prescribed by law. In its capacity as an authority, it may levy fees for particular services as defined by law (other income), and the remainder of its income is contributed by the supervised entities according to the share of costs incurred in each case.

In addition, in its capacity as resolution authority pursuant to Article 74 para. 5 of the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*), the FMA may request that the institution under resolution reimburse the FMA for all reasonable expenses properly incurred in connection with the application of a resolution tool or exercise of its resolution power.

Pursuant to Article 19 FMABG, four accounting groups are to be set up for the apportionment of costs to the supervised entities according to the share incurred in each case: banking, insurance, securities and pension supervision.

The supervisory costs must be apportioned on a direct basis as far as possible:

- direct costs must be allocated directly to the relevant accounting group,
- costs that cannot be directly allocated are to be apportioned based on a ratio which represents the share of the relevant accounting group in the direct costs.

After deducting the federal contribution and other income from the overall costs, the share of other costs accounted for by each accounting group can be calculated. Using the statutory benchmark, this share is to be allocated and charged to each individual supervised entity.

TIME AND PERFORMANCE TRACKING

The FMA uses a time and performance tracking system to allocate staff costs to the accounting groups stipulated in the FMABG based on the share of the costs incurred in each case. The individual working times of FMA employees are recorded by means of terminals located in the foyer of the FMA's office building. Every FMA employee can access their time data on their personal computers and enter their activities according to accounting groups on a daily basis. The activities carried out at the FMA are specified in a standardised product list.

The activity recordings entered by employees are evaluated quarterly to verify completeness, plausibility and proper assignment to the accounting (sub)groups laid down in law. The evaluations serve as a basis for apportioning FMA costs according to the share incurred in each case and additionally as a control and management instrument.

NOTICES OF PAYMENT DUE

In accordance with the provisions of Article 19 FMABG, the supervised companies are required to reimburse the FMA for the costs incurred. The financial statements along with the statement of costs form the basis for determining these costs. The individual amount to be paid by each company is determined on the basis of the data reported by the supervised companies themselves or by the Vienna Stock Exchange.

The FMA Cost Regulation (FMA-KVO; *FMA-Kostenverordnung*) specifies the reimbursement of costs (calculation of actual costs), the implementation of advance payments per accounting group and the apportionment among the entities liable to pay costs, including deadlines for the notices of payments due and for payments.

The FMA sent out the payment notices for the actual costs incurred by the FMA in the 2014 financial year in November 2015, together with those for the advance payments for the 2016 financial year. As in the previous year, approximately 1 900 payment notices (actual costs) were issued in 2015. The costs in the 2014 financial statements of the FMA less the 2014 advance payments result in the need for additional payments of approximately € 3.7 million to cover actual costs. These payments are made by the entities liable to pay costs.

FINANCIAL STATEMENTS

Pursuant to Article 18 FMABG, the Financial Market Authority is required to draw up financial statements for the previous financial year in the form of an annual balance sheet and an income statement as well as notes, as stipulated in Chapter III of the Corporate Code (UGB; *Unternehmensgesetzbuch*).

Article 18 para. 3 FMABG stipulates a deadline of five months from the end of the particular financial year (i. e. by 31 May), by which time the FMA Executive Board must have submitted the financial statements including statement of costs as audited by an auditor or an auditing firm to the FMA Supervisory Board.

The Supervisory Board, in turn, must approve the financial statements including statement of costs in a timely manner so that the Executive Board is able to submit the financial statements including statement of costs to the Federal Minister of Finance within six months of the previous financial year-end and to publish them on the FMA website (pursuant to Article 18 para. 6 FMABG) and in the form of an announcement in the "Wiener Zeitung" newspaper.

Contax Wirtschaftstreuhandgesellschaft mbH carried out the statutory audit of the financial statements and statement of costs for the first time for 2014. Upon completion of the audit of the 2014 financial statements including statement of costs, the auditor issued an unqualified opinion confirming compliance with the statutory provisions.

At its meeting on 19 June 2015, the Supervisory Board approved the 2014 financial statements.

The 2014 financial statements were subsequently sent to the Federal Minister of Finance and the Court of Audit and were published on the FMA website and announced in the "Wiener Zeitung" by the required deadline.

FINANCIAL PLANNING

Pursuant to Article 17 FMABG, the FMA is required to submit a financial plan including an investment and staff plan to the Supervisory Board by 31 October of each year for the following financial year.

This financial plan must then be approved by the Supervisory Board by no later than 15 December.

Financial planning is based on the targets that the FMA sets for itself each year, as well as on the statutory requirements. Based on these targets, a draft financial plan for 2016 was prepared together with the Executive Board in the summer of 2015, and broken down by Controlling in cooperation with the planning managers to the level of cost centres and accounts.

The Controlling Division reported to the Executive Board on an ongoing basis, and implemented any of the ►

2015 PRELIMINARY FINANCIAL STATEMENTS

According to Article 18 FMABG, the Executive Board has to submit the audited financial statements including the statement of costs to the Supervisory Board for approval within five months of the previous financial year-end. Since the 2015 financial statements have not yet been approved by the auditor, the balance sheet and income statement figures given below are provisional and subject to change.

The most important items of the 2015 preliminary financial statements can be summarised as follows:

- The share contributed by entities liable to pay costs increased year-on-year by some € 7.7 million in 2015 to about € 53.8 million. The reimbursement of costs entered in the income statement in accordance with Article 74 para. 5 no. 2 of the Federal Act on the Recovery and Resolution of Banks (BaSAG; *Bundesgesetz über die Sanierung und Abwicklung von Banken*) and the AQR (Asset Quality Review) do not have any impact on the share of the entities liable to pay costs since both income and expenses are in the same amount. Therefore, when analysing the item share of entities liable to pay costs these two special effects in 2015 and 2014 may be omitted. The increase of around € 7.7 million in this share is attributable to lower income (around € 2.7 million [without reimbursement of costs pursuant to Article 74 para. 5 no. 2 BaSAG and the AQR]) and also to higher expenses (personnel costs approx. € 2.9 million; other operating expenses approx. € 1.7 million [without reimbursement of costs pursuant to Article 74 para. 5 no. 2 BaSAG and the AQR]).
- Other income fell by around € 32.7 million to approx. € 12.2 million, with some € 30.0 million attributable to a reduction with the AQR and the remainder due to lower fee income and reversals of provisions.
- Personnel costs have been rising, compared with the previous year, up by around € 3.2 million to approx. € 38.2 million. This can be explained by the annual salary adjustments and the fact that the average number of staff increased in 2015 by approximately 19 full-time equivalents, mainly due to the new tasks in relation to banking resolution.
- Other operating expenses were down by some € 28.6 million on 2014, totalling approx. € 29.6 million. This is mainly due to lower expenses for AQRs. Apart from extraordinary expenses, operating expenses rose slightly, up by around 3% on the previous year. ▶

Table 39: 2015 preliminary balance sheet

BALANCE SHEET AS AT 31 DECEMBER 2015 (preliminary amounts in €)

ASSETS

Previous year
in € thousands

A. Fixed Assets

I. Intangible fixed assets

Industrial property rights and similar rights
as well as related licences

627 761.24

414

II. Tangible fixed assets

1. Buildings on third-party land

1 228 714.29

1 239

2. Other equipment, operating and office equipment

1 623 415.14

1 529

2 852 129.43

2 767

3 479 890.67

3 181

B. Current assets

I. Services not yet invoiced to entities liable to pay costs

53 824 266.12

46 153

II. Receivables and other assets

1. Trade receivables

6 769 269.03

17 539

2. Other receivables and assets

1 965 750.40

1 727

8 735 019.43

19 265

III. Cash at bank and in hand

17 508 825.58

22 713

80 068 111.13

88 132

C. Prepaid expenses

1 139 347.68

1 106

84 687 349.48

92 419

Table 40: 2015 preliminary income statement

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JAN. TO 31 DEC. 2015 (preliminary result, amounts in €)

		Previous year in € thousands
1. Federal Government contribution pursuant to Article 19 FMABG	3.500.000.00	3 500
2. Other operating income		
a) Income from the disposal of fixed assets	2 299.00	22
b) Income from the release of provisions	154 329.23	467
c) Other	<u>12 038 288.15</u>	<u>44 406</u>
	12 194 916.38	44 895
3. Personnel expenses		
a) Salaries	-30 071 145.49	-27 530
b) Expenses for severance pay and contributions to corporate staff provision funds	-548 501.76	-535
c) Expenses for old-age pensions	-1 090 771.76	-966
d) Cost of statutory social security, payroll-related taxes and mandatory contributions	-6 115 600.28	-5 582
e) Other social costs	<u>-345 984.10</u>	<u>-329</u>
	-38 172 003.39	-34 942
4. Amortisation and write-downs of intangible fixed assets, depreciation and write-downs of tangible fixed assets	-1 436 925.96	-1 288
5. Other operating expenses		
a) Direct costs pursuant to Art. 79 para. 4b BWG – Banking Supervision	-8 000 000.00	-8 000
b) Direct costs pursuant to Art. 129l VAG – Insurance Supervision	-230 000.00	-175
c) Direct costs pursuant to Art. 3 para. 5 BaSAG	-1 000 000.00	0
d) Other	<u>-20 397 081.35</u>	<u>-50 015</u>
	-29 627 081.35	-58 190
6. Subtotal of items 1 to 5	-53 541 094.32	-46 025
7. Other interest income	462.22	33
8. Interest expense	-21 171.44	-1
9. Subtotal of items 7 to 8	-20 709.22	32
10. Appropriation to reserve pursuant to Article 20 FMABG	-262 462.58	-160
11. Share of entities liable to pay costs	53 824 266.12	46 153
12. PROFIT OR LOSS FOR THE YEAR	0.00	0

EQUITY AND LIABILITIES

Previous year
in € thousands

A. Reserve pursuant to Article 20 FMABG		2 818 550.39	2 556
B. Provisions			
1. Provisions for severance pay	1 433 822.63		1 264
2. Other provisions	<u>8 620 317.86</u>		<u>6 508</u>
		10 054 140.49	7 772
C. Liabilities			
1. Advance payments received pursuant to Article 19 FMABG	44 984 598.38		42 958
2. Trade payables	22 104 627.73		32 899
3. Other liabilities			
a) Taxes	675 910.76		624
b) Social security and similar obligations	644 765.23		606
c) Actual cost accounting for previous years	826 574.45		520
d) Other	<u>1 970 201.29</u>		<u>3 926</u>
	4 117 451.73		5 676
		71 206 677.84	81 532
D. Deferred income		607 980.76	560
		84 687 349.48	92 419

- The financial result fell by around € 53k to some –€ 21k in 2015, owing to negative interest rate performance.

The 2015 financial statements will be published on the FMA's website after they have been audited by the auditor and approved by the Supervisory Board. The audited 2014 financial statements can be found in the Annex to this Annual Report.

RESOLUTION FUND

INCOME STATEMENT

The account fees (around € 1k) and negative interest (about € 33k) are borne by the Single Resolution Fund (SRF).

BALANCE SHEET

Assets:

The item SRF receivables (about € 34k) shows the interest and charges borne by the SRF. These reduce liquidity by some € 198 million.

Liabilities:

The item SRF liabilities shows the total of all administrative decisions. The item other liabilities (around € 2k) covers those interest and fee expenses that will not reduce cash in hand until 2016 but that must be allocated to 2015.

Table 41: 2015 preliminary balance sheet of the resolution fund

BALANCE SHEET AS AT 31 DECEMBER 2015 (preliminary amounts in €)			
ASSETS		EQUITY AND LIABILITIES	
A. Current assets		A. Liabilities	
I. <u>Receivables</u>		I. <u>Liabilities</u>	
Allocation of Single Resolution Fund (SRF) receivables	33 747.30	1. Allocation of Single Resolution Fund (SRF) liabilities	198 226 351.99
II. <u>Allocation of resolution financing arrangement</u>		2. Other Liabilities	1 889.73
Bank balances	198 194 494.42		
	198 228 241.72		198 228 241.72

Table 42: 2015 preliminary income statement of the resolution fund

INCOME STATEMENT FOR THE FINANCIAL YEAR 2015 (preliminary amounts in €)		
1. Other operating income		
Other	<u>33 747.30</u>	33 747.30
2. Other operating expenses		
Other	<u>-1 138.10</u>	-1 138.10
3. Subtotal of items 1 to 2		32 609.20
4. Interest expense		-32 609.20
5. Subtotal of item 4		-32 609.20
6. NET RESULT		0.00

changes it requested. Personnel costs were planned centrally, in accordance with human resources planning (three additions) and the existing salary system.

With regard to material expenses, provisions had to be made for the reimbursement amounts (Article 19 para. 5d FMABG) to be paid for the first time in the 2016 planning year by the FMA to the OeNB for any costs directly incurred within the scope of the OeNB's activities in the area of supervision of protection schemes pursuant to Article 5 para. 2 no. 4 and Article 6 of the Act on Deposit Guarantee Schemes and Investor Compensation (ESAEG; *Einlagensicherungs- und Anlegerentschädigungsgesetz*).

Furthermore, write-downs and allocations to the reserve established in accordance with Article 20 FMABG were also computed.

The planned costs and income were apportioned to the accounting groups pursuant to the FMABG in a way that made it possible to estimate the share of the entities liable to pay costs per accounting group.

For the purposes of effective cash management, Controlling prepared a liquidity calculation encompassing all income and expenses planned for 2016.

Planning funds for the resolution fund also formed part of the FMA's planning process.

The 2016 financial plan was presented to the Supervisory Board at the end of October 2015, and was discussed and approved by the Supervisory Board at its meeting on 25 November 2015.

PROJECT CONTROLLING

In addition to its ongoing responsibilities, the FMA also sets focus activities that, owing to their limited duration, innovative character, complexity and tying up of human and cost resources, are defined as projects within the FMA. The FMA uses its own project standard as well as quarterly project reporting to monitor these projects. Project target/actual comparisons are made to evaluate progress and the extent to which targets have been achieved, and to see whether human resources have been deployed as planned and project costs not exceeded. The Executive Board is updated on the status of FMA projects on a quarterly basis and as required whenever projects are completed.

IT SYSTEMS

T

he focus of activities in 2015 was on several projects aimed at optimising internal and external cooperation and at enabling users more flexibility in analysing data.

DATA EXCHANGE (SECURE FILE TRANSFER)

A new data exchange solution based on the Secure File Transfer Protocol (SFTP) was implemented for exchanging data on an ongoing basis with the Oesterreichische Nationalbank (OeNB) and the Austrian Federal Computing Centre (BRZ) and for occasional transfers to or from supervised companies and other institutions.

A key feature is that end users are now able to administer the system completely independently. The program is highly intuitive, so that no support in making settings or configuring the software is required from the IT Systems Division when making an ad hoc request for data. This simplifies the workflow while rapidly accelerating the data collection process.

All transfers can be traced back at any time thanks to the logging information recorded by the system, including the contents, time and initiator of the transfer. Special emphasis is put on data security. All data are transferred in encrypted form. Access can be controlled by setting complex, temporary or single-use passwords. A high level of availability is ensured through redundant system implementation.

As a result of installing the software, data exchange has become more secure, transfer times are significantly shorter and media devices such as USB memory sticks or CDs have become all but superfluous.

DATA ANALYSIS AND EVALUATION

Data analysis and evaluation is a major aspect of supervision. A capability that is becoming increasingly important and thus continues to be enhanced is that of interlinking existing data and providing the results to the user in a ready form that allows them to run recurrent standard analyses or, alternatively, to create and modify customised analyses. This capability was further developed in 2015 through the use of data cubes, Reporting Services and Excel functions such as PowerPivot services. Depending on the complexity, individual data analyses were enhanced through the addition of programmed modules. In certain cases, results have been integrated into workflows in order to standardise processes and speed up processing. Functions are made available to users through an intranet SharePoint portal.

SOFTWARE PROJECTS

IMPLEMENTATION OF THE ESCB IT POLICIES WITHIN THE FRAMEWORK OF THE SSM

As part of the Single Supervisory Mechanism (SSM), the FMA is now interconnected with the ESCB network, providing the FMA with access to a variety of IT services and applications available from the European

System of Central Banks. All institutions connected to the ESCB network are under obligation to implement the highly extensive IT policies required by the European Central Bank (ECB).

As part of one project, first steps were taken in 2015 to successively adapt the existing information and communications technology (ICT) environment to comply with the ESCB IT policies. In late 2015 the FMA had to complete the standardised yearly security self-assessment for the first time, as required by the ECB for all ESCB members. The assessment will subsequently serve as the basis for additional adaptation of IT systems and/or IT-related processes.

NEW REPORTING SYSTEM FOR AIFMS AND AIFS

A new reporting system was implemented in compliance with the Alternative Investment Fund Managers Directive (AIFMD). Reports on alternative investment fund managers (AIFMs) and alternative investment funds (AIFs) are submitted quarterly via the Incoming Platform, forwarded to ESMA and the OeNB, and made available to the responsible division for further analysis. The first reports were submitted to the FMA at the end of Q1 2015, and were forwarded to ESMA in Q3 2015.

NEW INSURANCE REPORTING SYSTEM FOR SOLVENCY II

Implementation of the new insurance reporting system was completed. The system, based on eXtensible Business Reporting Language (XBRL), is required as a result of Solvency II. Supervised entities have had unlimited access to the new system since 1 January 2016. Various sets of data from the incoming reports are forwarded to the European Insurance and Occupational Pensions Authority (EIOPA) and the OeNB. The data are made available in the form of a data cube to the responsible division for further analysis.

IMPLEMENTATION OF REPORTING OF VAG 2016 DATA VIA THE INCOMING PLATFORM

The FMA Regulation on the Incoming Platform (FMA-IPV; *FMA-Incoming-Plattformverordnung*) requires reports pertaining to the 2016 Insurance Supervision Act (VAG 2016; *Versicherungsaufsichtsgesetz*) to be submitted via the IP. The forms for reporting data pertaining to 44 articles have been implemented and made available to supervised entities since 1 January 2016, now allowing them to submit data in accordance with legal requirements.

PUBLIC RELATIONS

The FMA faced some major communication challenges in the 2015 reporting year. It was a year of public debate about the ways and means of regulation and supervision, in light of the events triggered by the global financial crisis. And it was also a year in which the reforms needed to be explained, reforms that were undertaken as a result of the lessons learned from that crisis.

For instance, on 1 January 2015 the FMA took over the role of national resolution authority (NRA) for banks and investment firms within the framework of the Single Resolution Mechanism (SRM), in accordance with the Bank Recovery and Resolution Directive (BRRD). While the Single Resolution Board (SRB) only had to carry out resolution planning during the first stage of its activities in 2015, the FMA's responsibilities already included the recovery and resolution of single institutions. Less than two months after becoming the NRA for Austria, the FMA had to deal with its first resolution case, namely that of Heta Asset Resolution AG. In addition, it also had to accompany a resolution in the private sector, namely that of immigon portfolioabbau ag (the wind-down entity for ÖVAG).

On 5 November 2014 the European Central Bank (ECB) assumed responsibility for supervising all banks in the euro area, and has since performed this remit as part of the Single Supervisory Mechanism (SSM) together with the national resolution authorities in a decentralised manner. The challenges entailed in both explaining the new supervisory system to the general public and coordinating communication activities within the new system are really rather big.

In 2014 the FMA, in cooperation with the Austrian Financial Reporting Enforcement Panel (AFREP), assumed the role of authority responsible for financial reporting enforcement with regard to capital market-based companies. This role continued to require extensive communication activities in 2015, explaining the system per se and processing the review results in order to make them more comprehensible.

Finalising the tasks related to the new supervisory regime for insurance undertakings, Solvency II, which entered into force on 1 January 2016, also required extensive efforts in terms of explanation during the year under review.

And finally, the current environment of continuous low interest rates means that the FMA is receiving many related enquiries, spanning all areas of supervision.

MEDIA RELATIONS

Given that the FMA, in its capacity as an authority that is self-financed by the supervised entities, has an obligation to be frugal, it has no financial resources at its disposal for use in advertising, information or PR campaigns. Its most important form of communication is therefore classic media work. The FMA has set itself the goal, within the scope of its statutory framework and whilst meeting its legal obligations to maintain official secrecy, of always pursuing a communications policy that is as open as possible in order to reinforce confidence in the Austrian financial marketplace. To this end, whilst implementing this communications strategy, the FMA utilises traditional PR tools such as press releases, press conferences, background discussions, presentations and the availability of Executive Directors for individual interviews by selected media.

The FMA published a total of 32 press releases during the reporting year (2014: 33). These are sent out via the Austria Press Agency (APA) and the FMA's own media distribution list, to which any journalist can sign up via the FMA website. They are also promptly published on the FMA website in German and English.

The FMA also published 40 official announcements in the official gazette "Amtsblatt zur Wiener Zeitung" in 2015 (2014: 18). These usually take the form of investor warnings, informing investors that a named provider is not authorised to offer particular financial services that require a licence in Austria. This information is also made available on the FMA website at the same time. In addition, the FMA website is also available for the publication of investor warnings issued by partner organisations. Over the years a very comprehensive database of dubious providers of financial services has been built up in this way, and is easy to access for any interested parties.

The broadest media coverage was achieved by the press events with the FMA Executive Directors, which were held on eight occasions in 2015 (2014: 8) and focused on the following issues:

- 20 January 2015, Press meeting at the Economic Writers' Club: "The FMA as resolution authority" and "The development of foreign currency loans"
- 2 March 2015, Background talk with Steven Maijoor, Chair of the European Securities and Markets Authority (ESMA): "Current issues related to the Capital Markets Union" On this occasion, FMA Executive Director Klaus Kumpfmüller also made a statement about the FMA's role in the resolution of Heta Asset Resolution AG.
- 11 March 2015, Press breakfast: "Responsibilities of the FMA as resolution authority in the context of Heta Asset Resolution AG"
- 19 May 2015, Balance sheet press conference: "Presentation of the FMA's Annual Report for 2014"
- 10 September 2015, Press breakfast: "Package of measures to stabilise life insurance in the long run"
- 14 September 2015, Background talk with Elke König, Chair of the Single Resolution Board (SRB): "The new European resolution regime"
- 15 September 2015, Press talk with Danièle Nouy, Chair of the Supervisory Board under the Single Supervisory Mechanism: "Challenges of the SSM"
- 24 November 2015, Background talk: "Report on the status of the Austrian insurance sector/Solvency II – the new supervisory regime from 1 January 2016"

All of these events met with a high level of interest from journalists, who reported on them widely.

EVENTS

The FMA Executive Directors and staff members regularly participated in discussions or appeared as speakers at many events again in 2015 in order to communicate the Authority's remit and goals, as well as technical and specific issues, to selected target groups. At the same time, the FMA itself organised various events on specific topics. For example:

The Insurance and Pension Supervision Department organised the "EIOPA Forum for *Pensionskassen*", the international workshop "EIOPA/FMA Risk-Based Supervision" as well as the "EIOPA Forum for Insurance Undertakings" in 2015.

The annual "WPDLU-Forum" was held on 1 June 2015, providing investment service providers with the opportunity to discuss current topics and challenges.

In mid-June the Integrated Supervision Department organised a two-day "European Enforcers Coordination Sessions Meeting" (EECS Meeting) for representatives of European financial reporting enforcement authorities.

On 15 September 2015 the FMA held its sixth Supervision Conference in Vienna's Reed Exhibitions Congress Center. The theme of the Conference, namely "Safety and progress in financial markets – a contradiction? Perspectives from Banking Union and Capital Markets Union", attracted keen interest from the more than 900 delegates.

PUBLICATIONS

The FMA Annual Report 2014 was submitted to the Supervisory Board by the statutory deadline. It was approved by the Board and then submitted to the Finance Committee of the National Council. The Executive Directors of the FMA presented the major key figures at the annual balance sheet press conference.

The Annual Report 2014 was only printed in German. The electronic version is available in German and English, and can be downloaded from the FMA website (www.fma.gv.at).

In addition to its Annual Report, the FMA also for the first time published "Facts and figures, trends and strategies" in 2015, dedicated to topical issues of relevance to the FMA.

The FMA also published quarterly reports on the development of foreign currency loans to Austrian households, the performance of insurance undertakings and *Pensionskassen*, and the supervision of capital market prospectuses.

WEBSITE

The FMA launched the Website Relaunch project in spring 2015. Numerous workshops were held between February and October so that all departments could work together on the concept (structure, navigation, layout) for the Authority's new website. Technical implementation began in November, as did the task of reviewing the content for the new website.

CONSUMER PROTECTION, CONSUMER INFORMATION AND COMPLAINTS SYSTEM

One of the FMA's most important goals is to reinforce confidence in the ability of the Austrian financial market to function, as well as to protect investors, creditors and consumers, in accordance with provisions of law. The FMA, like the legislative authorities, acts on the assumption that consumers are responsible. This means that every consumer should be free to choose from the products offered in the financial markets the one that best matches their expectations, requirements and risk propensity.

To enable such choices, the FMA offers consumers the services of its Consumer Information Division. Here the FMA, in its role as expert organisation, makes its expertise available to the public in the form of information that is objective and not sales-driven. High standards of accurate information ensure that the markets will function efficiently in the interests of consumers, in this way reinforcing consumer confidence in Austria's financial market.

The processing of complaints by the FMA's consumer information team is not just a service benefiting consumers. The numerous reports received are also distilled regularly to provide the FMA with valuable information for its supervisory duties. At the same time the complaints system serves as an example for supervised companies to follow as they deal with complaints.

The European Supervisory Authorities have issued Guidelines on Complaints-Handling, which require the national competent authorities to ensure that the supervised companies have set up effective and transparent procedures to process any complaints lodged by consumers appropriately and swiftly.

The FMA checks compliance with these Guidelines on Complaints-Handling as cases arise, particularly when it receives complaints that supervised companies have not reacted appropriately or at all to complaints from their customers.

For several years now the FMA has had a central complaints system in place that complies with the requirements specified in the Guidelines on Complaints-Handling, in this way providing a best-practice example for supervised companies. The FMA has prepared printed guidelines defining complaints procedures and has competent staff at its disposal whom complainants can contact. Full information in this regard can be found on the FMA website.

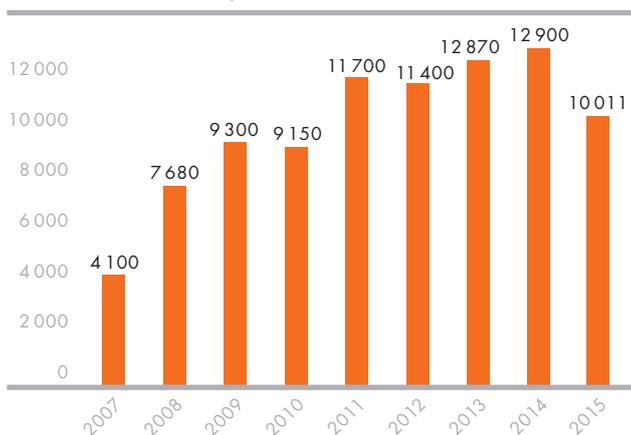
COMPLAINTS PROCEDURES

The FMA evaluates complaints as to whether they are relevant to supervisory activities and requests a written statement from the supervised companies. On receiving such statement and all other documents, the FMA evaluates the legal aspects of the case based on supervisory laws. As far as permissible in accordance with the obligation to maintain official secrecy, the complainant is informed of the outcome of the evaluation.

There were a total of 10 011 enquiries and complaints in 2015 (see Chart 34). These enquiries and complaints covered a wide range of issues:

- With regard to banking supervision, they concerned primarily issues relating to the repurchase of Tier 2 capital bonds. As these count as regulatory capital, they are considered own funds and are subject to

Chart 34: Number of reports received 2007–2015



FMA and receive the relevant information from the Authority.

One thing that was striking was that a large number of enquiries and complaints related to the fact that various kinds of information letters as well as other information provided by banks to their customers and consumers were judged to be incomprehensible.

Further issues included foreign currency loans and the related repayment vehicles, as well as the time taken for transfers according to the Payment Services Act (ZaDiG; *Zahlungsdienstegesetz*), issues related to the fight against money laundering and the related obligations concerning identification and proof of identity, in particular for members of savings associations, and the terms and conditions of deposit guarantee schemes.

- With regard to insurance supervision, there were also frequent enquiries and complaints relating to incomprehensible information provided by insurance undertakings in the life insurance sector. Enquiries here mostly concerned the actual amount of the capital guarantee, doubts as to the accuracy of calculations and the lack of clarity in policy summary reports, termination of the contract, and exemption from or discounts on premiums. In non-life insurance, a large number of complaints concerned the slow settlement of claims.
- With regard to securities supervision, complaints focused mainly on failure to observe rules of conduct, lack of proper advice, failure to protect investors' interests, investment of funds at an inappropriate level of risk, and once again information that was difficult to understand. There was also an increasing number of complaints regarding the time it took to transfer deposits of securities.
- The number of enquiries and complaints related to unauthorised business operations has remained constant; these especially concerned cases of illegal cold calling, i.e. cases of unsolicited phone calls, fax messages or e-mails offering financial products. Time and again consumers fall prey to fraudulent providers acting illegally in the market. Such fraudsters promise high yields combined with low risk, gaining investors' trust by devious means before tricking them into paying their money into the schemes. The FMA explains the most frequent types of fraud and advises on possible further steps. At the same time, the FMA investigates these untrustworthy providers and publishes investor warning notices.

WHISTLEBLOWING

Reports from the general public but also from experts, such as employees of supervised companies, are an important source of intelligence for the FMA's investigation and inspection activities. By offering the opportunity to submit information anonymously, the FMA hopes to encourage the staff of supervised companies in particular to report malpractice or breaches in supervised companies.

On 1 January 2014, the FMA set up a whistleblower telephone hotline. This provided anyone with knowledge

banking supervision. Any reduction of credit institutions' own funds instruments requires the supervisory authority's prior approval. The approval procedure serves to gain more insight into credit institutions' capital adequacy situation to ensure appropriate risk coverage and a sufficient loss-bearing capacity.

Credit institutions may file an application for official permission to repurchase Tier 2 bonds prior to the date of their contractual maturity, and the FMA will grant the permission when the statutory requirements are met (Articles 77 and 78 CRR). An immediate repurchase is therefore not possible, a fact that is often not made sufficiently clear to the bondholders by their house bank. As a consequence, these customers turn to the

or a reasonable suspicion of a breach of a supervisory law with a means of reporting the information anonymously. The information could not be traced back to the caller. The service was primarily intended for employees of supervised companies such as banks, insurance undertakings, Pensionskassen (pension companies) and investment firms. However, it could also be used by anyone else who had gained knowledge of malpractice or an administrative offence in the financial and capital market sectors. This whistleblowing system has been established in compliance with the specifications of the European Union.

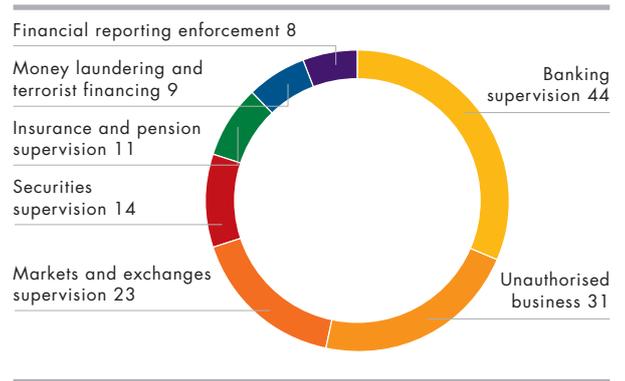
On 1 February 2014, the whistleblower hotline was replaced by an IT-supported whistleblowing system, accessible via the FMA website. The notification system, certified to data privacy standards, features highly advanced security and encrypting techniques, ensuring anonymous users can rely on the highest possible standard of data privacy and confidentiality. The portal also supports an anonymous dialogue system that can be used to clarify the details provided by users. It is also still possible to report information by telephone.

In 2015 the Business Keeper Monitoring System (BKMS) logged 140 reports. Chart 35 shows the distribution of reports by main issue.

The FMA has been able to create a new communication channel by guaranteeing that reports submitted to the BKMS will remain anonymous. 60% of all reports entered into the system were classed as relevant to supervision. 48 postboxes have to date been set up by informers in the system. These are used to communicate (anonymously) with the FMA about information relevant to supervision, providing a source of valuable information.

Whistleblowing is an additional valuable source of intelligence for the FMA’s supervisory activities, with the FMA also proving its competence, consistency and control in this regard.

Chart 35: **Distribution of reports by main issue** (in %)



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LIST OF ABBREVIATIONS

ABGB	<i>Allgemeines Bürgerliches Gesetzbuch</i> (General Civil Code)	EC	European Community
AFM	Autoriteit Financiële Markten; Netherlands Authority for the Financial Markets	ECB	European Central Bank
AFREP	Austrian Financial Reporting Enforcement Panel	EEA	European Economic Area
AIF	Alternative Investment Fund	EIOPA	European Insurance and Occupational Pensions Authority
AIFM	Alternative Investment Fund Manager	ELTIF	European Long-term Investment Funds
AIFMG	<i>Alternatives Investmentfonds Manager-Gesetz</i> (Alternative Investment Fund Managers Act)	EMIR	European Market Infrastructure Regulation
AktG	<i>Aktiengesetz</i> (Stock Corporation Act)	ESA	European Supervisory Authority
AMA	Advanced Measurement Approach	ESCB	European System of Central Banks
AMLC	Anti-Money Laundering Sub-Committee	ESFS	European System of Financial Supervision
APA	Austria Press Agency	ESMA	European Securities and Markets Authority
AQR	Asset Quality Reviews	ESRB	European Systemic Risk Board
AVG	<i>Allgemeines Verwaltungsverfahrensgesetz</i> (Code of Administrative Procedure)	EURIBOR	Euro Interbank Offered Rate; three-month interbank rate
BaFin	Federal Financial Supervisory Authority (Germany)	EURO STOXX 50	Stock index of the 50 largest listed companies in the eurozone
BaSAG	<i>Bankanierungs- und Abwicklungsgesetz</i> (Bank Recovery and Resolution Act)	EuSEF	European Social Entrepreneurship Funds
BCM	Business Continuity Management	EuVECA	European Venture Capital Funds
BeteilFG	<i>Beteiligungsfondsgesetz</i> (Equity Fund Act)	FATF	Financial Action Task Force
BIRG	<i>Bankeninterventions- und -restrukturierungsgesetz</i> (Banking Intervention and Restructuring Act)	FCA	Financial Conduct Authority (UK)
BMF	Federal Ministry of Finance	Fed	Federal Reserve (USA)
BMSVG	<i>Betriebliches Mitarbeiter- und Selbständigenvorsorgegesetz</i> (Company Employee and Self-Employment Provisions Act, as amended)	FKG	<i>Finanzkonglomeratengesetz</i> (Financial Conglomerates Act)
BörseG	<i>Börsengesetz</i> (Stock Exchange Act)	FK-QUAB-V	<i>Finanzkonglomeratquartalsberichts-Verordnung</i> (Financial Conglomerates Quarterly Reporting Regulation)
BoS	Board of Supervisors	FMA	Financial Market Authority
BRRD	Bank Recovery and Resolution Directive	FMABG	<i>Finanzmarktaufsichtsbehördengesetz</i> (Financial Market Authority Act)
BVQA-V	<i>Betriebliche Vorsorgekassen-Quartalsausweisverordnung</i> (Regulation on the Quarterly Financial Statements for Corporate Provision Funds)	FSAPs	Financial Sector Assessment Programs
BVwG	<i>Bundesverwaltungsgericht</i> (Federal Administrative Court)	FSB	Financial Stability Board
BWG	<i>Bankwesengesetz</i> (Austrian Banking Act)	FST	Financial Stability Table; EU Economic and Financial Committee
CA	Comprehensive Assessment	FTE	Full-time Equivalent
CAC	Cotation Assistée en Continu (French stock index)	FTSE 100	Financial Times Stock Exchange Index (UK)
CCP.A	Central Counterparty Austria GmbH	FX	Foreign exchange/foreign currency loans
CCPs	Central Counterparties	G20	Group of the twenty most important industrialised nations and emerging markets
CDI	Compliance Decree for Issuers	GDP	Gross Domestic Product
CDS	Credit Default Swaps	GewO	<i>Gewerbeordnung</i> (Trade Act)
CEA	Comité Européen des Assurances; European insurance and reinsurance federation	GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)
CEESEG	CEE Stock Exchange Group	GSA	<i>Bundesgesetz zur Schaffung einer Abbaueinheit</i> (Federal Act on the Creation of a Wind-down Entity)
CEGH	Central European Gas Hub AG	HETA	HETA Asset Resolution AG
CESEE EEA	Central, Eastern and South-Eastern Europe – European Economic Area	HTM valuation	To reach an investment income that is as stable as possible, a valuation deviating from the principle of current values can be used for certain securities with a high credit rating (e.g. debt securities issued by the Federal Government) held as direct investments (held to maturity or HTM).
CESEE non-EEA	see <i>CESEE EEA</i>	IAIS	International Association of Insurance Supervisors
CESEE	Central, Eastern and South-Eastern Europe	IFRS	International Financial Reporting Standards
CIS	Commonwealth of Independent States	IMF	International Monetary Fund
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups	ImmInvFG	<i>Immobilien-Investmentfondsgesetz</i> (Real Estate Investment Fund Act)
CRD	Capital Requirements Directive	InvFG	<i>Investmentfondsgesetz</i> (Investment Fund Act)
CRR	Capital Requirements Regulation	IOPS	International Organisation of Pension Supervisors
CSDR	Central Securities Depositories Regulation	IOSCO	International Organization of Securities Commissions
CSSF	Commission de Surveillance du Secteur Financier (Luxembourg)	IPS	Institutional Protection Scheme
DAX	German stock index	IRB	Internal Ratings Based (Approach)
EBA	European Banking Authority		
EC	European Commission		

IRG	Investment and risk sharing group	UGB	<i>Unternehmensgesetzbuch</i> (Corporate Code)
JRAD	Joint Risk Assessment and Decision (Process)	VAG	<i>Versicherungsaufsichtsgesetz</i> (Insurance Supervision Act)
JSTs	Joint Supervisory Teams	VERA	Asset, income and risk statements
KIID	Key Investor Information Document	VfGH	<i>Verfassungsgerichtshof</i> (Constitutional Court)
KMG	<i>Kapitalmarktgesetz</i> (Capital Market Act)	VStG	<i>Verwaltungsstrafgesetz</i> (Administrative Penal Act)
KVO	<i>Kostenverordnung</i> (Cost Regulation)	VSTOXX	EUROSTOXX 50 volatility index
LDR	Loan Deposit Ratio	VwGH	<i>Verwaltungsgerichtshof</i> (Administrative Court)
LLFSR	Loan-to-Local Stable Funding Ratio	WAG 2007	<i>Wertpapieraufsichtsgesetz</i> (2007 Securities Supervision Act)
LSAP	Large-Scale Asset Purchase	WKO	Austrian Federal Economic Chamber
LSI	Less Significant Institution	WKStA	Central Public Prosecutor for Economic Crime and Corruption
MAR	Market Abuse Regulation	XBRL	eXtensible Business Reporting Language
MBA	Master of Business Administration	ZaDiG	<i>Zahlungsdienstegesetz</i> (Payment Services Act)
MiFID	Markets in Financial Instruments Directive		
MiFIR	Markets in Financial Instruments Regulation		
MMoU	Multilateral Memorandum of Understanding		
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism		
MoU	Memorandum of Understanding		
MREL	Minimum Requirement for Own Funds and Eligible Liabilities		
MTF	Multilateral Trading Facility		
NCA _s	National Competent Authorities		
NMS	New Member States (EU)		
NRA _s	National Resolution Authorities		
NYSE	New York Stock Exchange		
OECD	Organisation for Economic Co-operation and Development		
OeKB	Oesterreichische Kontrollbank AG		
OeNB	Oesterreichische Nationalbank		
OPEC	Organization of the Petroleum Exporting Countries		
PIN	Personal Identification Number		
PK	<i>Pensionskasse</i> (pension company)		
PKG	<i>Pensionskassengesetz</i> (<i>Pensionskassen Act</i>)		
PK-RIMAV	<i>Pensionskassen-Risikomanagementverordnung</i> (Risk Management Regulation for <i>Pensionskassen</i>)		
PR	Public Relations		
PRIPs	Packaged Retail Investment Products		
PSPP	Public Sector Purchase Programme		
QIS	Quantitative Impact Study		
RL-KG	<i>Rechnungslegungs-Kontrollgesetz</i> (Accounting Control Act)		
ROA	Return on Assets		
S&P	Standard & Poor's		
Security-oriented IRG	Security-oriented investment and risk sharing group		
SEE	South-Eastern Europe		
SI	Significant Institution		
SK-EMV	<i>Sonderkreditinstitute-Eigenmittelmeldeverordnung</i> (Regulation on the Reporting of Own Funds by Management Companies, Real Estate Investment Fund Management Companies and Corporate Provision Funds)		
SMEs	Small and Medium-sized Enterprises		
SRB	Single Resolution Board		
SREP	Supervisory Review and Evaluation Process		
SRF	Single Resolution Fund		
SRM	Single Resolution Mechanism		
SSM	Single Supervisory Mechanism		
SSM SB	SSM Supervisory Board		
StPO	<i>Strafprozessordnung</i> (Code of Criminal Procedure)		
TAN	Transaction Authentication Number		
UCITS	Undertakings for Collective Investment in Transferable Securities		

2014 FINANCIAL STATEMENTS
OF THE FINANCIAL MARKET AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS



We have audited the attached financial statements including the accounting of the Financial Market Authority, Vienna, for the financial year from 1 January 2014 to 31 December 2014. These financial statements include the balance sheet as at 31 December 2014, the income statement for the financial year ending 31 December 2014, as well as the notes. The statement of costs pursuant to Article 19 FMABG was part of the audit.

Legal representatives' responsibility for the financial statements and for the accounting

The FMA's legal representatives are responsible for the accounting and for the preparation of financial statements which present a picture that is as true and fair as possible with respect to net assets, financial position and the results of operations of the FMA in accordance with Austrian company law. This responsibility includes the design, implementation and maintenance of an internal control system, to the extent that this is important for the preparation of the financial statements and the presentation of as true and fair a picture as possible of the FMA's net assets, financial position and the results of operations, so that these financial statements are free from material misrepresentations, whether due to intentional or unintentional mistakes; it also includes the selection and application of suitable accounting and valuation methods, as well as making estimates that appear appropriate under the existing circumstances.

Auditor's responsibility and description of type and scope of the statutory audit

It is our responsibility to issue an audit opinion on these financial statements based on our audit. We have carried out our audit with due regard for the legal provisions valid in Austria and the principles of proper auditing. These principles require us to comply with the rules of professional conduct and to plan and perform the audit in a way to be able to issue a sufficiently confident opinion as to whether the financial statements are free from material misrepresentations.

An audit involves performing procedures to obtain audit evidence about the amounts and other information in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misrepresentations in the financial statements, whether due to intentional or unintentional mistakes. In making those risk assessments, the auditor considers the internal control system relevant to the FMA's preparation of the financial statements and the presentation of as true and fair a picture as possible of the Authority's net assets, financial position and the results of operations in order to determine audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FMA's internal control procedures. The audit also includes the assessment of the appropriateness of the accounting and valuation methods used and the essential estimates made by the legal representatives, as well as an evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

Our audit did not lead to any objections. Based on the findings of the audit, we believe that the financial statements comply with the legal provisions and present a picture that is as true and fair as possible with respect to net assets and the financial position of the FMA as at 31 December 2014 as well as the results of operations of the FMA for the financial year from 1 January 2014 to 31 December 2014 in accordance with the generally accepted Austrian accounting principles. The statement of costs pursuant to Article 19 FMABG complies with the statutory provisions.

Comments on the management report

Legal provisions require us to perform audit procedures to determine whether the management report is con-

sistent with the financial statements and whether the other information made in the management report does not give a false impression of the situation of the Financial Market Authority. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements. In our opinion, the management report is consistent with the financial statements.

Vienna, 4 May 2015

CONTAX
WIRTSCHAFTSTREUHAND GmbH

OTHMAR EBERHART
Auditor

WERNER PRENNER
Auditor

Publication or dissemination of the financial statements with our auditor's report is only permitted in the version we have audited. This auditor's report refers exclusively to the complete German version of the financial statements including the management report. With regard to other versions, the provisions contained in Article 281 para. 2 UGB are to be observed.

Table 43: 2014 balance sheet

BALANCE SHEET AS AT 31 DECEMBER 2014 (amounts in €)

A S S E T S

Previous year
in € thousands

A. Fixed Assets

I. Intangible fixed assets

Industrial property and similar rights
and licences in such rights

414 042.86

364

II. Tangible fixed assets

1. Buildings on third-party land

1 238 553.85

1 328

2. Other equipment, operating and office equipment

1 528 805.76

1 323

2 767 359.61

2 651

3 181 402.47

3 016

B. Current assets

I. Services not yet invoiced to entities liable to pay costs

46 153 360.07

43 473

II. Receivables and other assets

1. Trade receivables

17 538 559.97

2 316

2. Other receivables and assets

1 726 775.08

1 776

19 265 335.05

4 092

III. Cash at bank and in hand

22 712 989.08

20 461

88 131 684.20

68 027

C. Prepaid expenses

1 106 296.52

1 046

92 419 383.19

72 089

Table 44: 2014 income statement

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2014 (amounts in €)

		Previous year in € thousands
1. Federal Government contribution pursuant to Article 19 FMABG	3 500 000.00	3 500
2. Other operating income		
a) Income from the disposal of fixed assets	21 518.00	3
b) Income from the release of provisions	467 193.12	890
c) Other	<u>44 406 174.70</u>	<u>3 167</u>
	44 894 885.82	4 060
3. Personnel expenses		
a) Salaries	-27 530 444.70	-24 878
b) Expenses for severance pay and contributions to corporate staff provision funds	-535 108.77	-428
c) Expenses for old-age pensions	-965 517.80	-855
d) Cost of statutory social security, payroll-related taxes and mandatory contributions	-5 582 213.54	-5 013
e) Other social costs	<u>-328 742.11</u>	<u>-309</u>
	-34 942 026.92	-31 483
4. Amortisation and write-downs of intangible assets, depreciation and write-downs of tangible assets	-1 287 759.25	-1 082
5. Other operating expenses		
a) Direct costs pursuant to Article 79 para. 4b BWG – Banking Supervision	-8 000 000.00	-8 000
b) Direct costs pursuant to Article 129I VAG – Insurance Supervision	-1 752 000.00	0
c) Other	<u>-50 015 088.47</u>	<u>-10 401</u>
	-58 190 288.47	-18 401
6. Subtotal of items 1 to 5	-46 025 188.82	-43 405
7. Other interest income	32 950.16	88
8. Interest expense	-1 013.69	0
9. Subtotal of items 7 to 8	31 936.47	88
10. Appropriation to reserve pursuant to Article 20 FMABG	-160 107.72	-156
11. Share of entities liable to pay costs	46 153 360.07	43 473
12. PROFIT OR LOSS FOR THE YEAR	0.00	0

EQUITY AND LIABILITIES

Previous year
in € thousands

A. Reserve pursuant to Article 20 FMABG		2 556 087.81	2 396
B. Provisions			
1. Provisions for severance pay	1 264 114.45		1 094
2. Other provisions	<u>6 507 763.77</u>		<u>5 387</u>
		7 771 878.22	6 481
C. Liabilities			
1. Advance payments received pursuant to Article 19 FMABG	42 957 816.28		40 254
2. Trade payables	32 898 513.91		17 778
3. Other liabilities			
a) Taxes	624 045.82		541
b) Social security and similar obligations	606 436.68		553
c) Actual cost accounting for previous years	519 518.25		1 344
d) Other	<u>3 925 511.53</u>		<u>2 175</u>
	5 675 512.28		4 614
		81 531 842.47	62 646
D. Deferred income		559 574.69	566
		92 419 383.19	72 089

NOTES PURSUANT TO ARTICLE 236 UGB (amounts in €, previous year's amounts in € thousands)

A. GENERAL INFORMATION

- The FINANCIAL MARKET AUTHORITY (FMA) is an institution under public law and was established by the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*) (Federal Law Gazette I No. 97/2001) on 22 October 2001. The official competence of the FMA commenced on 1 April 2002. The FMA is in charge of banking supervision, insurance supervision, securities supervision and pension supervision.
As at 31 March 2002, the Austrian Securities Authority (ASA) was incorporated into the FMA by way of universal legal succession pursuant to Article 1 of the Securities Supervision Act (WAG; *Wertpapieraufsichtsgesetz*).
- The financial statements were prepared in conformity with the generally accepted accounting principles and the general principle of presenting a picture that is as true and fair as possible with respect to net assets, financial position and the results of operations. In accordance with Article 18 FMABG, the provisions of the Corporate Code (UGB; *Unternehmensgesetzbuch*) were applied accordingly to the present financial statements.
- The accounting policies applied to the individual items of the financial statements were based on the general provisions of Articles 193 to 211 UGB, taking the special provisions for large corporations into account.
- The financial statements were prepared in accordance with the going concern principle.

B. INFORMATION ON THE BALANCE SHEET INCLUDING THE DESCRIPTION OF THE ACCOUNTING POLICIES

1. Fixed assets

The changes in fixed assets and the breakdown of the annual depreciation according to individual items can be seen in Table 45/page A 8 (changes in fixed assets).

1.1. Tangible assets

Depreciation is calculated on a straight-line basis.

The useful life of the individual asset groups is as follows:

- | | |
|--|---------------|
| 1. Industrial property and similar rights and licences in such rights: | 3 years |
| 2. Buildings on third-party land: | 8 to 20 years |
| 3. Other equipment, operating and office equipment: | 3 to 10 years |

There was no need for depreciation pursuant to Article 204 para. 2 UGB as there was no impairment loss.

The low-value assets pursuant to Article 13 of the Income Tax Law (EStG; *Einkommensteuergesetz*) with individual acquisition values of less than € 400.00 each were reported as disposals in their year of acquisition.

2. Services not yet invoiced to entities liable to pay costs

This item comprises the expenses to be borne by the entities liable to pay costs pursuant to Article 19 FMABG in the amount of € 46 153 360.07 (previous year: € 43 473k). The statement of costs is prepared according to the procedures stipulated under Article 19 FMABG. In this connection, the FMA has set up four accounting groups to which the cost shares are apportioned as follows:

	2014 (€)	2013 (€ thousands)	
1. Banking Supervision costs	22 362 538.79	22 808	
2. Insurance Supervision costs	9 772 759.63	8 445	
3. Securities Supervision costs	13 018 336.13	11 007	
4. Pension Supervision costs	999 725.52	1 214	
Total	46 153 360.07	43 473	Rounding differences are ignored.

The costs are apportioned to the individual entities liable to pay costs, and the advance payments made by the entities liable to pay costs in the 2014 financial year are offset based on the reference data, listed in the relevant supervisory laws and reported to the FMA, which is only available after the financial statements have been prepared.

3. Trade receivables

The receivables are carried at nominal values and show a residual maturity of less than a year. Individual valuation allowances were recognised for identifiable risks in the measurement of receivables.

At an amount of € 16 727 462.22 trade receivables also included receivables from the comprehensive assessment (SSM).

Receivables of € 836 900.75 (previous year: € 2343k) are still carried from the actual cost accounting of previous years. Itemised valuation allowances of € 25 803.00 (previous year: € 27k) were recognised for receivables from actual cost accounting.

4. Other receivables

Other receivables include mostly receivables from orders imposing fees, administrative penalties, penalty interest, trustee fees, as well as transitory items concerning the Electronic File (ELAK). The itemised valuation allowance amounts to € 0.00 (previous year: € 0k).

5. Prepaid expenses

The item prepaid expenses comprises in particular rental fees, insurance expenses, royalties and maintenance fees, membership fees, as well as subscriptions.

6. Reserve pursuant to Article 20 FMABG

Article 20 FMABG specifies the option of establishing a reserve in the amount of 1% of the FMA's total costs based on the latest adopted financial statements as at 31 December 2013 (1% of the FMA's total costs in 2013 in the amount of € 51 121 756.17 is € 511 217,56). The maximum amount of the reserve may not, however, exceed 5% of the FMA's total costs based on the latest adopted financial statements as at 31 December 2013 (5% of the FMA's total costs in 2013 in the amount of € 51 121 756.17 is € 2 556 087.81). As at 31 December 2013, the reserve totalled € 2 395 980.09. Following allocation of € 160 107.72 (the amount possible), the reserve pursuant to Article 20 FMABG totalled the maximum amount of € 2 556 087.81 as at 31 December 2014.

7. Provisions

Provisions are established taking the prudent person principle pursuant to Article 211 para. 1 UGB into account.

7.1 Provisions for severance pay

<u>Change:</u>	2014 (€)	2013 (€ thousands)	
As at 1 January 2014	1 094 072.70	1 027	
Use	14 392.67	52	
Appropriation/Release	184 434.42	119	
As at 31 December 2014	1 264 114.45	1 094	Rounding differences are ignored.

The provisions for severance pay were calculated in accordance with financial principles. The basis for the computation was an interest rate of 2.5% and a retirement age of 65 for men and 60 for women.

The interest rate used to compute the provision for severance pay was adjusted from 3% in the previous financial year to 2.5% in the current financial year.

7.2 Other provisions

Other provisions were determined by exercising sound business judgement in accordance with the prudent person principle pursuant to Article 211 para. 1 UGB and include all risks recognisable at the balance sheet date and all liabilities of the past financial year not yet fixed in terms of their amount.

	As at 1 Jan. 2014	Use	Release	Appropriation	As at 31 Dec. 2014
Anniversary bonuses	203 969.00	8 906.00	0.00	20 894.00	215 957.00
Provision for premiums	1 542 689.81	1 542 689.81	0.00	1 700 961.05	1 700 961.05
Unused holiday entitlement	2 412 053.34	0.00	0.00	451 177.51	2 863 230.85
Overtime to be paid	13 488.98	13 488.98	0.00	23 892.68	23 892.68
Additional hours	195 191.38	0.00	0.00	28 920.65	224 112.03
Other provisions	945 524.57	369 883.98	393 401.59	1 236 509.52	1 418 748.52
2012 prov. actual costs Banking Superv.	73 791.53	0.00	73 791.53	0.00	0.00
2013 prov. actual costs Banking Superv.	0.00	0.00	0.00	60 861.64	60 861.64
	5 386 708.61	1 934 968.77	467 193 12	3 523 217.05	6 507 763.77

The provision for anniversary bonuses was computed in accordance with financial principles. The computation was based on an interest rate of 2.5%, a retirement age of 65 for men and 60 for women, and a rate of non-wage labour costs of 4.5% for contractual employees.

The interest rate used to compute the provision for anniversary bonuses was adjusted from 3% in the previous financial year to 2.5% in the current financial year.

The other provisions comprise the following items:

Objections to payment notices AG 3/sub-AG 3	761 094.00
OeNB expert opinions on models	175 200.00
Other expenses	114 526.94
Consulting costs and external services	111 744.40
Operating expenses	80 638.72
Expenses FMA Annual Report	54 042.52
Exemption levy for non-employment of disabled persons	52 668.00
Objections to payment notices for contributions to penalties	36 520.00
Maintenance and other IT expenses	32 313.94
	1 418 748.52

2012 provision for actual costs of Banking Supervision:

The provision established pursuant to Article 69a of the Austrian Banking Act (BWG; *Bankwesengesetz*) in one financial year must be released in the following financial statements of the FMA, i. e. the provision established in the 2013 financial statements for the actual costs incurred in 2012 was released in the 2014 financial statements of the FMA; by way of derogation to Article 19 para. 4 FMABG, the resulting income is only to be deducted from the costs of accounting group (AG) 1.

2013 provision for actual costs of Banking Supervision:

Pursuant to Article 69a BWG the difference between the calculated cost shares and the minimum amounts to be paid by the credit institutions (€ 1 000 per credit institution) for 2013 is to be allocated to a provision in 2014.

8. Liabilities

The liabilities are computed with the amount repayable taking the prudent person principle into account. All liabilities, except for the reimbursement amounts to the OeNB, have a residual maturity of up to one year.

8.1 Advance payments received pursuant to Article 19 FMABG

For the 2014 financial year, the entities liable to pay costs had to make advance payments in the amount of € 42 488 682.00 (previous year: € 39 896k) as prescribed by administrative decision. Of the prescribed advance payments, € 396 866.00 (previous year: € 9k) had not been paid by the balance sheet date. Itemised valuation allowances of € 500.00 (previous year: € 0) were recognised for the amounts not yet paid.

The 2014 advance payments are compared with the cost share to be borne by the entities liable to pay costs within the scope of preparing the statement of costs. The resulting balance is either charged or repaid to the entities liable to pay costs.

As at 31 December 2014, € 865 500.28 (previous year: € 367k) had already been paid in advance for the 2015 financial year.

8.2. Trade payables

With the reform of financial market supervision in Austria having taken effect on 1 January 2008, a clear demarcation was drawn between the FMA and the Oesterreichische Nationalbank in the area of banking supervision, with the FMA remaining the sole authority and with responsibility for inspection and analysis (including reporting and approval of models) being concentrated at the OeNB. In this context, the FMA must reimburse the OeNB for the direct costs of on-site inspections and the analysis of individual banks (Article 19 para. 5a FMABG). The reimbursement amounts are to be calculated on the basis of the direct costs of banking supervision notified for the respective preceding financial year pursuant to Article 79 para. 4b BWG. Amendments to the 1984 Nationalbank Act (NBG; *Nationalbankgesetz*) and to the FMABG (Federal Law Gazette I No. 50/2011), which entered into force on 1 August 2011, specified the maximum amount at € 8 million. The reimbursement is to be effected no later than by the end of March of the following financial year.

The liabilities owed to the OeNB, resulting from the direct costs of on-site inspections and the analysis of individual banks, have increased to a total of € 16 million, of which the € 8 million for 2013 is to be reimbursed by 31 March 2015 and the € 8 million for 2014 by 31 March 2016.

The fee for the audit of the 2014 financial statements and allocation of costs, agreed with the auditing firm *Contax WirtschaftstreuhandgmbH* upon commissioning the audit, is included in the 2014 incoming invoices still expected; it amounts to € 33 000.00 (previous year: € 36k).

8.3 Other liabilities

A liability of € 519 518.25 (previous year: € 1 344k) is still carried from the actual cost accounting of previous years.

Expenses in the amount of € 423 966.94 (previous year: € 386k) which will only become due after the balance sheet date are included in other liabilities.

9. Contingent liabilities

As at 31 December 2014 there were no contingent liabilities or guarantees.

10. The liabilities from the use of tangible assets not shown in the balance sheet amount to approximately € 3 508 500.00 (previous year: € 3 466k) for the following year and to a total of approximately € 17 472 500.00 (previous year: € 17 264k) for the following five years.

STATEMENT OF CHANGES IN FIXED ASSETS (Article 226 para. 1 UGB) (amounts in €)

	As at 1 Jan. 2014	Additions	Cost Disposals	As at 31 Dec. 2014
I. <u>Intangible fixed assets</u>				
Industrial property and similar rights and licences in such rights	2 487 907.07	366 692.42	120 341.39	2 734 258.10
II. <u>Tangible fixed assets</u>				
1. Buildings on third-party land	1 707 110.63	83 631.55	8 320.23	1 782 421.95
2. Other equipment, operating and office equipment	4 095 786.40	969 500.04	333 676.18	4 731 610.26
3. Low-value assets	0.00	76 622.30	76 622.30	0.00
	5 802 897.03	1 129 753.89	418 618.71	6 514 032.21
	8 290 804.10	1 496 446.31	538 960.10	9 248 290.31

C. INFORMATION ON THE INCOME STATEMENT

1. Income from federal grant

Pursuant to Article 19 para. 4 FMABG, the Federal Government paid a total of € 3 500 000.00 (previous year: € 3 500k) in advance for the 2014 financial year, which was used to cover part of the costs incurred during the 2014 financial year.

2. Share of entities liable to pay costs

Please refer to point B. 2. "Services not yet invoiced to entities liable to pay costs" in the notes.

3. Personnel expenses

In the income statement, item 3.b) shows contributions to corporate staff provision funds in the amount of € 339 968.74 (previous year: € 301k). The remaining amount of € 195 140.03 (previous year: € 127k) is attributed to expenses for severance pay.

D. OTHER INFORMATION

1. The average number of staff pursuant to Article 239 UGB is as follows:

	2014	2013
Civil servants	19	20
Employees (incl. contractual employees)	376	352
Staff total	395	372

2. Management of the FMA pursuant to Article 6 FMABG

Klaus Kumpfmüller was appointed by the Federal President on 14 February 2013 to serve as member of the FMA's Executive Board from 14 February 2013 to 13 February 2018.

Helmut Ettl was reappointed by the Federal President on 14 February 2013 to serve as a member of the FMA's Executive Board from 14 February 2013 to 13 February 2018.

3. Expenses for severance pay and pensions

The expenses for severance pay and pensions, broken down by members of the Executive Board including executive employees and by other employees, amount to the following sums in the respective financial years:

	2014 (€)	2013 (€ thousands)
Executive Directors and executive employees	107 972.89	82
Other employees	1 392 653.68	1 201
Total	1 500 626.57	1 283

4. Remuneration of the members of the Executive and Supervisory Boards

The remuneration of the two Executive Directors of the FMA consists solely of fixed components (no variable components are budgeted) and amounted to € 251 846.02 before taxes per director and year in 2014.

Remuneration paid to the six voting members of the Supervisory Board since the FMA was established in 2001 comes to a total of € 15 300.00 (previous year: € 15k). The amount can be broken down as follows:

Chairperson:	€ 3 600.00
Vice-Chairperson:	€ 2 900.00
Member:	€ 2 200.00

Table 45: 2014 statement of changes in fixed assets

Cumulative depreciation, amortisation and write-downs	Carrying amounts 31 Dec. 2014	Carrying amounts 31 Dec. 2013	Depreciation, amortisation and write-downs in the financial year
2 320 215.24	414 042.86	364 218.41	277 573.95
543 868.10	1 238 553.85	1 328 025.96	169 571.09
3 202 804.50	1 528 805.76	1 323 297.63	763 991.91
0.00	0.00	0.00	76 622.30
3 746 672.60	2 767 359.61	2 651 323.59	1 010 185.30
6 066 887.84	3 181 402.47	3 015 542.00	1 287 759.25

The remuneration of the members appointed by the Oesterreichische Nationalbank is not paid to the members themselves but to the OeNB, in accordance with the terms of their employment contracts. The members co-opted by the Austrian Federal Economic Chamber do not receive any remuneration.

Members of the Supervisory Board appointed by the Federal Ministry of Finance:

- Alfred LEJSEK (Chairperson), Federal Ministry of Finance
- Ewald NOWOTNY (Vice-Chairperson), Governor of the Oesterreichische Nationalbank
- Andreas ITTNER, Vice Governor of the Oesterreichische Nationalbank; Director of Financial Stability, Banking Supervision and Statistics at the OeNB
- Friedrich KARRER (member until 31 January 2014), Head of the Accounting Department at the Oesterreichische Nationalbank
- Gabriela DE RAAIJ (member from 1 February 2014), Head of the Off-Site Supervision Division – Significant Institutions at the Oesterreichische Nationalbank
- Gerhard ZOTTER (member until 31 March 2014), Federal Ministry of Finance
- Bernhard PERNER (member from 1 April 2014), Federal Ministry of Finance
- Beate Schaffer, Federal Ministry of Finance

The co-opted members were nominated by the Austrian Federal Economic Chamber.

- Walter KNIRSCH (co-opted member), sworn auditor and tax adviser
- Franz Rudorfer (co-opted member), Bank and Insurance Division, Austrian Federal Economic Chamber

Vienna, 4 May 2015

HELMUT Ettl
signed in person

KLAUS Kumpfmüller
signed in person

