AUSTRIAN FMA · FINANCIAL MARKET AUTHORITY

2020

ANNUAL REPORT OF THE FINANCIAL MARKET AUTHORITY

Key figures of the Austrian financial sector 2016–2020

	2016	2017	2018	2019	2020 (prov.)
BANKING SECTOR					
Capital base[1]:					
Common Equity Tier 1 (in € billions)	65.8	70.0	71.7	75.8	77.7
Tier 1 capital (in € billions)	66.1	71.5	74.6	79.3	83.2
Common Equity Tier 1 capital ratio (CET 1, in %)	14.9	15.6	15.4	15.6	16.1
Tier 1 capital ratio (in %)	14.9	15.9	16.0	16.3	17.2
Solvency ratio (in %)	18.2	18.9	18.6	18.7	19.5
Leverage ratio (in %)	7.6	7.7	7.4	7.5	7.3
Liquidity coverage ratio (LCR, in %)	145.2	148.8	150.6	148.7	180.7
Development of assets and liabilities (non-consolidated, in € millions):					
Total assets[1]	798 208	777 213	814 606	839 852	934 312
Claims on credit institutions	168 242	163 319	167 952	171 530	168 847
Claims on non-banks	422 923	418 645	445 510	466 757	479 155
Debt securities and other fixed-income securities	47 742	40 236	43 330	45 733	44 372
Shares and other variable-yield securities	11 283	10 095	10 000	10 540	10 077
Other assets	148 017	144 918	147 814	145 292	231 861
Liabilities to credit institutions	157 185	157 028	160 744	155 739	211 285
Liabilities to non-banks	387 941	390 407	414 379	430 436	457 295
Securitised liabilities	128 581	114 009	123 317	132 916	140 052
Other liability items	124 500	115 769	116 166	120 761	125 680
Sustainability of business activity (non-consolidated):					
Loan-to-deposit ratio (non-banks, in %)	109.0	107.2	107.5	108.8	97.2
Foreign currency loans (as % of loans to households)	14.5	10.9	9.5	8.3	6.8
Non-performing and irrecoverable loans (as % of total loans)	3.2	2.5	2.0	1.8	1.5
Earnings situation (non-consolidated, in € millions)[1]:					
Net interest income	8 361	7 885	8 290	8 280	8 339
Operating income	18 582	18 848	18 646	18 801	18 219
Operating expenses	13 334	12 454	12 644	13 652	12 798
Operating result	5 248	6 394	6 003	5 150	5 420
Cost-income ratio (in %)	71.76	66.08	67.81	72.61	70.25
Market shares of banks (as % of total assets):					
Joint stock banks	28.6	28.4	26.9	26.3	26.7
Savings banks	18.5	19.6	20.3	20.3	20.8
Mortgage banks	7.0	6.7	6.6	6.4	6.4
Raiffeisen cooperatives	32.3	32.8	33.6	34.8	34.5
Volksbank cooperatives	4.0	4.0	4.0	3.9	3.7
Building societies	2.8	2.9	2.7	2.6	2.3
Special-purpose banks[2]	6.7	5.6	5.9	5.7	6.1

[1] Excluding branches from EEA countries in Austria (Article 9 BWG), credit guarantee banks and corporate provision funds.
[2] Excluding corporate provision funds and credit guarantee banks as specified in Article 5 no. 3 KStG.

Key figures of the Austrian financial sector 2016–2020

	2016	2017	2018	2019	2020 (prov.)
INSURANCE SECTOR:					
Premiums written in Austria (direct gross amount, in € millions)	18 571	18 057	18 433	18 750	19 085
– Life insurance	*6 038*	*5 732*	*5 516*	*5 396*	*5 360*
– Health insurance	*2 051*	*2 129*	*2 220*	*2 328*	*2 433*
– Non-life and accident insurance	*10 481*	*10 197*	*10 697*	*11 026*	*11 292*
Technical account balance	560	581	507	618	554
Financial result	3 051	2 815	2 528	3 118	1 771
Result from ordinary activities	1 414	1 244	1 168	1 695	744
PENSIONSKASSEN					
Assets under management (in € millions)	20 839	22 323	21 404	24 295	24 976
Investment performance (in %)	4.2	6.1	–5.1	11.6	2.5
CORPORATE PROVISION FUNDS					
Assets under management (in € millions)	9 423	10 610	11 496	13 304	14 489
Performance (in %)	2.2	2.2	–2.0	5.7	1.4
INVESTMENT FUNDS					
Assets under management (in € millions)	167 099	175 435	164 561	184 894	191 894
– Money market funds	*73*	*54*	*32*	*–*	*–*
– Short-term bond funds	*7 405*	*6 890*	*6 231*	*5 990*	*5 777*
– Bond funds	*62 896*	*64 008*	*60 047*	*62 072*	*62 282*
– Equity funds	*25 334*	*28 394*	*25 890*	*32 954*	*33 721*
– Mixed funds	*71 136*	*75 817*	*72 112*	*83 548*	*89 865*
– Hedge funds of funds	*156*	*148*	*136*	*137*	*82*
– Derivative funds	*98*	*127*	*112*	*195*	*167*
Annual net growth/net outflows	–643	5 058	4 167	3 587	5 973
Real estate funds	6 699	7 471	8 341	9 185	9 634
Alternative investment funds by AIFMs licensed or registered pursuant to the AIFMG only	984	886	865	923	974
CAPITAL MARKET					
ATX at year-end	2 618	3 420	2 746	3 187	2 780
ATX performance (in %)	9.2	30.6	–19.7	16.1	–12.8
Market capitalisation (in € millions)	93 341	123 799	100 333	117 085	106 607
Market capitalisation equity segment (as % of GDP)	27.1	34.6	27.2	30.4	26.8
Sales equity segment (in € millions, double counting)	55 930	66 709	70 409	61 960	68 783
Sales bond segment (in € millions)	348	277	635	659	665
Sales structured products.at (in € millions)	427	554	744	733	863
Average government bond yields weighted by outstanding amounts (in %, year-end)	0.08	0.16	0.25	–0.17	–0.46
Number of issuers (regulated market)	134	118	112	115	112

Key figures FMA 2016–2020

	2016	2017	2018	2019	2020
INCOME* (in € thousands):					
Federal contribution (Article 19 para. 4 FMABG)	4 000	4 000	4 000	4 000	4 167
Income from entities liable to pay costs	56 515	57 647	60 058	62 395	62 773
Income from fees, other income	4 096	4 751	5 246	5 892	5 729
Total	**64 612**	**66 398**	**69 304**	**72 287**	**72 669**
EXPENSES* (in € thousands):					
Personnel expenses	39 476	41 275	43 719	45 469	47 214
Material expenses	23 162	23 186	23 873	24 910	23 876
Depreciation and amortisation, other expenses	1 974	1 937	1 712	1 908	1 578
Total	**64 612**	**66 398**	**69 304**	**72 287**	**72 669**
EMPLOYEES					
Employees at year-end in FTEs	379.79	380.03	379.34	381.01	384.89

* Figures without special effects owing to Asset Quality Review 2015 and reimbursement of costs pursuant to Article 74 para. 5 no. 2 BaSAG.

Supervised companies 2016–2020

	2016	2017	2018	2019	2020
CREDIT INSTITUTIONS:					
Joint stock and special-purpose banks	75	72	70	69	65
Savings banks	49	49	49	49	49
Raiffeisen cooperatives	448	419	399	380	354
Volksbank cooperatives	20	14	9	9	9
Mortgage banks	10	9	8	8	8
Building societies	4	4	4	4	4
(Real estate) investment fund management companies	26	23	21	19	19
Corporate provision funds	8	8	8	8	8
Exchange offices/remittance services	4	4	4	4	3
EU branches	28	27	25	22	24
Total	**672**	**629**	**597**	**572**	**543**
Payment institutions	4	5	5	6	6
INSURANCE UNDERTAKINGS:					
Mutual associations (excluding small mutuals)	7	7	6	6	6
Joint stock companies	31	30	29	29	28
Small mutual associations	50	49	49	47	45
Total	**88**	**86**	**84**	**82**	**79**
EEA insurers in Austria (operating through branches)	29	29	30	29	28
Mutual associations dealing in asset management/private foundations	6	6	6	6	6
Business areas:					
Life	23	23	22	22	22
Non-life and accident	33	32	30	30	29
Health	9	9	9	9	10
Reinsurance only	3	2	1	1	1
PENSIONSKASSEN	12	10	9	8	8
CORPORATE PROVISION FUNDS	8	8	8	8	8
ASSET MANAGERS:					
Investment fund management companies pursuant to InvFG	21	18	16	14	14
Licensed AIFMs	26	25	23	23	23
– Real estate investment fund management companies purs. to ImmoInvFG	*5*	*5*	*5*	*5*	*5*
Registered AIFMs	20	24	27	28	31
– EuVECA managers	*4*	*6*	*7*	*9*	*10*
INVESTMENT SERVICE PROVIDERS:					
Investment firms	60	60	61	65	64
Investment service providers	51	51	45	43	48
Total	**111**	**111**	**106**	**108**	**112**

FINANCIAL MARKET AUTHORITY ANNUAL REPORT 2020

PURSUANT TO ARTICLE 16 PARA. 3 FMABG

THE FMA

is Austria's independent, autonomous and integrated supervisory and resolution authority. As an integrated authority our overall perspective of the Austrian financial market enables us to conduct consistent and efficient supervision. We are part of the European System of Financial Supervisors (ESFS) and actively contribute with expertise and practical experience.
With competence, control and consistency, we pursue the aims of contributing towards the stability of Austria as a financial market and reinforcing confidence in the ability of the Austrian financial market to function, while acting in a preventive manner with respect to compliance with supervisory standards, and also protecting investors, creditors and consumers alike.

COMPETENCE

We use a risk-based and solution-oriented approach to address complex issues and apply our knowledge in a target-oriented manner in the interest of integrated supervision. Furthermore, we create a positive and constructive working environment and constantly invest in training and further education. We base our actions on the principles of objectivity and independence, and excel as a result of our commitment to act both quickly and appropriately in a constantly changing environment.

CONTROL

We monitor the Austrian financial market and ensure compliance with regulatory requirements. We fulfil our mandate responsibly, safe in the knowledge of the significance of our work for financial market stability. At the same time we act in a preventive manner and conduct constructive dialogue with market participants.

CONSISTENCY

We demand that all market participants conduct their business in a law-abiding manner, and work towards necessary and sustainable behavioural change. In the event that breaches of legal provisions nevertheless occur, we deploy the supervisory tools and resolution actions that are at our disposal. Violations are punished consistently.

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FINANCE MINISTER'S FOREWORD

LADIES AND GENTLEMEN

Nobody could have imagined what the year 2020 would bring. The coronavirus pandemic has demanded so much from our country and its people, and continues to be a burden and a challenge.

The Federal Government is doing everything it possibly can to protect public health and support our economy in a way that cushions the impact of the most severe crisis since the Second World War. Our collective fight against the virus and its consequences goes on.

Despite lockdowns and economic downturns, the Financial Market Authority has still been able to perform its diverse remit in this crisis-hit year. For this, you, esteemed employees of the FMA, deserve our thanks and recognition. By way of example, I would like to mention the progress that has been made in the following spheres:

PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

In May 2020, an action plan on preventing money laundering and terrorist financing was presented at EU level. Its aims are to achieve greater harmonisation of the legal framework, to create an EU anti-money laundering regulation and to set up an AML/CFT supervisory system at EU level. With the publication of the Council Conclusions of November 2020, the Ministry of Finance highlighted the importance of and need for these cornerstones in an EU AML/CFT regime of the future.

The international Financial Action Task Force (FATF) faced new risks and challenges thrown up by Covid-19. It has developed solutions to continue the country evaluations and working groups within the organisation. In addition, work is being done on the future country evaluation process as part of the FATF Strategic Review.

GREEN FINANCE: AUSTRIA'S FINANCIAL SECTOR AND CLIMATE CHANGE

We take climate change very seriously. The financial sector has a key role to play as it can channel private finance streams into sustainable investments. Major initiatives were launched in 2020 at both European and national level: in addition to the Disclosure Regulation for the financial services sector and the Benchmarks Regulation, which sets two new climate benchmarks, there is now also the Taxonomy Regulation. The latter is a key tool for the EU-wide classification of sustainable economic activities, enabling the ecological sustainability of individual investments to be determined. The aim of all of the regulations is to ensure that future investment decision-

making can be knowledge-based and environmentally sound, but without any “green washing”.
Another new development in 2020 was the first-time measurement of the Austrian financial sector‘s alignment with the climate goals of the Paris Agreement, within the framework of the Paris Agreement Capital Transition Assessment (PACTA): regular climate compatibility tests will measure the progress made towards the climate-compatible alignment of financial flows in order to be able to manage them better. The FMA has published a cross-sector guide for companies in the financial sector on managing sustainability risks.

A POTENTIAL AREA OF CONCERN: NON-PERFORMING LOANS

The steady reduction in the volume of NPL over recent years was unfortunately brought to a halt by the Covid-19 pandemic. Despite extensive support measures, the economy has not escaped unscathed. Companies – and SMEs and sole traders in particular – have become more financially vulnerable. The risk of late payment or even payment default has grown, and we are expecting NPL rates to rise even further when government support measures come to an end.
But we can start preparing now: one of the most important lessons learned from the last economic crisis was the importance of identifying and addressing any renewed build-up of NPLs in bank balance sheets as early as possible. The earlier banks identify and make provision for potential NPLs, the more quickly and smoothly they can be reduced. In addition to banks’ NPL management, there must also be a stronger focus on a well-functioning secondary market for NPLs, on the provision of transparent data and information on NPLs, and on an efficient insolvency system. This is the only way in which banks can quickly get a grip on their growing portfolio of NPLs and contain the negative knock-on effects for the wider economy.
As I mentioned at the beginning: nobody could have foreseen the challenges of the past year. However, by working together, we quickly took up the fight against the crisis and we are on the right path. As employees of the Financial Market Authority, you have continued to work professionally and with commitment during this difficult time and it reassures me to have you by my side, working together in the interests of a strong financial centre in Austria.

GERNOT BLÜMEL

EXECUTIVE DIRECTORS' FOREWORD

As a regulator and supervisor, our biggest challenge is always being prepared for the unforeseeable. When the FMA was identifying and analysing the medium-term risks at the end of 2019 so that we could set our priorities for supervision and inspections in 2020, we were focusing on issues such as climate change and sustainability, the opportunities and risks of digitalisation, and the clean status of Austria's financial centre. We were optimistic as we looked ahead. There appeared to be light on the economic horizon, with tentative hopes of an imminent improvement in interest rates and the prospect of a growth boost from the European Green Deal.

But as we all know, the reality proved somewhat different. In the space of a few weeks we went from watching news reports on coronavirus in faraway Wuhan to a global pandemic. Many countries' healthcare systems struggled to cope, and some completely collapsed under the strain of Covid-19. The unavoidable measures introduced to tackle the pandemic, from travel restrictions to the temporary closure of businesses and varying degrees of lockdown, had a huge social and economic impact: turbulence on the stock markets, plummeting sales in many sectors, disrupted supply chains and downturns in economic output on a scale not seen since the Second World War.

National governments and the European Union, the European Central Bank and national central banks, and financial market regulators and supervisors have all embraced the challenge of jointly containing and overcoming the Covid-19 pandemic and its economic fallout in an unprecedented show of pan-European solidarity. Previously unimaginable aid and support packages have been put together at both national and European level, the ECB is injecting huge amounts of liquidity into the financial markets, and commercial banks are keeping their credit taps open.

For us, as the Austrian financial market supervisory authority, almost overnight the priority became to do everything possible to prevent the crisis in the real economy also spreading to the financial sector.

We immediately put together a package of measures designed to relieve the administrative burden on the supervised entities (suspending procedures, extending deadlines, easing reporting requirements, temporarily halting on-site inspections etc.), enabling these businesses to focus fully on supporting their customers during this difficult time.

Above all, in collaboration with our partners at European level, we have developed a crystal clear and consistent joint regulatory and supervisory strategy with which to address the crisis:

We are exploiting the high degree of supervisory flexibility inherent in the existing regulatory framework to enable the financial sector to support the real economy as effectively as possible and help it through the pandemic. Obviously, without risking any negative impact on financial stability. We cannot accept any compromises in the identification of risks. Risks must always be properly monitored, analysed and managed, even in the midst of a crisis.

The Covid-19 pandemic has also shown, however, that the right lessons were learned from the global financial crisis and that these have been consistently implemented from a regulatory and institutional perspective. Regulation and supervision are now harmonised across Europe, the rules and regulations have been revised in response to the financial crisis, and regulatory loopholes have been closed. Cross-border co-operation and coordination are proving to be a valuable asset and are working well: from the adoption of a tailor-made short-selling ban given the irrational turmoil on the stock markets, to the consistent and flexible interpretation of European regulations in the crisis, and a Europe-wide concerted ban on dividend distributions to prevent the erosion of financial service providers' capital base. In any event, our toolbox is now much better stocked than during the financial crisis.

Our integrated approach to supervision, with the FMA responsible for the entire financial market, has again proven to be particularly efficient and effective. It provides an ideal basis for our integration into the European regulatory and supervisory system and helps to create a level playing field across product, sector and technological boundaries. It also brings significant advantages in terms of information for and the protection of consumers, savers, investors and borrowers.

The clear and consistent strategy, and the close national and European cooperation have proven their worth. Austrian financial service providers have come through the crisis relatively well so far:

- According to an ad hoc analysis by the OeNB, Austrian credit institutions had a Tier 1 capital ratio of around 16% at the start of the pandemic, twice as high as in the run-up to the global financial crisis. They ended 2020 with more or less the same high level of capital resources.
- For their part, insurance undertakings held solvency capital, measured in terms of the SCR, of more than 230% at the start of the coronavirus crisis. This level had been more or less maintained at the 2020 year-end.
- *Pensionskassen* (pension companies) and corporate provision funds were buffeted by the stock market turbulence during the period from March to May, yet still recorded a positive investment performance for the year as a whole, posting figures of +2.5% and +1.4% respectively.
- Austrian investment funds lost some € 20 billion of value during the lockdown turbulence of the first six months of the year. These losses had been recovered by the end of 2020 and, with growth of 3.8% for the year as a whole, the sector was actually able to increase its assets under management to a new all-time high of € 201.5 billion.

However, it is too early to sound the all-clear. It would be naive to think that a global crisis on the scale created by the pandemic could simply pass the financial sector by. In fact, coronavirus will have a profound impact.

The huge interventions by the ECB, government aid and support programmes, and regulatory and supervisory flexibility have all bought us time so that we can prepare for a sustainable resolution of the crisis. The longer the pandemic goes on, the more painful the consequences will be for the financial markets. And even if the pandemic does indeed come to an end in 2021, as we all hope, the economic challenges will remain considerable. Only then will the scale of the problems that have been temporarily pushed back by moratoria, guarantees and delayed insolvency proceedings become visible. In particular, there is a clear risk of cliff effects, and countering this risk will be one of the major challenges that we face.

The pandemic has dominated the headlines, while other issues such as climate change and sustainability, the risks and opportunities of digitalisation, and the clean status of Austria as a financial centre have receded into the background. In line with our priorities for supervision and inspections, however, we have continued to take consistent action in these areas. This will also be a help and support when it comes to the financial sector helping the real economy out of this deep crisis.

None of this would have been possible without our working relationship, based on partnership and trust, with our European and national partners. We owe thanks and gratitude to our stakeholders, not least our colleagues at the Federal Ministry of Finance and Oesterreichische Nationalbank.

Yet our most valuable asset as an expert organisation is our own staff. Thanks to their expertise and dedication to their work, the FMA is able to fulfil its role as an integrated supervisory authority for the Austrian financial market in a European context. We owe them particular thanks.

The Covid-19 pandemic was and remains a huge challenge for all of us, for politicians and the public, for employers and employees, for borrowers and investors, for the state and for households, but also for us as a regulator and supervisor. We must all continue to work together with the same consistency and resolve. The crisis can only be overcome together.

EDUARD MÜLLER and HELMUT ETTL

PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2020

The Austrian Financial Market Authority (FMA) is wholeheartedly committed to the principle of maximum transparency in its supervisory activities. The Authority therefore communicates its priorities for supervision and inspections for the coming year to the supervised companies in advance, also outlining its annual medium-term risk analysis from which these priorities are derived.

MEDIUM-TERM SUPERVISORY OBJECTIVES

Drawing on its risk analysis for the years from 2019 to 2023, the FMA set itself six medium-term strategic objectives in 2019:

- **Expanding collective consumer protection:** improving cost transparency, advancing integrated sales supervision and boosting financial literacy
- **Strengthening the governance of supervised companies:** analysing the impact of new business models, addressing governance in company groups
- **Embracing the opportunities of digitalisation while addressing the risks:** improving IT security, accompanying digitalisation strategies, addressing concentration risks caused by networking
- **Making financial service providers more resilient:** reducing NPLs, improving institutions' resolvability, intensifying interinstitutional cooperation
- **Providing a regulatory and supervisory context for new business models:** determining and classifying new business models from a regulatory perspective, tackling the challenges of platform economies, setting up a regulatory sandbox
- **Securing the clean status of Austria's financial centre:** putting an end to unlawful sales practices, continuing to apply a zero tolerance approach to money laundering, advancing market consolidation in relation to dubious providers.

Based on these medium-term strategic supervision objectives, the FMA defined specific priority areas for its supervision and inspection work in 2020, put them into practical effect with specific projects and supervisory measures, and communicated them in advance to all financial market participants in its Facts and figures, trends and strategies 2020 publication in line with that commitment to maximum transparency.

COVID-19 CHALLENGES

The Covid-19 pandemic and its subsequent massive and dramatic economic impact forced the FMA to rethink its supervision and inspection priorities from early 2020 onwards. Its focus shifted to mitigating the pandemic's economic consequences and limiting the economic risks for the Austrian financial market, without, of course, losing sight of its medium-term supervisory objectives and current supervision priorities.

For more information about the Authority's Covid-19 package of measures, please refer to page 15 and "The FMA's package of Covid-19 measures".

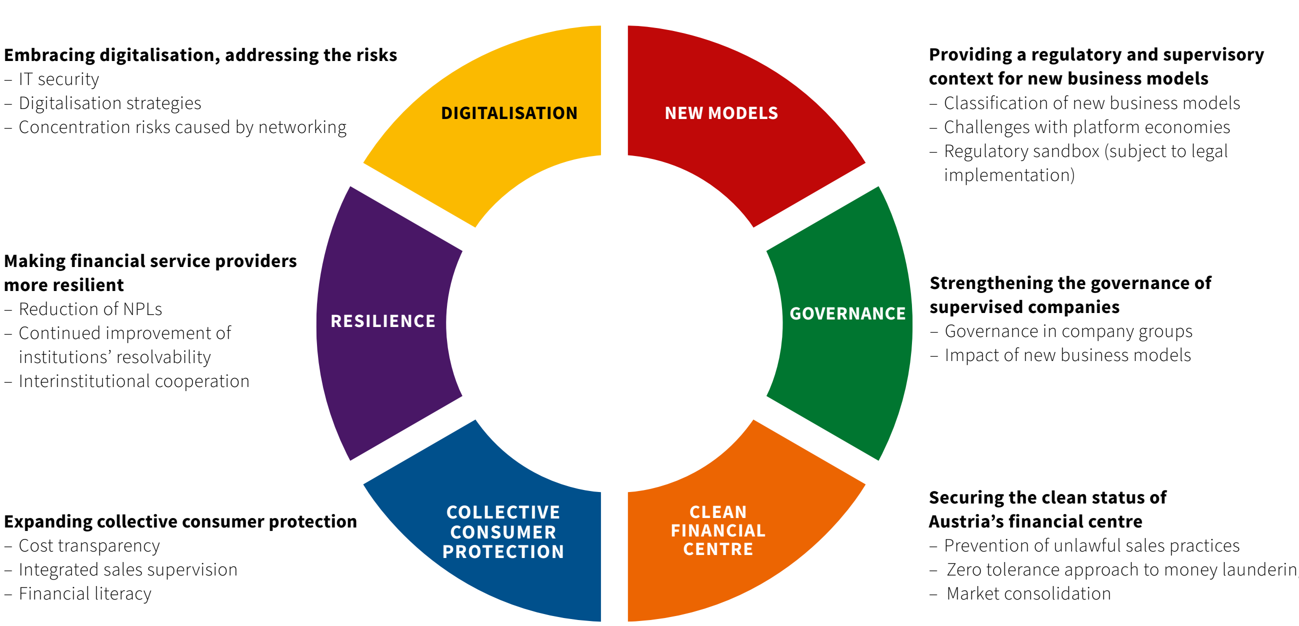
DEVELOPMENT OF THE REGULATORY AND INSTITUTIONAL FRAMEWORK

The priorities for the FMA's operational supervision activities were complemented by a diverse range of activities to expand and develop the regulatory framework and by numerous supervisory policy initiatives. As part of its advisory and market-related support of a number of regulatory projects, the FMA focused in the reporting year on, for example:

- Shaping the sustainable finance rules.
- Developing Basel 3.5 from the perspective of the Austrian financial market.
- Preparing the FMA for the changes to the three European Supervisory Authorities (ESAs), namely the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). The FMA has a seat and a vote at each of these European institutions and contributes actively to their work in the interests of Austria as a financial centre. The ESA Review, which has analysed and evaluated the efficiency and effectiveness of these institutions on the basis of their practical work in their early years, provides a good starting point in this regard.
- Strengthening international cooperation across all areas of supervision, particularly in terms of the working relationship with partner authorities in Central, Eastern and South-Eastern European (CESEE) countries.

The FMA implemented its priorities for supervision and inspections for 2020 derived from the medium-term strategic objectives in the reporting year as described on the following pages.

Figure 1: *The FMA's supervision priorities for 2020*



PRIORITY FOR SUPERVISION AND INSPECTIONS: EXPANDING COLLECTIVE CONSUMER PROTECTION

The consistently low level of interest rates, the existence of negative rates in some cases, and the digital revolution in the financial markets are all creating particular challenges when it comes to protecting savers, investors and other users of financial services. Through its collective consumer protection approach, the FMA is making a key contribution in this regard.

In terms of this supervision and inspection priority, the FMA focused particularly strongly on the following areas during the reporting year:

- Developing the already successfully implemented initiative on creating market transparency, and cost transparency in particular, further.
- Addressing the importance of consistently applying sustainable lending standards to real estate financing and consumer loans, with an additional focus on fair and objective advertising and information, specifically on the Internet or the point of sale.
- Expanding integrated sales supervision.
- Combining the variegated studies, analysis and data into one market report in order to be able to detect trends and risks. Appropriate measures were then derived from these reports to raise retail investors' awareness of the specific risks associated with certain products.
- Using the wealth of supervisory information in order to improve consumers' financial literacy in an increasingly challenging market environment. To this end, the FMA's dedicated consumer web page was expanded, new social media channels used and additional media such as newsletter, how-to videos or subject-specific folders developed.

PRIORITY FOR SUPERVISION AND INSPECTIONS: STRENGTHENING THE GOVERNANCE OF SUPERVISED COMPANIES

Weak governance that does not go far enough entails high risk for every company, may cause huge losses and is one of the most striking reasons for financial service companies to fail. In addition, it damages public confidence in the financial market.

In terms of this supervision and inspection priority, the FMA therefore focused in 2020 on:

- Analysing, at the supervised companies, the interaction between internal control functions such as internal auditing, prevention of money laundering and compliance, as well as fostering and promoting their interconnectedness, active co-operation and standing within the organisation overall.
- Evaluating and expanding governance in company groups, which needs to work at all levels and in even the smallest unit.
- Examining the impact of new business models on the governance of these companies, particularly whether the old/new rules are appropriate in light of the changed environment.
- Verifying data governance at all levels of the company as data is now one of the most valuable commodities of companies and a key contributory factor to their success.

THE FMA'S PACKAGE OF COVID-19 MEASURES

Coronavirus began spreading rapidly around the globe in early 2020. In just a few weeks it developed into a pandemic, with devastating consequences. Tackling this global health crisis required deep political incursions into social and economic life. The impact on the real economy has been huge. Many businesses, indeed entire industries, were forced to close for months, unemployment soared, sales markets collapsed, supply chains were destroyed and economic output nosedived. There were times when the financial markets, and the stock markets in particular, went a little crazy.

Faced with this emergency, national governments and the European Union launched aid and support programmes on an unprecedented scale, the European Central Bank and national central banks flooded the markets with cheap money to keep them afloat, and regulators and supervisors in the European Economic Area came together with a commitment to support politicians, central banks and financial service providers to the best of their ability.

With the first lockdown in Austria in March 2020, the FMA also immediately put together a comprehensive package of measures: to prevent any contagion to the financial market of the crisis affecting the real economy, and to adequately support the measures taken by politicians, central banks and financial service providers. To this end, it started with its three most important functions: its role as supervisor, its role as regulator and its role as an information hub for the Austrian financial market.

The Authority pursued a crystal-clear strategy: allowing as much flexibility as possible from a regulatory point of view. At the same time, however, it cannot accept any compromises in the identification of risks, even in times of crisis. Risks must always be properly monitored and managed.

THE FMA AS SUPERVISOR: FLEXIBILITY WHERE POSSIBLE, RISK MONITORING WHERE NECESSARY

The FMA has adapted its work arrangements in line with the respective Covid rules laid down by the Austrian government and used the opportunity to further expand its digital workflow, which had already been in place to a high level. In this way the Authority managed to stay fully operational and in communication with both internal co-workers and external partners from day one of the pandemic.

In relation to the supervised entities, various measures were taken to help them through the crisis: ongoing procedures were suspended to the extent permitted by statutory limitation periods. Deadlines were extended, while reporting obligations and data collection were suspended or given more time. Staff were not required to be present on-site during the lockdown phases, ongoing inspections as well as preparations for new inspections were (and continue to be) prepared or continued and completed off-site as far as possible on the basis of the available information and documents. Planned stress tests were postponed, by at least a year for the time being. With regard to banks, the supervisory review and evaluation process, which evaluates a bank's individual risk position, was suspended and the SREP requirements were frozen at the previous year's level.

In contrast, management talks were stepped up, albeit digitally, and new formats were introduced for regular information and discussions sessions with representatives from the sector and high-level managers.

The supervisor monitored the critical liquidity positions very strictly during the crisis, at the same time reducing the reporting frequency for less critical positions.
In its capacity as supervisor, the FMA worked in close coordination with the European supervisory institutions to make its expectations to the Austrian market very clear:

- The distribution of dividends, bonuses and other variable remuneration as well as share buybacks were to be avoided as far as possible so as not to reduce the capital base at this difficult time, but rather to strengthen it.
- At the same time, the FMA actively pointed out that the capital buffers were created precisely in order to withstand a crisis. In this way, the financial sector could really help support the real economy and carry it through the crisis.

THE FMA AS REGULATOR: RISK-BASED ADJUSTMENTS TO BASIC PARAMETERS

As the pandemic took hold, stock markets around the world went haywire for a few weeks; the Vienna Stock Exchange's reaction to speculative bouts of short selling was extreme during the first lockdown. This prompted the FMA to impose a temporary ban on short selling in coordination with its European partners, with five other EU states taking the same action. The ban was successful, with the Austrian market subsequently calming down relatively quickly *(see box "Ban on short selling" on page 36).*
In order to give banks as much room for manoeuvre as possible with regard to necessary loan deferrals, both statutory and private, the FMA exercised the highest level of regulatory flexibility by relaxing the rules around default and forbearance. This was obviously done without compromising risk identification, monitoring and management.
The FMA made it clear that the less strict transitional rules may be used when applying IFRS[1] 9, which governs the recognition and measurement of financial instruments.
Since the video identification of clients who were working from home posed regulatory challenges for financial service providers, the FMA adjusted its Online Identification Regulation for a limited period of time in response to the pandemic.
It also clarified that supervisory board and committee meetings at supervised companies could be held in the form of video conferences in compliance with the law and in a legally binding manner given the extraordinary circumstances.
Additionally, the FMA temporarily relaxed the rules on calculation of the leverage ratio, i.e. the ratio of core capital to total business volume, without this being risk-weighted.

THE FMA AS AN INFORMATION HUB: REDUCING UNCERTAINTY FOR THE SUPERVISED ENTITIES AND CONSUMERS

In its function as an information hub for all market participants in the Austrian financial centre, the FMA intensified its information and communication activities with all market participants during the Covid-19 crisis.
For example, the FMA has set up its own "COVID-19 Infos" section on its website (www.fma.gv.at) where it provides supervised entities, consumers and all other interested parties with tailored information on the latest supervisory and regulatory developments. All relevant documents are made available for download, and there are links to further information as well as the relevant partner authorities.

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[1] *International Financial Reporting Standards.*

New information and communication formats have been established with all stakeholders, whether at the top representative or operational level, clearing the way for structured dialogue.

The coronavirus pandemic has also meant new conditions for workers and consumers, from lockdowns and quarantine to working from home, and these have often created new challenges too. Not least, scammers and fraudsters have adapted very quickly to these situations, which are new for many people, and exploited the situation to try and defraud the public using email, the Internet and social media. The FMA has been observing this development very closely, repeatedly publishing information and warnings about the latest online scams. These range from CEO fraud to fraudulent trading platforms for binary options, contracts for difference and crypto-assets to money mule schemes in which unsuspecting job seekers are targeted by money launderers.

Despite the legitimate optimism that the Covid-19 vaccines will be a real game changer, the pandemic is by no means over. Until that time comes, the FMA will continue to do everything in its power to protect the financial market in Austria.

PRINCIPLES OF GOOD GOVERNANCE

The European lawmakers, the European regulators and supervisors, as well as national competent authorities have worked on preparing principles for sustainable and effective corporate governance that take account of the interests of all stakeholders. These key principles are:

1. Appropriate, sound and transparent internal governance of executive and monitoring structures within the company, as well as of the corresponding reporting and decision-making channels.
2. Diverse composition (e.g. in terms of qualification, experience, age, gender of the selected persons) of the executive and supervisory bodies and suitability of the individual members. This creates scope for critical discourse and guarantees informed decision-making. Moreover, having independent members in the supervisory body is crucial to having diverse viewpoints considered.
3. A “three lines of defence” model within a company has proven to be an appropriate approach to tackling risk: the identification, assessment and management of risks begin in the respective departments, at an operational level. This is enhanced by the risk management and compliance function at company level. Finally, the internal audit function performs planned and ad hoc ex post audits of individual areas and ensures that any shortcomings can be remedied appropriately and in time.
4. The company’s risk culture must be reflected in its risk appetite statement and risk management strategy. As well as holding overall responsibility for the risk culture, the managers must also help establish this culture on a long-term basis by setting an example for the rest of the company to follow (tone from the top), thereby building an appropriate corporate culture.

The FMA’s choice of governance as one of its supervision priorities should send out a clear signal to the market of the importance it awards to this area of regulation.

PRIORITY FOR SUPERVISION AND INSPECTIONS: EMBRACING DIGITALISATION, ADDRESSING THE RISKS

New technologies are increasingly leaving their mark on the economy and society, and thus also on the financial sector. The digitalisation of financial services means that basic conditions on the financial market are changing more quickly and fundamentally than they have done for decades. It is therefore important to market participants and the FMA that both the opportunities and the risks associated with these changes are detected and analysed in as much detail as possible, with appropriate measures then being introduced.

Alongside improving efficiency and saving costs, quickly identifying and better serving the changing needs and preferences of potential customers are of key importance. Greater demands are being made of companies in terms of their strategies, which require ongoing adjustment and alignment. Companies that do not react quickly enough risk being pushed out of the market by more innovative rivals. They also need to adapt their corporate strategies and the way they interact with customers.

In terms of this supervision and inspection priority, the FMA therefore focused in the reporting year on:

- Intensifying and advancing the inspections relating to IT security.

- Identifying and addressing the new risks arising from companies' digitalisation strategies.
- Analysing the digital link-up of market participants and the ensuing concentration risks.
- Analysing in particular whether companies' IT infrastructures are compatible with their business models and strategic objectives, whether cloud services come with significant concentration, outsourcing and/or data security risks, and whether relevant intersections – specifically in their infrastructures – have formed through digital connections with other market participants, with these being essential for the proper functioning of the Austrian financial market.
- Expanding the review of the cyber resilience of supervised companies to include those sectors that have not been covered to date.
- Identifying and presenting the mutual dependencies and links, as well as risk concentrations, arising from digitalisation (mapping).

FMA STRATEGY

As far as the FMA is concerned, it is important that it observes and analyses how the supervised companies deal with the risks associated with digitalisation, in order to quickly implement any required measures. The FMA has therefore surveyed and analysed the state of digitalisation, the current areas in which digital technologies are being deployed and the key effects of these technologies on the Austrian financial market as part of a comprehensive study. The results of this study, the findings from current monitoring and auditing of supervised entities, the experiences of the FMA FinTech Point of Contact, and European and international developments all provide the FMA with a basis on which to develop tailor-made projects and allow it to use its supervision tools in a risk-based manner. In all of this, the FMA is pursuing a technology-neutral approach to supervision applying the principle: "The same rules for the same business with the same risk".

PRIORITY FOR SUPERVISION AND INSPECTIONS: MAKING FINANCIAL SERVICE PROVIDERS MORE RESILIENT

Major progress has been made in strengthening the financial sector's resilience at both European and national level since the global financial crisis. A recovery and resolution regime was created for banks. A risk-based qualitative supervisory regime for insurance undertakings was introduced. The quantity and quality of companies' capital base has been improved overall. Existing regulations were put to the test, and regulatory loopholes have been closed. Nevertheless, there is still room for improvement.

The FMA has therefore, in harmony with the authorities within the European Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM), set a joint supervision priority in relation to financial service providers' resilience.

In terms of this supervision and inspection priority, the FMA therefore focused in the reporting year on:

- Consistently supporting banks in reducing their portfolios of non-performing loans (NPLs). Although the average NPL ratio of Austrian banks is comparatively low, some individual institutions have significantly higher NPL ratios and therefore require particularly close monitoring by the supervisory authority.

- Consistently advancing the assessment of resolvability at credit institutions, and addressing obstacles to resolution. Adherence to the minimum requirement for own funds and eligible liabilities (MREL) was advanced and fostered, and inter-institutional cooperation in the area of resolution (for instance with the Federal Ministry of Finance, OeNB, deposit guarantee institutions, market infrastructures) strengthened.
- Developing the insurance stress tests further, with management actions being included in the post-stress situation in the model and taken into account during the 2020 stress tests. Stress testing was also carried out at randomly selected corporate provision funds and investment funds.
- Drawing up an updated Crisis Cooperation Manual, which covers the identification and regulation of internal and external interfaces and the establishment of sensible, straightforward cooperation rules in order to allow for the smooth flow of information and efficient liaison in the event of a crisis.

PRIORITY FOR SUPERVISION AND INSPECTIONS: PROVIDING A REGULATORY AND SUPERVISORY CONTEXT FOR NEW BUSINESS MODELS

The increasing presence of companies with technology-based business models on the financial market has already triggered a series of adjustment and dynamic innovation processes. The FMA's role in response to the establishment of new business models on the financial market is firstly to address the resulting technology-based risks across all sectors and to minimise these while ensuring a fair framework for all capital market participants in the context of its integrated, technology-neutral approach to supervision under the existing regulatory conditions.

In terms of this supervision and inspection priority, the FMA therefore focused in 2020 on:

- Analysing and assessing players and business models, such as security tokens (cryptoassets that imitate traditional securities), exchange platforms, wallet providers and similar from a regulatory perspective.
- Analysing the challenges caused by platform economies and on their digital platforms.
- Reviewing the actual provision of the service during on-site inspections and also as part of off-site supervision activities as cooperation and outsourcing arrangements between licensed legal entities and unlicensed, technology-based companies are on the rise. This should help avoid the creation of "licensing shells".
- Setting up and launching a regulatory sandbox.

FinTechs are young, dynamic companies, usually start-ups, that offer new digital solutions for financial services and the handling of these services. It is often difficult to identify and classify them from a regulatory perspective as they usually escape the confines of the analogue world. The FMA's integrated approach to supervision is of particular use in this context, as it allows the Authority to analyse and apply regulation and supervision across individual sectors and products.

The digital transformation is also resulting in the emergence of new asset classes in the product universe. Blockchain and distributed ledger technologies are being used to create entirely new assets that attempt to replicate the functions of traditional investment products or forms of payment but also add new functionality.

In this process of digital transformation, the FMA in its capacity as regulator takes a neutral stance on different markets and supports both established and new providers in implementing their innovative business models. It upholds the principle of technology-neutral access, treating all providers equally and regardless of whether they use innovative technologies or rely on classic channels to provide their services. The FMA sees its role as being to create transparency, clarity and legal security so that financial innovations that contribute to a sustainable financial market are not impeded and, at the same time, to address the potential risks to the stability of the Austrian financial market and the risks for consumers. Another goal is to ensure equal and fair competition conditions for all capital market participants.

PRIORITY FOR SUPERVISION AND INSPECTIONS: SECURING THE CLEAN STATUS OF AUSTRIA’S FINANCIAL CENTRE

To ensure confidence in a financial market’s proper functioning, in its stability and ability to supply financial services to the real economy and consumers, it is essential for that very market to be “clean”. Low interest rates, ongoing technological innovations in sales and product design, as well as proper access to trading in financial instruments are currently creating particularly challenging circumstances.

In terms of this supervision and inspection priority, the FMA therefore focused in 2020 on:

- Systematically looking into and, where necessary, combating unlawful sales practices in all sectors including cross-border operations. The FMA addressed in particular the advertising used to sell online consumer loans, the marketing used to sell bail-inable financial instruments and direct online sales of insurance-based investment products.
- Consistently expanding its zero tolerance approach to the prevention of money laundering and terrorist financing by including foreign operations of cross-border groups. This was achieved by means of group compliance, which also extends to the subsidiaries of Austrian financial service providers based abroad.
- Including virtual currencies and virtual asset service providers in the due diligence obligations for the prevention of money laundering achieved uniform application and consistent enforcement of the relevant rules.
- Monitoring developments in the areas of the market bordering supervised activity very closely so that the FMA can detect any efforts to circumvent supervisory requirements as soon as possible, and consistently removing any providers from the financial market that are not permitted to be there.

THE INTERNATIONAL PARAMETERS

THE GENERAL ECONOMIC ENVIRONMENT

The year 2020 was an exceptionally difficult year. The prospect of an economic slowdown was already a factor at the start of the year, but it was the Covid-19 pandemic that created an unexpected crisis and brought the global economy to a dramatic and abrupt halt. Countless areas of our everyday lives, both economic and social, have been hugely affected by the crisis and its many dimensions. Lockdowns and other restrictions to contain the spread of coronavirus triggered both a supply and a demand shock in the global economy.

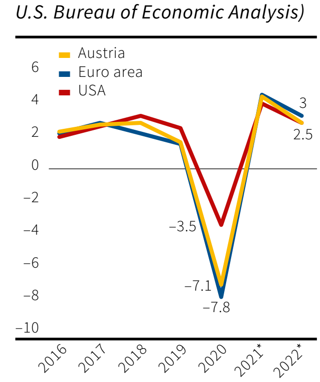
Aside from headlines about overwhelmed health systems, the rest of the year was dominated by discussions about lockdowns, whether to tighten or lift lockdown measures, travel restrictions, hugely disrupted international value chains, and the never-ending uncertainty about the future course of the pandemic. The health crisis has created huge problems for the real economy and kept the financial sector guessing.

GLOBAL ECONOMIC PERFORMANCE

According to the International Monetary Fund's calculations, global economic growth contracted by around 3.5%[1] in 2020 as a whole. After the low point in April when strict, large-scale lockdowns were introduced in many countries, and in Europe in particular, the global economy recovered faster than expected. The lifting of precautionary public health measures, reduced supply chain disruptions, lessons learned as time went on, and advances in medical solutions to combat the pandemic all appeared to provide rapid relief. Towards the end of the year, however, as the virus mutated and infection numbers began to rise sharply again, moves to open up again had to be slowed down or even entirely reversed in many countries *(> Chart 1).*

According to the U.S. Bureau of Economic Analysis, the Covid-19 pandemic triggered an economic decline of 3.5% in the USA in 2020, more or less in line with the global average. However, the massive government support measures drove up US national debt to 115.9% of gross domestic product (GDP) in the second quarter of 2020.[2] Unemployment soared to 14.8%[3] at its peak in April, before falling gradually again. The overall figure for 2020 of 8.1% was well above pre-coronavirus levels. Inflation,

Chart 1: *GDP growth rates 2016–2022 (in %; source: Eurostat, U.S. Bureau of Economic Analysis)*



*Forecast by the European Commission (November 2020)

[1] *IMF World Economic Outlook Update January 2021.*
[2] *Bank for International Settlements.*
[3] *U.S. Bureau of Labor Statistics.*

however, was only around 1.2%, mainly due to low oil prices and subdued consumption.[4]
Compared with industrialised countries in the West, China was able to return to its everyday economic routine early on, actually achieving GDP growth of 2.3%.[5] Infrastructure investments, real estate investments and flourishing industrial production all stimulated this upturn. Private consumption took longer to recover, as higher unemployment and lower incomes had a negative impact.[6]

4 *U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis.*
5 *IMF World Economic Outlook Update January 2021.*
6 *OECD Economic Outlook, Volume 2020 Issue 2.*

COVID-19 – THE GLOBAL EVOLUTION OF THE PANDEMIC

On 31 December 2019, the World Health Organization (WHO) received the first information about a new type of lung infection with an unknown cause in the Chinese city of Wuhan. Early hopes of being able to contain the spread of this new virus within China soon had to be abandoned. By 30 January 2020, the WHO had declared the spread of the virus to be an international public health emergency, at a time when there were officially 98 cases in 18 countries outside China. On 11 March 2020, Covid-19 was declared a pandemic. According to the WHO, 118 000 cases in 114 countries had already been reported by that date, with 4 291 recorded deaths.
After the first Covid-19 cases were detected in Europe in mid-February, the continent had become the focal point of the pandemic by March at the latest. Faced with exponentially increasing cases and the threat of health systems being overwhelmed, many national governments moved to impose national lockdowns in March and April. Working from home, avoiding travel and reducing social contacts to a minimum became the norm in many European countries, combined with the closure of schools, shops, hospitality, tourism, and cultural and leisure facilities. Governments attempted to counteract the negative fallout for the real and financial economy with rapid and targeted monetary, fiscal and labour market measures.
After a summer of very low infection levels (in Austria, Italy and Germany for example), new record highs in the number of new cases in Europe and more lockdowns soon dampened hopes of a quick way out of the crisis. In early November, the number of occupied beds in intensive care units was already exceeding the high levels of the spring. While the approval of vaccines towards the end of the year has generated some confidence, the economic consequences will probably only become visible in the coming years.

***Chart 2:** Covid-19 cases in 2020 per million people*

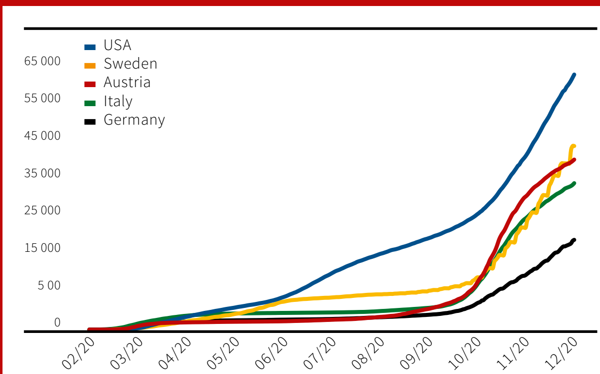
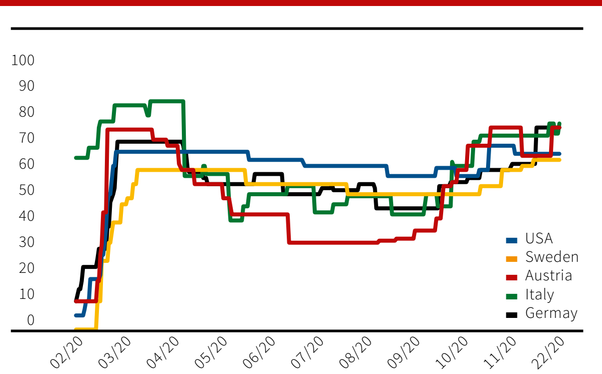


***Chart 3:** Covid-19 stringency index 2020*



For the developing countries and emerging markets, the IMF fears that the output loss – compared against pre-crisis forecasts – will be significantly higher than in industrialised nations.[7] According to the IMF, the latter are better placed to provide liquidity support than countries that were already stretched by high debt levels and higher borrowing costs. This uneven recovery also hindered the catching-up process and the global convergence of income levels.

Meanwhile, international trade conflicts and political uncertainties created further obstacles to global growth in 2020. In the long-running wrangling over the terms of the UK's exit from the European Union, a last-minute agreement was reached just before the end of the year. This avoided a much-feared hard Brexit, and all of the very negative effects that would have ensued for the economies on either side of the negotiating table.

EUROPE

The Covid-19 pandemic has hit Europe very hard, resulting in a deep recession that is threatening the livelihoods of many households and the survival of many businesses. According to Eurostat, economic output in the European Union (now the EU-27 as a result of Brexit) shrank by 6.2% in 2020, and was down by as much as 6.6% in the euro area. In early summer, experts had actually expected an even more dramatic slump. Based on the Eurostat figures, unemployment in the EU-27 fell from its peak in the first half of the year to around 7.5% in December, compared with 8.3% in the euro area *(> Chart 4).* National measures such as short-time work and EU initiatives (e.g. Support to mitigate Unemployment Risks in an Emergency – SURE) have helped to cushion the impact of the pandemic on the labour market to a certain extent.

The budget deficit as a proportion of GDP is forecast at 8.4% for the EU-27 as a whole, and at 8.8% for the euro area. The general government debt-to-GDP ratio rises accordingly to 93.9% for the EU-27 as a whole and to 101.7% for the euro area.[8] The reasons for this lie in a massive increase in social security spending and economic aid in terms of the expenditure site, combined with dwindling tax revenues on the income side *(> Chart 5).* Inflation, at +0.7% in the EU-27 and +0.3% in the euro area, was significantly below the target of just under 2% for price stability *(> Chart 6).*

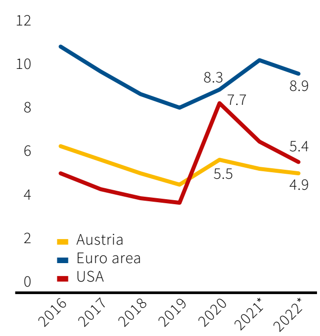
Weaker global demand for industrial goods affected German foreign trade in particular. The OECD estimates that, despite a strong rebound from May onwards, exports were down by around 11% in 2020. Business investment was down but construction activity nevertheless remained broadly stable, while consumption was supported by substantial public investment.[9] Overall, this resulted in a 4.9% fall in German GDP, according to Eurostat.

Southern Europe, with its heavy reliance on tourism, has suffered huge losses as a result of the pandemic. According to Eurostat, Spain recorded a GDP decline of 11.0%, with Italian GDP down 8.9% and Portugal's figure down 7.6%. The crisis amplified the prevailing structural problems on the labour market (e.g. high youth unemployment) in these countries.

Economic development in the countries of Central, Eastern and South-Eastern Europe

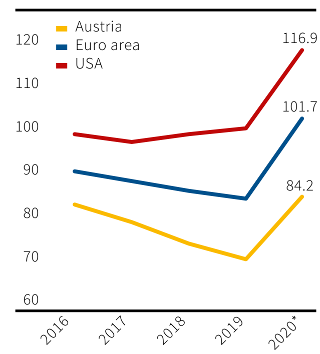
[7] *IWF World Economic Outlook, October 2020.*
[8] *European Commission's European Economic Forecast, Autumn 2020.*
[9] *OECD Economic Outlook, Volume 2020 Issue 2.*

***Chart 4:** Unemployment rates 2016–2022 (source: Eurostat)*



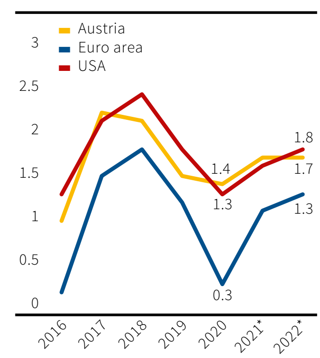
*Forecast by the European Commission (November 2020)

***Chart 5:** Debt-to-GDP ratio 2016–2020 (as % of GDP; source: Eurostat, BIS)*



*Forecast by the European Commission (November 2020), US figures Q2 2020

***Chart 6:** Inflation 2016–2022 (in %; source: Eurostat, USBLS)*



*Forecast by the European Commission (November 2020)

STATE AND REGULATORY AID AND SUPPORT MEASURES

From mid-March onwards, many measures[1] were introduced to cushion the impact of the pandemic on the Austrian economy.
A budget framework of € 38 billion (approx. 10% of GDP) was earmarked and gradually put in place; this total was subsequently increased to € 50 billion (approx. 13% of GDP) on 16 June 2020.
The biggest expenditure items among the Covid-19 support measures were as follows in 2020: € 12 billion for emergency aid such as short-time work necessitated by coronavirus and the Hardship Fund; € 15 billion through the Coronavirus Aid Fund for state guarantees and operating subsidies to keep companies afloat; the unemployed received one-off payments, and special grants were allocated to sports clubs, artists and many others to help cushion their financial losses.
On the income side, tax deferrals or the arrangement of instalment payments for VAT, corporate income tax and personal income tax accounted for support of about € 10 billion; loss compensation accounted for € 2 billion and the hospitality industry package for € 500 million. To boost consumption, private individuals on low incomes were able to receive a negative tax retroactively with effect from 1 January.
The FMA, in its capacity as regulator and supervisor, also took a number of measures within its sphere of influence to relieve the burden on the supervised companies and to support the public sector programmes designed to mitigate the economic consequences of the crisis: certain regulatory procedures were temporarily suspended, on-site inspections were put on hold and completed off-site as far as possible, deadlines for the submission of statements were extended, reporting obligations were simplified and much more.[2] Above all, regulatory scope for action and interpretation was exploited for a limited period of time in order to relieve the burden on the supervised companies and to assist them in their support measures for the real economy; naturally, without any negative impact on risk identification, measurement or management.
Overcoming the economic consequences of the pandemic will be a major challenge. Exiting from public assistance and support programmes will be a complex and delicate task. The aim must be to support the economy in a targeted and sustainable manner while at the same time avoiding knock-on effects.

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[1] *Only the most important measures are listed here, a full list would exceed the scope of this article.*
[2] *More information can be found in the FMA publication Facts and figures, trends and strategies 2021.*

(CESEE), which are especially important for Austria‘s financial sector, diverged quite significantly. Based on Eurostat figures, the Polish economy recorded a relatively moderate economic dip of -2.7%. Croatia, on the other hand, was hit harder by the coronavirus pandemic due to its greater reliance on tourism, with GDP losses of -8.4%. The economic losses in Hungary (-5.0%), the Czech Republic (-5.6%), Slovenia (-5.5%) and Slovakia (-5.2%) were lower than the average for Europe as a whole.
As shown, the economic consequences of the pandemic have not been the same throughout Europe, and this divergence also applies to the prospects of a quick recovery. The key factors in this regard are the course of the pandemic, far-reaching differences in health systems and coronavirus measures, the sectoral composition of national economies, and how much national governments could afford to spend supporting households and businesses. In order to finance the reconstruction in Europe in a spirit of broad solidarity, the European Union reached agreement in July on a Covid-19 recovery package worth € 750 billion entitled “NextGenerationEU”.

AUSTRIA

According to their latest calculations, the Austrian Institute of Economic Research (WIFO) and the Institute for Advanced Studies (IHS) expect Austria's economic output, measured in terms of GDP, to have shrunk by 7.3% and 7.5% respectively in 2020. This means that the Austrian economy has recovered more quickly than expected from its slump in spring; Eurostat had calculated a collapse -14.1% (compared with the same quarter of the previous year) for the second quarter of 2020 alone. As restrictions were lifted again following the first lockdown imposed in mid-March, exports and investments picked up but remained down on their pre-crisis level. Consumption, which was a stabilising factor in past crises, also remained well below pre-crisis levels due to the lack of opportunity to spend and uncertainty about future developments. This is expressed in particular in a savings rate (measured against disposable income) that according to the Oesterreichische Nationalbank (OeNB) rose to 13.7% in 2020. The stricter measures introduced in autumn caused the economic recovery to level off again.

Economic policy measures *(see opposite box)* supported households and businesses and helped to avoid a rise in the jobless figures. According to the official labour market figures, unemployment peaked at 12.7% in April, before declining over the summer but rising again to 11.2% in December *(> Chart 7).* Closely linked to economic aid is the projected increase in the government deficit to -9.6% according to Eurostat and in general government gross debt to 84.2%.[10]

Different sectors of the economy have been affected by the pandemic to varying degrees. The impact of Covid-19 has been felt most strongly in the hospitality, art, culture and leisure sectors. Meanwhile, insolvencies in the corporate sector actually declined by about 40% last year due to liquidity support from the public sector, payment deferrals (statutory and private moratoria) and the rules introduced to suspend the obligation to file for insolvency. Private insolvencies were also down by around 24%. However, a catch-up effect is expected when these support measures cease to apply. Substantial, rapid and unprecedented fiscal and regulatory responses have supported households' disposable income, shored up businesses' cash flow and guaranteed the availability of loans. However, the economic and social uncertainties present a challenging environment for the supervised entities.

Chart 7: *Unemployment rate 2020, national definition (source: Umbrella Organisation of Austrian Social Security Institutions, Public Employment Service Austria)*

[10] *European Commission's European Economic Forecast, Autumn 2020.*

THE INTERNATIONAL FINANCIAL AND CAPITAL MARKETS

For the international financial and capital markets, 2020 was a year of extremes. The historic price falls in response to the pandemic – prompting monetary, regulatory and fiscal support programmes on an unprecedented scale – were to be followed only a few months later by new all-time highs on the stock markets. Given the strong upswing on the financial markets and a still uncertain macroeconomic outlook, more attention was paid to discussion of a potential decoupling of the real and the financial economy and thus the sustainability of the recovery. As a consequence of coronavirus, valuation, liquidity, credit and solvency risks have all increased, heightening profitability concerns in the financial sector. Although the issue of sustainability was made slightly less of a priority during the crisis, it remained very much present in the past year. Uncertainties about the medium and long-term economic consequences of the pandemic remain and are likely to have a further impact on the fate of the financial and capital markets.

MONETARY POLICY AND CURRENCIES

In order to counter the negative impact of Covid-19 and support the eurozone economy, the ECB's Governing Council introduced a raft of monetary policy measures last year, the most important of which are described briefly here.[1]

In response to the market turmoil and to support the monetary policy transmission mechanism, the ECB announced a € 750 billion pandemic emergency purchase programme (PEPP) on 18 March 2020. The initial envelope for the PEPP was first expanded by € 600 billion in June and most recently by € 500 billion in December, resulting in a total of € 1.85 trillion. It was also decided at the end of the year to extend net purchases under the PEPP until at least the end of March 2022, or until the pandemic is essentially over. The maturing principal payments from securities purchased will be reinvested until at least the end of 2023. At the meeting on 18 March, the scope of the corporate sector purchase programme (CSPP) was also extended to non-financial commercial paper with sufficiently good credit ratings, and the collateral framework was adjusted.

In April the conditions for targeted longer-term refinancing operations (TLTRO III) were relaxed and a new series of pandemic emergency longer-term refinancing operations (PELTROs) was launched. For the period from June 2020 to June 2021, the

[1] *A complete list of monetary policy decisions is available on the ECB website.*

interest rate on TLTRO III operations was reduced to the average interest rate on the Eurosystem's main refinancing operations over that period minus 50 basis points. In addition, the interest rate on amounts borrowed by participants whose eligible net lending reaches the lending growth threshold has been reduced to 50 basis points below the average interest rate on the deposit facility for the same period. The new series of PELTROs was used to support liquidity and ensure the smooth functioning of money markets.

The interest rates on the main refinancing operations and on the marginal lending facility and deposit facility were kept unchanged at 0.00%, 0.25% and -0.50% respectively. Net purchases under the asset purchase programme (APP) continued at a monthly pace of € 20 billion until the end of the year.

The many positive effects of these monetary policy measures notwithstanding, challenges remain. With interest rates remaining low, there continues to be a negative impact on bank profitability, and this is still one of the main risks facing the life insurance and pension company sector. Given the interest rate environment, investors are taking higher and higher risks in the hunt for yields and, together with the high liquidity in the market, this is driving up valuations, and increasing risks and volatility in the securities markets, to name just a few examples.

The strong euro helped to subdue inflation in the past year. Although the euro lost ground against the yen and the US dollar in the first half of the year, the trend turned around in the second half of the year as the European currency performed strongly against these currencies. The strength of the Swiss franc against the euro, on the other hand, remained almost constant over the year *(> Chart 8).* In terms of the CESEE countries, which are important to the Austrian financial sector, the euro appreciated significantly against the Hungarian forint and Polish zloty, while its increase in value against the Romanian leu and the Czech koruna was more moderate *(> Chart 9).*

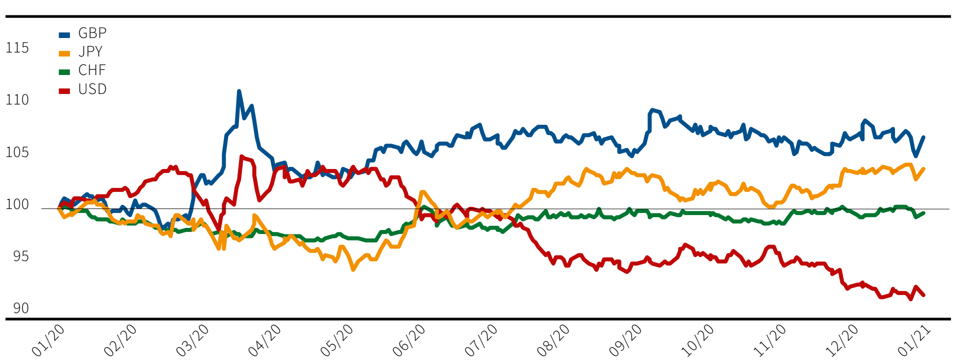

Chart 8: *Development of EUR–USD/JPY/CHF/GBP exchange rates 2020*

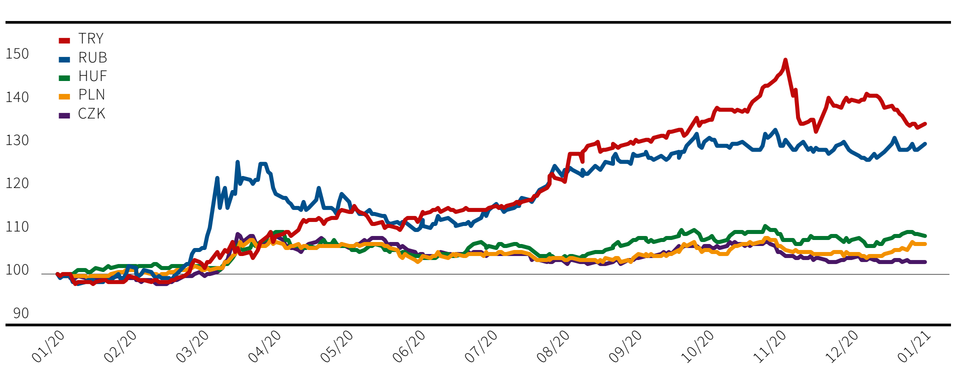

Chart 9: *Development of EUR–CESEE exchange rates 2020*

CREDIT MARKETS

In addition to the ECB's monetary policy measures, lending to companies and households was also supported by an easing of the regulations. To this end, supervisory practices were adapted to the challenging circumstances at both European and national level. A flexible approach applied to supervision during the past year, particularly with regard to the assessment of debt-servicing capacity, the disclosure of economic circumstances during the loan award process and when dealing with borrowers who had defaulted on their repayments.[2] State guarantees also made it easier for banks to lend to corporate clients.

In the non-financial private sector, company borrowing in Austria grew less strongly than the European average in 2020. Adjusted credit growth[3] to non-financial companies in Austria was +5.0% year-on-year in December, compared with a figure of +7.1% for the euro area as a whole, which was, however, mainly due to banks being assigned the task of processing the state guarantee schemes in two Member States.

Lending to households showed a slightly different picture. In this segment, domestic lending over the reporting period was up 3.5%, while the comparable key figure for the euro area was somewhat lower, at +3.1%. The breakdown of lending to households by type shows a consistently high level of growth in relation to housing loans in Austria. Loans to consumers for housing purposes grew by 5.5% in December, compared with a decrease of 5.5% for consumer credit. In the euro area, the equivalent figures for December were +4.7% for housing loans and –1.7% for consumer credit.

EQUITY MARKETS

The European and global stock markets experienced external shocks on an unforeseeable scale in the wake of the pandemic. In the early days of the crisis, from mid-February to the end of March, some of the crashes on the financial markets were the worst ever seen. The major stock indices shed over 40% in the space of a few days, while volatility climbed to its highest level since the financial crisis of 2008/09. Trading volumes rose sharply. In the EU, daily trading in equities and equity-related products peaked at around € 70 billion on 12 March, more than double the long-term average of € 32 billion.[4] And the rapid descent was not limited to the equity markets. The sell-off was partly due to investors' flight to liquidity (a "dash for cash").

After the price falls across all sectors in the early days of the crisis, financial stocks were subsequently outperformed by shares in other sectors. The STOXX Banks index was down 24.48% for 2020 by the year-end, with the STOXX Insurance sector index at –13.51%.

Generally speaking, "old economy" stocks were hit harder by the crisis. In contrast, technology shares, healthcare shares and stocks of companies in the renewable energy sector recorded an above-average performance. The technology-heavy NASDAQ 100, for example, put on 47.58%. In the midst of the turbulence there was also increased trading activity by retail investors who took advantage of favourable prices to enter the market.

European stock indices lost some ground because of the pandemic. The Vienna Stock Exchange's blue-chip index ATX was down 12.76% compared with the end of the pre-

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2 *FMA.*
3 *Credit growth (portfolio) adjusted for depreciation, exchange rate fluctuations, loan transfers/reclassifications.*
4 *Joint Committee Report on Risks and Vulnerabilities in the EU Financial System.*

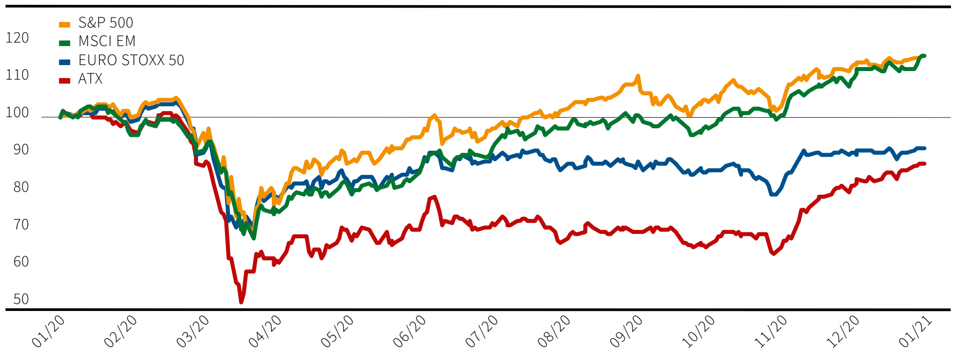


Chart 10: *International equity markets 2020*

vious year, closing at 2 780.44 points. In Germany, the DAX climbed by 3.55% in 2020. The EURO STOXX 50, the leading index for the stock exchanges of the euro area, was down 8.66% compared with the last trading day of the previous year. The FTSE 100 in the UK also suffered a significant loss (–14.34%) due to coronavirus and Brexit.

In the USA, the S&P 500, which comprises the shares of 500 of the largest listed US companies, had risen by 16.26% at the year-end. The Dow Jones Industrial Average also recorded a decent year-to-date gain of 7.25% for 2020. The MSCI Emerging Markets Index, which reflects a weighted indicator of the markets of a group of emerging markets, ended 2020 with year-on-year growth of 15.84% *(> Chart 10)*.

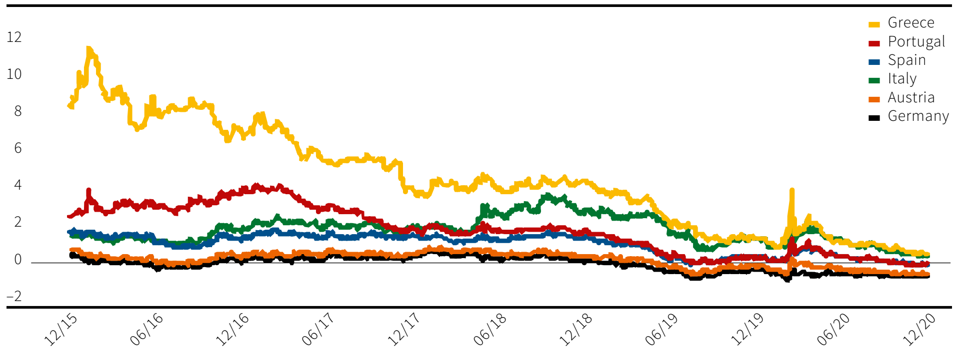
BOND MARKETS

On the bond markets, bid-ask spreads increased at the beginning of the crisis, in some cases significantly, and in part due to forced selling by investors during a phase of low market liquidity. The sales were partly driven by increased margin commitments on repo and derivative positions.[5] Due to the high volatility, many financial institutions were unwilling or unable to provide liquidity support, which in turn led to sharp price declines and more volatility. Against this backdrop, the number of rating downgrades in the corporate sector also increased.[6] However, the extensive monetary policy interventions by central banks as they reacted to the turbulence led to a gradual normalisation and better liquidity conditions. Yet bid-ask spreads, especially in the case of high-yield bonds, remained above pre-crisis levels for a relatively long period.

On the European government bond market, merely the announcement of the ECB interventions sparked a noticeable decline in risk parameters. Spreads for government bonds duly fell significantly from April onwards, but were still slightly higher than their pre-crisis levels *(> Chart 11)*. In the euro area, the mixed nature of the spread decline partly reflected the different levels of government debt, which increased significantly due to the fiscal measures introduced at nation state level. Safe investments were able to benefit from the turbulent market environment. The yield on ten-year German government bonds bottomed out at –0.854% in March, but moved closer to positive territory again by the year-end, closing at –0.575%. The yield on the ten-year Austrian benchmark bond fell to a low of –0.474% in mid-December, closing at –0.427%. In the USA, in contrast to the euro area, interest rate (and inflation) expectations rose again towards the end of 2020.

[5] *Bank for International Settlements.*
[6] *Joint Committee Report on Risks and Vulnerabilities in the EU Financial System.*

***Chart 11:** 10-year government bonds 2016–2020*



In the corporate bond market, the uncertain environment led to higher risk valuations. Lockdowns resulted in falling sales and liquidity shortages in the corporate sector. Higher spreads to pre-crisis levels also reflected the underlying structural vulnerabilities from generally higher levels of corporate borrowing. Companies in the automotive and energy sectors were hit much harder by the crisis than their counterparts in the technology and healthcare sectors.[7]

[7] *ESMA Report on Trends, Risks and Vulnerabilities No. 2, 2020.*

THE AUSTRIAN FINANCIAL MARKET

Companies supervised by the FMA: **936**

Assets under management by Austrian financial institutions: **€ 1 290.67 billion**

Market capitalisation of Vienna Stock Exchange: **€ 106.61 billion**

Claims paid out by Austrian insurers to policyholders: **€ 15.76 billion**

Lump sums beneficiaries received from Austrian corporate provision funds: **€ 719.03 million**

People drawing a supplementary pension from an Austrian *Pensionskasse*: **119 024**

THE AUSTRIAN CAPITAL MARKET

THE PRIMARY MARKET – ISSUING ACTIVITY ON THE AUSTRIAN CAPITAL MARKET

The economic turbulence triggered by the Covid-19 pandemic significantly changed issuing activity on the Austrian capital market during the reporting year. The total volume of all issues of interest-bearing securities in Austria – across all issuer categories – decreased significantly, actually almost halving, from € 101.7 billion in 2019 to € 53.8 billion in 2020, a fall of 47.1% *(> Table 1).*

Although the central government also placed markedly fewer securities on the market, with a volume of € 29.7 billion compared with € 35.6 billion (2019), the Republic of Austria was still the most important issuer in 2020, albeit with a decline of 16.4%.

Previously the most important group among Austrian issuers, the monetary financial institutions (essentially banks), suffered a massive slump after the positive trend of the past years: their issuing volume dropped from € 53.9 billion to € 18.6 billion, a fall of 66% and only enough for second place.

The biggest change in issuing activity was seen in the group of financial companies that are not monetary financial institutions (e.g. investment funds, insurance undertakings and *Pensionskassen*). Their issuing volume was slashed by 92%, from about € 5.5 billion to around € 0.5 billion in the reporting year. Meanwhile, the decline of around 35% in issuing activity by non-financial companies, from € 6.6 billion to € 4.3 billion, was less marked.

Excluding public sector issuing activity, the gross issuing volume fell significantly, plummeting from around the € 66.1 billion mark to € 23.3 billion. In other words, corporate issues were down by nearly two thirds.

	2016	2017	2018	2019	2020
MFIs (including the OeNB)[1]	48 269	41 988	48 244	53 944	18 565
Financial companies excluding MFIs[2]	906	2 489	2 157	5 531	453
Non-financial companies[3]	4 461	6 225	4.804	6 613	4 287
Central government	42 288	40 977	27 333	35 553	29 712
Other government	451	621	308	58	760
Total	**96 377**	**92 302**	**82 845**	**101 697**	**53 777**

[1] Monetary financial institutions (MFIs) are financial institutions whose business is to receive deposits which are considered part of money supply according to ECB statistics definitions and to grant loans and/or make investments in securities.
[2] Investment funds, other non-monetary financial institutions, insurance undertakings and *Pensionskassen.*
[3] Corporations and partnerships that primarily produce goods or render non-financial services.

***Table 1:** Issuing activity in Austria 2016–2020 by (issuer) category (in € millions; source: OeNB)*

***Table 2:** Issuing activity in Austria 2015–2019 by (issuing) currency (in € millions; source: OeNB)*

	2016	2017	2018	2019	2020
In foreign currency	29 275	30 105	28 043	30 593	16 657
In euro	67 102	62 198	54 804	71 102	37 120
Total	**96 377**	**92 302**	**82 845**	**101 697**	**53 777**

Less than one third of new issues in 2020 were denominated in foreign currency. The downwards trend in evidence for some years now therefore continued *(> Table 2).*

THE VIENNA STOCK EXCHANGE

After a solid start to the new year, the social and economic turbulence sparked by the pandemic resulted in an exceptionally eventful 2020 for the Vienna Stock Exchange from mid-February onwards. Austria's major stock index, the Austrian Traded Index (ATX), shed half of its value in the space of a few weeks, tumbling to its lowest point of the year on 18 March. Three of the five days with the worst losses in the entire history of the ATX were recorded in the first weeks of March *(> Chart 12).* On 12 March, an unprecedented loss of –13.65% was recorded on just one single trading day. As volatility increased, the trading volume grew and the number of volatility interruptions accumulated. Market excesses, some of which were irrational, coupled with record-breaking losses and speculative short-selling sprees, prompted the FMA to

BAN ON SHORT SELLING ON VIENNA STOCK EXCHANGE

As the pandemic took hold, a significant increase in speculative short-selling activity was observed in Europe, not least on the Vienna Stock Exchange. There was increased activity and a rise in net short positions in shares listed on the official market of the Vienna Stock Exchange; the number of enquiries to the FMA on regulatory issues regarding short selling increased sharply, as did registrations for access to the FMA's online tool for reporting net short positions.

The blue-chip ATX index experienced extremely high levels of trading between the closing prices of 14 February and 18 March 2020 due to the general mood of uncertainty, with a 49.23% loss in value. A price collapse on this scale creates incentives for investors to further exploit the general negative market sentiment, setting in motion a downward spiral of share prices through excessive short selling, which then picks up ever more speed.

Following intensive discussions with the EU partner authorities and the European Securities and Markets Authority (ESMA), the FMA – in step with five other Member States (Belgium, France, Greece, Italy and Spain) – therefore responded on 18 March 2020 with a temporary ban on short selling in certain financial instruments listed on the Vienna Stock Exchange. The aim was to shore up investor and consumer confidence. This national emergency measure was limited to 15 April 2020, after which it was extended in a modified form. As the markets calmed down again, the short selling ban was brought to an end on 18 May 2020 in coordination with the other Member States that had issued similar measures of their own.

After the entry into force of the FMA's Regulation prohibiting short selling of 18 March 2020, the performance of the ATX quickly aligned with that of other comparable indices. Aggregate net short positions fell quickly and dramatically, moving closer to the average levels in other EU Member States.

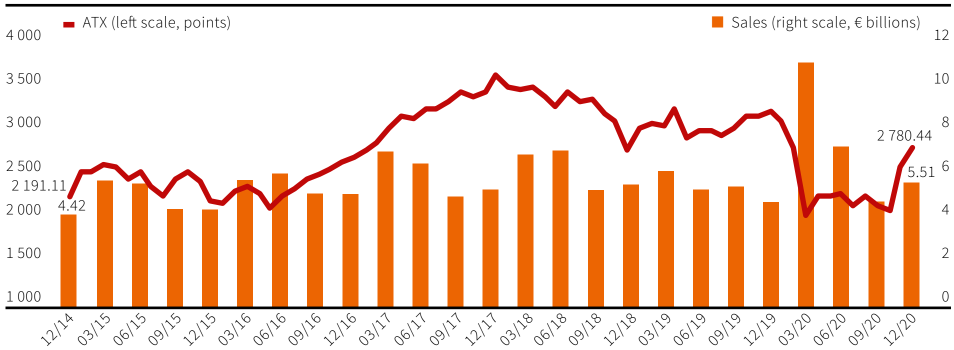


***Chart 12:** Development of the Vienna Stock Exchange's equity market.at segment 2015–2020 (quarter-end results; source: Wiener Börse AG)*

intervene and impose a temporary ban on short selling in certain financial instruments on the Vienna Stock Exchange.

After the initial massive shocks, far-reaching monetary policy and regulatory measures helped reverse the trend. However, the Austrian benchmark index recovered more slowly than its European peers, partly due to the relatively high weighting of financial and commodity stocks in the ATX. At the end of the year, the Vienna ATX was at –12.76%, well down on the previous year-end, but had recovered a large part of the losses triggered by the shock of the pandemic. In total, four ATX shares recorded a price gain in 2020, one share matched its previous year's closing value and 15 stocks posted losses. The biggest gains were achieved by Verbund AG (+56.12%), Mayr-Melnhof AG (+37.96%) and AT&S AG (+30.11%). At the lower end of the share price table, Schoeller-Bleckmann Oilfield Equipment AG (–38.17%) and OMV AG (–34.11%), which were hit much harder by the economic collapse, posted the greatest losses. In terms of financial stocks, the banking shares of Erste Group Bank AG (–25.69%), Raiffeisen Bank International AG (–25.50%) and Bawag Group AG (–6.40%) as well as the insurance stocks of Uniqa Insurance Group AG (–29.63%) and Vienna Insurance Group AG (–18.11%) all lost ground.

In the broader prime market, Semperit AG jumped to the top of the rankings with +118.13%, while Kapsch Trafficcom brought up the rear at –54.36%. Overall, the ATX Prime performed slightly better than the benchmark index, at –12.11%.

The market capitalisation of the Austrian equity market was approximately € 106.6 billion at the end of 2020, down around € 10.4 billion compared with the previous year. It therefore equated to about 26.81% of gross domestic product (GDP).[1] Trading turnover[2] in the equity market (across all market segments) reached € 68.8 billion in the past year and was thus € 6.8 billion or 11% higher than in the previous year. Due to the synchronisation of the trading calendar, trading on four Austrian public holidays alone contributed an additional turnover of over € 800 million in share trades. With the introduction of "trade at close" functionality, an innovative feature was also added to the trading system.

THE AUSTRIAN DERIVATIVE MARKET

The volume of outstanding derivatives (excluding contracts for difference) with Aus-

[1] *Year-end GDP figure for 2019.*

[2] *Based on standard double counting, with one and the same trade being counted once as a sell and once as a buy trade.*

	2016	2017	2018	2019	2020
Capitalisation of domestic shares as at last trading day (in € billions)	93.34	123.80	100.33	117.08	106.61
Market capitalisation equity segment (as % of GDP)	27.11	34.62	27.17	30.38	26.81
Annual trading volume equity market (in € billions)	55.93	66.71	70.41	61.96	68.78
Annual trading volume bond market (in € millions)	348.29	276.96	635.28	659.10	664.81
Annual trading volume structured products (in € millions)	426.94	553.94	743.60	733.14	862.64
ATX performance (in %)	9.24	30.62	-19.72	16.07	–12.76

***Table 3:** Vienna Stock Exchange business 2016–2020 (source: Wiener Börse AG)*

	2016	2017	2018	2019	2020
Number of issuers:					
– Regulated market	134	118	112	115	112
– Third market as an MTF*	337	776	977	1 138	1 228
Number of listed securities:					
– Regulated market	8 873	9 922	9 119	9 140	9 440
– Third market as an MTF*	1 350	2 348	2 823	3 084	5 145

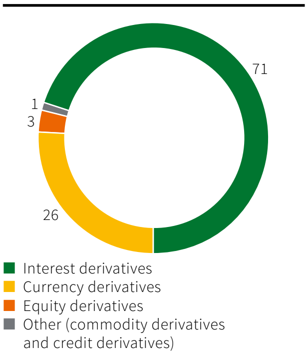
***Table 4:** Structural data 2016–2020 (source: Wiener Börse AG)*

* From 2019 Vienna MTF

trian involvement, measured in terms of gross nominal value, amounted to around € 1266 billion at the end of 2020.[3] This figure includes derivatives traded both on-exchange and off-exchange.[4] Within the EU, over-the-counter (OTC) derivatives trading predominates.[5] Similarly, in Austria, 21% of the outstanding derivatives were traded on an exchange, compared with 79% on an OTC basis.

Measured in terms of nominal value, interest derivatives dominated, accounting for 71% of the total market value, followed by currency derivatives at 26%. Equity derivatives accounted for just under 3% of the total nominal amount.[6] The other classes, in the form of credit and commodity derivatives, each accounted for less than 1% *(> Chart 13)*.

***Chart 13:** Outstanding derivatives by asset class based on nominal value (in %, rounded; source: EMIR reports to trade repositories)*



The residual maturities reported varied according to asset class and contract type. For the standard contract type of credit derivatives (credit default swaps), they averaged three years and for interest rate swaps around six years. In relation to currency derivatives, the residual maturity for the major contract type (forwards) averaged six months. Equity and commodity derivatives showed a greater mix in terms of contract types. While options dominated equity derivatives, it was swaps, futures and forwards that predominated among commodity derivatives.

With regard to the underlyings of credit and equity derivatives, the relatively small market of credit derivatives was focused predominantly on European credit default indices as well as German corporate bonds. Equity derivatives were most frequently based on indices such as the EURO STOXX 50, the S&P 500, the DAX and the ATX. Derivatives with an Austrian underlying mainly related to ATX heavyweights.

[3] *Information based on available trade state data collected under the European Market Infrastructure Regulation (EMIR). EMIR raw data is subject to continuous quality improvement, and the methods used to clean the data are also subject to continuous development. Caution should therefore be exercised when making comparisons with the data in previous FMA Annual Reports.*

[4] *Off-exchange in this context is to be understood as any traded contract outside of a trading venue within the meaning of Article 4(1)(24) MiFID II, contrary to the definition according to Article 2(7) EMIR.*

[5] *ESMA (2020). ESMA Annual Statistical Report on EU Derivatives Markets 2020.*

[6] *The proportion of equity derivatives would be higher if contracts for difference were included in the data set. However, due to doubts about the plausibility of the available data, they have not been included for 2020.*

MARKET INFRASTRUCTURES IN AUSTRIA

Since mid-2018, the Austrian financial market has relied on three licensed market infrastructures to execute exchange trading in Vienna: from trading at Wiener Börse AG (WBAG) to clearing at Central Counterparty Austria (CCP.A) and settlement at Oesterreichische Kontrollbank CSD GmbH (OeKB CSD GmbH). All three of these entities are supervised by the FMA and must adhere to mainly European rules, as well as some national regulations.

Serious changes under company law were made within the market infrastructure during the period under review. These included an upstream merger of WBAG with its sole shareholder, the CEE Stock Exchange Group (CEESEG AG), in the form of a "simplified merger" in accordance with Article 231 of the Austrian Stock Corporation Act (AktG; *Aktiengesetz*).

On the basis of the reorganisation and the granting of the necessary official permits, the (former) CEESEG AG now operates under the new company name Wiener Börse AG as the holder of the licence to operate official trading and the associated legal licences to operate the Vienna MTF (the former third market) and an Approved Publication Arrangement. The relevant conditions were and continue to be met.

Consequently, the (former) CEESEG AG now, in the capacity of Wiener Börse AG, also holds the stakes in the Prague Stock Exchange as well as in CCP.A, which is authorised pursuant to Regulation (EU) No 648/2012 (EMIR). The corresponding resolutions of the Commercial Register Court were issued in April 2020.

CCP.A has been supervised by the FMA since 2014 and clears all financial instruments traded on the Vienna Stock Exchange, comprising 98% shares, 1% bonds and 1% certificates and funds. CCP.A clears exclusively in euros with no OTC transactions. As of December 2020, CCP.A had eight general clearing members and 40 direct clearing members. CCP.A plans to expand its business portfolio in 2021 and will therefore be submitting an application to the FMA to be allowed to clear spot electricity products.

THE COMPANIES ON THE AUSTRIAN FINANCIAL MARKET

STRUCTURAL DEVELOPMENTS

BANKS AND PAYMENT SERVICE PROVIDERS

As at the 2020 year-end, 519 credit institutions were licensed in Austria. Additionally, there were 24 branches of banks that pursue activities in Austria under the EU's freedom of establishment *(> Table 5)*. Compared with the end of 2019, the total number of banks has fallen by 29, marking the continuation of a trend in evidence for the past few years. The process of consolidation continued particularly in the decentralised sectors (Raiffeisen and Volksbank cooperatives, savings banks), with a drop in the number of individual institutions from 438 to 412.

Austrian credit institutions' total assets, or business volume, amounted to € 934 billion at the end of 2020, thus increasing by 11.2% compared with the previous year *(> Table 6)*. All sectors recorded positive growth rates, with the exception of building societies, which declined by 2.2%. The savings banks grew by 14.0%, followed by joint stock banks, up 12.9%, and mortgage banks, up 11.3%. At 34.5%, Raiffeisen cooperatives continued to hold the largest market share in terms of business volume

Table 5: *Number of credit institutions 2016–2020*

	2016	2017	2018	2019	2020
Joint stock and special-purpose banks	75	72	70	69	65
Savings banks	49	49	49	49	49
Raiffeisen cooperatives	448	419	399	380	354
Volksbank cooperatives	20	14	9[1]	9	9
Mortgage banks	10	9	8	8	8
Building societies	4	4	4	4	4
Investment fund management companies	26	23	21	19	19
Corporate provision funds	8	8	8	8	8
Exchange offices/remittance services	4	4	4	4	3
EU branches	27	26	25	22	24
Total	**671**	**628**	**597**	**572**	**543**
Number of payment institutions	4	5	5	6	6
Licensing processes pending as at 31 December	0	0	1	0	0
Passive notifications	247	183	246	125[2]	57

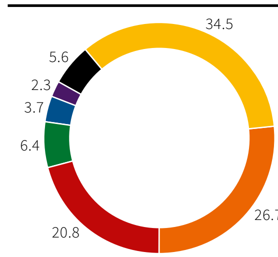
[1] Four institutions that ceased to be members of the affiliation of Volksbank cooperatives were assigned to the joint stock bank sector.
[2] Only relates to passive notifications of credit institutions.

	2016	2017	2018	2019	2020
Total assets non-consolidated (sum total)[1]	798 208	777 213	814 606	839 852	934 312
– Joint stock banks	*228 035*	*220 419*	*222 074*	*221 094*	*249 636*
– Savings banks	*147 553*	*152 517*	*165 970*	*170 094*	*193 921*
– Mortgage banks	*56 146*	*52 011*	*53 217*	*53 721*	*59 800*
– Raiffeisen cooperatives	*257 841*	*255 115*	*275 539*	*292 235*	*322 679*
– Volksbank cooperatives	*31 985*	*31 042*	*31 591*	*33 016*	*34 577*
– Building societies	*22 679*	*22 499*	*22 363*	*21 980*	*21 498*
– Special purpose banks[2]	*53 968*	*43 610*	*43 852*	*47 713*	*52 201*

[1] Excluding branches from EEA countries in Austria (Article 9 BWG), credit guarantee banks and corporate provision funds.
[2] Excluding corporate provision funds and credit guarantee banks as specified in Article 5 no. 3 KStG.

***Table 6:** Total assets of banks 2016–2020 (source: OeNB, financial statement figures 2016–2019, asset, trading and risk statements 2020)*

***Chart 14:** Market shares in 2020 excluding EEA branches in Austria (Article 9 BWG) and corporate provision funds (in %)*



(> Chart 14), while joint stock banks occupied second place (26.7%) and savings banks third (20.8%).

INSURANCE UNDERTAKINGS

As at the 2020 year-end, 79 Austrian insurance undertakings and mutual associations held a licence granted by the FMA (2019: 82), and were thus subject to continued supervision by the Authority. The number has dropped by 14 over the past five years.

These licensed companies comprised 35 major insurance undertakings, six of which operate as mutual associations and 28 as joint stock companies *(> Table 8)*. There is also one foreign insurance undertaking licensed in Austria. Additionally, 45 small mutual associations, which are among Austria's oldest insurers and specialise in fire insurance (around two thirds) and livestock insurance, also fell under the FMA's remit.

Austria is traditionally dominated by composite insurers which, besides life insurance, also pursue activities in at least one other balance sheet group, i.e. health

AUSTRIAN BANKS IN CESEE

The 50 fully consolidated subsidiary banks in Central, Eastern and South-Eastern Europe (CESEE) reported aggregate total assets of € 234.5 billion in 2020. Over half of this figure (61.3%) was accounted for by the Member States that acceded to the EU in 2004 (NMS-2004), followed by the South-Eastern European (SEE) countries at 15.9%, the Member States that joined the EU in 2007 (NMS-2007) at 13.8%, and the countries in the Commonwealth of Independent States (CIS) including Ukraine at 8.9%. Growth among Austrian CESEE subsidiary banks in the 2020 financial year was once again positive, at 5.2%.

***Table 7:** Total assets of CESEE subsidiary banks (in € millions)*

	2016	2017	2018	2019	2020
Total assets of CESEE subsidiary banks	184 966	205 532	206 582	222 947	234 467
– NMS 2004[1]	*114 565*	*132 757*	*128 476*	*135 614*	*143 726*
– NMS 2007[2]	*25 684*	*26 747*	*27 992*	*29 223*	*32 423*
– SEE[3]	*29 199*	*30 303*	*31 766*	*34 487*	*37 348*
– CIS incl. Ukraine[4]	*15 519*	*15 724*	*18.348*	*23 624*	*20 969*

Data: OeNB (financial statement figures 2016–2019, asset 2020, trading and risk statements).
[1] NMS-2004: Czech Republic, Hungary, Poland, Slovakia, Slovenia.
[2] NMS-2007: Bulgaria, Romania.
[3] SEE: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia, Serbia.
[4] CIS: Belarus, Republic of Moldova, Russia.

	2016	2017	2018	2019	2020
Legal forms:					
Mutual associations (excluding small mutuals)	7	7	6	6	6
Joint stock companies	31	30	29	29	28
Small mutual associations	50	49	49	47	45
Total	**88**	**86**	**84**	**82**	**79**
Mutual associations dealing in asset management/private foundations	6	6	6	6	6
Business areas:					
Life insurance	23	23	22	22	22
Non-life and accident insurance	33	32	30	30	29
Health insurance	9	9	9	9	10
Reinsurance only	3	2	1	1	1
Business areas small mutual associations:					
Fire insurance associations	34	33	32	30	29
Animal insurance associations	16	16	16	16	15
Death benefit funds	0	0	0	0	0
Reinsurance associations for small mutuals	0	0	1	1	1
Total assets at market values					
(excluding investments for unit-linked and index-linked life insurance, in € billions)	110.68	108.98	106.91	110.60	114.40
EEA insurers in Austria					
Operating through branches	29	29	30	29	28

Tabelle 8: *Key insurance figures 2016–2020*

insurance or non-life and accident insurance. All in all, the 35 larger licensed domestic and foreign insurance undertakings, excluding small mutual associations, were engaged in 62 areas of business in Austria.

Additionally, 28 insurance undertakings from within the European Economic Area (EEA) were operating in Austria under the freedom of establishment or through a branch, and more than 1 000 companies were registered to provide services here.

At the end of 2020 Austrian insurance undertakings were managing assets totalling € 114.4 billion, not considering investments for unit-linked and index-linked life insurance. Investments rose by € 3.80 billion, or 3.44%, compared with 2019.

PENSIONSKASSEN

The number of *Pensionskassen* has decreased over the past five years from 13 to eight companies *(> Table 9)*, three of which are single-employer and five multi-employer *Pensionskassen*. Single-employer *Pensionskassen* are entitled to carry out pension company activities for the beneficiaries of only one employer or company group; most were founded as subsidiaries of international groups. Multi-employer *Pensionskassen* may carry out pension company activities for the beneficiaries of more than one employer.

The decline in their number can be attributed to single-employer *Pensionskassen* discontinuing activities and subsequently transferring their investment and risk sharing groups (IRGs) to existing multi-employer *Pensionskassen*.

In 2020 there were 100 IRGs, four security-oriented IRGs and 34 sub-IGs.

There were also about 995 000 beneficiaries, representing a year-on-year increase of approximately 1.54%. This figure covers both those for whom contributions are being made into the pension company system for future benefits and those who are

	2016	2017	2018	2019	2020
Number of *Pensionskassen*	12	10	9	8	8
Number of investment and risk sharing groups	112	104	101	101	100
Number of security-oriented IRGs	4	4	4	4	4
Number of sub-IGs	32	34	34	34	34
Assets managed by *Pensionskassen* (total, in € millions)	20 839	22 323	21 404	24 295	24 976
– Single-employer	*2 020*	*1 880*	*1 920*	*2 052*	*2 167*
– Multi-employer	*18 819*	*20 442*	*19 484*	*22 243*	*22 808*
Number of beneficiaries (total)	902 972	924 107	947 545	979 637	994 752
– Single-employer	*258 914*	*255 632*	*261 562*	*263 842*	*263 259*
– Multi-employer	*644 058*	*668 475*	*685 983*	*715 795*	*731 493*
– Beneficiaries (entitled)	*809 279*	*825 778*	*843 569*	*868 230*	*875 728*
– Beneficiaries (recipients)	*93 693*	*98 329*	*103 976*	*111 407*	*119 024*
Beneficiaries (recipients) (as % of total)	10.38	10.64	10.97	11.37	11.97
Beneficiaries (entitled) ((as % of dependently employed persons in Austria)	21.92	21.97	22.12	22.20	22.70

Table 9: *Overview of pension company market 2016–2020*

already receiving benefits under the system. Around 23% of all employed persons in Austria have an entitlement to a pension from a *Pensionskasse*, and approximately 12% of these beneficiaries are already drawing a pension. The vast majority of the beneficiaries are, however, still in the savings period for a pension benefit.

CORPORATE PROVISION FUNDS

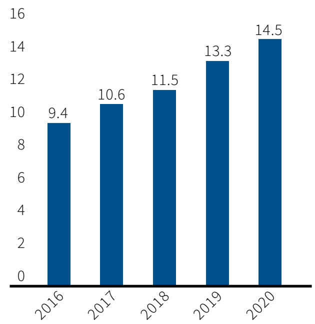
As at 31 December 2020, eight corporate provision funds held licences in Austria. They are engaged in the business of corporate provision for employees and the self-employed. For employee provision, each employer must pay a regular contribution of 1.53% of the monthly salary and any special payments to the employee's health insurance institution, which then forwards the contribution to the corporate provision fund (in accordance with the new severance pay scheme introduced as at 1 July 2002) in order to fund that employee's individual severance pay entitlement. Some self-employed people are required to conclude their own contract with a corporate provision fund, while participation in the scheme is voluntary for certain self-employed professions and occupations (e.g. lawyers, notaries public, chartered engineering consultants, farmers and foresters).

During the reporting period no corporate provision fund applied for a licence or relinquished its licence. Two funds each manage two collective investment undertakings. The remaining funds each manage one collective investment undertaking, accounting for a total of ten such undertakings *(> Table 10).*

Table 10: *Development of corporate provision funds 2016–2020 (source: Platform of corporate provision funds)*

	2016	2017	2018	2019	2020
Number of corporate provision funds	8	8	8	8	8
Number of collective investment undertakings	10	10	10	10	10
Number of membership contracts	1 292 940	1 351 933	1 386 884	1 451 362	1 514 670
– Provision for employees pursuant to Part 1 BMSVG	*637 715*	*666 234*	*662 349*	*689 411*	*715 092*
– Provision for the self-employed pursuant to Part 4 BMSVG	*642 216*	*672 620*	*711 278*	*748 544*	*786 609*
– Provision for the self-employed pursuant to Part 5 BMSVG	*13 009*	*13 079*	*13 257*	*13 407*	*12 969*

***Chart 15:** Assets under management by corporate provision funds 2016–2020 (in € billions)*



As at the reporting date, the number of membership contracts – measured on the basis of employer account numbers – had increased by 4.36% from 1 451 362 to 1 514 670. Provision for employees grew by 3.73% (from 689 411 to 715 092 contracts), and provision for the self-employed rose by 4.94% (from 761 951 to 799 578 contracts). Assets under management by corporate provision funds in 2020 grew from € 13.3 billion to € 14.5 billion *(> Chart 15)*. This equates to a year-on-year increase of € 1.18 billion, or 8.90%.

ASSET MANAGERS

As at the reporting date of 31 December 2020, a total of 14 investment fund management companies held a licence pursuant to the Investment Fund Act 2011 (InvFG 2011; *Investmentfondsgesetz*). Of these 14 investment fund management companies (KAG), 13 also held an additional licence as an alternative investment fund manager (AIFM). During the period under review, one licence extension process was conducted to include investment services.

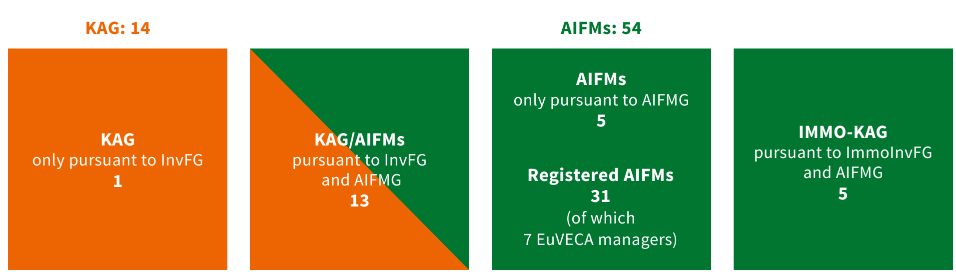
As at the end of the year, 54 AIFMs (2019 year-end: 51) had been authorised by the FMA in total, 23 of which were licensed as AIFMs, with the remaining companies only being registered[1]. Compared with the previous year, the number of licensed AIFMs has remained unchanged. The number of registered AIFMs rose during the period under review from 28 to 31 AIFMs due to four new AIFMs being registered and one company cancelling its registration. One registered AIFM was additionally licensed to manage European Venture Capital Funds (EuVECA), increasing the number of EuVECA managers from nine to ten *(> Figure 2)*.

As at the reporting date of 31 December 2020, there were 2 018 funds being managed by domestic investment fund management companies and/or AIFMs in Austria (2019:

***Table 11:** Number of Austrian asset managers 2016–2020*

	2016	2017	2018	2019	2020
KAG pursuant to InvFG 2011	21	18	16	14	14
Licensed AIFMs	26	25	23	23	23
– Immo-KAG pursuant to ImmoInvFG	*5*	*5*	*5*	*5*	*5*
Registered AIFMs	20	24	27	28	31
– EuVECA managers	*4*	*6*	*7*	*9*	*10*

***Figure 2:** Authorisations of Austrian asset managers in 2020 by law*



[1] *In order to be allowed to manage AIFs, the alternative investment fund manager must be licensed as an AIFM in accordance with the Alternative Investment Fund Managers Act (AIFMG;* Alternatives Investmentfonds Manager Gesetz*), which transposes Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD) into Austrian law. If the AIFM does not exceed certain threshold values with regard to the assets they manage, they may simply register their services instead of obtaining a licence. In this context it should be noted that registered AIFMs are not permitted to market any AIFs to retail investors, or to engage in cross-border marketing or cross-border management.*

	2016	2017	2018	2019	2020
Domestic UCITS of investment fund management companies					
Article 2 paras. 1 and 2 InvFG	1 038	995	977	907	905
Article 75 InvFG	2	2	2	1	–
Total	**1 040**	**997**	**979**	**908**	**905**
Domestic AIFs of (real-estate) investment fund management companies as well as of licensed and registered AIFMs					
Art. 166 InvFG	154	152	143	131	116
Article 168 et seq. InvFG	12	9	7	6	4
Real estate funds and special real estate funds	11	13	13	13	13
Special funds pursuant to the InvFG	844	875	894	913	932
AIFs of registered AIFMs	24	32	34	37	35
EuVECA	3	6	8	11	13
Other managed AIFs	6	–	–	–	–
Total	**1 054**	**1 087**	**1 099**	**1 111**	**1 113**

Table 12: *Key figures of the Austrian investment fund market 2016–2020*

2 019). This figure includes 48 AIFs (13 of which are EuVECA funds) that are managed by registered AIFMs in Austria. Five Austrian real estate investment fund management companies (Immo-KAG) were managing a total of eight real estate funds and five special real estate funds, all of which were AIFs.

The changing number of domestic funds over the past five years, including both UCITS and AIFs, is shown in Table 12. Undertakings for collective investment in transferable securities (UCITS) are investment funds complying with the relevant EU regulation[2].

The FMA also monitors custodian banks' and depositaries' compliance with the provisions contained in the InvFG 2011 and the AIFMG. In 2020, 15 credit institutions were operating in this field of business.

INVESTMENT SERVICE PROVIDERS

As at the reporting date, there were 126 companies in possession of a valid licence from the FMA entitling them to provide services as investment firms (64) or investment service providers (48). Three alternative investment fund managers (AIFMs) and seven investment fund management companies held an additional licence pursuant to the Securities Supervision Act 2018 (WAG 2018; *Wertpapieraufsichtsgesetz*). Four insurance undertakings were authorised to receive and transmit fund units in accordance with the applicable law. The number of providers has therefore remained relatively stable, with the breakdown according to licence type also remaining unchanged *(> Table 13)*.

Of all the licensed companies, 120 were entitled to provide investment advice relating to financial instruments and 54 investment firms were authorised to manage client portfolios. In all, 114 investment firms and investment service providers were authorised to receive and transmit orders to the extent that such activity involves 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 seven of these companies maintaining branches in the EEA.

In terms of the geographical distribution of the licensed investment firms and invest-

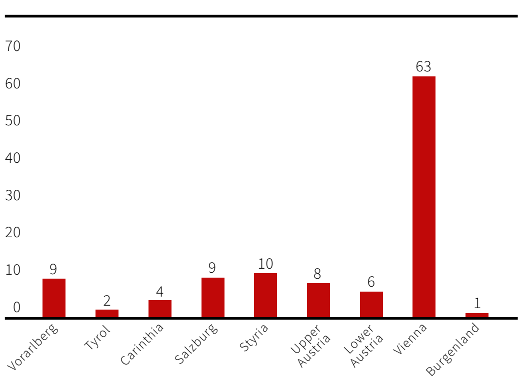
[2] *Council Directive 85/611/EEC of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).*

	2016	2017	2018	2019	2020
All companies	**114**	**114**	**109**	**122**	**126**
Licences:					
Investment firms	60	60	61	65	64
Investment service providers	51	51	45	43	48
AIFMs with additional licence	3	3	3	3	3
Investment fund management companies with additional licence	–	–	–	7	7
Insurance undertakings (statutory fund management)	–	–	–	4	4
Investment advice	111	111	106	115	120
Portfolio management	41	41	40	51	54
Receipt and transmission of orders	107	108	103	111	114
Multilateral trading facility	0	0	0	0	0
European passport for services	43	44	43	44	45
European passport for branches	6	7	8	7	7
Cooperation with financial services assistants/securities brokers	64	62	58	56	57
Legal form:					
Joint stock companies (AG)	9	7	7	12	12
Limited liability companies (GmbH)	88	90	86	95	96
Partnerships	2	3	3	3	2
Sole traders	15	14	13	12	16
Business acivity:					
Investment advice	57	57	57	47	61
Portfolio management	31	31	35	37	41
Receipt and transmission of orders	76	72	68	64	61
Investment funds advisory					
UCITS advisory	23	23	24	21	25
AIF advisory	6	6	6	8	12
External management of investment funds					
UCITS management	21	21	22	23	26
AIF management	11	12	14	17	19
Appointment of tied agents	37	34	36	36	39
Cooperation with securities brokers	30	29	26	24	21
Sale of own products	50	49	49	47	44
Key account customer services	33	34	34	33	35

Table 13: *Key figures of Austrian investment service providers 2016–2020*

ment service providers within Austria, a total of 61 companies or nearly 56.25% of all licensed companies had their registered office in Vienna. Styria was next, with ten licensed companies, followed by Vorarlberg and Salzburg with nine each *(> Chart 16).*

Chart 16: *Investment firms/investment service providers by federal province in 2020*



In 2020 there were 2 978 investment firms with their head office situated in another EEA Member State that were authorised to provide investment services in Austria under the freedom to provide services by way of a branch or notification through the passport regime. This corresponds to a year-on-year increase of 1.01%. A total of 24 branches of EEA investment firms were operating in Austria on the basis of such notification. Of those firms that had provided notification of their operations in Austria, 2 002 (67.22%) came from the UK, followed by 257 (8.63%) from Germany and 224 (7.52%) from Cyprus.

A total of 1 446 individuals were registered as tied agents with the FMA and working for 30 Austrian investment firms; 17 tied agents were registered at nine investment firms from the EEA based in Austria, 293 natural and legal persons were registered as tied agents at four Austrian banks and one bank originating from the EEA, and a further 21 natural and legal persons were registered as tied agents at an Austrian insurance company. Regarding companies, there were 241 companies registered with the FMA as tied agents and operating in the form of a legal entity in 2020.

A total of 57 Austrian investment firms and investment service providers were entitled to provide services through securities brokers. Of these, only 21 actually exercised the right granted to them. As at 31 December 2020, 394 individuals acting as securities brokers for investment firms or investment service providers were registered with the FMA.

BENCHMARK ADMINISTRATORS

In accordance with the provisions of the Benchmarks Regulation[3], persons who provide indices within the EU (index providers) by reference to which the value of financial instruments, investment funds and consumer loans is determined must register as administrators. Administrators located in Austria must register with the FMA.

In the reporting year the FMA registered Raiffeisen Centrobank AG as a new benchmark administrator in Austria. This issuer of certificates provided 29 non-significant benchmarks, combined in three families of benchmarks, as at 31 December 2020.

In the course of the merger of Wiener Börse AG with its parent company CEE Stock Exchange Group AG, the former having been registered as benchmark administrator back in 2019 and the latter being the receiving company, CEESEG AG was also registered as an administrator pursuant to the Benchmarks Regulation in 2020. All of the business areas of Wiener Börse AG, which ceased to exist in terms of company law, were taken over by CEESEG AG. On the date of the merger CEESEG AG was renamed Wiener Börse AG. Wiener Börse AG provided 147 indices, grouped in 22 families of benchmarks, as at the reporting date of 31 December 2020.

BUSINESS DEVELOPMENT

BANKS AND PAYMENT INSTITUTIONS

In 2020 claims on non-banks rose by 2.7%, accounting for the largest item on the asset side of the Austrian banking sector, at 51.3%. This was, however, 4.3 percentage points lower than in 2019. Liabilities to non-banks were up in terms of volume (+6.2%) but down by 2.4 percentage points in terms of overall share. However, at 48.9%, they still accounted for the largest item on the liability side. The second-largest item on the asset side, accounting for around 18.1%, was claims on credit institutions. This item was down 2.3% on a year-on-year basis. On the liability side, the second-largest item was liabilities to credit institutions, accounting for 22.6% and representing a 4.1% decrease over the previous year.

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[3] *Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.*

	2016	2017	2018	2019	2020 (prov.)
Development of assets and liabilities (non-consolidated, in € millions):					
Total assets non-consolidated (sum total)[1]	798 208	777 213	814 606	839 852	934 312
Claims on credit institutions	168 242	163 319	167 952	171 530	168 847
Claims on non-banks	422 923	418 645	445 510	466 757	479 155
Debt securities and other fixed-income securities	47 742	40 236	43 330	45 733	44 372
Shares and other variable-yield securities	11 283	10 095	10 000	10 540	10 077
Other assets	148 017	144 918	147 814	145 292	231 861
Liabilities to credit institutions	157 185	157 028	160 744	155 739	211 285
Liabilities to non-banks	387 941	390 407	414 379	430 436	457 295
Securitised liabilities	128 581	114 009	123 317	132 916	140 052
Other liability items	124 500	115 769	116 166	120 761	125 680
Sustainability of business activity (non-consolidated):					
Loan-to-deposit ratio (non-banks, in %)	109.0	107.2	107.5	108.8	97.2
Foreign currency loans (as % of loans to households)	14.5	10.9	9.5	8.3	6.8
Non-performing and irrecoverable loans (as % of total loans)	3.2	2.5	2.0	1.8	1.5
Development of assets and liabilities (non-consolidated, in € millions):					
Net income non-consolidated (sum total)[1]	4 219	5 137	5 636	4 714	2 491
– Joint stock banks	*923*	*1 225*	*1 457*	*667*	*529*
– Savings banks	*1 462*	*1 374*	*1 454*	*1 872*	*369*
– Mortgage banks	*324*	*150*	*182*	*141*	*148*
– Raiffeisen cooperatives	*1 076*	*1 935*	*2 004*	*1 575*	*1 119*
– Volksbank cooperatives	*52*	*77*	*81*	*110*	*33*
– Building societies	*58*	*64*	*89*	*79*	*57*
– Special-purpose banks[2]	*325*	*312*	*368*	*271*	*236*
Earnings situation (non-consolidated, in € millions)[1]:					
Net interest income	8 361	7 885	8 290	8 280	8 339
Operating income	18 582	18 848	18 646	18 801	18 219
Operating expenses	13 334	12 454	12 644	13 652	12 798
Operating result	5 248	6 394	6 003	5 150	5 420
Cost-income ratio (in %)	71.76	66.08	67.81	72.61	70.25

[1] Excluding branches from EEA countries in Austria (Article 9 BWG), credit guarantee banks and corporate provision funds.
[2] Excluding corporate provision funds and credit guarantee banks as specified in Article 5 no. 3 KStG.

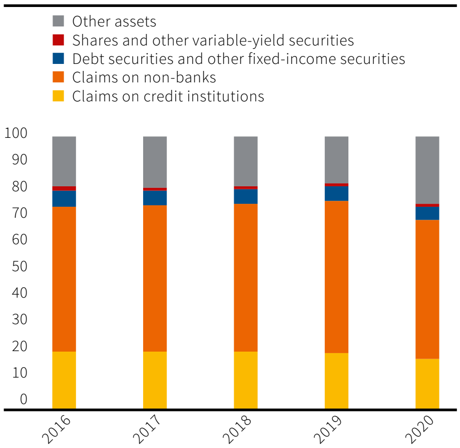
***Table 14:** Market development of the Austrian banking sector 2016–2020 (source: OeNB, financial statement figures 2016–2019, asset, trading and risk statements 2020)*

EARNINGS SITUATION

A non-consolidated operating result of € 5.4 billion is expected (at the time of this report being prepared) for Austrian banks in the reporting year. After two years of falling figures, this represents a year-on-year increase of 3.4%. Underlying this development is a significant reduction in operating expenses (–6.3%) compared with the previous year, combined with operating income dropping much less sharply (–3.6%). Following a mere 0.1% increase in 2019, net interest income rose by 0.5% in 2020. At 45.8%, net interest income continues to account for a high share of operating income.

For the financial year of 2019 as a whole, Austrian credit institutions posted net income of € 4.7 billion. In 2020, however, net income is forecast to be considerably lower, at about € 2.49 billion (the final figures were not yet available at the time of this report being prepared).

In this context, the individual sectors performed consistently positively, despite the pandemic. After recording net income of € 1.6 billion in 2019, the Raiffeisen cooperatives are expected to achieve the largest share of total net income, at € 1.1 billion, followed by joint stock banks and savings banks. With regard to provisions for risk (value adjustments), Austrian credit institutions expect the figure to have increased



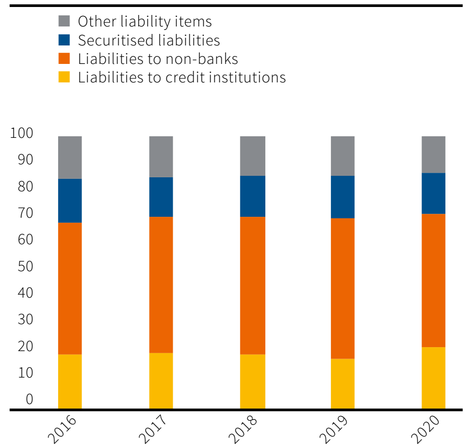
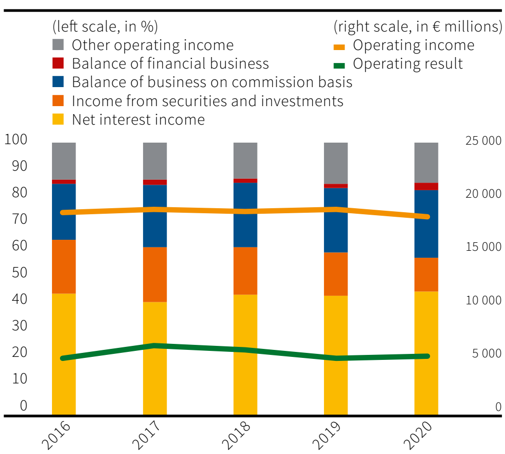


Chart 17 *(left): Development of the assets of the Austrian banking sector 2016–2020 (in %, non-consolidated; excluding EU branches, provision funds and credit guarantee banks)*

Chart 18 *(right): Development of the liabilities of the Austrian banking sector 2016–2020 (in %, non-consolidated; excluding EU branches, provision funds and credit guarantee banks)*



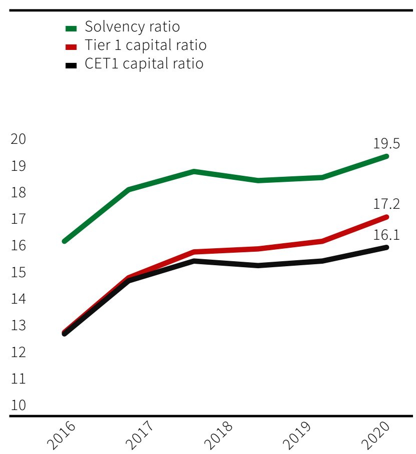


Chart 19 *(left): Earnings situation 2016–2020*

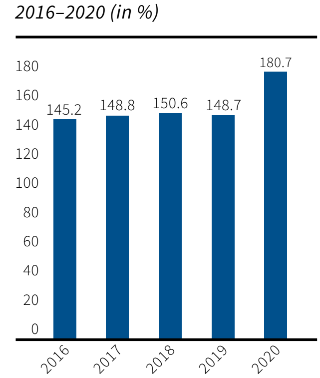
Chart 20 *(right): Capital base 2016–2020 (as % of RWA)*

tenfold compared with the very low level of 2019, reaching € 2.4 billion. This is mainly due to the pandemic.

CAPITAL BASE

At the end of 2020 the Austrian banking sector held a CET1 capital ratio of 16.1%, which is a further increase compared with 2019. The reason for this is that capital has risen, due to the recommendation to restrict the distribution of profits for example, while risk-weighted assets (RWA) have fallen slightly. The liquidity ratio has also improved in 2020, and continues to be solid at 180.7%, well above the minimum requirement of 100% *(> Chart 21)*.

Chart 21: *Liquidity coverage ratio 2016–2020 (in %)*



INSURANCE UNDERTAKINGS

The volume of domestic premiums written (gross amount) was up by roughly the same as in the previous year, at 1.57%, and totalled € 19.08 billion in the reporting year *(> Table 15)*.

With regard to the life insurance balance sheet group, premium revenues were down 1.18% from € 5.42 billion in 2019 to € 5.36 billion in 2020. The proportion of premiums from unit-linked and index-linked life insurance increased, amounting to 25.44% of all premiums written in life insurance (previous year: 23.21%). Totalling € 7.74 billion,

	2016	2017	2018	2019	2020
Premiums written in Austria (direct gross amount, in € millions):					
Life insurance	6 038	5 732	5 516	5 396	5 360
– *Unit-linked amd index-linked life insurance*	*1 537*	*1 363*	*1 329*	*1 259*	*1 364*
Health insurance	2 051	2 129	2 220	2 328	2 433
Non-life and accident insurance	10 481	10 197	10 697	11 026	11 292
Total	**18 571**	**18 057**	**18 433**	**18 750**	**19 085**
Claims paid (in € millions):					
Life insurance	7 061	6 351	6 658	7 255	7 736
Health insurance	1 341	1 396	1 451	1 542	1 461
Non-life and accident insurance	4 560	6 484	6 436	6 528	6 567
Total	**12 963**	**14 231**	**14 546**	**15 324**	**15 763**
Earnings and profitability (in € millions):					
Technical account balance	560	581	507	618	554
Financial result	3 051	2 815	2 528	3 118	1 771
Result from ordinary activities	1 414	1 244	1 168	1 695	744
Return on sales (in %):					
Non-life/health	10.22	10.54	9.24	13.65	6.53
Life	3.22	0.82	1.85	1.71	–0.88
Health	7.21	5.84	3.52	4.31	2.29
Total	**7.59**	**6.87**	**6.31**	**9.03**	**3.90**

Table 15: *Market development of Austrian insurance undertakings 2016–2020*

claims incurred rose by 6.63% in 2020; the equivalent figure for the previous year was € 7.25 billion.

The balance sheet group of non-life and accident insurance also showed an increase over the previous year, with premiums written rising by 2.41% to amount to € 11.29 billion. Totalling € 6.57 billion, claims incurred grew by 0.6 %.

With premiums written of € 2.43 billion, the health insurance balance sheet group achieved an increase of 3.99% on the previous year. Totalling € 1.46 billion, claims incurred were down by 5.23% in this group.

At 3.9%, the return on sales showed a downwards trend compared with the previous year (2019: 9.03%). The result from ordinary activities was also lower year-on-year, dropping by 56.08% to € 744 billion. As far as investments are concerned, these continued to be clearly focused on interest-bearing securities *(> Chart 22),* while equity investments remained low.

The SCR (solvency capital requirement) ratio, depicting insurers' capital base, amounted to 220.16% (median) of minimum requirements in the reporting year on a sector-wide basis *(> Chart 23).* This figure is lower than in the previous year, when it amounted to 238.10%.

Chart 22: *Breakdown of investments at market values (excluding unit-linked and index-linked life insurance; in %, rounded)*

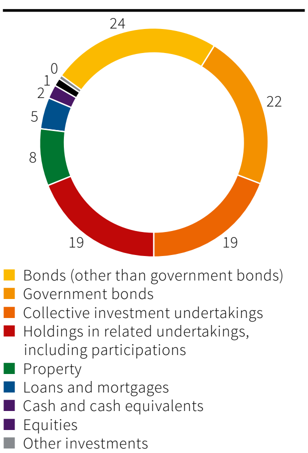
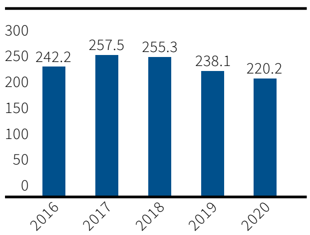


Chart 23: *SCR ratio 2016–2020 (median, in %)*



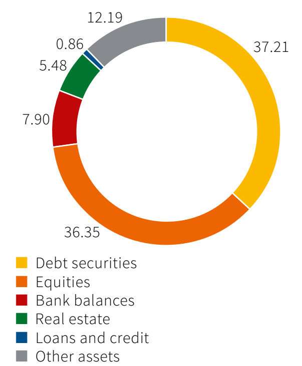
PENSIONSKASSEN

As at 31 December 2020, the Austrian *Pensionskassen* together managed a volume of € 24.98 billion, representing an increase of around 2.8% on the previous year. This change in assets under management resulted for the most part from contributions, pension benefits, inflows of funds from newly concluded pension company contracts and the investment result.

The average investment performance of *Pensionskassen* was up 2.5% in the reporting year, after rising by 11.6% in 2019 *(> Table 16).*

The total aggregate assets of Austrian *Pensionskassen* amounted to 37.21% bonds, 36.35% equities, 7.90% cash, 12.19% other assets, 5.48% real estate and 0.86% loans. *(> Chart 24).*

***Chart 24:** Types of investment by* Pensionskassen *2020 (in %)*



	2016	2017	2018	2019	2020
Investment performance (total)	4.18	6.13	–5.14	11.62	2.49
– Single-employer	*5.13*	*4.07*	*–0.37*	*9.47*	*4.24*
– Multi-employer	*4.08*	*6.34*	*–5.59*	*11.82*	*2.33*

***Table 16:** Investment performance of* Pensionskassen *2016–2020 (in %)*

CORPORATE PROVISION FUNDS

Corporate provision funds received current contributions totalling € 1.78 billion (+3.15% on the previous year) during the year under review, of which € 1.66 billion (+3.64%) was paid into the provision for the employees and € 118.84 million (+3.27%) into self-employed provision. The total assets managed therefore climbed to € 14.5 billion *(> Table 17).*

A total of € 719.03 million was paid out as a capital sum to 566 755 beneficiaries (entitled) in 2020. Over the same period, 47 145 beneficiaries (entitled) transferred their pension entitlements to another corporate provision fund, moving an amount of € 50.86 million. Additionally, 477 individuals paid in a total of € 2.20 million to a *Pensionskasse* or supplementary pension insurance scheme, or to an occupational group insurance scheme. Amounts drawn on the basis of an entitlement to severance pay generally took the form of capital sums, as has been the case for the past five years *(> Chart 25).*

Corporate provision funds' average performance for their investments was up by 1.41% in the reporting year (2019: +5.74%).

***Chart 25:** Types of investment by corporate provision funds in 2020 (in %)*

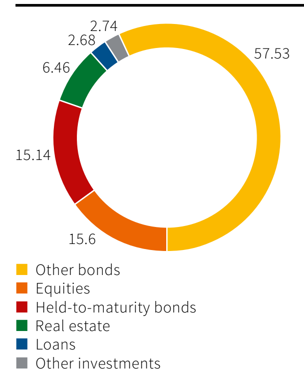


***Table 17:** Market development of corporate provision funds 2016–2020 (source: Platform of corporate provision funds)*

	2016	2017	2018	2019	2020
Assets of corporate provision funds (in € millions)	9 423	10 610	11 496	13 304	14 489
Current contributions (in € millions)	1 374	1 476	1 606	1 722	1 777
Performance of corporate provision funds (in %)	2.23	2.18	–1.97	5.74	1.41
Disposal options (in € millions):					
Payout as capital sum	444.70	488.12	526.44	586.93	719.03
Transfer to another corporate provision fund	21.55	34.92	65.86	43.5	50.86
Remittance to supplementary pension or occupational group insurance scheme	0.07	0.06	0.11	0.01	0.05
Remittance to a *Pensionskasse*	1.71	1.51	1.79	2.26	2.15
Total	**468.03**	**524.61**	**594.20**	**632.70**	**772.09**

Corporate provision funds are required to guarantee their beneficiaries (entitled) a minimum claim. This encompasses the total accrued severance pay contributions and any transferred existing severance pay entitlement, as well as any severance pay entitlements transferred from another corporate provision fund. It is also referred to as the capital guarantee. Corporate provision funds are also free to offer a higher interest guarantee over and above this capital guarantee. Such an interest guarantee was offered by one fund in 2020.

ASSET MANAGERS

The 14 investment fund management companies licensed by the FMA pursuant to the Investment Fund Act 2011 (InvFG 2011; *Investmentfondsgesetz*) managed fund assets totalling € 191.89 billion in Austria as at 31 December 2020, excluding the fund assets managed by real estate investment fund management companies. This equates to a year-on-year increase of € 7 billion, or 3.8% in percentage terms. After the massive slump in 2018, this meant that another all-time high was reached in the reporting year despite the ravages of the Covid-19 pandemic *(> Chart 26).*

There were considerable net inflows of funds in 2020, totalling € 5.97 billion, compared with a figure of € 3.59 billion in 2019. Broken down by fund category, it was primarily mixed funds that recorded a marked increase (+€ 5.26 billion), followed by equity funds (+€ 1.18 billion) and derivative funds (+€ 5.29 million). As in previous years, the greatest outflows were recorded by bond funds (–€ 257.44 million and by short-term bond funds (-€ 198.15 million), as well as by hedge funds of funds (–€ 9.39 million) *(> Chart 27).*

The dominant position of the mixed funds category is reflected, as in the previous six years, not just in net inflows but also in the overall distribution of fund assets. As at the end of 2020, € 89.86 billion or 46.83% of the total assets was invested in this category, with bond funds occupying second place with € 62.28 billion or 32.46%. Equity funds were in third place, at € 33.72 billion or 17.57%, followed by short-term bond funds (3.01%), derivative funds (0.09%) and hedge funds of funds (0.04%) *(> Chart 28).*

Broken down by target group, 50.29% of shareholders were invested in retail funds and 49.71% in special funds at the 2020 year-end.

Chart 26: *Assets of investment funds 2016–2020 (in € billions)*

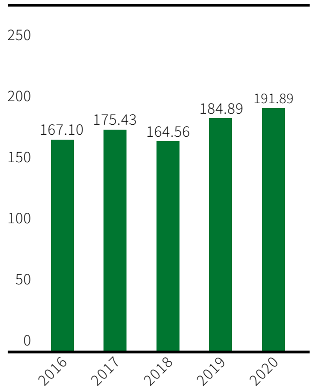


Chart 27: *Net growth/net outflows in 2020 by investment category (in € millions)*

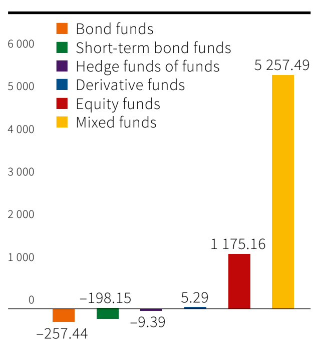


Chart 28: *Fund assets by investment category (as at 31 Dec. 2020, in %)*

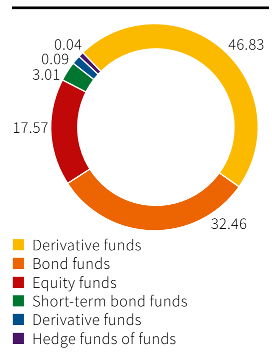
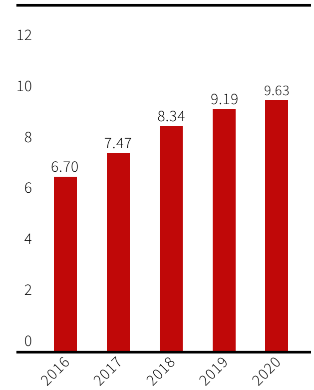


Chart 29: *Fund assets of real estate funds 2016–2020 (in € billions)*



These figures also include alternative investment funds (AIFs) as defined in the InvFG 2011, such as special funds and other special assets.

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 fund assets of Austrian AIFs amounting to € 0.97 billion as at 31 December 2020.

As at the reporting date of 31 December 2020, the five Austrian real estate investment fund management companies were managing fund assets of € 9.63 billion, representing a year-on-year increase of 4.88% *(> Chart 29).*

INVESTMENT SERVICE PROVIDERS

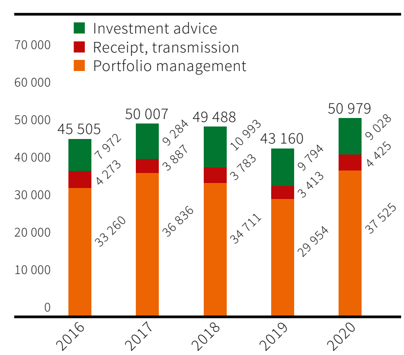
Austria's investment firms managed assets totalling € 50.98 billion in 2020, representing a year-on-year increase of € 7.82 billion. The number of customers dropped by 849 or 0.61%, while the assets under management per customer rose by 18.84% *(> Chart 30).*

More than 75% of the total assets under management related to the services of portfolio management, fund advisory and third-party management. Third-party management covers collective portfolio management activities that investment fund companies and AIFMs outsource to investment firms. Portfolio management accounted for 57% of the generated sales revenues.

The trend towards more specialised and professional companies in the market also continued. This development is particularly striking when looking at the proportion of total customer assets under management from professional investors in relation to those from retail customers: the ratio was around 9:1 in the year under review.

One of the reasons why institutional investors and professional market participants in particular turn to investment firms is that they offer a comprehensive range of services, from advisory mandates and strategic or tactical asset allocation through to the outsourced management of investment funds. Additionally, investment firms work to establish long-term developments in

Chart 30: *Customer assets under management by type of service 2016–2020 (in € millions)*



IFD AND IFR – A NEW REGULATORY FRAMEWORK FOR INVESTMENT FIRMS

Investment firms are now subject to a new set of prudential requirements: the Investment Firms Directive (IFD)[1] and the Investment Firms Regulation (IFR)[2], both published in the Official Journal of the European Union on 5 December 2019, set out comprehensive new rules for investment firms. The IFD has to be transposed into national law by 26 June 2021, with applicability of the IFR commencing as at the same date. The new regulatory requirements include numerous new rules on own funds and liquidity requirements, governance, as well as disclosure and reporting obligations. The EBA and ESMA were given more than 30 mandates to prepare technical standards, guidelines and reports.

[1] *Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU.*

[2] *Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014.*

market phases during which prices rise and the forecast economic growth values fall. Apart from finding the perfect fit for an investor's needs, flexibility is another key feature for the investment service of asset management: when capital markets shift, asset managers can usually react quickly – within their respective asset management mandate.

INTERNATIONAL COOPERATION

As the integrated supervisory authority for the Austrian financial market, the FMA is a member of many different transnational, European and global organisations and associations that deal with the regulation and supervision of financial markets. The FMA enters into Memoranda of Understanding (MoU) and is represented in many relevant bodies and working groups. The Authority is thus actively involved in the advancement of regulation as well as in targeted supervisory activities across national borders.

EUROPEAN COOPERATION

In the area of operational banking supervision and resolution, the FMA is a member of the Single Supervisory Mechanism (SSM), the euro area countries' common regime for banking supervision under the leadership of the European Central Bank (ECB), and of the Single Resolution Mechanism (SRM), the common resolution regime in the Banking Union, with the Single Resolution Board (SRB) in Brussels being its central authority *(see "The FMA and the Banking Union" on page 60)*. As a participant in the European System of Financial Supervision (ESFS), the FMA is involved in the work of the European Supervisory Authorities (ESAs) *(see "The European supervisory system" on page 59),* with the following three themes taking centre stage in 2020:

- The impact of the Covid-19 pandemic on the financial market
- Efforts to make the European financial market more sustainable (sustainable finance)
- Preparations for the United Kingdom's departure from the European Union (Brexit).

COVID-19 PANDEMIC

In response to the Covid-19 pandemic, the ESAs have switched all face-to-face working group meetings including those of the relevant Boards of Supervisors to an online format, with these meetings being held much more frequently. Apart from these organisational adaptations, several supervisory measures to tackle the pandemic were also introduced, the most important of which are outlined below.

The European Banking Authority (EBA), for instance, made use of regulatory flexibility and relaxed the guidelines on payment moratoria (detailing the criteria to be fulfilled by moratoria on loan repayments). Additionally, "quick fix" amendments were made to Regulation (EU) 575/2013, the Capital Requirements Regulation (CRR), and the EBA issued Guidelines on supervisory reporting and disclosure requirements. The EBA also published a Statement on dividends distribution, in essence calling on banks to refrain from distributing dividends in order to strengthen their capital base in light of Covid.

The European Insurance and Occupational Pensions Authority (EIOPA) also took numerous measures including issuing recommendations on supervisory flexibility regarding deadlines of supervisory reporting and public disclosure as well as urging all (re)insurers to temporarily suspend all discretionary dividend distributions and share buy-backs. To support supervisory convergence in relation to the recognition of national schemes based on reinsurance for the Solvency Capital Requirement (SCR) calculation, EIOPA published a Supervisory Statement. In the pensions sector, the Authority published a statement on the impact of the Covid-19 pandemic on institutions for occupational retirement provision (IORPs).

The European Securities and Markets Authority (ESMA) examined and confirmed measures taken by national supervisory authorities to contain excessive short selling and similar transactions, e.g. by the FMA for Austria, by the Belgian FSMA, the French AMF, the Greek HCMC and the Spanish CNMV. ESMA also temporarily lowered the reporting threshold for net short positions from 0.2% to 0.1% of the issued share capital on 16 March 2020; the decision was renewed several times and expired on 19 March 2021.

Additionally, ESMA communicated its expectation in a Public Statement to competent authorities, explaining that they should temporarily refrain from supervisory actions in connection with reporting obligations regarding SFTs concluded between 13 April 2020 and 13 July 2020 or in connection with belated financial reports required to be published by issuers in accordance with the Securities Financing Transactions Regulation[1]. Furthermore, ESMA issued a statement to promote the consistent application of the International Financial Reporting Standards (IFRS) within the EU, thereby helping to avoid Covid-related differences in the implementation of IFRS 9 for financial instruments.

SUSTAINABLE FINANCE

After completing its first major legislative projects related to sustainable finance (specifically the Disclosure Regulation[2], the Taxonomy Regulation[3] and the Low Carbon Benchmarks Regulation[4]), the European Commission conducted a consultation on the renewed sustainable finance strategy in 2020, with the ESAs and the FMA submitting contributions.

In the context of the ESAs' activities, the FMA was notably involved in the following work: EBA's Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms in 2020, as well as its response to the European

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[1] *Directive 2004/109/EG of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.*

[2] *Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.*

[3] *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.*

[4] *Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks.*

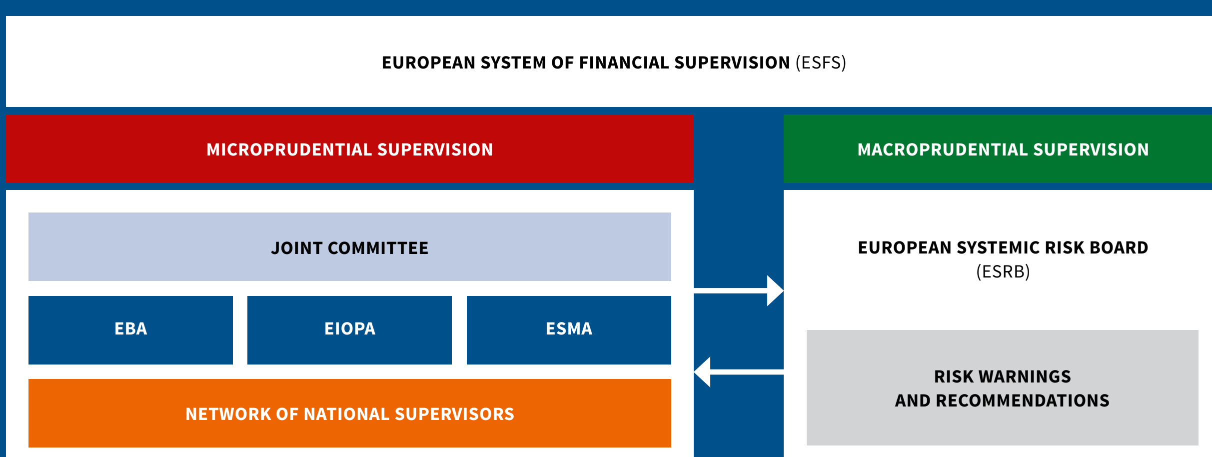
THE EUROPEAN SUPERVISORY SYSTEM

The national financial market supervisors in the EU have been cooperating closely with one another through the European System of Financial Supervision (ESFS) since the start of 2011. Within this system, the banking supervision agenda is set by the European Banking Authority (EBA). Alongside the national supervisory authorities within the European Economic Area (EEA), the European Central Bank (ECB), as the European banking supervisor and lead organisation within the Single Supervisory Mechanism (SSM), closely cooperates with the EBA and is also represented in the ESFS as a non-voting member. The EBA relocated from London to Paris in 2019 as a result of Brexit. The European Securities and Markets Authority (ESMA) has been based in Paris since its foundation, while the European Insurance and Occupational Pensions Authority (EIOPA) is located in Frankfurt.

The role of these three European Supervisory Authorities (ESAs) is to prepare detailed regulations in the form of technical standards, guidelines and recommendations on the basis of EU regulations and directives. Another increasingly important role is to ensure the convergent application of the rules by the national supervisors. However, they are not normally involved in the direct supervision of companies, except in a few selected areas. To deal with issues that straddle all their three areas of supervision, the ESAs set up a Joint Committee.

The three ESAs, with their microprudential focus, are supported by the European Systemic Risk Board (ESBR), based at the ECB in Frankfurt. Its remit is to identify systemic risks to the European financial system and to take early action.

Figure 3: *European supervisory architecture*



Commission's call for advice to the ESAs by opening a consultation process on disclosure under Article 8 of the Taxonomy Regulation; EIOPA's consultations on the draft Opinion on the supervision of the use of climate change risk scenarios in ORSA, the pilot dashboard on insurance protection gap for natural catastrophes and the Discussion Paper on Methodology on potential inclusion of climate change in the Nat Cat standard formula.

BREXIT

The United Kingdom (UK) left the European Union on 31 January 2020, thereby becoming a third country. During a transition period that lasted until 31 December

2020, all EU rules continued to apply in the UK. To maintain cooperation with UK authorities from 1 January 2021 onwards, Memoranda of Understanding (MoU) were concluded as early as 2019 in the areas of banking, securities and insurance. During the period under review, and following negotiations between ESMA and the UK authorities, the multilateral MoU concerning securities was expanded to include supervisory action with respect to securitisation transactions, and signed by the FMA on 24 November 2020.

EUROPEAN BANKING AUTHORITY – EBA

The main focus of the European Banking Authority's (EBA) work is on regulation. Through the adoption of technical standards, guidelines and opinions, the Authority contributes significantly to strengthening supervisory convergence within the EEA. In 2020 the EBA published a Report on the functioning of AML/CFT[5] colleges, in which the competent authorities for the prevention and fight against money laundering exchange information with the financial market authorities. It also published an Opinion setting out how prudential supervisors should consider ML/TF risks in the context of the Supervisory Review and Evaluation Process (SREP) as well as Guide-

[5] *Anti-money laundering and countering the financing of terrorism.*

THE FMA AND THE BANKING UNION

The European Banking Union is a key component of the EU's Economic and Monetary Union. It was created in response to the 2008 financial crisis and the ensuing sovereign debt crisis in the euro area. The Banking Union aims to ensure that the banking sector in the euro area and the wider EU is stable, safe and reliable, thus contributing to financial stability and that:

- Banks are robust and able to withstand any future financial crises
- Non-viable banks are resolved without recourse to taxpayers' money and with minimal impact on the real economy
- Market fragmentation is reduced by harmonised financial sector rules.

The Banking Union is made up of all Member States whose common currency is the euro. Member States that do not belong to the euro area may join the Banking Union by entering into close cooperation with the European Central Bank (ECB). Bulgaria and Croatia are the first two non-euro area Member States with which the ECB established close cooperation, doing so on 1 October 2020.

The Banking Union is based on a single rulebook for the EU's financial sector. It consists of a set of legislative texts that apply to all financial institutions across the EU, thus ensuring a level playing field for all. Based on this foundation, the Banking Union consists of three pillars:

- The Single Supervisory Mechanism (SSM), the joint banking supervision of all euro area countries overseen by the ECB in Frankfurt, which relies on the network of national competent authorities.
- The Single Resolution Mechanism (SRM), which is made up of the Single Resolution Board (SRB) in Brussels and the national resolution authorities.
- The European Deposit Insurance Scheme (EDIS).

While the SSM and SRM are fully operational, the EDIS is still in the development stage. At present, deposit guarantees are harmonised in Europe through national deposit guarantee schemes having to meet and implement common European minimum standards and requirements.

lines on disclosures under the Capital Requirements Regulation (CRR)[6]. The EBA also contributed to work on consumer protection issues and to the Payment Services Directive. The EU-wide stress testing exercise planned for 2020 was postponed to 2021 owing to the pandemic, but essential preparations were made.

EUROPEAN SECURITIES AND MARKETS AUTHORITY – ESMA

The reporting year was dedicated to the reviews of MiFID[7]/MiFIR[8] and MAR[9], during the course of which these three European sets of rules were evaluated in terms of their practical application. ESMA submitted to the European Commission reports reviewing key provisions of the MiFID II/MiFIR transparency regime for equity and non-equity instruments, draft technical standards for third-country firms under new MiFIR and MiFID II regimes and its advice on inducements and costs and charges disclosures

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[6] *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.*

[7] *Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.*

[8] *Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012.*

[9] *Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.*

As a euro area country, Austria is a member of the European Banking Union. The FMA is actively involved in the two currently operational pillars, the SSM and the SRM. In its capacity as both national competent authority (NCA) and national resolution authority (NRA), the FMA represents the Austrian financial market as a voting member and is intensively involved at all relevant levels.

Six Austrian banking groups were classed as significant institutions (SIs) in 2020 and thus subject to direct supervision by the ECB within the SSM: BAWAG, ERSTE, RBI, RLBOÖ, SBERBANK and VOLKSBANK. Addiko Bank AG became the seventh bank in October 2020 when Croatia established close cooperation within the SSM.

Joint Supervisory Teams (JSTs) are set up for these SIs, with FMA and Oesterreichische Nationalbank (OeNB) employees included among the members. All other Austrian banks are only supervised indirectly by the ECB. Classed as less significant institutions (LSIs), they are directly supervised by the FMA, again with support from the OeNB. However, key decisions (such as the award or removal of a licence or major holdings) are made by the ECB.

In 2020 there were eight Austrian banking groups – the significant banks and further cross-border groups – as well as three Austrian subsidiaries under the direct responsibility of the SRB as the resolution authority: ADDIKO BANK AG, BAUSPARKASSE WÜSTENROT AG, BAWAG, ERSTE, FCA BANK AG, RBI, RLBOÖ, SANTANDER CONSUMER BANK GMBH, SBERBANK, UNICREDIT BANK AUSTRIA and VOLKSBANK. In the same vein as the JSTs, Internal Resolution Teams (IRTs) are set up for these banks. The FMA plays a significant role within the IRTs. As in the case of the SSM, the FMA is also directly responsible for all other credit institutions within the SRM, this time in the capacity of national resolution authority.

Across both the SSM and SRM, the FMA was represented in a total of 70 bodies and working groups during the year under review, working on joint policies and supervisory approaches. The decision-making bodies were also involved in approximately 1 400 supervisory cases and some 70 resolution cases.

under MiFID II. ESMA also published the outcomes of its MAR review, concluding that overall MAR has worked very well in practice and setting out only a few proposals for amendments and clarifications in relation to share buy-back programmes, market soundings and market monitoring. ESMA also suggested providing additional guidance on criteria for disclosure and delayed disclosure, as well as on pre-hedging conduct.

Following the collapse of German financial service provider Wirecard, ESMA conducted a peer review on the application of the guidelines on the enforcement of financial information by Germany's Federal Financial Supervisory Authority (BaFin) and Financial Reporting Enforcement Panel (FREP). The final report was published on 3 November 2020.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY – EIOPA

EIOPA's work programme strongly centred around Covid-19 issues, with the first lessons learned from the crisis already being recognised in the Opinion on the 2020 review of Solvency II; EIOPA is required to review and assess the practical implementation of the new solvency regime for insurance undertakings that was introduced a few years ago, and to provide advice in the form of an opinion. The Authority submitted its opinion to the European Commission before the end of 2020.

Other topics EIOPA looked into included sustainability and digitalisation (InsurTech), cyber risks and conduct of business supervision. Work in the pensions sector centred around the regulation introducing a pan-European Personal Pension Product (PEPP)[10].

Peter Braumüller, Director for Insurance and Pension Supervision at the FMA, has been Vice Chairperson of EIOPA since 2015.

BILATERAL AND MULTILATERAL COOPERATION

As well as working in multilateral bodies, the FMA also cooperates directly with foreign supervisory authorities. For this purpose it enters into bilateral and multilateral Memoranda of Understanding (MoU), which provide for the exchange of information and thus simplify and speed up practical supervisory action in cross-border cases. MoU also help to build trust, particularly in the case of non-EEA Member States, and support the FMA in its efforts to consistently strengthen its operational working relationship with partner authorities.

MEMORANDA OF UNDERSTANDING (MOU)

In 2020 the FMA signed an updated version of the multilateral MoU covering supervisory cooperation and information sharing relating to the area of securities supervision, which now also includes the supervision of securitisation transactions, concluded between the EEA and UK authorities *(> Table 18).*

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[10] *Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP)*

MULTILATERAL COOPERATION

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS – IOSCO

The administrative arrangement for the transfer of personal data between EEA Authorities and Non-EEA Authorities, based on the European General Data Protection Regulation (GDPR) and applicable within the scope of the IOSCO MMoU, was signed by 29 EEA Member States and 23 third countries by the end of 2020. Adherence to the arrangement's provisions is being monitored by a newly established group. In 2020 some 4 319 information requests have been made under the IOSCO MMoU.

In February 2020 the Financial Stability Engagement Group (FSEG) was established to devote itself specifically to financial stability issues. ESMA is a member of this group, which is also interacting with the Financial Stability Board (FSB).

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS – IAIS

The IAIS used the global monitoring exercise (GME) in 2020 to closely monitor the impact of the Covid-19 pandemic on the development of the global insurance sector. The outcomes of the GME from the first half of the year were published in the 2020 version of the Global Insurance Market Report (GIMAR). To increase transparency, the IAIS published a Register of Internationally Active Insurance Groups (IAIGs). Additionally, the US Louisiana Department of Insurance joined the IAIS MMoU following a comprehensive review of equivalence requirements. The IAIS MMoU has so far been signed by 74 jurisdictions worldwide and covers 76% of the global premium volume. In December the IAIS published an Environmental Policy aimed at guiding its own performance on environmental issues, particularly in relation to meetings and events, secretariat travel, as well as improved awareness around sustainable use of office resources. The Policy also includes specific sustainability objectives; the progress made will be reported annually.

	Banking	Insurance	Securities	AIFMD MoU
Abu Dhabi				2018
Albania		2009		
Australia				2013
Bahamas				2015
Bermuda				2013
Bosnia and Herzegovina	2015			
Brazil	2017			
British Virgin Islands				2013
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
Hong Kong				2013
Hungary	2001	2002	1998	
Isle of Man				2013
Italy	1998			
Japan				2013
Jersey				2013
Kosovo		2016		
Liechtenstein	2009			
Macedonia		2010		
Malaysia				2013
Malta	2007			
Montenegro		2009		
Netherlands	1997			
Poland			1999	
Qatar				2018
Romania	2006	2005		
Russian Federation	2010			
Serbia		2009		
Singapore				2013
Slovakia	2003	2002		
Slovenia	2001		2001	
Switzerland	2012	2006		2013
Thailand				2014
United Kingdom	1994/1998/2019			
USA				2013

***Table 18:** Bilateral Memoranda of Understanding concluded (incl. year of conclusion)*

INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS – IOPS

IOPS analysed the consequences of the Covid-19 pandemic on supervisory activities and published a statement with possible supervisory action to mitigate the impact. The pensions regulator also looked into possible ways of increasing the pension sector's cyber resilience, the challenges posed for supervisory authorities by early

withdrawals of retirement savings and the supervision of infrastructure investments. Further topics comprised the solvency of defined benefit pension schemes, as well as the presentation and supervision of information on future pension payments. Additionally, information was exchanged in relation to the risk-based supervision of pension funds.
The FMA was re-elected as a member of the Executive Committee for another two-year term at the end of 2020.

FSB'S REGIONAL CONSULTATIVE GROUP FOR EUROPE

The FMA is not a member of the Financial Stability Board (FSB) but is represented on its Regional Consultative Group (RCG) for Europe. As part of this RCG, the FMA contributed to the FSB's high-level recommendations for the Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements, as well as to the Global Transition Roadmap for LIBOR, setting out recommendations for the financial markets in relation to benchmark transition away from LIBOR (London Interbank Offered Rate), which has dominated to date, to alternative rates. The FSB also published the following reports in 2020: Enhancing Cross-border Payments, BigTech firms in finance in emerging market and developing economies, as well as Effective Practices for Cyber Incident Response and Recovery.

BASEL CONSULTATIVE GROUP – BCG

The Basel Consultative Group (BCG) is one of currently five permanent groups that make up the Basel Committee on Banking Supervision (BCBS). Its goal is to promote monetary and financial stability through improvements in the regulation and supervision of internationally active banks and their practices. The BCBS is the global standard setter for the prudential regulation of banks. The BCG has been set up to involve supervisory authorities and central banks from non-member countries and international institutions, such as the IMF and the World Bank, in Committee initiatives and to provide a forum for exchanging experiences with senior representatives of banking supervisors. The 2020 BCG meetings, which were held virtually for the first time, revolved around the impact of the global Covid-19 pandemic and the exchange of individual supervisory reactions and experiences, but also around new topics such as climate risks and cryptoassets. Together with the World Bank, the BCG conducted a survey on the possibilities of adapting the Basel Framework for non-international groups in a proportionate manner in mid-2020; the results of the survey have not yet been published.

NETWORK FOR GREENING THE FINANCIAL SYSTEM – NGFS

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS), of which the FMA became a member on 20 May 2020, currently has 83 supervisory authorities and central banks as members and 13 institutions as observers. Their common objective is to promote the smoothest possible transition to a sustainable economy. With this in mind, the NGFS provides a platform for exchanging experiences, sharing best practice, and developing environmental and climate risk management methods for the financial sector.
The NGFS has arranged its work in five workstreams: Microprudential/Supervision, Macrofinancial, Scaling up green finance, Bridging the data gaps and Research. The

FMA is actively involved in the Microprudential/Supervision workstream, which published the Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision in 2020. This publication sets out recommendations with proposed courses of action for supervisors on how to integrate climate-related and environmental risks into supervision. It is planned to update the publication with new data and republish it in 2021. The FMA contributes to these updates, offering its expertise and the experience it gained while preparing its own FMA Guide for Managing Sustainability Risks.

EUROPEAN AND INTERNATIONAL AML/CFT COOPERATION

The year under review was dedicated to continuing to harmonise European anti-money laundering (AML) and countering the financing of terrorism (CFT) efforts. In May the European Commission published its Action Plan for a comprehensive Union policy on preventing money laundering and terrorist financing, intended to improve cross-border AML/CFT cooperation. In addition, there are plans for an integrated AML/CFT supervisory system with enhanced coordination within the European Union to be put in place by 2023. Core objectives are creating an EU-level AML/CFT supervisor and to issue a European Anti-money laundering regulation that ensures a level playing field for all across the entire EU, particularly in the crucial fields of customer due diligence requirements and reporting obligations. Furthermore, an EU-level coordination and support mechanism is to be established for Financial Intelligence Units (FIUs), allowing for even more efficient and intensive cooperation. The first legislative proposals are expected in the second quarter of 2021.

THE FMA AND PUBLIC RELATIONS

Annual report: **1**

Facts and figures, trends and strategies: **1**

Press releases: **63**

Newsletters: **11**

Press events: **3**

Tweets: **197**

Followers: **1 557** (increase of 453)

LinkedIn followers: **2 173**

Delegates at the virtual FMA Supervision Conference: approx. **800**

FUNCTIONS OF PUBLIC RELATIONS WORK

TRANSPARENCY FOR THE MARKET AND FOR THE GENERAL PUBLIC

The FMA holds far-reaching official powers on the financial market. Inextricably linked to this level of authority is a responsibility to explain its activities clearly and comprehensibly. This can only be achieved if the FMA provides unambiguous information on what exactly it is responsible for, which areas it covers and which powers it holds in order to be able to fulfil its statutory remit. From this starting point, the FMA has developed its strategy for using the authority vested in it to perform its role, as laid down in law, as efficiently and effectively as possible. This strategy is encapsulated as concisely as possible in the FMA's mission statement. At the same time, with regard to developments on the financial markets, the FMA uses its medium-term risk analysis, which is evaluated and updated annually, to set priorities for supervision and inspections for the coming year.

Guaranteeing the utmost transparency is a self-evident requirement of every modern-day authority operating in a democratic state based on the rule of law. Such transparency strengthens democratic legitimacy and improves understanding and acceptance of official actions. In keeping with this principle, the FMA has always endeavoured to engage in transparent and open communication within its statutory framework.

The FMA's key media channels are:

- **The Annual Report,** which reviews developments on the financial markets, the FMA's supervisory activity and regulatory developments during the past year.
- **The Facts and figures, trends and strategies publication,** also produced annually, which looks ahead to the expected medium-term development of risk, sets out future challenges, and provides transparent information on the FMA's priorities for supervision and inspections for the coming year.
- **The FMA website (www.fma.gv.at),** containing up-to-date information and explanations on all matters relevant to regulation and supervision, as well as any breaking news.

PUBLIC COMMUNICATION: AN INTEGRAL PART OF SUPERVISION

The FMA's aim is to act as proactively as possible. It therefore informs the market as early as possible in an open dialogue about global, European and national regulatory developments, discusses such issues intensively with the stakeholders concerned, and incorporates the feedback into the Austrian position that it represents proactively during debate within the relevant regulatory bodies.

At the same time, however, the FMA also consistently and actively draws the attention of the market and consumers to undesirable developments that it observes and identifies through its supervisory activities, communicating its expectations on how such developments are to be remedied. In this way it can take control at an early stage, avoiding a situation in which tougher supervisory measures are needed further down the line.

The FMA is therefore committed to the principles of preventive information and open dialogue. It views itself as an information hub for all participants in the Austrian financial market.

With regard to active communication, the FMA focused on three topics during the reporting year:

- Proactive handling of the challenges created by the pandemic and the economic impact of Covid-19 for all financial market participants – providers and consumers alike.
- Preparing and supporting financial market participants in their transition to sustainable business models and strategies, sustainable financial products and investments, as well as identifying, limiting and managing sustainability risks from an ESG (environmental, social, governance) perspective.
- Addressing the opportunities and risks arising from the digitalisation of financial markets, in particular advancing the regulatory and supervisory coverage of the wide range of cryptoassets.

With a focus on target groups, the FMA placed a special emphasis on consumer information in 2020. New media were developed, new channels were opened up, and the existing content was expanded and deepened. In line with the FMA's mandate on collective consumer protection, the public was informed about developments, trends, risks and undesirable developments in the market for consumer products, and warned about identified fraudulent activities. Here, too, preventive communication measures can reduce the need for official intervention, and in any event complement it.

Once again in 2020, the subject of cryptoassets dominated consumer information. Faced with a growing number of reports and consumer complaints about investment fraud involving cryptoassets, the FMA has increasingly been highlighting the specific risks and dangers of these new types of financial or investment products in its public and media communication work, namely the highly speculative nature of an investment in these assets, the possibility of suffering a total loss, and the high level of fraudulent activity in this area in particular.

INFORMATION HUB ON THE FINANCIAL MARKET

One of the FMA's key tasks is to provide market participants with up-to-date, accurate and significant information and key figures on product types and submarkets, as well as on their development. To this end, it evaluates the broad corpus of reporting data on a regular and highly frequent basis and also conducts its own surveys. It then communicates its findings promptly and regularly through a range of different channels. In this way it provides market participants with high-quality, first-hand information so that they can make market assessments on a solid basis and prepare for new circumstances in good time. This can also reduce friction and adjustment costs.

During the year under review the FMA published a total of 21 quarterly reports and two reports on current developments, covering such areas as the market for insurance undertakings, *Pensionskassen* and asset managers, as well as prospectus supervision, the development of foreign currency loans and state-sponsored retirement provision schemes.

On 30 April 2020, the FMA Annual Report for 2019 was submitted to the Finance Committee of the National Council and the Federal Minister of Finance before being presented to the public at large during press talks held in a hybrid analogue/digital format.

The FMA also embodies its role as an information hub by engaging with the supervised entities and stakeholders in a range of institutionalised formats and forums. These include events such as the eleventh annual FMA Supervision Conference, held entirely online in the reporting year, but also the SFTR Forum, the Compliance and Prevention of Money Laundering practice workshop and the ESG dialogue with insurance undertakings. The FMA Executive Board and employees also attend a range of conferences, conventions and seminars in the capacity of presenters and delegates to discuss the latest development with interested professionals.

PUBLIC RELATIONS CHANNELS

CLASSIC PRESS RELATIONS

The FMA published 63 press releases (2019: 54) and 85 investor warnings (2019: 97) in 2020.

At three press conferences, the Executive Board reported on current issues and took questions from financial journalists:

- 23 January 2020: At the Economic Writers' Club, the Executive Directors presented the latest regulatory developments and future supervisory requirements under the heading "Sustainable Finance" and also discussed the regulatory and supervisory challenges presented by cryptoassets.
- 12 May 2020: Financial Statement Press Conference presenting the 2019 Annual Report.
- 10 December 2020: Presentation of the priorities for supervision and inspections in 2021, and presentation of the Facts and figures, trends and strategies 2021 publication.

DIGITAL COMMUNICATON

WEBSITE

The FMA website provides a broad range of information aimed at supervised companies and consumers.

Some 300 documents were added to the News section alone during the reporting year, including press releases, investor warnings, licence changes and sanctions. As in the previous year, the news articles published included a particularly high number of investor warnings, which are also published as warnings against dubious providers in the official gazette "Amtsblatt zur Wiener Zeitung", via Twitter and via the FMA security app.

A dedicated Covid-19 section was also added to the FMA website in 2020. This section contains detailed information on various supervisory measures introduced in the course of the reporting year. These can be filtered according to various criteria or downloaded as a complete list.

For the target group of consumers, the "A-Z of Finance" first published on the website in the previous year was further expanded. In addition, a new consumer information format was developed in the reporting year: "Let's talk about money", an information sheet limited to two downloadable pages, which regularly delves into a topic oriented to the financial needs of end consumers and presents it in clear and simple language. A separate subsite was set up for this format.

TWITTER

Another digital channel of communication used by the FMA is Twitter. The FMA tweeted 197 times in 2020 and grew its number of followers by 41% to 1 557. At the end of September 2020 the FMA joined LinkedIn, acquiring 2 173 followers on this social media channel in the first three months and notching up 62 posts.

NEWSLETTER

The FMA newsletter (currently only available in German) provides subscribers with information on an ad hoc basis, with eleven editions being published in 2020. Key topics covered included updates on the different Covid-19 measures, the publication of the FMA Annual Report and Fact and figures, trends and strategies document for 2021, the launch of the regulatory sandbox, changes to the Stock Exchange Act (BörseG; *Börsegesetz*) and information on unauthorised business activities.

FMA SECURITY APP

Launched in 2018, the FMA's security app enables users to check, via their mobile phone, whether a company or person is authorised to provide financial services that require a licence. If an investor warning has been published in relation to a company or person, this will also be accessible in the app or will be displayed in the form of a push notification.

EVENTS

The FMA organises a large number of regular information and/or dialogue events on specific topics in order to explain the latest regulatory and supervisory developments to selected target groups and to spark discussion, for example:

FMA DIALOGUES ON PRACTICE AND PRACTICE WORKSHOP

The FMA Dialogues on Practice give supervisors and businesses the chance to discuss regulatory and supervisory issues and developments. The following Dialogues were staged in 2020, all of which were held online:

- 3 November 2020: *Pensionskassen* Dialogue on Practice 2020 with the general theme of sustainable finance, with a particular focus on the results of the FMA's ESG asset screenings and FMA stress testing in the area of sustainability risk management

- 23 November 2020: Compliance and Prevention of Money Laundering practice workshop 2020
- 27 November 2020: Dialogue on Practice on the subject of the FMA's cyber maturity level and cloud assessments, at which the findings of the FMA analysis of cyber and cloud security in the form of maturity level assessments were discussed, along with the surveys on cyber risk and IT structure.

OTHER EVENTS

- 27 October 2020: Dialogue with the statutory auditors of insurance undertakings, during which the current developments in insurance supervision and regulation were discussed, particularly the audit focuses of supervisory board, sustainability and cyber risk
- 29 October 2020: ESG dialogue with insurance undertakings on ESG asset screenings and own risk and solvency assessments (ORSA)
- 17 November 2020: Implications of the European Green Deal for the insurance industry, timetable and prioritisation in relation to changes to Solvency II, IDD, EIOPA Opinion on the supervision of the use of climate change risk scenarios in ORSA; results of the FMA asset screenings
- 19 November 2020: VAG compliance dialogue with the internal auditors of insurance undertakings, during which the current developments in insurance supervision and regulation were discussed, particularly the audit focuses of supervisory board, sustainability and cyber risk
- 26 November 2020: ESG dialogue with insurance undertakings on sustainability-related disclosures in accordance with Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector and the regulatory technical standards
- 10 December 2020: ESG dialogue with insurance undertakings in relation to coverage gaps, impact underwriting, calibration of the standard formula and risk map regarding protection gaps for climate-related risks, methodology for the inclusion of climate change risk in the calibration of the nat cat standard formula, integration of climate change effects into pricing and impact underwriting.

11TH FMA SUPERVISION CONFERENCE

The 11th FMA Supervision Conference took place on 1 October 2020 dedicated to the general topic: "The Financial Market between Covid-19 and Climate Risks – Different Challenges, Common Solutions?" Due to coronavirus restrictions, the event was held virtually for the first time. The thematic focus was the impact of the pandemic on the financial market, the resulting risks and challenges, and the special role of financial intermediaries in containing the crisis. At the same time, the Conference also looked towards the future and considered the question of how the issues of sustainability and green finance will develop moving forwards.

As in previous years, the event attracted leading figures from the fields of supervision, business, politics and science: Bernd Spalt (CEO of Erste Group Bank AG) held discussions on the subject of the Covid crisis and its impact on the financial market with Thomas Wieser (Bruegel non-resident fellow), Dalia Marin (Professor at TUM School of Management) and FMA Executive Director Helmut Ettl following the keynote speech by José Manuel Campa (Chairperson of the EBA). Andreas Brandstetter (CEO of UNIQA

Insurance Group AG), Michaela Attermeyer (Member of the Board of VBV Vorsorgekasse AG), Sigrid Stagl (Professor at Vienna University of Economics and Business) and FMA Executive Director Eduard Müller spoke on the subject of "Sustainability and green finance – a way out of the crisis?" following the opening address by Environment Minister Leonore Gewessler. The event was streamed live and also made available after the event on demand.

INTERNAL COMMUNICATION

Due to coronavirus and the lack of personal interactions in the office, internal communication and information sharing took on a special significance. One channel that was used particularly intensively was the FMA intranet. To give just one example, a discussion forum was set up to make it easier for all staff members to exchange views on certain issues, and multimedia content was published on various subjects. To liven things up, various interactive initiatives were launched in which all employees could participate; the individual contributions were then compiled and made available to all employees. Staff information events were also moved entirely online.

OPERATIONAL SUPERVISION

Supervisory authoritiy: **1**

Priorities for supervision and inspections: **6**

On-site measures: **177**

Investigations into unauthorised business activities: **238**

Enquiries and complaints made to the FMA: **2 800**

Whistleblowers reporting to the FMA: **278**

Securities transaction reports handled by the FMA: **59 186 054**

THE FMA AND DIGITAL INNOVATION

Innovation is what drives the economy. New technologies and new products are being developed all the time in order to make financial services even better, more targeted and more efficient. Yet better can be the enemy of good. The aim, therefore, must be to promote innovation while at the same time being able to detect and address any resulting risks at as early a stage as possible.

The FMA pursues a technology-neutral approach to regulation and supervision. This means that the key factor is not the technological basis on which a financial service is provided but how that financial service has an impact and what risks are associated with its business model. The same risks are subject to the same supervisory requirements, regardless of the technology used.

The FMA itself also benefits from digital innovations. In its efforts to constantly improve the efficiency and effectiveness of supervision and to leverage synergies wherever they arise, the FMA considers itself to be a leading exponent of digitalisation in supervisory activity. The buzzwords are SupTech and RegTech, which are all about using innovative digital solutions both in supervision and in reporting to the supervisory authorities.

DIGITALISATION ON THE AUSTRIAN FINANCIAL MARKET

In 2019 the FMA carried out a wide-reaching study on "Digitalisation in the Austrian Financial Market"[1] with a very high level of market coverage. The digital technologies in use, the strategies, the business models and the risks across all sectors of the Austrian financial market were surveyed and analysed. The FMA has thus created the most comprehensive and most detailed data and information basis to date on the subject of digitalisation in the Austrian financial market.

DIGITALISATION STUDY – RESULTS OF CALL FOR INPUT

In order to launch a broad debate on the implications of digitalisation, the FMA then, in a second stage, invited stakeholders – investors, savers, policyholders, consumers and public institutions – as well as interested members of the public to critically ques-

[1] *A summary of the study is available in the FMA Annual Report 2019, while the full text can be downloaded from the FMA website (www.fma.gv.at).*

tion the results, findings and conclusions of the study and to contribute their own views, experiences and approaches.

This call for input generated a large number of responses with the FMA receiving many contributions, some of which were very detailed.

Generally, the conclusions reached by the FMA regarding the implications of digitalisation are shared and confirmed by the participating stakeholders. In addition, supplementary information and more practical examples are mentioned (such as the increasing practical importance of aggregators and messengers). The responses also included policy suggestions and proposals. One such suggestion involved creating a regulatory obligation to maintain a minimum level of analogue infrastructure in order to avoid a digital divide.

The main findings and suggestions are summarised by topic below:

- **Strategies**

The impact of digitalisation on the financial market is viewed positively on the whole. Digitalisation helps financial market participants to understand their customers better and to gear their business models and products to those customers' needs.

No disruption to the core business of the supervised entities is expected in the foreseeable future (in the next three years). However, stakeholders firmly believe that the current business models will have to be adapted in the long term and that the changes over the next five to ten years will be closer to disruption than evolution.

Some respondents think that market shares will be completely redistributed in the course of the digital transformation. New competitors and new business models are also forcing existing sectors to innovate and become more agile.

Digitalisation is expected to have a particularly strong impact on products and services that require less advice: this means that payment transactions, standardised lending business and retail asset management and insurance products will be the most affected. Moreover, retail banking will be affected much earlier than corporate banking.

Regulation, corporate culture and the IT landscape are considered as potential barriers to digitalisation. The highly fragmented and outdated IT landscape as well as the lack of cross-sector interfaces are cited as hurdles for interaction with customers and cooperation partners (e.g. distribution).

Supervision is expected to have a major role to play in the transformation created by digitalisation. It will have to guarantee a level playing field without, however, acting as a "competition regulator" or "protector" of the existing institutions. The creation of FMA guidelines for digital change processes is suggested.

- **New providers – FinTechs and InsurTechs**

The new digital competitors will force existing companies to keep evolving. The biggest changes are expected in the areas of retail, payment transactions, investment advice and self-service (settlement of claims, application for benefits).

The new digital competitors are primarily seen as cooperation partners to the established market players. They need cooperation with established players to benefit from their market access. Established companies are seeking partnership with new players in order to benefit from their innovative prowess.

New products

The increasing transparency of products and better customer service are perceived as the main positive developments. Negative developments include when existing products are simply "digitalised" and the offering of modular products in connection with "advice-free" offers, as selecting a combination of all components can ultimately be significantly more expensive than existing all-inclusive products.

The use of big data must not lead to an undermining of the principle of solidarity.

The expectations around the role of supervision are quite complex in the case of new products: it is suggested that technical standards be defined for robo advice, for example, and that the supervisory authority monitor technical processes to ensure that no discriminatory decision-making parameters are in use and/or parameters that breach data protection rules.

Distribution/customer interface

It is generally agreed that the regulatory requirements do not yet sufficiently reflect the digital transformation. However, the approaches are very different:

— There are calls for regulation (especially in relation to banking secrecy, data protection, money laundering and telecommunications) to clear the way for purely digital business transactions without the customer needing to be physically present, in the interests of convenience.
— On the other hand, consumers must still be able to communicate in paper form – especially when it comes to being provided with contractual and pre-contractual information – and this form of communication must not be penalised by additional fees.

The increasing range of available banking products and the quick decision-making processes at the point of sale are regarded as positive aspects of digital sales. For corporate clients, having a direct connection between their ERP system and the online banking platform is an enormous advantage. Complex offers without any form of advice are generally assessed negatively.

Asset management

In asset management, the potential for cost reductions, efficiency gains and the lowering of operational risks are seen as benefits.

However, new digital business models require changes to existing regulations: cryptoassets, for example, need their own investment rules and appropriate portfolio diversification rules. Supervisory law must clearly state when cryptoassets are actually securities, and the due diligence obligations for the prevention of money laundering must be extended to all types of securities and consistently enforced.

Currently, alternative products such as cryptocurrencies are considered to have a competitive advantage, being subject to less strict regulation in some cases.

With regard to investing, digitalisation of the different processes is expected, such as the process of valuing investments. This is an area in which FMA minimum standards are being called for.

Financial reporting

In terms of financial reporting, the advantages are considered to be efficiency gains (which are, however, largely offset by a greater need for information on the part of

stakeholders/regulators) and faster data availability, as well as better plausibility checks and evaluations through the use of digital tools.
However, the digitalisation of accounting processes also has various disadvantages: high investment costs and a dependency on experts in the innovation projects, plausibility checks and evaluations nevertheless require the professional skills and expertise of an auditor; the challenge for auditors will be to understand the interaction between complex software systems, the underlying logic of the analysis, and the results of extensive and powerful data analyses, and thus to be able to draw appropriate conclusions for the audit result.

- **IT infrastructure**

A clear legal framework for the use of IT systems in the financial sector is required, such as during the SREP[2].
There must also be a control authority for the systems used, focusing on security, sourcing and governance.

- **Cyber risks**

Cyber threat scenarios identified as being particularly relevant to the Austrian financial market include data loss or data theft in relation to cloud computing and threats from shadow IT systems (lack of transparency in the IT infrastructure) at cloud providers. Other threats include malware, cryptographic attacks, extortion, zero day attacks and insider fraud.
The increased exchange of information (IOCs, tools etc.), especially through CERTs[3] or international/governmental organisations, is seen as a positive development with regard to cyber attacks. In addition, the product landscape with a security focus is also thought to be developing very positively.
Regulators and supervisors should issue warnings and recommendations when attacks are detected and reported in the sector that could be relevant to other institutions.

The results of the call for input complete the picture painted by the FMA Digitalisation Study. In such a dynamic environment, however, keeping up to date with the latest developments is crucial. The FMA therefore plans to repeat its digitalisation study in 2021 in order to be able to accurately assess driving forces, trends and new developments on the Austrian financial market.

FINTECH POINT OF CONTACT

The Joint ESA Report on Regulatory Sandboxes and Innovation Hubs[4] makes a distinction between “sandboxes” and “innovation hubs” under the umbrella term “innovation facilitators”. One of the most important differences between the sandbox and a hub is that the former can be used to test a business model on the market under the supervision of the FMA. The FMA has a hub in the form of the FinTech Point of

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[2] *SREP stands for supervisory review and evaluation process. It is used to analyse and evaluate the individual risks of a bank and thus ensure that it can operate viably on a sustained basis.*
[3] *CERT stands for computer emergency response team.*
[4] *https://www.esma.europa.eu/sites/default/files/library/jc_2018_74_joint_report_on_regulatory_sandboxes_and_innovation_hubs.pdf.*

PRIORITY FOR SUPERVISON: EMBRACING DIGITALISATION, ADDRESSING THE RISKS
FMA CLOUD ASSESSMENT OF AUSTRIAN *PENSIONSKASSEN*

The FMA's comprehensive analysis of digitalisation in the Austrian financial market[1] has already shown that cloud services are becoming increasingly important in Austria, with almost two thirds of companies in the financial sector aiming to use clouds in their business processes by 2021.
In light of these developments and the associated risks, the FMA began carrying out cloud assessments in the insurance and pension company sector from 2019 onwards, in order to rank the maturity level of cloud service usage measures. These supervision priorities also served to prepare companies for new legal requirements, such as the EIOPA Guidelines on outsourcing to cloud service providers, which apply to all cloud outsourcing agreements concluded or amended after 1 January 2021.

CLOUD USAGE

- *Pensionskassen* (PK) make greater use of clouds than insurers (I): while 88% of *Pensionskassen* use cloud technology, the equivalent figure for insurance undertakings is 54%.
- Almost two-thirds of *Pensionskassen* use one or more public and private clouds. Public clouds also account for almost two-thirds of all cloud deployment models used. Public clouds are more commonly used than private clouds among insurance undertakings too *(> Chart 31).*
- In terms of service models, Software as a Service (SaaS) solutions are most common at both *Pensionskassen* and insurance undertakings *(> Chart 32).*

FINDINGS

- On the five-point maturity scale, where maturity level 5 represents the highest possible maturity level, *Pensionskassen* achieve an average maturity level of 2.9, while insurance undertakings record a value of 3.2 *(> Chart 33).* On the whole, it appears that essential measures to ensure the security of cloud services have been implemented.
- The *Pensionskassen* level is the lowest in the category "Continuous monitoring", while "Migration" has the highest maturity level just ahead of "Risk analysis & due diligence".
- "Contract terms" – for which the highest maturity level was recorded among insur-

***Chart 31:** Share of cloud deployment models used*

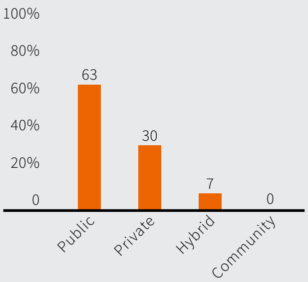


***Chart 32:** Share of cloud service models used*

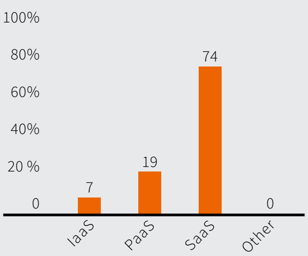


***Chart 33:** Cloud maturity level in pension company and insurance sector*

		I 2019		PK 2020	
GOVERNANCE & CONTROLLING	– Strategic considerations	∅ 2.8	2.4	∅ 3.0	3.0
	– Risk analysis & due diligence		3.2		3.1
OPERATIONAL IMPLEMENTATION	– Contract terms	∅ 3.5	3.9	∅ 2.8	2.9
	– Migration		3.6		3.1
	– Continuous monitoring/review		2.9		2.3
	Average overall maturity level		3.2		2.9

[1] *FMA, Digitalisation in the Austrian financial market –Status Quo, Outlook and Call for Input, June 2019 and FMA, Digitalisation in the Austrian financial market– Call for Input: Results, January 2020.*

ance undertakings – comes in second-last place in the ranking of categories for the pension company sector. Standard contracts based on common standards for cloud use could be used in this area. There is also room for improvement, for example, in the specifications used by *Pensionskassen* for sub-outsourcing and in relation to their control and audit options.

- There is potential for development in such areas as the adaptation of internal IT contingency plans with regard to cloud use or in the implementation of key performance indicator systems for monitoring service quality.
- In contrast, *Pensionskassen* achieve comparatively high levels of maturity in, among other things, the definition of a cloud strategy, the evaluation of the framework conditions prior to potential cloud use, and the definition of migration processes.
- It should be noted, however, that the average maturity levels of the individual *Pensionskassen* vary greatly, ranging from 1.3 to 4.5.

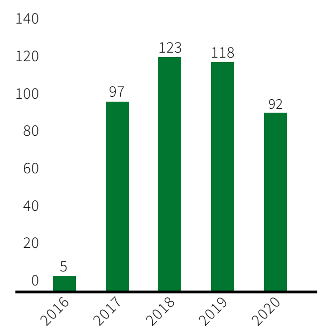
The FMA conducts its cloud assessments every two years in order to monitor the status of IT security measures for cloud services and to be able to incorporate the maturity level into risk scoring for the supervised companies.

Contact set up in 2016. During the reporting year, after the legal basis had been created, the FMA also established a regulatory sandbox, which was launched on 1 September 2020 *(see "Implementation of a regulatory sandbox" article on page 83).* Since then, the FinTech Point of Contact has developed into a hub for communication and coordination on financial innovation topics at the FMA. It has dealt with almost 500 FinTech enquiries, working in close integrated cooperation with experts from all FMA departments and thereby contributing to regulatory transparency in the market. It therefore plays an active role in ensuring the sustainability of technological progress on Austria's financial market.

FINTECH ENQUIRIES

The number of FinTech enquiries decreased in the reporting year, down from 118 to 92 as a result of the economic impact of the Covid-19 pandemic *(> Chart 34)*. In terms of subject area, the year was marked by the entry into force of mandatory registration for certain service providers in connection with virtual currencies, the virtual asset service providers (VASPs), which were included in the due diligence obligations for the prevention of money laundering according to the Financial Markets Anti-Money Laundering Act (FM-GwG; *Finanzmarkt-Geldwäschegesetz*). Since services in relation to cryptoassets are a frequent business model of FinTech companies, a good portion of the enquiries were related to this topic. The continued keen interest in issues related to cryptoassets is striking. Here, questions frequently arise about payment processing, thrown up by the Payment Services Act 2018 (ZaDiG 2018; *Zahlungsdienstegesetz*). Enquiries about business models that involve the mining of cryptoassets using customer assets are on the decline as the interested parties are obviously now aware that such models frequently trigger a licensing obligation under the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*).

Chart 34: *Enquiries to FinTech Point of Contact 2016–2020*



INFORMATION AND COMMUNICATION

The advancing digitalisation on the financial market, and the associated development in financial innovation, make it necessary – not least to ensure legal certainty – to coordinate the activities of European and national supervisors, while also providing targeted information and communication to both established and future market participants. Against this background, the FMA is actively contributing to the supervisory decision-making process regarding financial innovation. The FMA's involvement in the Financial Innovation Standing Committee (FISC) of the European Securities and Markets Authority (ESMA) is worth mentioning in this context. The remit of the FISC comprises financial innovation not only from the point of view of consumer

Table 19: *Enquiries to FinTech Point of Contact regarding business models 2016–2020*

	2016	2017	2018	2019	2020
ICOs/STOs	0	8	10	15	3
Payment services	1	9	30	27	24
Virtual currency trading/ATMs	1	18	24	15	13
Mining	0	5	7	0	0
Automated advisory and trading systems, trading robots etc.	0	9	6	15	6
Crowdfunding and alternative online investments	1	17	8	10	4
FM-GwG	–	–	3	10	20
Other	2	31	35	26	22
Total	**5**	**97**	**123**	**118**	**92**

protection but also in relation to promoting sustainable finance. Through its cooperation with the FISC, the FMA helps to maintain supervisory convergence within the EU. The topics discussed in the FISC are manifold, and also include cybersecurity and cloud outsourcing.

Last year's activities centred mostly on cryptoassets. The FMA made a significant contribution to the European opinion-forming process in relation to these types of assets in 2020, and continues to do so. It has also chaired the Standing Committee since 2020 in the person of Birgit Puck, Director of the Securities Supervision Department. Through its involvement in the FISC, the FMA helps to shape developments in the area of financial innovation, and cryptoassets in particular, in the interest of the European financial market and in close cooperation with its partner authorities.

The FMA also encountered a lot of interest in its regulatory sandbox model. The European Forum for Innovation Facilitators (EFIF), organised by the Joint Committee of the European Supervisory Authorities (ESAs), was set up to promote coordination and cooperation between the national regulatory sandboxes and innovation hubs in order to foster innovation in the financial sector. Special attention was paid during the year under review to the implementation of the European Commission's digital finance strategy published in September.[5] The creation of a procedural framework for cross-border tests in sandboxes of the European Union forms part of this strategy. In this context, the FMA's report on the legal framework, structure and organisation of its regulatory sandbox met with a high level of interest. The procedural framework is to be developed by the members of the EFIF by mid-2021.

The FMA's FinTech Navigator, the information platform on its website, has become an indispensable communication tool for the work of the FinTech Point of Contact and the sandbox. It contains clear and simple information on the regulatory and supervisory basics, provides an initial insight into how a business idea or a business model should be classified, and on potential interfaces to transactions and services subject to authorisation and licensing requirements.

REGTECH UND SUPTECH AT THE FMA

The FMA must collect, securely store, process and understand huge quantities of data in order to effectively and efficiently fulfil its remit of strengthening the stability of the Austrian financial market and confidence in its proper functioning, and of protecting investors, creditors and consumers.

This requires complex technical solutions, broadly referred to as SupTech, as an abbreviation of supervisory technology. Behind this trendy buzzword lies a simple definition, namely the application of technological innovations by supervisory authorities. Meanwhile, the term RegTech refers to the use of FinTech applications to support financial service providers with their reporting and compliance. Technology companies that offer such solutions are also often referred to as RegTechs.[6] The technologies used range from analysis methods for large quantities of data (big data) to

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[5] *Cf. https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en.*

[6] *Cf. Basel Committee on Banking Supervision: Sound Practices on the implications of fintech developments for banks and bank supervisors, February 2018; Financial Stability Institute – Innovative technology in financial supervision (suptech) – the experience of early users, July 2018; ESMA Report on Trends, Risks and Vulnerabilities No. 1/2019.*

PRIORITY FOR SUPERVISION: PROVIDING A SUPERVISORY CONTEXT FOR NEW BUSINESS MODELS

IMPLEMENTATION OF A REGULATORY SANDBOX AT THE FMA

The digitalisation of the financial world and related structural change will significantly shape Austria's future. In order to embrace these changes and support the innovative strength of the Austrian economy, the FMA is proactively addressing the challenges of digitalisation and is offering FinTechs, such as providers of innovative payment technologies and blockchain-based business models, special support to deal with the regulatory framework and supervisory requirements. After the FMA successfully implemented its FinTech Point of Contact as an integrated single point of contact for all regulatory issues related to innovative digital business models, the Austrian legislator created the legal basis for the establishment of a regulatory sandbox at the FMA. In this sandbox, innovative business models can be tested for compliance with regulatory requirements in a supervisory environment.

A SUPERVISORY INCUBATOR FOR FINTECHS

The FMA's regulatory sandbox launched on 1 September 2020. Financial innovations of any kind that require a licence or permission from the FMA can be tested in the context of supervisory law. The goal is for innovative business models to develop to regulatory maturity in the sandbox and enrich the financial market.

Information has been a high priority from the outset: the FMA has set up a portal on its website (www.fma.gv.at/en/fintech-point-of-contact-sandbox/) where everything worth knowing about the procedure and the relevant legal provisions (in particular Article 23a FMABG) is presented in a concise and comprehensible form. Additionally, the FMA provides information on the sandbox at external expert events and via its FinTech Point of Contact. It has also entered into a regular intensive dialogue and exchange of experience with the European Forum for Innovation Facilitators (EFIF)[1], the European platform for all sandboxes and innovation hubs based at supervisory authorities.

In November 2020 the first FinTech submitted an application for admission to the sandbox. The applicant was admitted after the Regulatory Sandbox Advisory Board, a panel of experts at the Federal Ministry of Finance, issued a positive opinion on the existence of an economic interest from a macroeconomic perspective and in terms of business location policy, as well as on the test and market maturity of the business model.

The first sandbox participant is a FinTech that wants to offer an app and web platform for bilateral trading with security tokens. Virtual currencies and their storage, exchange and transfer are also to be offered via the app. In terms of the technology, the business model is based on distributed ledger technology (DLT). The company is seeking a licence as an investment firm pursuant to Article 3 para. 2 WAG 2018, as well as registration as a provider in relation to virtual currencies pursuant to Article 32a in conjunction with Article 2 no. 22 FM-GwG. This is because, even in the sandbox, no financial services may be offered without the necessary authorisation.

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[1] *https://esas-joint-committee.europa.eu/efif/efif-homepage.*

After successful authorisation, the first participant is now in phase 2. This involves pre-support to prepare for the licensing and registration procedure, with the clarification of legal issues and preparation of the actual sandbox test scheduled for phase 3.
Depending on each specific case, the processes of the sandbox procedures bring together several different regulatory and supervisory areas of the FMA. To this extent, the sandbox is also a prototype for the efficiency and effectiveness of the integrated supervisory approach.

the application of machine learning and artificial intelligence through to distributed ledger technology (buzzword: blockchain).
For the FMA, which needs to process data in its capacity as supervisory authority for the financial sector at a time of rapid digital change, the use of innovative technologies is not just indispensable. In fact, SupTech provides the FMA with the opportunity to gain first-hand knowledge and understanding of the technologies used on the market that it supervises.

HORIZON 2020 PROGRAMME

Against the background of the advancing digitalisation of society, the European Commission launched a broadly based research and innovation programme entitled "Horizon 2020" back in 2014. The programme is designed to promote cooperation between research, supervision and innovative businesses and to drive forward the digitalisation process in the European Economic Area (EEA). One of the main priorities is to make the European FinTech sector more competitive and to help create a regulatory level playing field with fair competition throughout the European single market.

SUPTECH TOOL FOR PRIIPS KIDS

As part of the Horizon 2020 programme, the FMA has been working on an interdisciplinary project with the Vienna University of Economics and Business (WU) to develop a SupTech tool to support the risk-based market monitoring of packaged retail and insurance-based investment products (PRIIPs). In accordance with the PRIIPs Regulation[7], the FMA is required to supervise in particular the proper publication and design of these highly standardised key information document (KID) used across all sectors for this type of product.
In Austria, in terms of the number of financial investment products issued, most of the issuing activity covered by the PRIIPs Regulation relates to banks. Depending on issuing cycle (with some products only running for a very short time), this amounts to between 6 000 and 15 000 products per reporting date, which means the same number of PRIIPs KIDs being written and published. The KIDs must be updated to take account of market developments at least once a year, or even daily in the case of certain volatile products, and then re-published. This results in a huge volume of documents on the Austrian market alone, with around 30 000 pages being produced for every reporting date. In addition, the Austrian PRIIPs Enforcement Act (*PRIIP-Vollzugsgesetz*) makes no provision for the (advance) notification of PRIIPs KIDs to the FMA, and the FMA is also not required to approve or endorse them in any way. The KIDs "only" need to be published on the provider's website.
A further complicating factor is that, in contrast to the traditional reporting system, the data from the PRIIPs KIDs is not available in an easily machine-readable form. Rather, the data is contained in thousands of pdf files containing text, figures and tables. Despite the strict requirements of the PRIIPs Regulation, the providers also have a certain amount of freedom in terms of design (e.g. text, formatting etc.). For this reason, and because the specifications for the respective product types, such as bonds or OTC derivatives, differ greatly in some areas, the PRIIPs KIDs are often very

[7] *Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).*

different from one issuer to another and from one product to another despite their common basic structure.

The FMA, as the supervisory authority responsible for compliance with the PRIIPs Regulation therefore faces three major challenges:

- To locate and download all available PRIIPs KIDs on the providers' websites
- To convert the pdf files it finds into a uniform machine-readable form
- To analyse this data and turn into usable data for supervision purposes.

The SupTech tool developed further in cooperation with the WU automates the process of downloading every PRIIPs KID from the relevant websites. The pdf files obtained in this way are also automatically converted into machine-readable text. Using rules-based text mining algorithms, the essential information and figures are extracted from the texts and used to create a statistical market overview. The data is then analysed, once again as part of an automated process. Conspicuous products, product classes and issuers are identified automatically and as part of a rules-based process, forming the basis of risk-based supervision. The rules applied relate, for example, to maximum and minimum performance values, costs, the number of performance scenarios required based on the product term, or certain statistical comparison rules, and are derived from the FMA's supervisory experience.

This (partially) automated SupTech solution enables comprehensive market monitoring in this area, creates a valuable market overview and reliably identifies conspicuous PRIIPs KIDs. As a result, the FMA has been able to assume a pioneering role in PRIIPs supervision in the EEA. A further benefit is that the PRIIPs KIDs prepared by Austrian credit institutions are now of a particularly high standard in terms of their presentation compared with other EU countries.

The SupTech tool is now being further developed as part of the Horizon programme in collaboration with the WU. The main goals are to further reduce the manual effort required, to make the application as user-friendly as possible, to incorporate new and innovative methods into the analysis, and to automate the reporting and visualisation of the data and findings obtained. It has also been shown that artificial intelligence and machine learning in data analysis can reveal patterns and trends that are barely discernible to human operators.

SUPTECH TOOL FOR INVESTMENT FUNDS

Since as long ago as 2010, and thus before the introduction of the PRIIPs KID, European law has required the provision of standardised key information documents for investment funds. Under Austrian law, management companies supervised by the FMA must prepare and publish such key investor information documents (UCITS KIIDs) for all Austrian retail funds. These documents must contain legally prescribed, uniformly structured information, including in particular the objectives and investment policy, performance, risk and return profile, and certain costs of the fund. In contrast to PRIIPs KIDs, however, the FMA is aware of the funds for which UCITS KIIDs are required, which is why there is no need for any fully automated web crawler in this area. Market analysis is already being carried out using data from these UCITS KIIDs, such as the annual FMA market study on the fees charged by Austrian retail funds.[8] Market screenings are also carried out.

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[8] *https://www.fma.gv.at/en/fma-spotlight-on/fees-charged-by-funds/.*

Based on the findings of the PRIIPs project, the Horizon 2020 programme is now evaluating to what extent certain modules of the PRIIPs tool can also be used for the supervision of investment funds and analysis of their information documents. The aim is for anomalies in individual funds to be identified quickly, efficiently and effectively, contributing to a targeted and resource-efficient review of relevant supervision issues.

SUPERVISION OF COMPANIES’ STABILITY

ANALYSIS WORK

STRESS TESTING

BANKS

The European Banking Authority (EBA) had a regular, comprehensive stress test planned for 2020. This was postponed until 2021 due to the challenges and burdens facing all market participants and stakeholders as a result of the Covid-19 pandemic. The OeNB carried out its stress tests as planned.

The European Central Bank (ECB), which directly supervises the largest euro area banks with cross-border operations within the Single Supervisory Mechanism (SSM), therefore conducted a Covid-19 vulnerability analysis at 86 of these significant institutions (SIs), focusing on two scenarios. The scenarios were set out in the June 2020 ECB staff macroeconomic projections, and the methodology used incorporated to a large extent the impact of the monetary, supervisory and fiscal relief measures. The analysis also included the six Austrian SIs that are subject to direct supervision by the ECB.

Overall, the results show that the euro area banking sector is well capitalised to withstand the pandemic-induced stress. However, if the situation worsens compared with the June 2020 projections, banks’ capital depletion would be material in the severe scenario. The results of the analysis help supervisors to challenge banks’ capital projections, foster consistency in the assessment of risks and promote prudent provisioning policies.

INSURANCE UNDERTAKINGS

Stress testing of the Austrian insurance undertakings planned for 2020 also had to be postponed for obvious reasons, and Covid-related special surveys and analysis were conducted instead.

For instance, the FMA carried out three unscheduled surveys at Austrian insurance undertakings on the potential impact of Covid-19 on them. The key findings were:

- Certain segments, such as travel insurance for example, were affected by higher cancellation rates. Across the market as a whole, however, there was no material impact on cancellations in 2020. Nevertheless, customers might choose to terminate or cancel contracts in the segment of business interruption insurance due to contentious claims in relation to Covid-related interruptions and as a result of the ongoing restrictions to business operations, such as in the hospitality industry, which could lead to company closures and bankruptcies.

- Compared year-on-year, all three classes (life, non-life/accident and health) posted less new business, particularly in the first half of 2020. Business gained momentum in the second half of the year, but many companies no longer believed that they would reach the levels of new business previously projected. Premium adjustments played only a minor role when considering the market as a whole. There were no reports of products being modified or new product variants introduced as a direct consequence of Covid.
- In relation to direct insurance benefits, business interruption insurance was one of the insurance product groups affected the most. Ultimately, the extent of the benefit payouts will depend to a large extent on the outcome of legal actions in relation to basic clauses in insurance contracts.

In order to recognise potential liquidity problems in the insurance sector early on, the European Insurance and Occupational Pensions Authority (EIOPA) teamed up with national supervisors to conduct a survey on short-term liquidity risk at selected insurance undertakings. The data received about the three participating Austrian insurance undertakings do not suggest any direct liquidity impact. These additional surveys on liquidity risk will be continued in 2021.

PENSIONSKASSEN

Stress testing at *Pensionskassen* was also deferred in favour of analysis dedicated to specific topics, with the focus here being placed on sustainability risks. Climate change poses a variety of risks for the economy and society, and for *Pensionskassen* too. Sustainability risks encompass environmental, social and governance (ESG) risks, and can have negative effects on companies, for example in relation to their investments, their customer relationships and many other aspects.

The FMA therefore performed various sector assessments. The NACE[1] sector analysis identifies those investments that carry a climate-related transition risk. The NACE codes were assigned to seven predefined sectors: fossil fuel, energy-intensive, utilities, transport, housing, finance and other. In this way, those financial assets that are likely to lose value as a consequence of the transition to a (more) carbon-neutral economy can be filtered out from the portfolio. Additionally, CIC[2] codes were also taken into account. Utilities, transport, energy-intensive activities and housing are marked as being climate-related since they make up the main greenhouse gas areas, while fossil fuel causes high carbon emissions indirectly.[3]

The FMA also analysed portfolios using the PACTA (Paris Agreement Capital Transition Assessment) tool. PACTA has been developed by the 2° Investing Initiative (2DII) think tank in cooperation with various institutions such as globally active commercial banks and national central banks. The open-source tool can be used to assess equity and corporate portfolios (with an existing ISIN[4]) across various sectors that are transi-

[1] NACE is derived from the French Nomenclature statistique des activités économiques dans la Communauté européenne and is the statistical classification of economic activities in the European Union. It was drafted by the EU based on the UN's International standard industrial classification of all economic activities (ISIC).

[2] The Complementary Identification Codes (CIC) are a classification scheme for asset categories that has been developed by EIOPA.

[3] Approach developed by Battiston et al. (2016) and EIOPA Financial Stability Report (December 2018).

[4] The International Securities Identification Number (ISIN) consists of twelve alphanumeric characters and allows unique international identification of securities that are traded mainly (but not exclusively) on the stock exchange.

tioning to a low-carbon economy. It also identifies the potential financial risk for portfolios in case of sudden, disorderly transitions.
The conducted survey appraises the extent to which Austrian *Pensionskassen* are confronted with sustainability risks and take account of ESG factors. The results have shown that all Austrian *Pensionskassen* have ESG risks on their agenda. The survey covered some 1 700 employers with pension company assets worth around € 17.6 billion as at 31 December 2019, equating to a market share of 71% in terms of assets and 13% in terms of employers.
In summary, sustainability risks concern both the asset and liability side of their balance sheets. Due to the set-up of the pension company sector, there does not appear to be any immediate threat. However, it cannot be ruled out that beneficiaries will face pension cuts because of sustainability risks when either the value of assets is reduced or employers can no longer make contributions.

CORPORATE PROVISION FUNDS

Stress testing at corporate provision funds was carried out at the level of individual institutions to monitor their specific risk situation. The results of the 2019 stress tests were used to select those funds that required a repeat of the scenario analysis in 2020. The aim of these stress tests is to obtain additional information on the risk situation of corporate provision funds so that the supervisor can recognise sensitivities and vulnerabilities better and earlier.

FURTHER ANALYSIS

BANKS

The supervisory review and evaluation process (SREP) is a central tool within banking supervision. As part of the SREP, an institution's business model, internal governance and risk management, as well as its capital and liquidity risks, are all individually analysed. Over the past few years the FMA and OeNB have developed the SREP in Austria into an integrated supervisory tool by also incorporating findings from efforts to prevent money laundering and terrorist financing and from conduct and sales supervision. The SREP is thus a tool for in-depth analysis of a bank's overall risk situation.
Based on the principle of proportionality, and depending on the size, structure, nature, scope and complexity of a bank's business model, the full SREP procedures are carried out every year, every two years or every three years. During the years without a full procedure, the SREP is updated accordingly.
While it is the OeNB that carries out the quantitative analysis required for the SREP, the FMA focuses on the internal governance and risk management aspect, which involves an in-depth review and assessment of an institution's internal governance, organisational structure, risk management structures, and risk culture and infrastructure. The FMA is also in charge of the process to adopt the SREP administrative decision, adding a legally binding aspect to the analysis. The assessments in 2020 were performed in accordance with the EBA Guidelines on the pragmatic 2020 supervisory review and evaluation process in light of the Covid-19 crisis. They focused on the areas most affected by the pandemic (e.g. business model and profitability, credit risk, crisis management). The approach for the SREP 2020 was not to prescribe any

quantitative measures to avoid tying up any additional own funds in this time of crisis.
Within the SSM, it is the ECB that is responsible for the SREP of banking groups under its direct supervision, but the national supervisory authorities are closely involved in the process. The ECB also took the pragmatic approach to SREP 2020 and did not prescribe any quantitative measures.

INSURANCE UNDERTAKINGS

In relation to the supervision of insurance undertakings and insurance groups, analysis and inspection work also had to be adapted and re-evaluated in response to the pandemic. The FMA encountered an increased number of enquiries and requests for information from companies, which went hand in hand with the number of management talks rising significantly. The talks primarily centred around business continuity management, the impact of Covid-19 on operational business, and also risk management and risk control. Another focus within the FMA was on expanding and consistently implementing internal models to forecast insurance undertakings' and groups' solvency situation, which was continued and stepped up in 2021. In this context, the main focus was on depicting the market development of capital investment portfolios, and depicting changes in interest rates, as well as changes in the technical provisions and selected positions of the solvency capital requirement (SCR). In addition, a cross-sectional analysis of regular supervisory reports (RSR)[5] was conducted, and topics related to internal auditing within the scope of group supervision were scrutinised with the involvement of all national partner authorities responsible for the supervision of that group.

PENSIONSKASSEN

Supervisory activities had already been adapted during the first coronavirus lockdown, and bolstered to the extent that exchanges with companies were intensified to monitor, evaluate and discuss developments and impact. One focus was on tackling the challenges in relation to business continuity management. The real stress situation also underpinned the relevance of digitalisation and IT equipment; companies seemed to be well prepared and resilient in this regard. The impact of the pandemic on operational business was also analysed, as were the effects of short-time work and rising unemployment rates on the payment of contributions. When viewed across the sector as a whole, the impact of the pandemic turned out to be much less severe than feared at the outset. However, the crisis will very likely result in a fallout in the coming years. Due to measurements based on market values, investments showed a markedly negative performance at the end of March, which improved over the course of the year however, ending 2020 slightly up overall. Regular exchanges with companies were therefore also used to question the implemented risk management systems and investment reactions. The FMA additionally conducted 14 regular management talks, 32 quarterly analyses and 8 annual analyses. One focus analysis delved into the asset class of corporate bonds.

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[5] *Under Solvency II, insurance undertakings are required to routinely submit reports, without being requested to do so, to supervisory authorities containing information that the latter may need to fulfil their tasks.*

ASSET MANAGERS AND CORPORATE PROVISION FUNDS

In 2020 the FMA analysed 32 annual financial statements prepared by licensed asset managers and corporate provision funds, along with four audit reports from branches of foreign asset management companies. Additionally, the Authority processed and analysed 1 864 randomly selected reports on activities and half-yearly reports produced by funds, focusing for instance on the fulfilment of transparency requirements in relation to remuneration.

In line with the supervision priority of "Embracing the opportunities of digitalisation while addressing the risks", analysis centred on the digital link-up of market participants and the ensuing concentration risks. In this context, cloud services and their development over the past few years were also taken into account. IT infrastructure was a further key issue in connection with the universal use of remote offices and related risks.

Apart from scheduled management talks, the FMA held in-depth talks with the management of supervised companies covering both specific subjects and current topics. It also introduced regulatory reporting, at short intervals, of investment funds' net cash flows and liquidity, and asked corporate provision funds to submit monthly performance data on payouts and guaranteed payments, from April 2020 onwards. This enables the FMA to monitor the major Covid-related risks, as well as the measures the supervised companies have taken or plan to take.

The FMA also participated in a common supervisory action (CSA) coordinated by the European Securities and Markets Authority (ESMA) on UCITS liquidity risk management in accordance with the UCITS Directive[6].

Furthermore, the FMA took part in a supervisory exercise on liquidity risks of investment funds with significant exposures to corporate debt and real estate assets, which was coordinated by ESMA on the recommendation of the European Systemic Risk Board (ESRB). The aim was to assess the liquidity situation of these funds, due to the pandemic on a spot check basis, and to ensure compliance with statutory requirements in relation to liquidity risk management, achieved by internal stress testing for example.

In addition to ongoing analysis of reporting data, the evaluation of the annual analysis questionnaire, which all licensed asset managers are required to complete, also contributed important topical findings.

INVESTMENT SERVICE PROVIDERS

With regard to the supervision of investment service providers, the annual (electronic) analysis questionnaire for investment firms and investment service providers is an important supervisory tool. The questionnaire was completed by 111 Austrian investment firms and 22 EEA investment firms during the reporting year, yielding crucial figures, data and facts for the FMA's analysis work. Evaluating and analysing this data provides the FMA with important information on the activities of the supervised companies as well as on 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.

[6] *Council Directive 85/611/EEC of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).*

BENCHMARKS

Following analysis in 2018 of the European benchmarks used in Austrian loan agreements, the FMA repeated it in 2020. Based on a risk-based sample of 31 Austrian banks, quantitative key figures were collected and extrapolated, and qualitative questions were asked about the handling of risks in connection with the IBOR[7] reform (i.e. the reform of the former system of interest rate benchmarks).

ON-SITE MEASURES

On-site measures are an important supervisory tool for the FMA – and used both to glean information and to check whether supervisory measures imposed by the Authority have been implemented by the companies and whether the relevant legal requirements are being met. The term "on-site measure" refers to both more comprehensive on-site inspections and to less thorough, more flexible inspections. On-site measures complement the FMA's ongoing analysis work, which mainly draws on reporting data, annual reports and other regularly available data or information requested on a case-by-case basis.

The FMA approaches on-site measures in a risk-oriented manner: larger, more complex and therefore riskier companies are inspected more often than smaller companies that only pose a limited risk to financial market stability. To this end, the FMA and the OeNB always jointly prepare an inspection plan for the coming year. In addition to these annual plans, on-site measures are also carried out on an ad hoc basis to check suddenly occurring incidents or serious information straight away and quickly gain a clear picture of a company that finds itself in a difficult situation.

On-site measures are performed in all areas of supervision. In the area of banking supervision and in some areas of securities supervision, the FMA commissions its long-established supervision partner, the OeNB, to carry out the inspections. With regard to significant banking groups for which the ECB bears direct supervisory responsibility in the context of the Single Supervisory Mechanism (SSM), inspections are carried out directly by the ECB with the involvement of the FMA and OeNB.

Owing to the many challenges and burdens facing the supervised companies due to the Covid-19 pandemic, as well as the massive restrictions imposed by lockdowns, the on-site inspection programme originally planned for 2020 had to be selectively cut back (> *Table 20*). A physical on-site presence was replaced or supplemented by off-site inspections and analysis work, where possible, for example by logging into supervised companies' IT systems remotely or using Skype conferences. In terms of subject area, and in line with the FMA's supervision and inspection priorities for 2020, key issues were governance systems, IT security and digitalisation, and the prevention of money laundering.

IT SECURITY

The IT checks carried out during the reporting year focused on cyber and IT security risks, as well as on business continuity and incident management. Specific attention

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[7] *IBOR stands for Interbank Offered Rate, a system of interest rate benchmarks (e.g. LIBOR or EONIA) that banks use when granting each other loans. In the course of implementation of the European Benchmarks Regulation, this system is now being reformed and replaced by so-called risk-free rates (RFRs).*

***Table 20:** On-site measures 2016–2020*

	2016	2017	2018	2019	2020
Banks:					
– Small and regional banks	26	30	30	39	14
– Significant banks	11	11	11	13	10
– Conduct and sales	57	61	32*	36	24
Insurance undertakings	26	28	28	28	22
Asset managers:					
– (Real-estate) investment fund management companies and AIFMs	14	14	12	8	6
– Custodian banks, depositaries	5	6	5	5	0
– Portfolio management at investment firms and banks	4	5	4	11	11
Investment service providers	43	37	48	41	35
Pensionskassen	4	2	2	2	2
Corporate provision funds	5	3	6	2	2
Market infrastructures	3	1	3	3	2
Prevention of money laundering and terrorist financing	62	67	62	67	48
Benchmark administrator	–	–	–	–	1

* The figure from 2018 onwards only accounts for measures taken at banks; the figures for earlier periods also include measures at other supervised companies.

was also devoted to inspecting banks' IT authorisation schemes. The EBA Guidelines on ICT and security risk management, which have been in effect since June 2020, have been taken into account since the second half of the year.

BANKS

The 19 inspection mandates that the FMA gave to the OeNB in 2020 covered the following priorities: internal capital adequacy assessment process (ICAAP), counterparty risk and IT security risks. The FMA itself carried out on-site inspections to check compliance with the statutory conduct rules in relation to the provision of banking and securities services, and the distribution of financial instruments and arrangement of insurance. In total, 14 on-site inspections were carried out during the year under review.

INSURANCE UNDERTAKINGS

In the insurance sector, on-site activities were carried out in 22 cases. These inspections concerned primarily reporting processes and the quality of reporting data, at four insurance undertakings, and the amount of the provision for claims as well as the claims settlement process, at three insurance undertakings. The inspection plan had to be modified as a result of the lockdowns, with inspections being altered to take place without an on-site presence. Nevertheless, the quality of inspections was upheld despite these restrictions.

Eight of the 22 activities concerned internal models relating to the calculation of the solvency capital requirement (SCR) and were performed in the course of applications for the approval of changes to those models.

PENSIONSKASSEN

Two *Pensionskassen* were inspected on site in 2020, with the focus being on investments. As in the previous year, implementation of the amended provisions in the *Pensionskassen* Act (PKG; *Pensionskassengesetz*) dominated these inspections.

ASSET MANAGERS

With regard to the supervision of asset managers (investment fund management companies, alternative investment fund managers, custodian banks, individual portfolio management at investment firms and banks), the FMA's digitalisation priority continued to dominate on-site inspections. IT security and cybersecurity were reviewed, as was the digital transformation of business divisions. Naturally, most of the processes involved in asset management are IT-based. The main focus during inspections of the systems and processes employed was increasing operational security through a higher degree of automation while at the same time reducing the need for manual maintenance work.

With the increasing number of different IT systems and programs used, the requirements being made of authorisation management systems are also rising; first and foremost they should prevent any misuse and unauthorised manipulation of data and IT systems. On-site inspections therefore focused more strongly on appropriate authorisation management systems. Some of this inspection work had to be carried out remotely via video conference.

INVESTMENT SERVICE PROVIDERS

IT security and digitalisation were also main focuses during on-site inspections at investment service providers. The inspection of those providers' internal auditing was another priority. Additionally, the FMA also made use of its statutory power, introduced in 2018, to directly inspect the sale of securities by tied agents and securities brokers, doing so on 15 occasions.

PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

The FMA carried out a total of 67 on-site measures during the year under review in order to monitor compliance with due diligence procedures for the prevention of money laundering and terrorist financing. Of these, 37 took the form of on-site inspections: 30 of them at banks and seven at investment firms. The FMA also carried out 30 examinations in the reporting year, of which 28 at banks and financial institutions and two at payment institutions' agents. Additionally, the FMA held ten management talks in 2020.

MANAGEMENT TALKS

Regular structured talks with the management of supervised companies are another important source of information for continued supervision. Management talks are usually conducted annually. Their aims include maintaining contact with the management and examining in greater detail the business model, strategy and risk assessment of the companies concerned. Management talks are also held to discuss current topics and supervision priorities with the companies.

The need to modify the FMA's supervisory tools in response to the Covid-19 pandemic, the need to explain regulatory flexibility, and a higher need for ad hoc communication during the crisis all contributed to the number of management talks soaring *(> Table 21).* For instance, apart from the scheduled management talks, another 194 structured and documented telephone conversations were held with the management of asset management companies and corporate provision funds between March and June 2020.

Table 21: *Management talks 2016–2020*

	2016	2017	2018	2019	2020
Banks	68	107	95	111	150
– *Conduct and sales*	*23*	*18*	*19**	*19*	*17*
Insurance undertakings	47	55	89	103	150
Asset managers (real-estate) investment fund management companies and AIFMs)	32	30	27	24	37
Investment service providers	74	74	61	67	41
Pensionskassen	14	12	13	13	24
Corporate provision funds	8	8	8	8	12
Market infrastructures	–	–	–	1	2
Prevention of money laundering and terrorist financing	–	–	10	10	8
Benchmark administrators	–	–	–	–	2

* The figure from 2018 onwards only accounts for management talks at banks; the figures for earlier periods also include talks at other supervised companies.

OFFICIAL PROCESSES

LICENCES AND REGISTRATIONS

The number of expired licences (either relinquished, withdrawn or no longer required following a merger) clearly exceeded the number of new licences once again in 2020. This is in line with the long-term consolidation trend in evidence on the Austrian financial market.

In relation to banks, the supervisor had to step in in three cases. At the end of the process, these banks withdrew from the market.

■ By decision of 7 February 2020, the General Court of the European Union revoked its earlier decision of 20 November 2019 suspending on a temporary basis the implementation of the ECB's decision of 15 November 2019 with which it had withdrawn the banking authorisation of an Austrian less significant institution (LSI). The withdrawal of the banking authorisation therefore became legally effective again as of 7 February 2020, and the company concerned ceased to be a bank on that date. The company has filed an appeal, which is still pending with no decision having been reached by the General Court as at the beginning of 2021.

Since the FMA had legitimate doubts about the members of the former bank's management board being able to guarantee a proper resolution of the banking business, it filed an application with the court for the appointment of a liquidator pursuant to Article 6 para. 5 of the Austrian Banking Act (BWG; *Bankwesengesetz*) on the same day as the

Table 22: *Authorisation and registration procedures concluded in 2020*

	New	Change	Extension	Revocation/ Expiry	Withdrawal
Banks	0	0	1	1	1
Payment service providers	0	0	0	0	0
Insurance undertakings	0	0	3	0	0
Asset managers:					
– Investment fund management companies	0	0	0	0	0
– Licensed AIFMs (incl. real estate investment fund management companies)	0	0	0	0	0
– Registered AIFMs	4	0	1	1	0
Investment service providers	2	0	0	4	0
Pensionskassen	0	0	0	0	0
Corporate provision funds	0	0	0	0	0
Market infrastructures	0	0	0	0	0
Benchmark administrator	1	0	0	0	0
Total	**7**	**0**	**5**	**6**	**1**

bank's authorisation was withdrawn again. The court subsequently appointed two liquidators for the former bank on 12 February 2020. These court-appointed liquidators filed a petition for insolvency for the company on 2 March 2020, which was granted by the competent court. After several legal procedures, in which issues relating to the interplay of BWG, Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*), company law and insolvency legislation had to be clarified, the Supreme Court confirmed the decision pertaining to the opening of insolvency proceedings of 2 March 2020 as court of last instance on 29 September 2020. The insolvency proceedings, which have been ongoing since then, are thus now legally binding. The decision is final, and the bank remains in liquidation under insolvency law.

- On 14 July 2020 the OeNB performed an on-site inspection at a regional bank, in the course of which it found grave irregularities, which even led it to suspect that serious criminal offences had been committed by that credit institution's bodies. The FMA consequently issued an administrative decision with immediate effect on the same day, prohibiting the continuation of business operations and appointing an external auditor as government commissioner. On 15 July 2020 the FMA forwarded a comprehensive statement of facts to the public prosecutors.

The government commissioner provided an interim statement on 24 July 2020 in which he stated that the credit institution had been heavily indebted and insolvent at the time of the continuation of its business operations being prohibited on 14 July 2020. The FMA therefore filed a petition with the competent court to institute bankruptcy proceedings over the credit institution's assets on 27 July 2020. The bankruptcy proceedings were instituted on 28 July. The institution of bankruptcy proceedings entails the withdrawal of the licence, in accordance with Article 6 para. 2 no. 4 BWG.

- On 19 August 2020 the FMA issued an administrative decision with immediate effect, appointing an external auditor to assist the management board of a bank, an LSI according to European regulations, as a temporary administrator pursuant to Article 46 BaSAG. The appointment of a temporary administrator constitutes an early intervention measure, allowing the FMA to counteract actual or potential breaches of supervisory provisions at the earliest possible stage. The temporary administrator is tasked with finding and implementing solutions to ensure compliance with supervisory law. The directors of the bank are required to cooperate with the temporary administrator, and to actively involve her in all operational tasks and responsibilities in particular. The management board is also required to obtain the temporary administrator's consent prior to taking a decision about any significant transactions.

At an extraordinary general meeting on 29 January 2021, the shareholders decided to resolve the bank themselves. The temporary administrator appointed by the FMA will assist in the process and monitor it.

With regard to asset managers, the number of investment fund management companies and licensed alternative investment fund managers (AFIMs) remained stable. Four companies were registered as new AIFMs, one company cancelled its registration. One registered AIFM was granted an additional authorisation to manage European venture capital funds pursuant to the EuVECA Regulation[8], and a new benchmark administrator was also licensed.

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[8] *Regulation (EU) No 345/2013 on European venture capital funds.*

Investment service providers encountered a new regulatory environment. Together with the opportunities associated with digitalisation, this led to the development of new and differentiated business models and to new licences being granted. In 2020 the FMA held preliminary talks about regulatory and supervisory requirements with 13 interested parties; these have so far resulted in six new applications for the granting of a licence being filed in accordance with the Securities Supervision Act 2018 (WAG 2018; *Wertpapieraufsichtsgesetz*).

One market infrastructure had to be newly licensed in accordance with the requirements of the European CSDR[9].

In 2020 the FMA approved three applications from Austrian insurance undertakings for an extension of the scope of their licences. These concerned the insurance classes 2 (sickness), 7 (goods in transit) and 18 (assistance). The insurance undertakings had previously already been granted licences for engaging in insurance activities and now applied for an additional insurance class to expand their business.

FIT AND PROPER ASSESSMENTS

The FMA conducted a total of 598 fit and proper assessments in 2020 in order to evaluate the professional and personal suitability of members of the management, the supervisory board and specific function holders in the supervised companies. The vast majority of these assessments related to members of executive bodies, i.e. managing directors or supervisory board members. As an integrated supervisory authority, the FMA endeavours to apply all fit and proper requirements, assessments and procedures in an equivalent manner across all sectors, inasmuch as regulatory provisions allow.

In relation to the supervision of significant institutions (SIs), the ECB is responsible for formal decision-making based on fit and proper assessments. In relation to its own area of supervision, the FMA published a comprehensive update to its Fit & Proper Circular in 2018; new requirements for the person heading the compliance function as defined in the BWG were introduced in 2019. The updated suitability requirements for

***Table 23:** Fit and proper tests concluded in 2020*

	Management	Supervisory board	Function holders
Banks LSIs	63	235	11
Banks SIs	30	78	18
– Conduct and sales supervision	*3*	–	–
Payment service providers	0	0	0
Insurance undertakings	19	51	36
Asset managers:			
– Investment fund management companies	2	8	5
– AIFMs (incl. real estate investment fund management companies)	8	2	0
– Custodian banks	4	–	–
Investment service providers	11	0	0
Pensionskassen	2	0	6
Corporate provision funds	2	4	0
Market infrastructures	0	0	0
Total	**144**	**378**	**76**

[9] *Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.*

the management and the supervisory board, as well as the heads of internal control functions have been taken account of in the assessments since then. Particular attention is awarded to assessing supervisory board members' formal independence.

OUTSOURCING

Supervised companies, banks included, notified the FMA of 674 instances of material operational tasks being outsourced in the reporting year. Outsourcing may be advantageous for companies in all areas of the financial market, and in many respects too. It can improve cost efficiency and allow for greater flexibility. In the case of decentralised sectors, outsourcing to sector-wide institutions can help pool knowledge and implement uniform standards.

Asset managers and corporate provision funds may delegate tasks to third parties. Most outsourcing in the asset management sector involves asset managers delegating specific tasks for individual funds, such as all asset management, to third parties.

Outsourcing is becoming ever more important with the advance of digitalisation. Specific corporate processes can be taken over by specialised providers of IT services, for example online and video identification services in connection with Know Your Customer or services in the field of data science where providers process and analyse customer data. Nowadays, entire IT systems are also increasingly being outsourced to the cloud.

	2020
Banks	335
Payment service providers	5
Insurance undertakings	24
Asset managers:	
– Investment fund management companies	87
– AIFMs (incl. real estate investment fund management companies)	206
– Custodian banks	0
Pensionskassen	12
Corporate provision funds	5
Market infrastructures	0
Total	**674**

Table 24: *Outsourcing approved and/or notified in 2020*

FURTHER SELECTED SUPERVISION CASES

SREP MEASURES

The capital resources of Austrian credit institutions are monitored by the FMA and ECB on an ongoing basis. First and foremost, banks are required to comply with minimum capital requirements (Pillar 1) in order to guarantee uniform and standardised coverage of credit, market, operational and settlement risk.

Additionally, banks are also required to have sufficient capital to secure all of the essential risks associated with banking business and operations (Pillar 2). This additional capital requirement is determined in the supervisory review and evaluation process (SREP). It is the FMA that sets the additional capital requirement for the banks that are under its direct supervision, the less significant institutions (LSIs), while the ECB performs this task for the significant institutions (SIs) that it supervises directly. Smaller credit institutions in decentralised sectors are analysed by the FMA using a proportional, simplified approach that takes account of their business model.

The FMA made 349 SREP decisions in 2020 in relation to LSIs (2019: 397), with the ECB making seven decisions in relation to SIs (2019: 6) *(> Table 25).*

In the area of insurance supervision, the FMA endorsed two applications for the approval of a changed model submitted by an Austrian insurance group, and contributed to two additional model changes in the capacity of responsible supervisory authority in 2020. The FMA was the responsible supervisory authority as it supervises subsidiaries of groups that are authorised in another Member State and that use the internal group model also for calculating their individual own funds requirements. Internal group models are approved by way of common decisions adopted by all

***Table 25:** SREP decisions 2016–2020*

	2016	2017	2018	2019	2020
SREP decisions LSIs	1	442	410	397	349
SREP decisions SIs	8	8	7	6	7

***Table 26:** Approval of internal models in insurance sector 2016–2020*

	2016	2017	2018	2019	2020
Approval of (partial) internal models of individual companies	0	3	4	5	5
Approval of (partial) internal models of insurance groups	0	2	1	2	2

responsible supervisory authorities in supervisory colleges. As shown in Table 26, insurers continued to make increasing use of models.

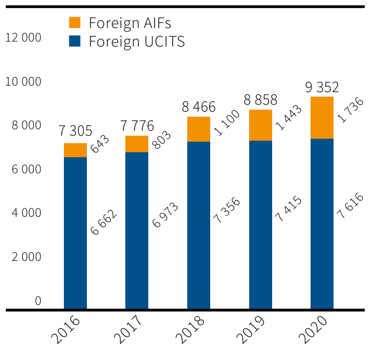

***Chart 35:** Number of foreign funds notified for sale in Austria 2016–2020*

SUPERVISION OF FOREIGN INVESTMENT FUNDS

The number of foreign funds notified for sale in Austria continued to increase. Specifically, the number of foreign alternative investment funds (AIFs) has risen notably, by around +20%, while the number of foreign UCITS has grown only slightly *(> Chart 35)*. These funds still originate mainly from Germany, France, Ireland, Luxembourg and the UK. As has been the case over the last few years, many UK funds relocated to another Member State as a result of Brexit.

Continued supervision of foreign investment funds particularly deals with procedures for notification of the sale in Austria of UCITS and AIFs from the European Economic Area (EEA); the competent authority of the home country submits the requisite documents to the FMA. There is also a wealth of fund-specific, ongoing notification procedures relating, for example, to the submission of reports on activities and half-yearly reports, key investor information documents and prospectuses. The FMA also needs to be notified of mergers, changes of names, and the dissolution of funds.

At 11 474, the number of procedures related to the continued supervision of foreign investment funds hit another record high in 2020 *(> Table 27)*.

***Table 27:** Continued supervision of foreign investment funds 2016–2020*

	2016	2017	2018	2019	2020
Procedures with foreign UCITS	6 993	8 901	9 367	9 198	10 117
– Notifications	*680*	*881*	*902*	*816*	*742*
Procedures with foreign AIFs	489	687	814	1 179	1 357
– Notifications	*329*	*369*	*493*	*681*	*607*
Total	**7 482**	**9 588**	**10 181**	**10 377**	**11 474**

COLLEGES: A TOOL FOR CROSS-BORDER COOPERATION ON SUPERVISION

The companies supervised by the FMA not only operate on the Austrian market. Some of them also offer their services internationally, either through branches under the freedom to provide services in the EEA, or through subsidiaries elsewhere in the EU and in other foreign countries. What this means for the FMA is that a close working relationship with the host authorities responsible for such subsidiaries is essential. In its capacity as the home authority of the parent company in the case of Austrian groups with international operations, the FMA is responsible for coordinating overall group supervision through supervisory colleges. These colleges, at which key group-wide supervisory issues are discussed and decisions on group supervision made, meet at least once per year and are chaired by the FMA. Due to the coronavirus pandemic, the colleges had to be held by telephone or video conference. Furthermore, owing to additional information being needed, bilateral and multilateral contacts with other supervisory authorities increased as well.

BANKING SUPERVISION

A supervisory college was set up for seven banking groups based in Austria in 2020, with this figure dropping to six by the end of the year. In accordance with the European rules governing supervisory colleges, these colleges decide annually on group-wide capital and liquidity adequacy and on group-wide recovery plans.

Three of these banking groups – Erste Group Bank AG, Raiffeisen Bank International AG and Sberbank Europe AG – are classed as significant institutions within the SSM and therefore supervised directly by the European Central Bank. The ECB is also responsible for group supervision and for chairing the respective colleges. However, the FMA still plays a key role in the work of the colleges through the joint supervisory teams.

With regard to a further three banking groups – Bausparkasse Wüstenrot AG, Hypo-Bank Burgenland AG and Porsche Bank AG – the FMA is the competent supervisor and therefore also chairs the respective supervisory colleges.

The EBA, of course, also reacted to the new situation and issued Guidelines on the pragmatic 2020 supervisory review and evaluation process in light of the Covid-19 crisis (EBA/GL/2020/10) on 23 July 2020. The guidelines specify that competent authorities may adjust the assessments for the 2020 SREP cycle to reflect the exceptional circumstances entailed by the Covid-19 pandemic. The new risk situation (vulnerabilities in the context of the crisis, material changes) had to be considered in particular. If the risk situation of the credit institution has not changed materially, the scores (to individual risks to capital and liquidity) assigned in the 2019 SREP cycle were allowed to remain unchanged. In terms of the supervisory measures applied in the 2020 cycle, the EBA communicated to the supervisory authorities its preference for qualitative measures. With government support programmes and moratoria in all likelihood expiring in the course of 2021, the current 2021 SREP cycle should particularly address possible adverse risk scenarios that could materialise, as well as credit institutions' sensitivity to it.

INSURANCE SUPERVISION

The FMA is the responsible group supervisor for five insurance groups based in Austria with international operations: VIG Vienna Insurance Group, UNIQA Insurance Group AG, Grawe Gruppe AG, Wüstenrot Versicherungs-AG and Merkur Versicherung AG. As part of this responsibility, the FMA cooperates with the respective supervisory authorities of the subsidiaries, exchanges relevant information on the subsidiaries' situation, and coordinates and harmonises supervisory cooperation. The FMA organises a standardised exchange of information through bilateral and multilateral meetings and teleconferences. However, it also plans and coordinates joint supervisory activities, such as on-site inspections and analysis. The result of this cooperation is directly incorporated into the financial and risk analysis of the insurance groups and therefore has a direct impact on the future risk-based design of supervisory activity for those groups.

FINANCIAL MARKET INFRASTRUCTURES

Central Counterparty Austria (CCP.A) is responsible for the clearing and risk management of all CCP-eligible securities on Wiener Börse AG.

In accordance with the European Market Infrastructure Regulation (EMIR)[10], a supervisory college must be held for CCPs at least once per year, ideally in physical form, and chaired by the authority responsible for that central counterparty. The CCP.A supervisory college took place for the first time in the form of a video conference in 2020. The composition of the college was unchanged, as in earlier years. The invited participants were, again, ESMA (the only non-voting member), the ECB, the OeNB and the supervisory authorities of the main clearing members of CCP.A. The composition will change in 2021 as a result of Brexit, with the UK ceasing to be involved.

The FMA also participated as a voting member in the college for EuroCCP, a central counterparty based in the Netherlands and linked to the Austrian OeKB CSD GmbH in 2020.

BENCHMARKS

The EU Benchmarks Regulation (BMR)[11] provides for the establishment of supervisory colleges for significant European benchmarks ("critical benchmarks"). The national authorities responsible for the administrator and contributors (banks that provide input data for benchmarks), as well as ESMA, are represented in these colleges. Also represented are those authorities in which the critical benchmark in question plays a key role in terms of financial stability, market integrity and the financing of households and companies.

The supervisory colleges guarantee the exchange of information between the competent authorities and the harmonisation of their activities and supervision measures, in the interests of the harmonised application of the BMR and convergence in supervisory practice.

There were two supervisory colleges in 2020: the EURIBOR college and the LIBOR[12] college. These colleges, in which the FMA is also represented, are chaired by the national authority responsible for the administrator in each case. This is the Belgian Financial Services and Markets Authority (FSMA) in the case of the EURIBOR college and the UK's Financial Conduct Authority (FCA) in the case of the LIBOR college. In 2020 the EURIBOR college primarily dealt with the impact of the Covid-19 pandemic on the panel banks, as well as with EURIBOR calculation.

The LIBOR college's main issue was the planned discontinuation of most of the LIBOR rates by the end of 2021. The LIBOR college was terminated as at the end of 2020. With the UK's withdrawal from the EU, LIBOR is no longer considered a critical benchmark as defined in the BMR and the college is therefore no longer legally required.

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[10] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

[11] Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

[12] LIBOR (London Interbank Offered Rate) is a benchmark interest rate for unsecured short-term lending of up to 12 months in GBP, USD, JPY, CHF and EUR, which is used as a benchmark for a variety of financial instruments, loan agreements, derivatives and investment funds.

PRIORITY FOR SUPERVISION: STRENGTHENING GOVERNANCE

INTENSIVE SUPERVISORY DIALOGUE TO STRENGTHEN THE GOVERNANCE CULTURE

The term governance encompasses all of the internal rules, processes and mechanisms that a company needs to put in place to ensure that it is managed effectively and prudently: organisational structure and the corresponding areas of responsibility; procedures for identifying, managing, monitoring and reporting actual and potential future risks; and internal control functions. Optimised membership of the management and supervisory bodies enables critical discourse and informed decision-making. This is where the independent members on the supervisory board have a particularly important role. Well-connected, active key functions (e.g. anti-money laundering officer, compliance, internal audit and risk management functions), whose specialists and managers are aware of what the supervisory authority expects of them, make a key contribution to a healthy risk culture in the company. The FMA consequently made the strengthening of the governance culture one of its main focuses during its dialogue with stakeholders in 2020.

FOCUS AREA: SUPERVISORY BOARD

In the insurance sector, the supervisory board and its audit committee were a particular focus. The goal was to work towards improving the quality of the supervisory board's fulfilment of its remit. With regard to investment fund management companies, the focus was on having a sufficient number of independent members in the supervisory board, especially in cases where there is a group link between the management company and the depositary.

FOCUS AREA: INTERNAL CONTROL FUNCTIONS

Internal control functions are located upstream of the supervisory authority in their control activities and are therefore an important point of contact for the latter. The focus here was on communicating the FMA's expectations of these functions clearly and comprehensively. To help achieve this aim, the revised FMA Minimum Standards on internal auditing were published at the beginning of the year. These provide a guide for credit and financial institutions and set out the FMA's legal opinions and practical conduct recommendations.

INSURANCE UNDERTAKINGS

In 2020 the FMA entered into a close dialogue with the Internal Audit and Internal Control Committees of the Austrian Insurance Association (VVO). In the form of practice dialogues, new developments in regulation and supervision were discussed with those responsible for the internal audit function of insurance undertakings. A strong VAG compliance function is an essential component of a good governance system in insurance undertakings. Ongoing close contact and exchange with the FMA strengthens the position of the function within the undertaking while also serving to efficiently and effectively embed essential supervisory requirements in that undertaking.

In insurance supervision, another focus was placed on group governance in order to be able to identify group-wide weaknesses in the governance system in an even more targeted manner.

BANKS

For banks, a regular dialogue forum was set up with the heads of internal audit of those credit institutions that are under the direct supervision of the FMA.
In addition, the creation of a securities compliance function has been mandatory at credit institutions for many years as an essential element of proper corporate governance and is already established practice. This is an area in which the FMA can draw on many years of supervisory practice. In the course of introducing mandatory BWG compliance processes and a BWG compliance function at significant credit institutions (total assets of more than € 5 billion), uniform internal supervisory standards on the governance requirements for the key compliance function have been developed to ensure an integrated and convergent supervisory approach. These are to form the basis for further supervisory activities.
Within the framework of governance workshops, the governance structures at selected credit institutions were analysed in greater detail in specific cases. Here, too, a special focus was placed on assessing the internal audit and the BWG compliance function.

ASSET MANAGERS

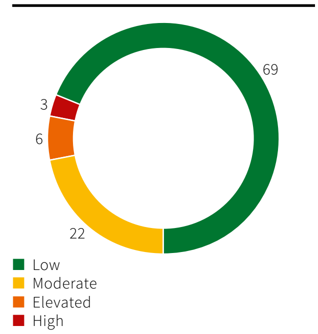
In the case of asset managers, the focus was on compliance with the requirements for internal control systems at investment firms and credit institutions in the context of portfolio management, which was also analysed in the course of on-site inspections.
Another focus of on-site inspections and management talks was on ensuring governance within the group of companies at investment fund management companies, real estate investment fund management companies, corporate provision funds, AIFMs and custodian banks, especially with regard to the ongoing due diligence of activities outsourced within the group of companies. The implementation of the FMA Minimum Standards for special-purpose credit institutions and AIFMs for performing due diligence in company groups was also discussed during the management talks.

SUPERVISION OF FINANCIAL PRODUCTS AND DISTRIBUTION

CONDUCT AND SALES SUPERVISION

Rules of conduct that must be observed by supervised companies when selling financial products and services are key to guaranteeing an appropriate level of consumer protection. Through its regulation and supervisory activity, the FMA ensures that customers are properly advised and informed.
The FMA pursues a risk-oriented approach to conduct and sales supervision. To this end, the Authority carries out a risk classification of banks, and groups them into four risk categories (low, moderate, elevated, high) according to data and figures on the distribution of insurance products and investment services, as well as banks' sales figures. In 2020, 3% of the banks carried a high risk, with this 3% looking after 36% of all bank clients. Another 6% represented an elevated risk, 22% were associated with a moderate risk, and 69% of banks were classed at the lowest level of risk *(> Chart 36).*

***Chart 36:** Conduct risk at banks 2020 (in %)*



BANKING

Various special studies were carried out in relation to conduct and sales supervision in the reporting year, supplementing and extending continued supervision; they are explained in brief below.

SUSTAINABLE LENDING: ONLINE CONSUMER LOANS

The volume of new consumer loans has been steadily growing over the past few years. While the effective interest rate for home loans has dropped considerably in the low rate environment prevalent since the global financial crisis, the interest charged on consumer loans has remained consistently high.
Consumer loans are a prime example of the changing banking landscape: it is no longer about relationships but transactions. Borrowers used to apply for a loan in person at their house bank; nowadays a couple of clicks suffice and the consumer loan is theirs.
With loans being available so quickly and readily, consumers may be tempted to take out an online loan without giving it a second thought. This trend brings new challenges for collective consumer protection. Consequently, the FMA has been focusing more strongly on examining the phase when business relationships between credit

institutions and their potential customers are being established. In the competition for new borrowers and the wish to establish particularly lucrative financial products in the market, information obligations and transparency requirements must not be overlooked or pushed aside. From the perspective of collective consumer protection it is of vital importance that consumers are provided with the information required by law in a manner that they find easily comprehensible and accessible (using appropriate media and technology), particularly during this phase.

The FMA therefore prioritised monitoring compliance with statutory transparency requirements in credit institutions' advertising, and also analysed the details about interest and fees provided in advertisements. All in all, while no serious weaknesses were detected, there was still room for improvement. The FMA addressed the identified shortcomings at the banks concerned and communicated its expectations regarding implementation of the information and transparency requirements to the sector as a whole. The Authority also launched an information campaign for consumers, explaining what they should look out for in relation to consumer loans.

CUSTOMER INFORMATION UNDER THE PRIIPS REGULATION

Packaged retail and insurance-based investment products (PRIIPs) should be easy for investors to understand and compare. Consequently, under the terms of the PRIIPs Regulation[1], standardised key information documents (KIDs) are required for such products. Compared with 2019, the number of such PRIIPs KIDs has fallen, indicating that the market has consolidated since then. However, over the same period, their quality has improved: despite detailed analysis of more issuers, the number and gravity of anomalies in the examined PRIIPs KIDs have decreased. The FMA selected PRIIPs KIDs published by 36 Austrian banks on a risk-based basis and analysed them using a partially automated tool.

Under the EU's Horizon 2020 research and innovation programme, the FMA and the Vienna University of Economics and Business Administration jointly developed the tool further, including the addition of an automated reporting function. This SupTech tool strengthens risk-based supervision even further.

Since the introduction of the PRIIPs Regulation the FMA has also checked whether the KID has been published on the respective website for every new or modified insurance-based investment product for which the actuarial bases are submitted, and carried out a plausibility check of the content. This standardised check focuses on the risk indicator used, and the presentation of costs and performance.

INSURANCE MEDIATION BY CREDIT INSTITUTIONS: IDD IMPLEMENTATION

Almost every credit institution in Austria sells insurance products (2019: 81.29%). The Insurance Distribution Directive (IDD)[2] now includes all distribution channels used by insurance undertakings – including banks – in one EU-wide regulatory framework. To gain an initial overview of the market's implementation of the related provisions, the FMA selected a representative group of credit institutions and verified adherence to

[1] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

[2] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

the IDD rules. The outcome was generally positive. The FMA will continue its IDD conduct focus in 2021.

BUSINESS CONDUCT FOCUS IN INSURANCE SUPERVISION

Insurance supervision pursues a holistic approach to regulation and supervision based on an insurance product's life cycle. Accordingly, to strengthen collective consumer protection and mitigate insurance undertakings' operational risks, insurance supervision focused on the supervision of conduct. This included on-site inspections targeting insurance product sales, particularly focusing on compliance with (sales) requirements at the point of sale and with rules on appropriate governance in relation to sales activities.

Procedures to apply appropriate measures following initial on-site inspections ensured compliance with the insurance distribution rules as tightened up by the IDD. Deficiencies identified in connection with implementation of the demands and needs test were eliminated, and the documentation of advice and the granularity of the content of the statement of suitability were enforced.

An in-depth review of the legally compliant presentation of costs and performance in the key information documents for insurance-based investment products was also carried out with a view to checking the unit-linked life insurance sector's adherence to information and transparency requirements.

The FMA also carried out a random check of the web presence of individual insurers, including some EEA insurers operating in Austria under the freedom of establishment or through a branch, to help avoid any unfair and misleading business practices.

SUPERVISORY POWERS IN RELATION TO THE SALE OF SECURITIES

The FMA's supervisory powers in relation to the sale of securities were extended in 2018. For the first time, the legal option was created of exercising certain supervisory powers, such as the right to obtain information and carry out on-site inspections, in direct relation to tied agents and securities brokers. For the supervisor this means that it no longer has to approach a case via the licensed legal entity with liability for the agent or broker.

There has been a visible trend over recent years of legal and natural persons giving up their licence as an investment firm or investment service provider only to remain on the market in the capacity of a tied agent or securities broker. These companies or individuals therefore represent an increasingly important distribution channel for investment services. The fact that supervisory powers can now be enforced against agents and brokers directly means that a supervisory gap has been remedied. This new, direct supervisory power has proven its worth as a valuable supervisory tool. Consequently, the FMA will be able to carry out its conduct and sales supervision even more effectively.

The FMA carried out 15 on-site inspections of tied agents and securities brokers in 2020 in order to check adherence to the compliance rules governing the sale of securities.

MARKET MONITORING

The European Markets in Financial Instruments Regulation (MiFIR)[3] established the legal framework for supervisors to monitor market developments within the European Union. In order to enhance transparency and further strengthen consumer protection in the financial markets, the FMA is monitoring the markets for financial instruments, structured deposits and insurance-based investment products that are marketed, distributed or sold in Austria in a structured manner.

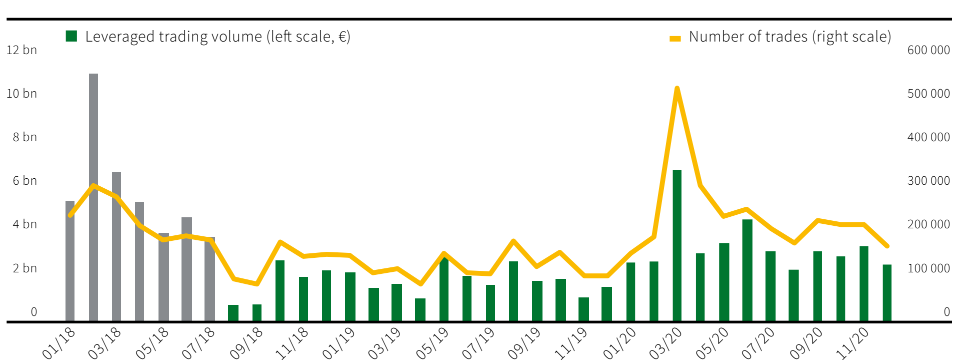
To this end, various sources of information and data are consulted and assessed. Enquiries, complaints and whistleblower reports are analysed in order to identify potentially harmful products and abusive practices. Reporting data from institutions as well as publicly available market data are also constantly being analysed to detect trends early on. Additionally, the FMA regularly exchanges information with interest groups, associations and consumer protection organisations, as well as other national supervisory authorities, to obtain a comprehensive picture of the financial market and to uncover bad practice by targeted analysis and, if necessary, to remedy it together.

In 2020 there was a marked increase in the number of new retail investors. Particularly at the beginning of the pandemic in Europe, when prices fell on the stock markets in March, many consumers decided to take advantage of the extremely low prices and invest in the capital market. In addition to soaring levels of trading in shares and units, trading also surged in relation to contracts for difference (CFDs) and other leveraged products that had been the target of a product intervention measure[4]. The leveraged trading volume at the three Austrian branches offering CFDs nearly doubled from € 22.2 billion to € 40.5 billion, with the trading volume in the first half of the year already exceeding that of the entire previous year *(> Chart 37)*.

The higher number of retail investors and trades with risky products clearly underlines the importance of market monitoring. Accurate monitoring of trends in relation to retail investors and consumers is of the essence to continue strengthening confidence in the financial market and thereby contribute to financial market stability.

The FMA incorporates any resulting implications for collective consumer protection not only in its supervision and inspection activities but also in its future priorities for supervision and inspections.

Chart 37: *CFD trading by retail investors in Austria 2018–2020*



[3] *Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.*

[4] *FMA Regulation on Product Intervention Measures (FMA-PIV; FMA-Produktinterventionsverordnung); Federal Law Gazette II No. 118/2019.*

FIGHTING UNAUTHORISED BUSINESS OPERATIONS

One of the tasks included in the FMA's remit is to grant licences for business activities within its area of supervision and thus to guarantee that companies entering the financial market meet all the necessary legal and economic conditions.
However, there are also providers on the Austrian market who avoid licensing and continued supervision by the FMA, and who offer 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 the requisite authorisation is referred to as unauthorised business.

PROCEDURES

In 2020 the FMA initiated a total of 238 investigations on suspicion of unauthorised business operations, 243 of which could be brought to a close. The FMA also issued procedural orders calling upon 93 individuals to restore compliance with the statutory provisions, and two administrative decisions prohibiting business operations *(> Table 28).*

***Table 28:** Procedures against unauthorised business operations 2016–2020*

	2016	2017	2018	2019	2020
Investigations initiated	162	208	208	202	238
Investigations completed	204	194	182	210	243
Publications	33	47	61	97	84
Reported offences	49	67	90	90	72
Administrative penal proceedings concluded by penal decision	11	7	6	2	0
Total procedures	**570**	**459**	**523**	**601**	**637**

PUBLICATION OF WARNING NOTICES

In 2020 the FMA published 84 warning notices. Numerous of these warning notices concerned dubious providers of cryptoassets, targeting retail investors aggressively with questionable and even fraudulent business models.
Experience has shown that one very efficient way of tackling unauthorised business activities is the prompt publication of warning notices about such dubious providers. Their actions are thus countered with strong and broad publicity, which is particularly effective where unauthorised offers are being made on the Internet.

ENFORCEMENT

In accordance with Article 22 para. 1 of the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*), the FMA is responsible for enforcing its own administrative decisions, with the exception of administrative penal decisions. For this purpose, and in the case of coercive penalties in particular, 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 OTHER ADMINISTRATIVE AUTHORITIES

In 2020 the FMA submitted 72 statements of the facts to the public prosecutors relating to suspected breaches of penal provisions, which it had encountered in the course of its market monitoring activities and its fight against unauthorised business operations.

SUPERVISION OF THE CAPITAL MARKET

PROSPECTUS SUPERVISION

PROSPECTUS APPROVALS

The number of prospectuses approved by the FMA in 2020 was slightly down on the previous year, at 63 (2019: 68). Four applications for prospectus approvals were later withdrawn. Broken down by prospectus type, the number of prospectuses for dividend-bearing shares fell by 50% year-on-year, base prospectuses were down 15%, and stand-alone bond prospectuses actually increased strongly, up by around 83%. The number of final terms filed increased by 48% from 7 390 to 10 918, and the number of approved supplements was down by around 6% from 82 in 2019 to 77 in 2020.

The number of prospectuses and supplements notified to other EEA Member States fell slightly: by around 15% from 34 in 2019 to 29 in 2020 in the case of notified prospectuses, and by around 9% from 57 to 52 in the case of supplements.

There were fewer prospectuses notified in Austria by other EEA Member States in the reporting year, with a decrease of around 4% to 304 (2019: 318); for notified supplements the equivalent number was down 31%, from 825 to 571 *(> Table 29)*.

BREACHES OF ADVERTISING AND PROSPECTUS RULES

The FMA is responsible, in accordance with the Capital Market Act (KMG; *Kapitalmarktgesetz*), for monitoring the issuing and advertising of securities and investments on

Table 29: *Approved prospectuses 2016–2020*

	2016	2017	2018	2019	2020
Approved prospectuses	53	69	62	68	63
– *Dividend-bearing shares*	*7*	*12*	*7*	*10*	*5*
– *Non-dividend-bearing shares (one-off issue)*	*6*	*9*	*9*	*6*	*11*
– *Non-dividend-bearing shares (base prospectus)*	*40*	*48*	*46*	*48*	*41*
Approved supplements	71	81	92	82	77
Final terms	7 259	8 998	6 832	7 390	10 918
Outgoing notifications:					
– Prospectuses	23	28	29	34	29
– Supplements	41	40	39	57	52
Incoming notifications:					
– Prospectuses	346	311	289	318	304
– Supplements	1 198	1 009	834	825	571

***Table 30:** Administrative penalties KMG 2016–2020*

	2016	2017	2018	2019	2020
Administrative penalties KMG	19	36	6	13	4
Reports to public prosecutors	8	1	14	3	0
Publication of sanctions	3	5	4	5	1
Publication of investor warnings pursuant to KMG 2019	0	0	0	2	3

the Austrian financial market. During the year under review it concluded 41 cases (2019: 19), four of which resulted in administrative penal proceedings being initiated (2019: 13).
Furthermore, one sanction (2019: five) relating to a KMG breach was published on the FMA's website in the year under review. The FMA also published three investor warnings in accordance with the KMG (2019: two) *(> Table 30)*.

SUPERVISION OF THE STOCK EXCHANGE AND SECURITIES TRADING

As at 31 December 2020, the Vienna Stock Exchange had 15 385 securities listed on

AUDIT BENCHMARK APPLIED BY THE FMA IN APPROVAL PROCEDURES

In accordance with the European Prospectus Regulation[1], the FMA audits securities prospectuses in terms of their completeness, consistency and comprehensibility. It is not part of the FMA's remit to evaluate the accuracy of the information contained in the prospectus during the approval procedure. The issuer is responsible and liable for the information provided in the prospectus being correct or for any material incompleteness, such as undisclosed details.

COMPLETENESS

Within the approval procedures, completeness is verified on the basis of the minimum requirements as contained in the relevant European laws, set forth in standardised form in Commission Delegated Regulation (EU) 2019/980 supplementing the Prospectus Regulation.

CONSISTENCY

Verifying consistency means ensuring that the information contained in the prospectus gives a consistent picture overall.

COMPREHENSIBILITY

The benchmark for the purposes of verifying comprehensibility is the target group. 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, any such terms must be explained in the prospectus. In particular, the summary (where required) included in the prospectus and the presentation of the essential and specific risk factors associated with the issuer and the security should be written in generally comprehensible language.

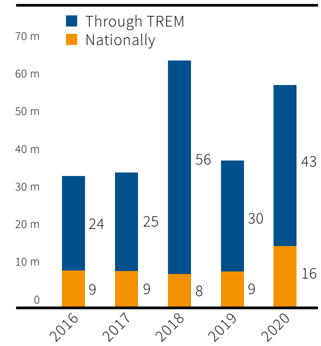
[1] *Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.*

both of its markets, i.e. on its official, regulated market and on the Vienna MTF (multilateral trading facility).

In accordance with the Markets in Financial Instruments Regulation (MiFIR)[1], 535 companies were obliged to report their securities transactions to the FMA, irrespective of whether they were executed at a trading venue or over the counter.

Overall, these institutions under reporting obligations submitted 16 042 537 securities transaction reports to the FMA during the year under review. Of this total number, 12 904 738 were forwarded to the competent EU partner authority via the Transaction Reporting Exchange Mechanism (TREM). In its capacity as competent authority for Austria, the FMA in turn received 43 143 517 transaction reports from other European supervisory authorities. The FMA therefore received 59 186 054 transaction reports in total, which equates to an increase of 52% *(> Chart 38)*.

***Chart 38:** Transaction reports submitted to the FMA 2016–2020 (in millions)*



MARKET SUPERVISION

During the year under review, the FMA's Market Abuse Detector (MADe) was replaced by a new market monitoring system, the Market Manipulation Insider Tracer (MMIT). The MMIT consists of a data-driven market monitoring tool with integrated documentation function and an analysis and query tool for investigations. The system bundles and analyses all of the information available from the FMA's markets and exchanges supervision activities for the targeted detection of market abuse.

Based on the alerts generated by the monitoring systems and as a result of incoming suspicious transaction reports, in-depth analyses were conducted, which ultimately led to the opening of a total of 123 investigations in the reporting year due to corroborating suspicions, a significant increase compared with the 101 cases in 2019 *(> Table 31)*. In 21 cases, an investigation was opened on suspicion of misuse of inside information, a decrease compared with the 34 cases in 2019. In 102 cases, an inves-

***Table 31:** Market supervision 2016–2020*

	2016	2017	2018	2019	2020
Investigations into misuse of inside information, market manipulation and breach of trading rules					
Investigations initiated	92	84	105	101	123
Investigations forwarded for internal legal processing	21	9	14	12	12
Investigations dropped/completed	86	72	88	132	98
Reports forwarded to Central Public Prosecutor for Economic Crime and Corruption (WKStA)	4	6	0	1	0

***Table 32:** Official assistance market supervision 2016–2020*

	2016	2017	2018	2019	2020
Enquiries addressed to foreign supervisory authorities					
BaFin	16	7	10	5	8
FCA	0	1	4	4	3
Other	17	23	14	3	11
Enquiries received from foreign supervisory authorities					
BaFin	10	21	8	5	3
FCA	0	0	0	0	0
OtherAndere	16	11	7	10	5

[1] *Article 26 of Regulation (EU) No 600/2014 on markets in financial instruments.*

tigation was opened on suspicion of market manipulation or breach of trading rules, a significant increase on the 67 in 2019.

The FMA's close cooperation with European and international partner authorities is of great importance in the supervision of stock exchange and securities trading. In the reporting period, a total of 22 requests for official assistance were submitted to foreign authorities (2019: twelve); as in previous years, most of these were submitted to the German Federal Financial Supervisory Authority (BaFin) with eight requests (2019: five requests), followed by the UK's Financial Conduct Authority (FCA) with three requests (2019: four). A further eleven enquiries were made to other partner authorities (2019: three) *(> Table 32)*.

The number of requests received from foreign authorities fell to eight (2019: 15), three of which came from BaFin (2019: five requests).

SUPERVISION OF ISSUERS

PERIODIC DISCLOSURE

The obligation to publish financial reports (periodic disclosure) is intended to ensure the ongoing information needs of the capital market and investors, and thus promotes both investor protection and the proper functioning of the capital market.

The periodic disclosure requirements under the Stock Exchange Act (BörseG; *Börsegesetz*) include annual financial reports and half-yearly financial reports. In addition, the exchange operating company may require issuers in the market segment subject to the strictest requirements to publish quarterly reports. In 2019 the Vienna Stock Exchange left it up to the companies in the prime market to decide for themselves on

Table 33: *Supervision of issuers 2016–2020*

	2016	2017	2018	2019	2020
Ad hoc reports received	435	439	360	373	447
Annual, half-yearly and quarterly reports received	464	470	452	466	328
Directors' dealings	555	538	469	461	1.465
Reports of voting rights received	494	451	472	565	488
Investigations:					
– Initiated	12	22	37	33	33
– Forwarded	4	16	24	19	25
– Dropped/completed	18	11	24	30	33

Table 34: *Ad hoc reports by subject matter 2016–2020*

	2016	2017	2018	2019	2020
Share buyback/resale	18	10	9	13	18
Peculiarities/other items of ongoing business operations	125	144	120	115	153
Participations (acquisition, sale), partnerships	81	78	48	42	35
Financial reports/business figures	108	103	78	74	107
Large-scale order	4	2	8	3	1
Capital measures	30	38	38	49	54
Staff details	36	39	36	35	35
Forecasts, profit warning	4	2	0	6	23
Restructuring, recovery, insolvency	8	7	9	20	3
Strategic corporate decisions, investments	16	15	9	11	12
Management board meetings, resolutions	5	1	5	5	6
Total	**435**	**439**	**360**	**373**	**447**

whether to prepare quarterly reports for the first and third quarters and what format to use.

In the period under review, the FMA received 328 annual and half-yearly reports (2019: 466).

DISCLOSURE OF MAJOR HOLDINGS

Requiring issuers to disclose changes in major holdings allows investors to buy or sell shares of stock in full awareness of the modified voting rights, providing for enhanced transparency within the market.

In 2020 the FMA received 488 reports of major holdings, compared with 565 in 2019.

DIRECTORS' DEALINGS

Whether decision-makers of an issuer own financial instruments and whether they choose to buy or sell at a specific point in time is information that can influence investors' own decisions. The management and supervisory boards of listed companies and individuals closely associated with them must therefore report their purchases and sales to the supervisory authority and also publish them via a regulatory procedure.

In 2020 a total of 1 465 such director's dealings were reported to the FMA, which represents a huge year-on-year increase (2019: 461).

FINANCIAL REPORTING

REVIEWS AND PUBLICATION OF ERRORS IN ENFORCEMENT

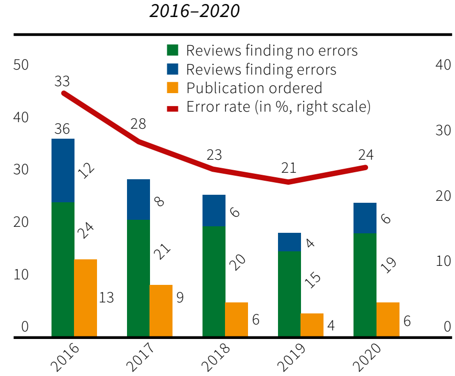
As the authority responsible for carrying out financial reporting enforcement, the FMA enforces proper financial reporting by listed companies. In carrying out reviews in accordance with the Financial Reporting Enforcement Act (RL-KG; *Rechnungslegungs-Kontrollgesetz*), it generally uses the services of the Austrian Financial Reporting Enforcement Panel (AFREP).

In total, 25 such reviews were carried out during the year under review, 24 of which were implemented at companies selected at random *(> Chart 39)*. There were two cases in which the FMA itself was required to carry out the review. This was due to particular circumstances in one case, while the FMA carried out its own review due to serious doubts about the findings of the AFREP review in the other.

The error rate rose slightly compared with the previous year, at 24%, but is still well below the years immediately following the introduction of enforcement in Austria. The error findings relate without exception to financial statements up to 31 December 2019 and have therefore not yet been affected by the economic consequences of Covid-19 and the impact of the pandemic on corporate reporting.

A total of ten individual errors were identified at six companies. The errors related to the measurement of non-financial assets (IAS[2] 36, impairment testing), the accounting for financial instruments (IFRS[3] 9/IAS 39), interim

Chart 39: *Enforcement results 2016–2020*



[2] *The International Accounting Standards (IAS) were issued by the Board of the International Accounting Standards Committee (IASC Board) up until 2000.*

[3] *The International Financial Reporting Standards (IFRS) replaced the IAS in 2001 and are issued by the International Accounting Standards Board (IASB).*

financial reporting (IAS 34, Article 125 para. 2 BörseG), leases (IFRS 16, first-time application), the accounting for government grants (IFRS 15, IAS 20) and the accounting for financial instruments with conversion rights (Article 229 para. 2 UGB[4]).

PREVENTION

As the authority responsible for financial reporting enforcement, the FMA pursues a concept geared towards the prevention of reporting errors. In order to ensure full transparency regarding the economic consequences of coronavirus, it has therefore implemented the following measures, among others, in corporate reporting in 2020:

- Under the leadership of the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the Single Supervisory Mechanism (SSM) of the euro countries, the supervisory expectations for the application of the accounting standards IFRS 9 and IFRS 16 as well as for alternative performance measures (APM[5]) have been communicated in the form of public statements, thus contributing to legal certainty.
- The FMA contributed to the preparation of the ESMA Public Statements on half-yearly financial reports (ESMA32-63-972 of 29 May 2020) and on European common enforcement priorities (ESMA32-63-1041 of 28 October 2020). In this way it helped draw the market's attention to foreseeable sources of error and transparency requirements.
- Based on a cross-sectional analysis (thematic review) coordinated by ESMA, the FMA conducted a risk-based review of the half-yearly financial reporting of Austrian issuers. By means of individual information letters, companies were informed of existing anomalies, thus helping to improve the quality of reporting.

***Table 35:** Preventive tools used by the FMA 2016–2020*

	2016	2017	2018	2019	2020
Thematic review	5	10	5	3	4
Pre-clearance	3	3	4	2	9

INTERNATIONAL COOPERATION AND OUTLOOK

The FMA supports the goal of uniform interpretation of accounting rules in Europe and is involved in the technical work carried out by the ESMA committees. In this context, a total of almost 100 technical enquiries and data requests on international accounting and non-financial reporting were answered in 2020, and European enforcement cases were discussed on an anonymous basis. In order to achieve legal certainty for itself as well as for the companies concerned, the FMA submitted six complex accounting issues, such as IAS 24, IAS 36 and IFRS 9, to the relevant ESMA working groups for clarification.

The FMA strives to create added value for Austrian issuers by keeping them actively informed and through preventive measures geared towards the appropriate implementation of the new corporate reporting requirements.

Some drastic changes are due to enter into force over the coming years with regard to accounting and financial reporting by listed companies:

[4] *Corporate Code (UGB;* Unternehmensgesetzbuch*): Federal Act on special civil law provisions for companies; original version: Reich Law Gazette p. 219/1897 (Law Gazette for Austria No. 86/1939).*

[5] *APM are financial measures that are not defined in the applicable financial reporting framework, e.g. (adjusted) EBIT/EBITDA, net debt or free cash flow.*

- As of 2023, the new rules on accounting for insurance contracts (IFRS 17) will apply. In several workshops with representatives of the insurance industry, the effects of the implementation of the new requirements were discussed and the foundation laid for early clarification of complex accounting issues.
- Annual financial reports for the 2020 business year are to be published in the European Single Electronic Format (ESEF)[6] for the first time this year. The FMA is engaged in intensive dialogue with stakeholders and has answered a wide range of questions on the practical application in a Q&A format published on its website. In order to ensure that the required information is provided in machine-readable form and that an automated evaluation of balance sheet and result variables can be carried out by users of financial statements, the FMA will carry out a validation of the ESEF reports.

[6] *The ESEF is a new, uniform reporting format in the EU with the aim of improving transparency in the regulated markets in the European Economic Area, making financial reports comparable regardless of language, structure and format, and enabling investors, authorities and issuers to analyse financial information using automated processes.*

PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

The FMA adopts a risk-based approach to its supervisory activity in monitoring compliance with due diligence requirements for the prevention of money laundering and terrorist financing. It analyses the business models of the supervised companies in order to determine if there are any specific risks that make them particularly susceptible to being abused for money laundering purposes. Potential indicators of this susceptibility include the geographic markets in which these companies operate or with which they maintain intensive business relations (e.g. high proportion of offshore locations), certain financial services (e.g. high-value cash transactions, back-to-back transactions and trusts) or the customer structure (e.g. high number of PEPs[1]). On the basis of this analysis, the FMA carries out a risk classification (low, moderate, elevated, high) of the companies and steps up its supervision where necessary for the higher risk categories. Its resources are then focused on supervising those companies that are exposed to a higher risk on account of their business model and that therefore require greater prevention efforts. This eases the administrative workload for those entities that are associated with a lower level of risk.

ON-SITE MEASURES

During the year under review the FMA carried out a total of 48 on-site measures in order to monitor compliance with due diligence procedures for the prevention of money laundering and terrorist financing. Of these, 19 took the form of on-site inspections; 17 of them were carried out at credit institutions and two at service providers in relation to virtual currencies. The FMA also carried out 21 examinations in the reporting year, of which eleven at banks, four at payment institutions (two of which at agents of payment institutions), four at service providers in relation to virtual currencies and two at insurance undertakings. Eight management talks were also held in the reporting year.

OFFICIAL PROCESSES

During 2020 there were 219 cases of supervisory procedures being initiated in the

[1] *A "politically exposed person" as defined in the FM-GwG is any individual who has been entrusted with a prominent public function within the past twelve months, as well as their family members and close associates in certain cases.*

PRIORITY FOR SUPERVISION: SECURING THE CLEAN STATUS OF AUSTRIA'S FINANCIAL CENTRE
DEEPENING AND EXTENDING THE PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING IN THE AREA OF SUPERVISION

Money laundering has, over recent years, become one of the most dangerous risks facing financial service providers in developed economies. Firstly, this is because the responsible supervisory and law enforcement authorities will impose uncompromising sanctions for money laundering or breaches of the (due diligence) obligations to prevent money laundering. These can range from substantial fines to imprisonment of the responsible managers, and the removal of licences from the financial services company concerned. Worst of all, however, can be the loss of reputation: a company's business partners and clients will no longer want to associate with a financial service provider that has been linked to money laundering. This reputational damage can also bring the financial centre more generally into disrepute and cause massive economic harm. Consequently, ensuring that the financial centre is clean is a top priority. The Austrian legislator has made the FMA responsible for the supervision of compliance with due diligence requirements for the prevention of money laundering and terrorist financing at the companies that it licenses and registers. In fulfilling this role, the FMA pursues a risk-based supervisory approach, consistently enforces a zero-tolerance policy, and works on an ongoing basis to expand and deepen its regulatory and supervisory practice in line with European legal developments.

SERVICE PROVIDERS IN RELATION TO VIRTUAL CURRENCIES

The anonymous use and transfer of virtual currencies, especially via unregulated platforms or providers, mean that they can be misused for criminal purposes as well as for the concealment of illicit funds. In the form of the Fifth Anti-Money Laundering Directive[1], the EU has therefore included service providers in relation to virtual currencies, referred to as virtual asset service providers (VASPs), in regulation and supervision throughout Europe. Since 10 January 2020, VASPs have had to register with the FMA and are thus subject to its supervision in the area of prevention of money laundering and terrorist financing. In 2020, a total of 29 registration applications were submitted to the FMA, and 16 VASPs – mostly custodian wallet providers and exchange platforms, or providers of ATMs or Bitcoin machines – were registered. On-site measures (on-site inspections and examinations) have already been carried out at four VASPs.

MONEY MULES

In the course of its intensified market monitoring in 2020, the FMA became increasingly aware of professional money launderers recruiting individuals as financial agents ("money mules") under false pretences. These agents are then instructed to transfer money via their own bank account to other bank accounts or for disburse-

[1] *Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.*

ment via payment service providers. In reality, the funds being moved originate from criminal activities (e.g. drug trafficking, tax offences, fraud etc.), but the criminals are able to cover their tracks and "launder" the money in question. This system of money laundering has meanwhile been extended to the world of virtual currencies, with recruited financial agents being instructed to change the illicit funds made available to them into virtual currencies before transferring them on. The FMA, together with the Financial Intelligence Unit at the Austrian Federal Office of Criminal Investigation, has conducted an information campaign to warn the public about such criminal activity. In addition, on-site inspections were made a priority, focusing in particular on providers of non-account-linked cash transfer services.

CORRESPONDENT BANKING RELATIONSHIPS

In order to be able to process cross-border transactions smoothly worldwide, credit and financial institutions make use of correspondent banks in (foreign) markets in which they themselves are not represented. Via these correspondent banks, they can settle (cross-border) payment transactions directly from bank to bank. The Austrian financial centre is dependent on such business relationships, not least because of its geographical location and strong focus on exports, with the associated payment flows. The high number of cross-border transactions processed by Austrian financial institutions on a daily basis reflects this. However, such business relations, and the associated transactions, are hugely at risk of being exploited for money laundering purposes. Negative media reports have repeatedly emerged in recent years as journalist networks operating across borders have investigated data leaks, often on an enormous scale, and identified many suspicious transactions. To name just a few of the headline cases: "FinCEN files", "Troika Laundromat", "Paradise Papers" and "Panama Papers". In recent years, the FMA has therefore made the correspondent banking relationships of Austrian credit institutions a priority for supervision, from the perspective of preventing money laundering. During on-site inspections, the FMA has focused on the adequacy and suitability of the processes implemented by the institution with regard to the AML regulations in the correspondent banking sector, both from an organisational perspective and in individual cases.

Table 36: *Procedures 2016–2020*

	2016	2017	2018	2019	2020
Investigations initiated	127	163	141	170	194
Procedures to apply measures initiated	20	17	15	12	25
Administrative penalties	7	7	8	11	31

fight against money laundering. These included 194 investigations, 25 procedural orders requesting that compliance with statutory provisions be restored and 31 administrative penal proceedings. The FMA also received 29 registration applications from service providers in relation to virtual currencies, with this group of providers being required to register with the FMA since 10 January 2020. The applications resulted in 16 providers being registered.

INTERNATIONAL AND REGULATORY DEVELOPMENTS

At a European level, 2020 was dominated by the further harmonisation of anti-money laundering (AML) and countering the financing of terrorism (CFT) measures. The European Commission published its AML Action Plan, the main focus of which is the creation of a more strongly integrated AML system at EU level and among the Member States by 2023. Legislative proposals to this effect are expected in 2021. The Action Plan builds on the following six pillars:

1. Ensuring the effective implementation of the existing EU AML/CFT framework through implementation reviews and infringement proceedings where necessary.
2. Establishing a single EU rulebook, mainly through a uniform regulatory framework in the form of a European anti-money laundering regulation, including further harmonisation of such areas as due diligence and reporting obligations.
3. Bringing about EU-level AML/CFT supervision. This should guarantee better cross-border supervision and uniform supervisory standards, albeit with the national supervisory authorities continuing to play a major role.
4. Establishing a support and cooperation mechanism for financial intelligence units, thereby making cooperation more intensive.
5. Enforcing Union-level criminal law provisions and information exchange between the EU law enforcement authorities, simplifying cross-border investigations.
6. Strengthening the international dimension of the EU AML/CFT framework by adopting a tailored methodology on the assessment of high-risk third countries in conjunction with the Financial Action Task Force (FATF) based at the OECD[2].

Additionally, the coronavirus pandemic resulted in a need for regulatory adjustments and clarifications. For example, the amendment of the Online Identification Regulation (Online-IDV; *Online-Identifikationsverordnung*) allows online identification to be carried out by employees working from home while guaranteeing equivalent security standards and full compliance with the other requirements of the Online-IDV; the amendment is applicable for a limited period until 30 June 2021. Clarification was provided to the effect that verification of a customer’s identity may be carried out at a later point in time when concluding life insurance contracts in direct customer business. Further information was also provided, in connection with Covid-19, on the

[2] *The Organisation for Economic Co-operation and Development is an international organisation with 37 member states that is dedicated to the promotion of democracy and market economics. Most OECD members have a high level of per capita income and are classed as developed countries.*

possible application of simplified due diligence obligations for government loans under the Financial Markets Anti-Money Laundering Act (FM-GwG; *Finanzmarkt-Geldwäschegesetz*)[3].

[3] *Original version published in Federal Law Gazette I No. 118/2016.*

WHISTLEBLOWING

Whistleblowers are people who do not keep silent upon encountering misconduct or irregularities at their workplace that could damage the company or that are not in the public interest. In some cases, they will have failed to find anyone to listen to their concerns in the company itself or are worried about serious personal consequences should they inform their managers or any supervisory body. Information from whistleblowers is also an important source of information for authorities as a means of eliminating bad practice and often being able to limit or even entirely prevent resulting damage.

Consequently, some years ago now, the FMA set up its own web-based whistleblowing system as a highly secure channel for the reporting of any irregularities. This system guarantees whistleblowers absolute technological anonymity, thereby affording them as much protection as possible from any retaliatory action. Whistleblowers also have the option of setting up a personal, secure mailbox in the tool, via which they and the FMA can subsequently communicate with one another anonymously. Individuals who are brave enough to report illegal actions should not have to risk damage to their own reputation or the loss of their job as a result.

The reports made using the whistleblower tool often form a valuable basis for the FMA's supervisory activity. All reports are subject to an immediate, initial review by a specially trained member of staff, who will then forward them internally to the relevant FMA expert.

REPORTS AND OUTCOMES

In 2020 the FMA received 278 reports from whistleblowers, 88% of which actually fell within the FMA's supervisory remit *(> Chart 40)*. Out of the 244 relevant reports, 77 related to banking supervision, four to insurance and pension supervision, 8 to securities supervision, 11 to markets and exchanges supervision and 15 to money laundering and the financing of terrorism *(> Chart 41)*.

Most of the reports (129) highlighted illegal business activity, i.e. provision of financial services that require a licence without being in possession of such a licence from the authorities, with 120 of them relating to suspected investment fraud. The number of the latter in relation to cryptoassets soared, already accounting for 65% of such reports. Cryptoassets are frequently advertised with the promise of exorbitant increases in value and a highly luxurious lifestyle, or even as a "conservative and safe investment" in cryptocurrencies for old-age provision.

In 156 cases the FMA itself proceeded with further supervisory measures, such as

***Chart 40:** Number of whistleblower reports 2016–2020*

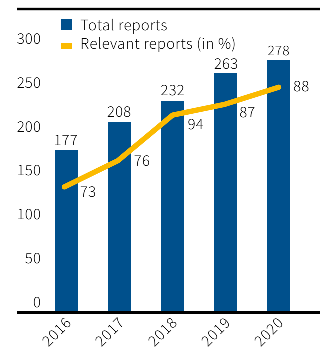
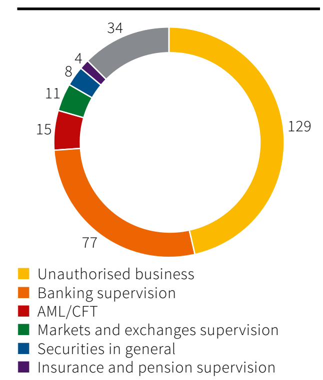


***Chart 41:** Whistleblower reports by area of responsibility (in %)*



on-site inspections, management talks, fit and proper tests and reviews of key functions, and issued penal decisions. The FMA also reported 42 cases to the criminal authorities, mostly public prosecutors, and published seven investor warnings.
Whistleblower reports are not just an important source of information in tackling poor practice in supervised companies but also frequently mark the start of criminal prosecutions, and enable consumers and investors to be warned as early as possible of fraudulent or other potentially criminal offers on the financial markets. This means that they help inexperienced consumers in particular to recognise dubious offers more easily and raise their awareness of the risks inherent in the financial markets in general, specifically in unregulated and unsupervised markets.

CONSUMER PROTECTION, CONSUMER INFORMATION AND THE COMPLAINTS SYSTEM

The FMA is committed to the principle of collective consumer protection and protects the interests of groups of consumers, be they savers, investors, insurance customers or other similar groups. In its capacity as the supervisory authority, the FMA must always remain impartial and never side with either a supervised company or a customer. The FMA is required to be strictly objective and must maintain equidistance between itself and all market participants. This means that it may not assist with the enforcement of individual claims. The latter falls within the remit of traditional consumer protection organisations, advisory professions such as lawyers, and the civil courts.

CONSUMER INFORMATION

Collective consumer protection revolves around comprehensible, fair and comparable information that does not mislead customers and that is provided to them prior to entering into any contract, during the term of that contract and upon its termination. This is the only way in which consumers can make a sound decision on the financial services being offered on the market in response to their personal requirements. The lawmakers and the regulators therefore oblige the supervised companies to provide consumers and customers with honest, clear and non-misleading information. Reviewing compliance with these information obligations is one of the FMA's priorities in its capacity as supervisor. In its capacity as regulator, the FMA must permanently evaluate whether the information obligations are in line with the high demands of a targeted, efficient and effective form of consumer protection, extending or adapting them where necessary.

Moreover, the FMA itself offers a broad range of information aimed directly at consumers in order to inform them of particular risks or to explain certain financial services and products to them clearly and in a way that is easy to understand. Examples in this regard include the FMA's flyer on handling foreign currency loans and the particular risks that they present, and its information brochure on the special features of life insurance. The FMA's website is also becoming an increasingly important source of consumer information (www.fma.gv.at).

With its "A-Z of Finance", the FMA offers a dedicated area for consumers on its website. This section provides clear and easily comprehensible information in the subject areas that feature most frequently in customers' queries, namely Accounts, Loans, Insurance, Investments, Old-age provision, Spotting financial fraudsters, and Enquiries and complaints.

CENTRAL COMPLAINTS SYSTEM

The FMA also has its own central complaints system that consumers and customers of supervised companies can use to highlight examples of poor practice on the market in general or to report more specific problems that they have experienced with a company in relation to the provision of a financial service.

As a general rule, all licensed companies are required by law to have their own complaints system and to find appropriate solutions to any complaints received from their customers. The FMA monitors whether such systems have been properly set up and whether they are functioning effectively and efficiently. In the event that a solution offered is not satisfactory, the customer concerned may also make use of the FMA's complaints system.

The FMA received, handled and settled, where legally possible, approximately 2 800 enquiries and complaints from consumers in 2020.

Most of these related to banks, with insurance undertakings the second most common source of complaints. They covered a wide range of issues:

- With regard to payment transfers, the length of time taken for transfers was a particularly frequent complaint.
- With regard to financing, most complaints related to foreign currency loans as well as repayment vehicles, consumer loans and mortgages.
- With regard to the Covid-19 pandemic, queries by borrowers related first and foremost to the statutory payment moratorium, as well as to interest payments and fees for deferred loans. Additionally, investors were concerned about banks' suspension of dividend payments.
- Many general questions were also received in relation to the deposit guarantee scheme in Austria. Consumers were particularly keen to know how their savings were protected and up to what amount, as well as the circumstances under which the system would apply and how the scheme would pay out.
- As far as the prevention of money laundering was concerned, consumers were primarily concerned about their obligation to identify and establish beneficial owners.
- With regard to insurance companies, enquires mostly related to the actual amount of the capital guarantee under certain life insurance products, doubts as to the accuracy of calculations and the lack of clarity in policy summary reports, termination of the contract, and the waiver or reduction of premiums.
- In the area of securities supervision, complaints mainly related to non-compliance with the rules of conduct governing the sale of securities: lack of proper advice, failure to protect investors' interests, investment of funds with an inappropriate level of risk, information that was difficult to understand, and costs and fees. Additionally, consumers showed an increased level of interest in "green" or sustainable products.
- With regard to payment transactions, all companies are obliged under European law[1] to accept, facilitate and implement transfers and direct debits from accounts

[1] *SEPA Regulation (EU) No 260/2012.*

PRIORITY FOR SUPERVISION: EXPANDING COLLECTIVE CONSUMER PROTECTION
IMPROVING MARKET TRANSPARENCY, BETTER INFORMATION FOR CUSTOMERS AND CONSUMERS

For the FMA, collective consumer protection means, first and foremost, enabling investors and consumers to make their own investment decisions based on their return, risk and sustainability preferences. This is why, when its comes to supervision and inspection priorities in relation to collective consumer protection, transparency and information always rank highly.

BROADENING AND DEEPENING FMA MARKET ANALYSIS

Analysis work such as the FMA Market Study on Fees charged by Austrian Retail Funds and the analysis on closet indexing[1] in funds have been continued in this context. The FMA has also carried out new studies, including on the information obligations of corporate provision funds and on the status of how sustainable finance, i.e. the financing of sustainable growth, is implemented in asset management.

The annual Market Study on Fees charged by Austrian Retail Funds enables investors to compare the fund fees within an investment strategy, but also between different strategies.

The transparency of the presentation of the investment strategies, the information in the prospectus and key investor information document (UCITS KIID[2]) as well as compliance with the transparency requirements in the fund reports, for example on remuneration information, were examined for randomly selected investment funds. In the case of sustainability strategies, the focus was also on analysing whether there was any greenwashing[3], and in the case of both active and passive strategies, whether closet indexing was being practised.

As part of a special analysis, the integration of sustainability risks and the status of sustainable finance were surveyed in the Austrian asset management sector. The strategies, methods and certifications/standards as well as the use of external ratings and data were all examined.

The benchmark analysis focused on the updating of the contractual documents for those investment funds that use benchmarks and on monitoring whether index providers were already registered in the benchmarks register maintained by the European Securities and Markets Authority (ESMA).

In order to increase transparency in the sensitive area of trust funds, a list of all of the Austrian investment funds and real estate funds eligible for investing money held in trust is now published on the FMA website.

For all corporate provision funds, the account statements that funds are required to send on a regular basis were analysed for compliance with the legal requirements and

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1 *Closet indexing refers to a practice in which an asset manager claims to be pursuing an active investment strategy but is in fact maintaining a portfolio that is identical or very similar to a benchmark, making it more like a passive investment.*

2 *In this case the KIID refers to UCITS according to Council Directive 85/611/EEC of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).*

3 *Greenwashing is the practice of marketing financial products as "green" or "sustainable" when they do not in fact meet or follow basic environmental standards.*

FMA Minimum Standards, and information provided in any online portals was also reviewed.

BETTER INFORMATION FOR CUSTOMERS AND CONSUMERS

In unit-linked life insurance, the focus was on reviewing the legally compliant presentation of costs and performance in the key information documents for insurance-based investment products. Compliance with the insurance distribution regulations as tightened up by the Insurance Distribution Directive (IDD)[4] was addressed in the context of on-site inspections in particular, with enforcement focusing on the elimination of identified deficits and deficiencies in the demands and needs test, the documentation of advice and the granularity of the content of the statement of suitability.

A random check of the web presence of individual insurers, including some European Economic Area (EEA) insurers, was carried out with the goal of avoiding any misleading business practices in the area of insurance distribution. Selected banks were subject to a review of their advertising presence when offering financial instruments eligible for bail-in, ensuring that information was provided about the risks of resolution and that no consumers were, under any circumstances, given the impression that these securities were as safe as a savings account.

Also with regard to selected banks, the FMA checked how online consumer loans and bail-inable financial instruments were being advertised, implementation of the IDD, and the PRIIPs KIDs[5].

The revised Payment Services Directive (PSD2)[6] requires banks to provide consumers with clear and comprehensible information on their rights when making cross-European payments. They must publish an electronic leaflet on their website and also make it available in their branches. In the course of its investigation, the FMA found that this leaflet was not accessible, i.e. was not available in a format that enabled people with disabilities to access it using suitable alternative means. The FMA took this as an opportunity to prepare an accessible leaflet, publish it on its own website and send it to the credit institutions for publication on their websites.

The information published for investors and consumers on the FMA website under the brand name "A–Z of Finance" has also been expanded. In this section of its website, the FMA analyses a wide range of questions and complaints, identifies the major issues and FAQs, and provides clearly written information that is easy to understand. For example, the most frequently asked questions on the Covid-19 pandemic have been answered, and the FMA has also issued warnings about the latest investment scams.

[4] *Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.*

[5] *The PRIIPs KID is the legally prescribed and defined key information document for packaged retail and insurance-based investment products (PRIIPs) according to Regulation (EU) No 1286/2014 of 26 November 2014.*

[6] *Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.*

throughout the European Economic Area (EEA). However, some companies only permit Austrian accounts. This is a breach of the freedom to choose a bank account, with the result that the FMA has the power to impose sanctions under administrative criminal law.

- The number of enquiries and complaints received in relation to a wide range of cryptoasset issues soared during the year under review. In particular, there were many cases of investment fraud. As well as publishing investor warnings on its website, the FMA also provided up-to-date information on the most common scams.

ENFORCEMENT AND LAW

Chart 42: *Penal decisions and admonitions 2016–2020*

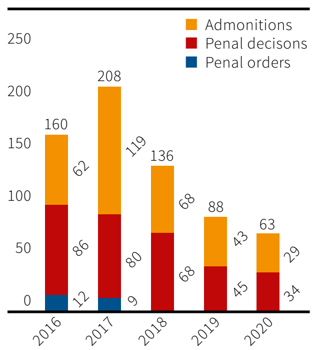
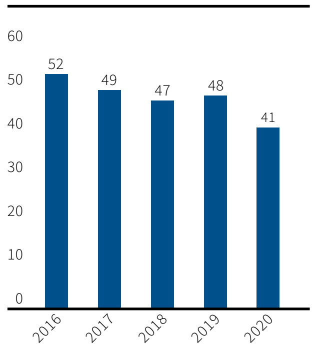


Chart 43: *Sanctioned cases 2016–2020*



ADMINISTRATIVE PENAL PROCEEDINGS

At the beginning of 2020, 56 administrative penal proceedings were pending at the FMA. A further 162 proceedings were initiated later in the year, and 21 were discontinued. At the end of 2020, 162 administrative penal proceedings were still pending.

In 2020 the FMA continued to follow its strategic approach of only taking action against the legal person (i.e. the company that is responsible for the breach) in its administrative penal proceedings, where possible. Following the supervisory reform's entry into force on 3 January 2018, the FMA may now decide to refrain from also punishing responsible natural persons – such as managing directors or other special responsible representatives pursuant to Article 9 of the Administrative Penal Act (VStG; *Verwaltungsstrafgesetz*) – if an administrative penalty is already being imposed on the legal person for the very same breach and no particular circumstances preclude the option of refraining from punishing natural persons. However, based on recent rulings by the Supreme Administrative Court (VwGH), refraining from punishing natural persons is in fact only possible after the legal person has been punished with final effect, which is why the number of pending cases is as high as it is. These pending cases also include cases that were initiated against persons to whom responsibility for the breach has been attributed during the prosecution of legal persons.

The FMA refrained from initiating proceedings after preliminary investigations in 210 cases. In 144 of those cases, the FMA made use of its discretionary power to refrain from prosecuting altogether, including action against the legal person, since the breach had not been significant (principle of opportunity).

These extended discretionary powers allow the FMA to concentrate its resources on significant and complex proceedings that will require more work. Nevertheless it is important to the FMA that it sends out the correct preventive signals and shows that it will not tolerate minor offences either. Accordingly, it issued 29 admonitions or admonition orders in the reporting year. In another 34 cases, the FMA issued penal decisions *(> Chart 42).* These procedures and penal decisions related to 41 facts or cases in total *(> Chart 43).* The number of penal decisions and cases does not always correlate. Firstly, in individual cases the FMA may impose more than one sanction, for instance when cases relate to several natural persons or when both legal and natural persons are being punished. Secondly, for reasons of efficiency, several cases are often dealt with by one penal decision, imposing only one overall penalty.

With the 34 penal decisions it issued in 2020, the FMA imposed fines totalling € 1 624 950. The highest fine imposed was € 318 000.

In the interests of transparency and prevention, the FMA publishes notices of sanctions on its website. In line with European requirements, sanctions are increasingly publicised alongside added information on the individuals concerned.

STATEMENTS OF FACTS AND REPORTS TO CRIMINAL PROSECUTION AUTHORITIES

Some of the laws included in the FMA's supervisory remit also cover criminal offences. Where the FMA has reasonable grounds to suspect that one of these laws has been breached, it must file a report with the public prosecutor's office or the criminal investigation department. The courts of law are then responsible for imposing sanctions.

Examples of such offences include insider dealing and market manipulation as prohibited by the Stock Exchange Act (BörseG; *Börsegesetz*) where amounts exceeding defined limits are involved, or infringements of banking secrecy rules. As part of its supervisory activity, the FMA also repeatedly becomes aware of other circumstances that lead it to suspect that the law has been breached. The FMA is obliged to report such cases, most of which involve suspected breaches of trust and/or fraud.

In 2020 the FMA forwarded 148 statements of facts to the public prosecutor's office *(> Chart 44).* In 95% of these cases the statements of facts related to reports of suspected breaches of the Criminal Code (StGB; *Strafgesetzbuch*), 3% were based on suspected breaches of the Austrian Banking Act (BWG; *Bankwesengesetz*), 1% were due to suspected violations of the Securities Supervision Act (WAG; *Wertpapieraufsichtsgesetz*) and 1% due to malversation *(> Chart 45).*

Chart 44: *Facts reported to public prosecutors 2016–2020*

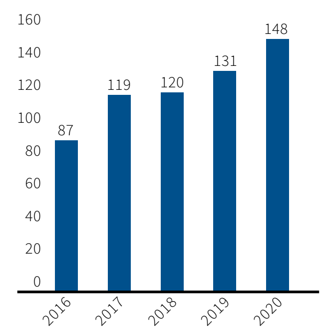
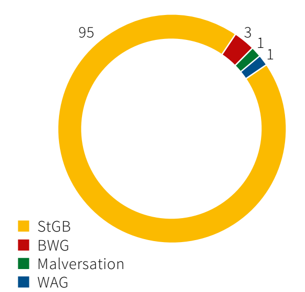


Chart 45: *Facts reported to public prosecutors in 2020 by subject matter (in %)*



SELECTED PROCEEDINGS

ADMINISTRATIVE PENAL PROCEEDINGS

MONEY LAUNDERING

- The FMA issued a penal decision against a credit institution, imposing a fine of € 56 000. In the FMA's opinion the credit institution did not have appropriate strategies, checks and procedures in place considering the institution's nature and size for the continuous monitoring of its business relationships, including the monitoring of any transactions carried out during the course of those business relationships.

During the period in question the credit institution only used a list-based, manual transaction monitoring system without AML indicators. In view of the institution's size and business model, it should have been ensuring the timely detection of transactions and transaction patterns that were objectively relevant in terms of anti-money laundering (AML) and countering the financing of terrorism (CFT). Only after its implementation of the NORKOM software suite did the institution have an appropriate and automated system in place to monitor transactions based on risk-based indicators and thresholds, enabling it to recognise certain payment patterns or deviations from the KYC[1] profile, e.g. in relation to amount and frequency of payments. The credit institution subsequently filed an appeal with the Federal Administrative Court (BVwG) against the penal decision.

With its decision of 23 January 2020 (reference code: W276 2219786-1), the BVwG dismissed the credit institution's appeal and confirmed the FMA's penal decision in full.

The BVwG reasoned that the credit institution, prior to implementing the NORKOM system, had taken insufficient precautions to properly monitor payment flows as required by law. Firstly, manual monitoring cannot achieve the same level of protection as an automated system and, secondly, the credit institution did not permanently have the necessary resources in place to set up and maintain a manual, list-based system that met the statutory requirements.

CAPITAL MARKET ACT

- A responsible management board member of an AG (joint stock company) was fined € 18 000 in a penal decision because of misleading advertising and breaching the obligation to publish a prospectus. Following receipt of an appeal and submission of documents related to the individual's income and financial situation, the fine was reduced to € 12 000 by means of a preliminary appeal decision.

The defendant was accused of misleading advertising in newsletters and other information sheets. In addition, the advertised investments did not come with properly published prospectuses or supplements as measures had not been taken to ensure that the electronic publication available on the website was immediately accessible during the period in question.

With a decision rendered in 2020 (reference code: W172 2224700-1), the BVwG dismissed the appeal as unfounded and confirmed in full the FMA's penal decision in the version of the preliminary appeal decision. The ordinary petition for review was not admitted.

With regard to the issue of electronic publication, the BVwG stated that the prospectus must be directly accessible either on the main page of the website or via an easily recognisable link or path for the entire duration of the public offer (even if the legal situation changes). The BVwG confirmed that misleading advertising was used in the newsletters since these only highlighted and promoted the profit sharing aspect, giving consumers the impression that they could rely on receiving an annual profit share of 6.7%. With regard to the information sheets, the BVwG considered them to be misleading advertising in that they underlined the benefits of the investment to a disproportionate extent while omitting to mention risks that would have influenced the public's buying decision. These risks were only mentioned in the prospectus.

The management board member of the AG petitioned the VwGH for an extraordinary review of the part of the decision relating to the electronic publication. The VwGH admitted the petition for review, and the FMA submitted its reply. The VwGH has not yet ruled on the case.

- With a decision rendered in 2020, the BVwG (reference code: W107 2176622-1/67E) dismissed the appeal of a responsible management board member of an Austrian AG against the FMA's penal decision of 5 September 2017 for numerous breaches of

[1] *In the context of anti-money laundering measures, the KYC, or "know your customer", principle means that financial service providers must establish and verify their customers' identity in accordance with defined rules and obtain certain prescribed information.*

advertising provisions pursuant to the Capital Market Act (KMG; *Kapitalmarktgesetz*) in relation to the question of guilt in nearly all points. In relation to the question of guilt the appeal was partly upheld in that the fine of € 85 000 was lowered to a single penalty of € 60 000. The ordinary petition for review was not admitted. With regard to two points of the penal decision that concerned part of the allegation of giving the misleading impression of a close relationship with a municipality, the appeal was granted and the penal decision lifted.

In a previous ruling on the FMA's extraordinary petition for review of 13 December 2019 (reference code: Ra 2019/02/0020-6), the VwGH had already rejected any possible subsidiarity of these administrative penal proceedings in relation to investigations under criminal law for various allegations including fraud, breach of trust, defrauding of creditors, grossly negligent impairment of creditor interests and accounting fraud against the appellant.

In terms of content, the BVwG confirmed the allegations against the responsible management board member regarding the missing indication that a prospectus has been published pursuant to Article 4 para. 2 KMG and misleading advertising pursuant to Article 4 para. 3 KMG in numerous cases in connection with a large number of the AG's corporate bonds. Specifically, the AG conveyed the impression of a close relationship with a municipality in a number (more than a three-digit number) of TV and radio commercials aired by the Austrian Broadcasting Corporation (ORF) from May 2017 onwards as well as in an advertising video posted on the Internet, which were designed using a certain colour and a company logo. The advertising slogans misled potential investors about the issuer's characteristics, its assets and thus the security of the bonds, and also misled existing investors of the AG's parent company about the latter's current financial position. The distinct accentuation of the annual interest payments highlighted the special opportunities of the bond investment in a one-sided manner while omitting to mention the inevitable risks inherent in the investment.

■ The managing director of an Austrian GmbH (limited liability company) was fined € 10 000 in a penal decision for misleading advertising and breaching the obligation to publish a prospectus. The defendant was accused of having failed to indicate the feature of qualified subordination when advertising qualified subordinated loans, and of having made false statements on the website about the qualified subordinated loan being risk-free. Key phrases such as "No price fluctuations due to independence from exchanges", "Non-cyclical", "Automatic payout after expiry" and "15% yield for 24 months" were used on the website in an eye-catching manner making them likely to mislead the reader. The breach of the obligation to publish a prospectus was committed by failing to provide specific and comprehensible information about the beginning and end of the subscription period.

With a decision rendered in 2020, the BVwG dismissed the appeal in relation to misleading advertising as unfounded and confirmed the FMA's penal decision; in relation to the breach of the obligation to publish a prospectus the appeal was granted and the penalty reduced to € 7 000. The ordinary petition for review was not admitted.

The BVwG (reference code: W276 2225330-1/7E) found the short and catchy advertising slogans mentioned as being capable of misleading, since the investing public might have gained the impression that this was a highly profitable investment with only a short-tie in period, independent of developments on stock exchanges or in economic activity, and where investors would "automatically" get back the capital

invested at the end of the term. Since this was not actually the case when looked at in more detail, but dependent on a number of factors, the advertising on the website was misleading. In the BVwG's opinion a note correcting the potentially misleading overall presentation was also missing from the advertising.
With regard to the sanctioned breach of the prospectus provision and specifically the missing dates for the beginning and end of the subscription period, the BVwG argued that an investor with an average understanding of investments could be expected to obtain that information from the official gazette "Amtsblatt zur Wiener Zeitung". This part of the decision was therefore annulled.

AD HOC REPORTING OBLIGATIONS

- A penal decision amounting to € 262 500 was issued against an issuer for belated ad hoc reporting. The defendant was accused of belatedly publishing an ad hoc report of the management board's plan for a capital increase of around € 400 million.
The BVwG confirmed the FMA's penal decision in full, while not admitting the ordinary petition for review.
The BVwG agreed with the FMA that a capital increase would not qualify as inside information only if the scale of the increase was completely insignificant. A planned capital increase is a textbook example of an ad hoc reporting requirement. The value of a financial instrument depends on the payment flows (e.g. dividends) that are to be expected and the risk associated with the investment decision. In addition, capital measures are circumstances that always have an impact on the price.
- A penal decision amounting to € 35 000 was issued against one member of an issuer's management board for belated ad hoc reporting. The defendant was accused of having published an ad hoc report too late, informing the public that a bond would not be redeemed on the redemption date.
The BVwG confirmed (reference code: W158 2222163-1/8E) the FMA's penal decision in full, while not admitting the ordinary petition for review. In relation to the question of whether the mere fact of not redeeming an instrument on its due date constituted inside information, the BVwG agreed with the FMA, considering the question of whether the bond could have been repaid within a (contractually agreed) grace period to be irrelevant.
The BVwG shared the view that precise information was relevant to price since a reasonable investor would also apply the information that the bond was not being settled on time when considering other debt securities issued by that same issuer, particularly since late payment in this case is likely to have a significant effect on the repayment of other issued debt securities too. Late repayment is therefore detrimental to the issuer's creditworthiness and the trust placed in that issuer on the capital market.

PROCEEDINGS IN CONNECTION WITH HETA'S RESOLUTION

In 2020 the BVwG concluded a large number of the still pending appeal proceedings concerning the administrative decisions in relation to the challenge procedure that the FMA had issued in its capacity as resolution authority for the resolution of HETA ASSET RESOLUTION AG ("HETA"). These FMA decisions had initially imposed a moratorium (decision No. I), followed by a haircut (No. II) and finally raised the bail-in ratio (No. III). While 18 appeal proceedings against the three decisions were still pending at the beginning of the reporting year, this number had dropped to two by the end of 2020.

The BVwG dismissed nine appeal proceedings against decision No. II (applying the bail-in tool) as unfounded, confirming the FMA's interpretation and legal view in all essential points in its extensive statement of reasons. The main issues were applicability of the relevant resolution provisions to HETA, existence of the prerequisites for resolution at the relevant time, as well as legality of the application of the bail-in tool. In two appeal proceedings the BVwG additionally had to clarify specific questions under company law in connection with creditor bail-in, as well as the question of whether the liabilities were eligible for bail-in or whether they counted as trade payables exempted from bail-in due to material significance for the day-to-day operations of HETA. Another case was discontinued after the appeal was withdrawn, which means that only one appeal is now pending with the BVwG.

The VwGH dismissed due to inadmissibility two petitions for reviews of BVwG decisions. These were brought by creditors whose appeals had been dismissed by the lower court. The VwGH denied that any points of law of fundamental significance existed and confirmed the FMA's competence as resolution authority in accordance with which it is entitled to impose resolution measures, the applicability of the relevant resolution provisions to HETA, the correctness of the examination of the existence of the prerequisites for resolution at the time of the first resolution measure, as well as the admissibility of applying the bail-in resolution tool to HETA. One further review of a negative BVwG decision is still pending.

Following the dismissal of appeals by five appellants against decision No. II, the BVwG suspended the last appeal proceedings brought by the same appellants against decision No. I on the grounds of irrelevance. The BVwG stated in its statement of reasons that decision No. II, which now has final and binding effect for the appellants, goes far beyond what had been laid down in decision No. I, against which they had appealed, in terms of the securities concerned, their nominal value, accrued interest and imposed deadlines, so that the moratorium had no effect on them. Moreover, this constituted a textbook example of material acceptance since decision No. II covered the whole material and temporal scope of decision No. I, even transcending its legal effects. Accordingly, the appellants had no legitimate interest to take legal action, and the proceedings therefore had to be discontinued.

In the year under review one appeal against decision No. III (revaluation of the bail-in ratio) was also withdrawn, and the proceedings discontinued. One appeal is therefore still pending with the BVwG.

PUBLICATIONS

The VwGH decided on two official FMA petitions for review in relation to the publication of sanctions and clarified procedural questions concerning the review of the lawfulness of the publication.

In relation to the contested decisions, the BVwG pronounced that the publication of the penal decisions (due to breaches of AML/CFT obligations) pursuant to Article 37 para. 1 of the Financial Markets Anti-Money Laundering Act (FM-GwG; *Finanzmarkt-Geldwäschegesetz*) before they had become final had been/is unlawful. In essence, the BVwG reasoned in its decision that disclosure in the form of a mere subsequent issuing of an administrative decision as defined in Article 37 FM-GwG was restricted to cases where such disclosure would be clearly justified on grounds of urgency in light of the FMA's supervisory objectives, and that this was not the case here.

In accordance with this decision, the FMA removed the publications from its website but filed an official petition for review with the VwGH for clarification of the underlying legal issue.

The VwGH basically argued in its rulings (Ra 2019/02/0179 of 12 February 2020; Ro 2019/02/0007 of 6 March 2020) that proceedings pursuant to Article 37 FM-GwG were a case for a decision in administrative penal matters. The BVwG therefore had to rule on the merits of the case. When reviewing the discretion used in administrative penal matters, the BVwG should itself exert the discretion laid down in the law. Since the administrative court has not exerted discretion itself, it had found the contested decision to be unlawful.

The VwGH ordered the BVwG in the course of its verification of the lawfulness of the disclosure pursuant to Article 37 para. 1 FM-GwG to substantiate in a second legal procedure whether the disclosure was part of the set of data to be published according to the mentioned provision and in particular why that disclosure was proportionate.

On the question of whether disclosure in the form of a mere subsequent issuing of an administrative decision was restricted to cases where such disclosure would be clearly justified on grounds of urgency in light of the FMA's supervisory objectives, the VwGH has not yet given its opinion.

In one of the two cases, the BVwG has meanwhile ruled in the second legal procedure that the publications including updates were lawful (W2762205163-1 of 31 December 2020).

BANKING RESOLUTION

Number of wind-down units: **2**

Number of banks for which the FMA draws up a resolution plan: **424**

Austria's contributions to the SRF since 2015: **€ 1228 million**

Distributions to HETA's creditors up to 2020: **€ 10.6 billion**

RESOLUTION PLANNING

During the year under review, the FMA was responsible for the resolution planning of 424 banks (as at 1 January 2020). Eleven banking groups fell under the remit of the European Single Resolution Board (SRB), which worked in cooperation with the FMA *(see box on page 141 for more information on the European banking resolution system).* The intensity and extent of resolution planning are very strongly based on a bank's size and the complexity of its business model.

Banks falling under the direct responsibility of the FMA can be divided into two categories. The first of these comprises 25 institutions that are of such significance to the Austrian market and its stability that resolution by the FMA should be considered in at least one of the examined scenarios. This category also includes smaller institutions with a relatively high volume of covered deposits. The second category comprises around 390 smaller banks that are likely to be liquidated in insolvency proceedings in the event of a default.

In the case of 16 of the banks for which resolution cannot be excluded in a crisis situation, the FMA provided information on the results of its 2019 resolution planning and gave the institutions the opportunity to respond. These banks were also prescribed an updated minimum requirement for own funds and eligible liabilities (MREL) by means of an administrative decision. This requirement aims to ensure that, in the hypothetical event of resolution, sufficient liabilities are available for loss absorption through write-downs and for recapitalisation of the bank through conversion into Common Equity Tier 1 capital.

As part of the revision of the resolution plans for these banks in the 2020 planning cycle, analysis of interrelationships and liquidity requirements in resolution was taken further, the preferred resolution strategy was fleshed out in more detail and put in place, the MREL calculation for the coming year was adjusted in line with the future legal situation, and the assessment of resolvability was expanded, particularly with regard to the impact on closely interconnected institutions. These banks were also required to draw up their own bail-in[1] playbooks by the end of 2020 as a means of preparing for implementation of a bail-in. The playbooks are to be further developed

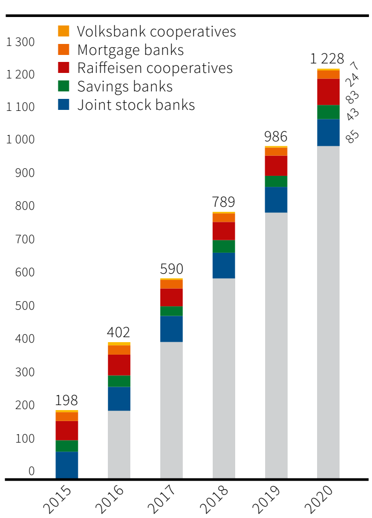
[1] *"Bail-in" refers to the participation by creditors of a credit institution in its losses upon its recovery or resolution if the bank faces the threat of insolvency.*

in 2021 in dialogue with the Authority. With regard to a further nine banks with a relatively high volume of covered deposits, resolution plans for 2019 were also finalised during the year under review, and resolution plans for 2020 were drafted.
Resolution planning for 2020, including the setting of an MREL, is scheduled for completion during the first half of 2021 for all of these banks, following comments from the SRB and banking supervisors.
Simplified resolution plans were prepared for the 390 or so smaller banks in 2020; the banks were informed of the results of these plans, including the MREL, in writing.
The draft resolution plans were also completed for the banking groups that fall under the direct responsibility of the SRB. These are now being analysed from the perspective of banking supervision and modified where necessary. For banking groups with institutions operating outside the Banking Union and for whom resolution colleges have been set up, joint decisions were prepared by the competent resolution authorities, and the process for reaching these decisions on the resolution plans and MREL was initiated.
Policy work relevant to resolution planning continued at international and national level. This included, for example, the SRB's new MREL policy based on the future legal situation, which also serves as the basis for the setting of the MREL by the FMA, and guidelines for smaller banks (LSI guidelines), which the SRB adopted in summer 2020 in order to help make the resolution planning of the various national resolution authorities of the Banking Union more consistent.

RESOLUTION FUND

Where the funds of a bank's shareholders, creditors and large depositors are insufficient to recapitalise an ailing institution under resolution, the Single Resolution Fund (SRF) may make a contribution under the guidance of the SRB. The SRF is based at the SRB and funded by all CRR credit institutions[2]. The target level of funding is 1% of the total covered deposits of these banks, to be achieved by 2023.
In 2020 the FMA, in its capacity as the national resolution authority, used emergency administrative decisions to request that 487 banks pay a total of € 242 million to the SRF, subsequently remitting these contributions in full and on time. Since the SRF was established in 2016, Austrian institutions have paid a total of € 1 228 million to it (> Chart 46). Over the same period, the number of institutions required to pay contributions has fallen from 605 in 2015 to 487 in 2020. A further fall in the number of institutions liable to pay is expected in 2021.

Chart 46: *Austrian contributions to the SRF 2015–2020 (in € millions)*



In the euro area, the area covered by the Single Resolution Mechanism (SRM), the contribution for 2020 was € 9.2 billion. The SRF's current level of funding therefore is approximately € 42 billion. Key drivers for the big changes in contributions in 2020 compared with previous years were the major increase in covered deposits in the euro area combined with the higher target of 1.25% of covered deposits set by the SRB.

[2] CRR credit institutions are those banks that take deposits or other repayable funds from the public and grant credits for their own account. They are defined in Article 4(1)(1) of the Capital Requirements Regulation (CRR): Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Resolution (EU) No 648/2012.

PRIORITY FOR SUPERVISON: MAKING FINANCIAL SERVICE PROVIDERS MORE RESILIENT
FMA MINIMUM STANDARDS ON THE PROVISION OF DATA IN THE EVENT OF RESOLUTION

If a bank gets into financial difficulties and is then subject to resolution, the FMA needs full information on that institution's financial and liquidity situation as quickly as possible. The information is needed in the event of a crisis to enable the FMA to decide on whether to implement resolution and to implement the selected resolution strategy in practice. For this purpose, the information must be up to date, quality-assured and complete. It must also be made available to the FMA in a timely manner and in a form that can be processed.

CLEAR COMMUNICATION, PRECISE DATA

The FMA Minimum Standards set out the FMA's expectations with regard to the provision of data by the affected bank in the event of resolution. For this purpose, the FMA Minimum Standards describe the data points (on assets, liabilities, liquidity, derivatives) and the conditions (cut-off dates and frequencies, duration, transmission channel, data format etc.) in relation to the required provision of data to the FMA. In line with the principle of proportionality, the FMA Minimum Standards are aimed exclusively at those banks for which the FMA, within the scope of resolution planning, considers resolution to be probable in at least one examined scenario.

The information requirements are based on the premise of avoiding creating any new reporting requirements in parallel to the regulatory reporting system, and they are based as far as possible on definitions from existing reporting obligations. In the sense of a "passive concept", the banks should ensure that they are in a position to provide the necessary data in the event of their resolution, and to determine the transmission channel, data format and form of presentation in consultation with the FMA.

RAPID IMPLEMENTATION AND APPLICATION

Following an in-depth public review process, the FMA Minimum Standards on the provision of data in the event of resolution were published on 11 January 2021. Banks have 30 months to implement them. Their introduction will ensure that banks undergoing resolution are able to provide the FMA with the data it needs in a timely and usable manner. In this way, the FMA Minimum Standards provide an important building block for strengthening the resolution capacity of banks and the resilience of the banking sector in Austria as a whole.

The increase in the target level is based on the statutory requirement that the available resources of the SRF must reach at least 1% of covered deposits of all licensed credit institutions in the participating Member States by the end of 2023. It also takes account of the fact that (strong) increases in covered deposits are expected by that date and of the principle that contributions should be distributed as evenly as possible over the accumulation period.
For the 2021 contribution cycle, the SRB released the data template for the submission of data for the 2021 calculation including marginal changes in October 2020. This template was made available to all Austrian institutions subject to contributions (457) via the FMA website.
On 23 September 2020, the European General Court annulled the SRB decision on the 2017 SRF contribution cycle with regard to three Banking Union institutions, including one from Austria. The SRB appealed against these rulings to the European Court of Justice (CJEU). The outcome of this appeal is still pending. The FMA's contribution assessments based on the decisions of the SRF for all other institutions and years are already legally binding and will not be affected by any European Court decision.

RESOLUTION PROCESSES

HETA ASSET RESOLUTION AG

Good progress was made in 2020 with regard to the resolution of HETA Asset Resolution AG (HETA), the wind-down entity for the former Hypo Alpe Adria banking group established pursuant to the Act on the Creation of a Wind-down Unit (GSA; *Gesetz zur Schaffung einer Abbaueinheit*)[3] and the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*)[4]. Supervised by the FMA in the capacity of national resolution authority, HETA recorded significant successes in realising its assets. It consistently improved its liquidity situation by further reducing its loan portfolios and selling off equity investments. The equity investment portfolio was cut by 20 companies to a total of 33 in 2019, with plans to dispose of another 15 in 2020. As at 31 December 2020, HETA Resolution AG therefore only had 11 equity investments left in its portfolio, 5 of which were already in liquidation (court or out-of-court procedures).
The resolution results achieved continue to greatly exceed HETA's original targets, mainly due to the resolution strategy having been consistently implemented. The sustained positive progress is also reflected in the current payment rate of 86.32% of creditors' eligible non-subordinated liabilities in accordance with the third administrative decision in relation to the challenge procedure and in the current rate of creditor claims being settled early. On 25 November 2020, a further € 700 million was distributed to creditors. This means that, together with the three interim distributions of 2017, 2018 and 2019 amounting to around € 9.9 billion, a total of € 10.6 billion has been distributed early, which equates to 85.12%. Given the advanced stage of the winding up of HETA, talks have already been held on preparing for the entity's liquidation under company law.

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[3] *Original version published in Federal Law Gazette I No. 51/2014.*
[4] *Original version published in Federal Law Gazette I No. 98/2014.*

KA FINANZ AG

KA Finanz AG (KF), which was created out of the demerger of the former Kommunalkredit in 2009, has been operating as a wind-down entity as defined in BaSAG since 6 September 2017 following approval by the FMA. KF has since reduced its portfolio according to the wind-down plan approved by the resolution authority.

Under the FMA’s supervision, the total assets of KF fell to € 5.3 billion as at the 2020 year-end, compared with € 9.8 billion as at 31 December 2017, € 7.2 billion as at 31 December 2018, and € 6.6 billion as at 31 December 2019. The fall is mainly attributable to scheduled and unscheduled active reductions and repayments. At € 3.4 billion, loans and advances to customers make up the largest balance sheet item on the asset side. As at 31 December 2020, KF also posted public-sector debt instruments and bonds in the amount of € 0.4 billion, as well as loans and advances to credit institutions totalling € 0.9 billion.

KF’s refinancing structure was changed in 2017 with the transition to a wind-down entity as defined in BaSAG. Since then, funding has been provided by the federal divestment company ABBAG. As at 31 December 2020, KF’s legacy funding portfolio had been significantly reduced, in particular through the redemption of a government-guaranteed bond amounting to € 1.0 billion which matured in August 2020. The biggest individual item within legacy funding as at 31 December 2020 was the covered bank bond in the amount of € 0.5 billion, which was redeemed in February 2021. KF has mainly been funded through ABBAG since then.

Outstanding funding provided by ABBAG totalled € 4.2 billion as at the 2020 year-end; this amount is reported under amounts owed to customers. KF’s total funding volume as at 31 December 2020 came to € 5.1 billion.

INTERNAL MATTERS

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. 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. The Executive Board of the FMA comprised Helmut Ettl and Klaus Kumpfmüller until 31 January 2020, when the latter was succeeded by Eduard Müller. The Executive Directors Ettl and Kumpfmüller had been reappointed on 28 November 2017 for another term of office starting in February 2018. Eduard Müller was appointed to serve as an interim member of the Executive Board on 1 February 2020 and for the first time as a regular member on 6 July 2020.

SUPERVISORY BOARD

The Supervisory Board of the FMA is composed of ten members. Of these, the Federal Minister of Finance (BMF) as well as the Oesterreichische Nationalbank (OeNB)

CHAIR:
Alfred Lesjek (BMF)

DEPUTY CHAIR:
Robert Holzmann (OeNB)

MEMBERS:		CO-OPTED MEMBERS:
Gabriela De Raaij (OeNB)	**Elisabeth Gruber** (BMF)	**Walter Knirsch** (WKO)
Karin Turner-Hrdlicka (OeNB)	**Beate Schaffer** (BMF)	**Franz Rudorfer** (WKO)
Gottfried Haber (OeNB)	**Dietmar Schuster** (BMF)	

Figure 4: *Supervisory Board of the FMA (as at 31 Dec. 2020)*

appoint four 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
- 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 2020 the Supervisory Board convened on 24 January, 2 March, 27 April, 22 June, 21 September and 27 November.

At its meeting on 27 April 2020, the Supervisory Board unanimously discharged the Executive Board for the 2019 financial year pursuant to Article 18 para. 4 FMABG.

__Figure 5:__ Organisation chart of the FMA (as at 31 Dec. 2020)

[1] Corporate Compliance Officer reports directly to the Executive Board.

STAFF

NUMBER OF STAFF

The Supervisory Board had approved a staffing target of 398 full-time equivalents (FTEs) for 2020. The actual number of staff employed by the FMA as at 31 December 2020 was 384.89 FTEs, which corresponds to 423 employees (excluding those on leave) *(> Table 37)*.

The staff turnover rate increased marginally in 2020, at 6.85%, compared with 5.03% in 2019. The rate is calculated excluding fixed-term contracts. The slightly higher figure is partly due to FMA employees' increasing mobility within the supervisory sector. In 2020, three FMA employees moved to other Austrian authorities or organisations and two to partner authorities abroad, thereby advancing their careers. Aside from these staff moves within the sector, the level of staff turnover is otherwise agreeably low.

The number of civil servants assigned to duty at the FMA by the Federal Ministry of Finance fell to 10.65 FTEs as the result of two people retiring. In a year-on-year comparison, the percentage of civil servants in proportion to all employees declined from 3.25% to 2.77% at the end of 2020. The comparable share in 2011 was as high as 6.84%. Due to one individual leaving, the number of contractual employees decreased from 5.15 to 4.5 FTEs, and now amounts to just 1.17% of all FMA staff.

The average age of FMA employees was unchanged at 42. The share of part-time employees rose marginally to 27.42% in 2020, with parents on part-time leave accounting for the majority of cases. The percentage of women in relation to total staff increased slightly in 2020, from 53.57% to 55.08%. Among management positions, the proportion of women remained at a stable, high level of 42%. The share of

Table 37: *Planned and actual staffing levels in FTEs in 2020*

	Planned staffing levels as at 31 Dec.	Actual staffing levels as at 31 Dec.	Difference in %
Executive Board Affairs, Enforcement and Law, Internal Audit	28.00	27.63	–1.32
Banking Supervision	78.50	74.85	–4.65
Insurance and Pension Supervision	58.00	56.80	–2.07
Securities Supervision	84.15	82.33	–2.16
Integrated Supervision	74.25	71.28	–4
Services	51.10	50.29	–1.59
Banking Resolution	24.00	21.73	–9.46
Total	**398.00**	**384.89**	**–3.29**

Differences arising from rounding to two decimal places are ignored.

university graduates dropped slightly from 83.33% to 81.80%. The proportion of employees with additional qualifications was 43.97% in 2020; examples of such qualifications include a second degree, postgraduate training, or certification as a lawyer or tax consultant. This share amounts to 59.10% when the 64 active employees are taken into account who successfully completed the two-year postgraduate university programme in Financial Market Supervision. The course of study for working students was developed jointly by the FMA, OeNB and the Vienna University of Economics and Business (WU).

HR DEVELOPMENT

As an organisation of experts, the FMA places high priority on the continuing professional development of its employees. Its personnel development programme encompasses a range of measures for the various target groups and requirements:

- Professional Master in Financial Supervision programme (first students admitted in autumn 2020)
- FMA Academy
- International seminars organised by the European System of Financial Supervision (ESFS)
- Third-party seminars based on individual requirements.

FMA ACADEMY

The FMA Academy offers seminars designed for certain target groups and areas of responsibility:

- New employees/basic seminars
- Assistants
- Officers
- Specialists
- Executives

- Specialist skills
- Self-management and social skills
- Skills in methods
- Language skills
- E-learning
- Decentralised measures
- International seminars
- Study visits and staff exchange
- University programme in Financial Market Supervision and MBA upgrade

In 2020 the FMA Academy organised a total of 155 seminars, workshops and lectures in which 2 466 individuals participated. Most sessions were held online from March 2020 onwards due to the pandemic. In addition to these centrally organised seminars, FMA staff attended 213 specialised training courses at third-party educational institutions targeted at individual career development in their specific fields.

EXECUTIVE DEVELOPMENT

In 2020 FMA executives had the choice of both tried-and-tested and new development measures. The Leadership Circle programme was continued in 2020, following positive feedback. It offers executives the possibility to regularly exchange experiences relating to topical leadership issues with a moderator leading the discussions. Additionally, in order to help them tackle Covid-related challenges, executives were able to attend targeted training seminars on subjects such as “Leading remotely”.

INTERNATIONAL SEMINARS

A total of nine FMA staff members also attended work-related seminars at European institutions, these were the European Central Bank (ECB), the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Banking Authority (EBA), the Single Resolution Board (SRB), the European Supervisor Education Initiative (ESE), as well as other partner authorities.

INTERNATIONAL NETWORKING

COOPERATION WITH THE EUROPEAN CENTRAL BANK

The good working relationship with the ECB in relation to all personnel issues associated with the Single Supervisory Mechanism (SSM), the system of banking supervision within the euro area, continued in 2020. The FMA was able to regularly participate in the Human Resources Conference (HRC) due to the use of online meetings, ensuring the continuation of international cooperation.

International secondments were expanded beyond just the ECB, where 13 FMA employees moved to work. For example, FMA employees were also seconded to the European Commission (2 employees), the European Council (1), the EBA (1) and the SRB (1). The majority of these secondments continued to take place in 2020 under host-based contracts where the receiving institution pays the expenses for the seconded FMA staff members.

COOPERATION WITH THE SINGLE RESOLUTION BOARD

The well-established contacts with the SRB were maintained, and the host-based secondment of one employee was extended. The FMA's participation in SRB working groups, which had been initiated in previous years in order to share information and actively help shape the SRB, was successfully continued remotely in 2020.

COOPERATION WITH INTERNATIONAL PARTNER AUTHORITIES

All study visits planned for the reporting year, both incoming and outgoing, had to be cancelled or postponed due to the pandemic. As soon as circumstances allow, these will of course be resumed in order to keep up the exchange of information and experience with colleagues from international partner authorities.

RECONCILIATION OF WORK AND FAMILY LIFE

Since November 2017, when the FMA was re-certified for its work/life balance efforts, the Authority has been able to implement most of the measures recommended during the audit process.

One major milestone was the evaluation of the FMA's teleworking and working from home policy, which is currently being revised in light of the experience gained from split-team operations and from the period when almost the entire staff were working from home. The completely overhauled policy is to be adopted and implemented in 2021.

The most important amendment to the revised policy is that the limits on the number of employees per department who may work remotely have been removed. The policy

now also includes specific definitions of the terms “teleworking” and “working from home”. However, employees still require the consent of their superior before being allowed to work remotely.
The current full “workandfamily” certificate expired in November 2020 and, following a comprehensive audit process, was extended until 2023.

DIGITALISATION OF HR MANAGEMENT

As part of the FMA’s strategy to digitalise HR management, an electronic tool to handle staff appraisals has been put in place.
Accordingly, staff appraisals have been handled via a centralised HR management tool since the autumn of 2020; it is also used for managing payroll and travel expense accounting, time and performance tracking, as well as continuing professional development (CPD).
Using one centralised tool for staff appraisals avoids potential interface problems and increases data security. The electronic tool raised workflow efficiency and ensured that appraisals were handled smoothly.
The key goals of staff appraisal are:

- Looking back on the past year
- Assessing past performance
- Agreeing on next year’s goals
- Agreeing on development and promotion measures.

The new electronic tool saves time, with the agreed goals automatically being integrated into interim feedback and vice versa, facilitates administration, and provides a quick overview during the appraisal process. It also increases efficiency in that it is linked with centrally organised seminars and automatically provides a clear history of all CPD measures taken so far. And finally, the digitalisation of the process saves paper and ink, thus also contributing to greater sustainability.

FINANCE AND CONTROLLING

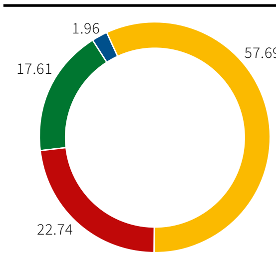
FINANCING

The FMA's finances are based on three pillars, as stipulated in the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*): Firstly, the FMA receives an annual lump sum of € 4 million from the federal budget as prescribed by law. In addition, the FMA is entitled to a federal contribution for expenses incurred in connection with the regulatory sandbox, which was set up in 2020; this contribution was calculated on a pro rata basis for 2020 and amounted to € 167 000. Secondly, in its capacity as an authority, the FMA may levy fees for particular services as defined by law. And thirdly, the remaining amount is contributed by the supervised entities according to the share of costs incurred in each case.

In addition, in its capacity as national resolution authority[1], 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, each of which is then further divided into subgroups *(> Chart 47).*

Chart 47: *Supervisory costs in 2020, apportionment to accounting groups (in %)*



The FMA uses the data recorded in its time and performance tracking system (ZLES) as the basis for allocating personnel expenses to the accounting groups, as stipulated in the FMABG, according to the share incurred.

After deducting the federal contribution, the collected fees and other income from the overall costs, the share of other costs accounted for by each accounting group can be calculated. In accordance with the statutory provisions, this share is to be allocated and charged to each individual supervised entity.

PAYMENT NOTICES

In accordance with Article 19 FMABG, the supervised companies are required to reimburse the FMA for the costs incurred. These costs are determined using the financial statements and statement of costs. The respective 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.

[1] *Article 74 para. 5 BaSAG.*

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 payment notices and for payments.

The FMA issued the payment notices for the actual costs incurred in 2019 in November 2020, together with those for the advance payments for 2021. Compared with one year earlier, when some 2 200 payment notices were issued, the number of notices increased to around 2 500. Based on the actual costs of 2019 minus the advance payments made that year, the entities liable to pay costs were charged an additional € 3.4 million for 2019.

FINANCIAL STATEMENTS

Applying Chapter III of the Corporate Code (UGB; *Unternehmensgesetzbuch*), the FMA is required to draw up financial statements for the previous financial year in the form of an annual balance sheet, an income statement and notes pursuant to Article 18 FMABG, as well as a balance sheet and an income statement for the resolution financing arrangement pursuant to Article 123d para. 2 of the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*) in conjunction with Article 18 FMABG.

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 financial statements including statement of costs as audited by an auditor or an auditing firm must have been submitted to the FMA Supervisory Board for approval.

BBW Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH carried out the statutory audit of the FMA's financial statements and statement of costs for 2020 as well as of the resolution financing arrangement's balance sheet and income statement for 2020 and issued unqualified opinions in each case, confirming compliance with the statutory provisions.

In accordance with Article 10 para. 2 no. 4 FMABG, the Supervisory Board approved the 2020 financial statements of the FMA and of the resolution financing arrangement on 26 April 2021.

The most important items of the financial statements for 2020 can be summarised as follows:

- The share contributed by entities liable to pay costs increased by some € 0.4 million compared with 2019 to approximately € 62.8 million.
- Other operating income fell by around € 0.2 million owing to lower reimbursements pursuant to Article 74 para. 5 no. 2 BaSAG.
- Personnel expenses were up by about € 1.7 million to total approximately € 47.2 million, which is mainly attributable to adjustments of salary levels for inflation, annual salary progressions and a higher average number of staff.
- Other operating expenses amounted to approximately € 23.9 million, equating to a drop of around € 1.3 million year-on-year. This is primarily due to Covid-related savings as a result of fewer conferences (approx. –€ 0.3 million), business trips (approx. –€ 0.9 million) and training courses and seminars (approx. –€ 0.3 million).

INFORMATION TECHNOLOGY

The Covid-19 pandemic forced the FMA to quickly adapt the organisation of its work to the new challenges. The switch from office-based working to having all employees work from home, and subsequent split-team operations with employees alternating between the office and home, made huge demands of the IT infrastructure. New hardware and software had to be acquired under great time pressure to enable employees to do their jobs from home. This then had to be implemented either in employees' homes or centrally. In addition, new IT and communication services had to be purchased and introduced, for instance to allow telephone or video conferences in various technical formats (as used in the market and the European supervisory system) and under the strictest security standards, as required for an Authority.

Work also began on the renewal of the Incoming Platform, which is used for file uploads and for submitting data via defined forms. The new version of this web application is scheduled to come online in the second quarter of 2021.

New tools are also constantly being developed, and existing ones improved, to support the analysis of reporting data. In the year under review, the focus was on optimising data collection, processing and analysis for securities supervision.

The FMA's quarterly reports were also refined. Individual contributions are now recorded in adapted forms specific to the relevant content. The individual chapters are subsequently automatically combined in a quarterly report in the form of a Word document, and made available for final checks.

REMOTE IT SERVICES AND COMMUNICATION SOLUTIONS

For years now, all employees have been equipped with mobile devices (laptops or thin clients) and may use all of the FMA's IT services at any time and from any location that has Internet access, through a Virtual Private Network (VPN) or Citrix[1] gateway. This way employees can work at the FMA office or remotely from their home, or during on-site inspections of supervised companies or external meetings and conferences. This approach has definitely proven its worth during the pandemic.

With employees working at different locations, either on the FMA's premises or elsewhere, existing communication solutions needed to be extended and linked with new ones. For instance, all meeting and conference rooms were equipped with webcams

[1] *The Citrix software gives users remote access to software applications that are installed on central servers.*

with a 120 to 360 degree rotating autofocus functionality, as well as with the necessary screens and projectors, allowing all departments to host meetings with some participants on site and others taking part via video conference. Skype for Business is the digital communication tool used by the FMA. In order to be able to contact participants conveniently and flexibly, Webex was introduced as a second communication tool. Webex can be used with any HTML5-capable browser without requiring the installation of any additional software.
For CPD measures, the FMA uses Webex Training, Cisco's solution for online training seminars.
The FMA's VoIP telephone system has a Softclient app that allows all employees to be called on their direct-dial number regardless of their location. Employees can take telephone calls using a headset or their computer's speaker and microphone. They can also initiate calls and control their direct line remotely, e.g. to activate voicemail or set up call forwarding.
The following means of communication are currently available for use on employees' own computers or in all specially equipped meeting rooms with webcams:
- Skype for Business
- Webex Meeting and Training
- AVAYA VoIP telephony.

DIGITALISATION OF COST DECISION DELIVERY

To avoid changes in media format and to meet the statutory requirements in relation to electronic delivery options effective since 1 January 2020, several IT and organisational measures have been implemented over the last few years. The FMA has provided a dual delivery option from its electronic filing system since the end of 2018.
The electronic delivery process was integrated into the FMA's internal application for cost calculation in 2020. During the year the FMA:
- issued 2 567 administrative decisions relating to the Cost Regulation,
- delivering 1 613 of them electronically and
- a further 954 by post.

Recipients who are registered with a delivery service are sent the administrative decision digitally, and can then process that decision automatically within their own systems without needing to change the media format. Otherwise, the decision is automatically printed out and delivered by post. Electronic delivery saves costs and resources such as paper and ink, but most of all it slashes the time taken from issuing to receipt of the decision to just a couple of seconds.

CHARTS

TABLES

FIGURES

AFREP	*Austrian Financial Reporting Enforcement Panel*
AG	*Aktiengesellschaft (joint stock company)*
AIF	*Alternative Investment Fund*
AIFM	*Alternative Investment Fund Manager*
AIFMG	*Alternatives Investmentfonds Manager-Gesetz (Alternative Investment Fund Managers Act)*
AMF	*Autorité des marchés financiers (France)*
AML/CFT	*Anti-Money Laundering/Countering the Financing of Terrorism*
APM	*Alternative Performance Measures*
APP	*Asset Purchase Programme*
ATX	*Austrian Traded Index*
BaFin	*Federal Financial Supervisory Authority (Germany)*
BaSAG	*Bankensanierungs- und Abwicklungsgesetz (Bank Recovery and Resolution Act)*
BCG	*Basel Consultative Group*
BMF	*Federal Ministry of Finance*
BMR	*Benchmarks Regulation*
BMSVG	*Betriebliches Mitarbeiter- und Selbständigenvorsorgegesetz (Company Employee and Self-Employment Provisions Act)*
BörseG	*Börsegesetz (Stock Exchange Act)*
BRRD	*Bank Recovery and Resolution Directive*
BVwG	*Federal Administrative Court*
BWG	*Bankwesengesetz (Austrian Banking Act)*
CCP.A	*Central Counterparty Austria GmbH*
CEESEG	*CEE Stock Exchange Group*
CERT	*Computer Emergency Response Team*
CESEE	*Central, Eastern and South-Eastern Europe*
CET1	*Common Equity Tier 1*
CFD	*Contract for Difference*
CIS	*Commonwealth of Independent States*
CJEU	*European Court of Justice*
CNMV	*Comisión Nacional del Mercado de Valores (Spain)*
CRR	*Capital Requirements Regulation*
CSA	*Common Supervisory Action*
CSDR	*Central Securities Depositories Regulation*
CSPP	*Corporate Sector Purchase Programme*
DAX	*German stock index*
DLT	*Distributed Ledger Technology*
EBA	*European Banking Authority*
ECB	*European Central Bank*
EEA	*European Economic Area*
EFIF	*European Forum for Innovation Facilitators*
EIOPA	*European Insurance and Occupational Pensions Authority*
EMIR	*European Market Infrastructure Regulation*
EONIA	*Euro OverNight Index Average*
ERP	*Enterprise Resource Planning*
ESA	*European Supervisory Authority*
ESE	*European Supervisor Education Initiative*
ESEF	*European Single Electronic Format*
ESFS	*European System of Financial Supervision*
ESG	*Environmental, Social and Governance*
ESMA	*European Securities and Markets Authority*
ESRB	*European Systemic Risk Board*
EU	*European Union*
EURIBOR	*Euro Interbank Offered Rate; three-month interbank rate*
EURO STOXX 50	*Stock index of the 50 largest listed companies in the euro area*
EuroCCP	*European Central Counterparty N.V. (Netherlands)*
EuVECA	*European Venture Capital Fund*
FATF	*Financial Action Task Force*
FCA	*Financial Conduct Authority (UK)*
FinTech	*Financial Technology*
FISC	*Financial Innovation Standing Committee*
FMA	*Financial Market Authority (Austria)*
FMABG	*Finanzmarktaufsichtsbehördengesetz (Financial Market Authority Act)*
FMA-PIV	*FMA-Produktinterventionsverordnung (Regulation on Product Intervention Measures)*
FM-GwG	*Finanzmarkt-Geldwäschegesetz (Financial Markets Anti-Money Laundering Act)*
FSB	*Financial Stability Board*
FSEG	*Financial Stability Engagement Group*
FSMA	*Financial Services and Markets Authority (Belgium)*
FTE	*Full-Time Equivalent*
GDP	*Gross Domestic Product*
GIMAR	*Global Insurance Market Report*
GmbH	*Gesellschaft mit beschränkter Haftung (limited liability company)*
GSA	*Bundesgesetz zur Schaffung einer Abbaueinheit (Federal Act on the Creation of a Wind-down Entity)*
HCMC	*Hellenic Capital Market Commission (Greece)*
HETA	*HETA Asset Resolution AG*
IAIG	*Internationally Active Insurance Groups*
IAIS	*International Association of Insurance Supervisors*
IAS	*International Accounting Standards*
IASC	*International Accounting Standards Committee*
IBOR	*Interbank Offered Rate*
ICOs	*Initial Coin Offerings*
ICT	*Information and Communications Technology*
IDD	*Insurance Distribution Directive*
IFD	*Investment Firms Directive*
IFR	*Investment Firms Regulation*
IFRS	*International Financial Reporting Standards*
IHS	*Institute for Advanced Studies*
IMF	*International Monetary Fund*
ImmoInvFG	*Immobilien-Investmentfondsgesetz (Real Estate Investment Fund Act)*
Immo-KAG	*Real estate investment fund management company*
InsurTech	*Insurance Technology*
InvFG	*Investmentfondsgesetz (Investment Fund Act)*
IOCs	*Indicators of Compromise*
IOPS	*International Organisation of Pension Supervisors*
IOSCO	*International Organization of Securities Commissions*
IRG	*Investment and Risk-sharing Group*
IRTs	*Internal Resolution Teams*
JSTs	*Joint Supervisory Teams*
KAG	*Investment fund management company*
KF	*KA Finanz AG*
KIID	*Key Investor Information Document*
KMG	*Kapitalmarktgesetz (Capital Market Act)*
KStG	*Körperschaftsteuergesetz (Corporate Tax Act)*
KVO	*Kostenverordnung (Cost Regulation)*
KYC	*Know Your Customer*
LIBOR	*London Interbank Offered Rate*
LSI	*Less Significant Institution*
MADe	*Market Abuse Detector*
MAR	*Market Abuse Regulation*
MBA	*Master of Business Administration*
MFI	*Monetary Financial Institution*
MiFID	*Markets in Financial Instruments Directive*
MiFIR	*Markets in Financial Instruments Regulation*
MMIT	*Market Manipulation Insider Tracer*

MoU	*Memorandum of Understanding*
MREL	*Minimum Requirement for Own Funds and Eligible Liabilities*
MSCI	*Emerging Markets Index*
MTF	*Multilateral Trading Facility*
NCA	*National Competent Authority*
NGFS	*Network for Greening the Financial System*
NMS	*New Member State (EU)*
NPLs	*Non-Performing Loans*
NRA	*National Resolution Authority*
OECD	*Organisation for Economic Co-operation and Development*
OeKB	*Oesterreichische Kontrollbank AG*
OeNB	*Oesterreichische Nationalbank*
ORSA	*Own Risk and Solvency Assessment*
PACTA	*Paris Agreement Capital Transition Assessment*
PELTROs	*Pandemic Emergency Longer-Term Refinancing Operations*
PEP	*Politically Exposed Person*
PEPP	*Pandemic Emergency Purchase Programme*
PEPP	*Pan-European Personal Pension Product*
PK	*Pensionskasse (pension company)*
PRIIP	*Packaged Retail and Insurance-based Investment Product*
PSD2	*Payment Services Directive (revised)*
RCG	*Regional Consultative Group*
RFR	*Risk-free Rate*
RL-KG	*Rechnungslegungs-Kontrollgesetz (Financial Reporting Enforcement Act)*
RSR	*Regular Supervisory Report*
RWA	*Risk-Weighted Assets*
S&P	*Standard & Poor's*
SaaS	*Software As A Service*
SCR	*Solvency Capital Requirement*
Security-oriented IRG	*Security-oriented investment and risk sharing group*
SEE	*South-Eastern Europe*
SFTR	*Securities Financing Transactions Regulation*
SI	*Significant Institution*
SME	*Small and Medium-sized Enterprise*
SRB	*Single Resolution Board*
SREP	*Supervisory Review and Evaluation Process*
SRF	*Single Resolution Fund*
SRM	*Single Resolution Mechanism*
SSM	*Single Supervisory Mechanism*
Sub-IG	*Sub Investment Group*
SURE	*Support to mitigate Unemployment Risks in an Emergency*
TLTRO III	*Targeted Longer-Term Refinancing Operation (third series)*
TREM	*Transaction Reporting Exchange Mechanism*
UCITS	*Undertakings for Collective Investment in Transferable Securities*
UGB	*Unternehmensgesetzbuch (Corporate Code)*
USBLS	*U.S. Bureau of Labor Statistics*
VAG	*Versicherungsaufsichtsgesetz (Insurance Supervision Act)*
VASP	*Virtual Asset Service Provider*
VStG	*Verwaltungsstrafgesetz (Administrative Penal Act)*
VwGH	*Supreme Administrative Court*
WAG 2018	*Wertpapieraufsichtsgesetz 2018 (Securities Supervision Act)*
WBAG	*Wiener Börse AG*
WHO	*World Health Organization*
WIFO	*Austrian Institute of Economic Research*
WKO	*Austrian Federal Economic Chamber*
WKStA	*Central Public Prosecutor for Economic Crime and Corruption*
WU	*Vienna University of Economics and Business*
ZaDiG	*Zahlungsdienstegesetz (Payment Services Act)*
ZLES	*Time and performance tracking system*

FINANCIAL MARKET AUTHORITY
FINANCIAL STATEMENTS 2020

FINANCIAL STATEMENTS 2020

AUDITOR'S REPORT
REPORT ON THE FINANCIAL STATEMENTS

AUDIT OPINION

We have audited the financial statements of the Financial Market Authority (FMA), Vienna, consisting of the balance sheet as at 31 December 2020, the income statement for the financial year then ended, as well as the notes. The statement of costs pursuant to Article 19 FMABG was also part of our audit.

In our opinion, the attached financial statements comply with the legal provisions and present a picture of the Authority that is as true and fair as possible with respect to net assets and the financial position as at 31 December 2020 as well as the results of operations of the FMA for the financial year then ended, in accordance with Austrian company law. The statement of costs pursuant to Article 19 FMABG complies with the statutory provisions.

BASIS FOR AUDIT OPINION

We conducted our audit in accordance with the Austrian standards of proper auditing. These standards require us to apply the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards are further described in the section "Auditor's responsibilities for the audit of the financial statements" of our auditor's report. We are independent from the FMA, as required in accordance with Austrian company law and professional regulations, and we have fulfilled our other professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained by 7 April 2021 is sufficient and appropriate to provide a basis for our audit opinion up to that date.

LEGAL REPRESENTATIVES' AND SUPERVISORY BOARD'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The legal representatives of the Financial Market Authority (FMA) are responsible for the preparation of the financial statements and for ensuring that they 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. The legal representatives are also responsible for any internal control procedures that they deem necessary to enable preparation of financial statements that are free from intentional or unintentional material misstatement, whether caused by fraud or other irregularity or error.

In preparing the financial statements, the legal representatives are responsible for assessing the FMA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the legal representatives either intend to liquidate the arrangement or to cease operations, or have no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the FMA's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements are free from intentional or unintentional material misstatement whether caused by fraud or other irregularity or error, and to issue an auditor's report including our audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Austrian standards of proper auditing, which require us to apply the ISA, will always detect a material misstatement when it exists. These can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with Austrian standards of proper auditing, which require us to apply the ISA, we exercise professional judgment and maintain professional scepticism throughout the entire audit.
Additionally:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal controls.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FMA's internal control procedures.
- We evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures made by the legal representatives.
- We conclude on the appropriateness of legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FMA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the FMA to cease operating as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Supervisory Board of the FMA regarding, among other

matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON MANAGEMENT REPORT

Austrian company law requires us to perform audit procedures to determine whether the management report is consistent with the financial statements and whether it has been prepared in accordance with the applicable statutory requirements.

As regards the non-financial statement included in the management report, our responsibility is to verify that it has been prepared, to read it, and to consider whether this additional information is materially inconsistent with the financial statements or our findings obtained during the audit, or otherwise appears to be materially misstated.

The legal representatives are responsible for the preparation of the management report in accordance with Austrian company law.

We conducted our audit in accordance with the standards of actuarial practice applicable to the audit of the management report.

OPINION

In our opinion, the management report has been prepared in accordance with the applicable statutory requirements and is consistent with the financial statements.

DECLARATION

Considering the findings obtained during our audit of the financial statements and the appreciation we gained of the FMA and its environment, we did not identify any material deficiencies in the management report.

Vienna, 7 April 2021

BBW WIRTSCHAFTSPRÜFUNGS-
UND STEUERBERATUNGSGESELLSCHAFT MBH

BERNHARD WINTER
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.

Balance sheet as at 31 December 2020 (amounts in €; rounding differences from previous year disregarded)

ASSETS			Prev. year in € thousands
A. Fixed assets			
I. Intangible assets			
1. Industrial property and similar rights and licences in such rights		410 260,84	429
II. Tangible assets			
1. Buildings on third-party land	1 000 840.42		870
2. Other equipment, operating and office equipment	986 251.87		964
		1 987 092.29	1 835
		2 397 353.13	2 64
B. Current assets			
I. Services not yet invoiced to entities liable to pay costs		62 272 951.04	61 895
II. Receivables and other assets			
1. Trade receivables	743 094.30		775
Amounts becoming due and payable after more than one year	*0.00*		*0*
2. Other receivables and assets	713 906.27		527
Amounts becoming due and payable after more than one year	*0.00*		*0*
		1 457 000.57	1 302
III. Securities and shares			
1. Austrian government securities		12 000 000.00	26 000
IV. Cash at bank and in hand		26 917 071.64	7 429
		102 647 023.25	96 627
C. Prepaid expenses		1 403 887.97	1.790
		106 448 264.35	**100.681**

Statements of changes in fixed assets pursuant to Article 226 para. 1 UGB (amounts in €)

	Cost of acquisition			
	As at 1 Jan. 2020	Additions	Disposals	As at 31 Dec. 2020
I. Intangible assets				
1. Industrial property and similar rights and licences in such rights	4 458 461.49	311 463.52	0.00	4 769 925.01
II. Tangible assets				
1. Buildings on third-party land	2 363 255.08	256 887.98	0.00	2 620 143.06
2. Other equipment, operating and office equipment	6 439 232.55	688 205.64	292 131.89	6 835 306.30
3. Low-value assets	0.00	76 351.72	76 351.72	0.00
	8 802 487.63	1 021 445.34	368 483.61	9 455 449.36
	13 260 949.12	**1 332 908.86**	**368 483.61**	**14 225 374.37**

NOTES PURSUANT TO ARTICLE 236 UGB (amounts in €)

A. GENERAL INFORMATION

1. 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

			EQUITY AND LIABILITIES *Prev. year in € thousands*
A. Reserves pursuant to FMABG			
1. Reserve pursuant to Article 20 FMABG	3 633 006.00		3 467
2. Reserve pursuant to Article 23a FMABG	156 993.71		0
		3.789.999.71	3 467
B. Provisions			
1. Provisions for severance pay	2 550 968.95		2 420
2. Other provisions	9 427 313.15		8 884
		11 978 282.10	11 304
C. Liabilities			
1. Advance payments received pursuant to Article 19 FMABG		62 698 343.50	59 830
Amounts becoming due and payable within one year		*62 698 343.50*	*59 830*
Amounts becoming due and payable after more than one year		*0.00*	*0*
2. Trade payables		22 727 726.29	22 649
Amounts becoming due and payable within one year		*12 061 726.29*	*11 968*
Amounts becoming due and payable after more than one year		*10 666 000.00*	*10 681*
3. Other liabilities		5 232 097.75	3 383
Taxes	*713 378.29*		*698*
Social security and similar obligations	*812 554.87*		*793*
Actual cost accounting for previous years	*531 444.00*		*1 054*
Other	*3.174 720.59*		*837*
Amounts becoming due and payable within one year	*5.232 097.75*		*3 383*
Amounts becoming due and payable after more than one year	*0.00*		*0*
		90 658 167.54	85 862
Amounts becoming due and payable within one year		*79 992 167.54*	*75 181*
Amounts becoming due and payable after more than one year		*10 666 000.00*	*10 681*
D. Deferred income		21 815.00	48
		106 448 264.35	**100 681**

Table 38: *Balance sheet 2020*

Cumulative depreciation, amortisation and write-downs				Carrying amounts	
As at 1 Jan. 2020	Additions	Disposals	As at 31 Dec. 2020	As at 1 Jan. 2020	As at 31 Dec. 2020
4 029 220.01	330 444.16	0.00	4 359 664.17	429 241.8	410 260.84
1 492 904.90	126 397.74	0.00	1 619 302.64	870 350.18	1 000 840.42
5.475 001.77	665 673.11	291 620.45	5 849 054.43	964 230.78	986 251.87
0.00	76 351.72	76 351.72	0.00	0.00	0.00
6 967 906.67	868 422.57	367 972.17	7 468 357.07	1 834 580.96	1 987 092.29
10 997 126.68	**1 198 866.73**	**367 972.17**	**11 828 021.24**	**2 263 822.44**	**2 397 353.13**

Table 39: *Fixed assets 2020*

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 was incorporated into the FMA by way of universal legal succession pursuant to Article 1 of the Securities Supervision Act (WAG; *Wertpapieraufsichtsgesetz*).

Income statement for the financial year from 1 January to 31 December 2020 (amounts in €; rounding differences from previous year disregarded)

			Prev. year in € thousands
1. Federal Government contribution pursuant to FMABG		4 166 666.67	4 000
2. Share of entities liable to pay costs			
a) Share of entities liable to pay costs (not yet chargeable)	62 272 951.04		61 895
b) Share of entities liable to pay costs (charged)	500 000.00		500
		62 772 951.04	62 395
3. Income from fees and the allocation of costs		4 845 857.97	5 016
4. Other operating income			
a) Income from the reversal of provisions	640 448.78		609
b) Other	255 555.62		289
		896 004.40	899
5. Personnel expenses			
a) Salaries	–37 438 546.71		–35 907
b) Social security costs	–9 788 137.80		–9 668
Expenses for old-age provision	*–1 609 760.15*		*–1 519*
aa) Expenses for severance pay and contributions to corporate staff provision funds	*–681 045.28*		*–641*
bb) Cost of statutory social security, payroll-related taxes and mandatory contributions	*–7 322 453.64*		*–7 124*
cc) Other social security costs	*–174 878.73*		*–384*
		–47 226 684.51	–45 575
6. Amortisation and write-downs of intangible assets, depreciation and write-downs of tangible assets		–1 198 866.73	–1 410
7. Other operating expenses			
a) Costs pursuant to Article 79 para. 4b BWG – Banking Supervision	–8 000 000.00		–8 000
b) Costs pursuant to Article 182 para. 7 VAG – Insurance Supervision	–170 000.00		–211
c) Costs pursuant to Article 3 para. 5 BaSAG – Bank Recovery/Resolution	–2 000 000.00		–2 000
d) Costs pursuant to Article 6 para. 6 ESAEG – Deposit Guarantees	–496 000.00		–470
e) Other	–13 210 439.95		–14 488
		–23 876 439.95	–25 169
8. Subtotal of items 1 to 7		**379 488.89**	**156**
9. Other interest income		1 100.19	8
10. Interest expenses		–57 331.17	–34
11. Subtotal of lines 9 to 10		**–56 230.98**	**–25**
12. Release of reserves pursuant to FMABG		0.00	342
13. Appropriation to reserves pursuant to FMABG		–323 257.91	–472
14. Profit or loss for the year		**0.00**	**0**

Table 40: *Income statement 2020*

2. The financial statements have been 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.
3. 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.
4. The financial statements were prepared in accordance with the going concern principle.
5. Where a value was determined on the basis of an estimate, those estimates were based on prudent assessment. Where empirical values were available, the assessment was based on those values.

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 39 (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 16 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 € 800.00 (previous year: € 400.00) each were reported as disposals in their year of acquisition.

Additions to the assets were valued at cost; disposals of assets were recognised at carrying amounts.

Development of carrying amounts:

	Carrying amount as at 1 Jan. 2020	Additions	Carrying amount of asset disposals	Depreciation	Carrying amount as at 31 Dec. 2020
Intangible assets					
Industrial property and similar rights and licences in such rights	429 241.48	311 463.52	0.00	330 444.16	410 260.84
Other IT software	*415 387.94*	*311 463.52*	*0.00*	*319 861.02*	*406 990.44*
Electronic filing system	*7 910.40*	*0.00*	*0.00*	*5 273.60*	*2 636.80*
Website	*5 943.14*	*0.00*	*0.00*	*5 309.54*	*633.60*
Tangible assets					
Buildings on third-party land	870 350.18	256 887.98	0.00	126 397.74	1 000 840.42
Improvements to leased buildings (Otto-Wagner-Platz)	*828 783.21*	*256 887.98*	*0.00*	*116 978.49*	*968 692.70*
Dedicated lines	*41 566.97*	*0.00*	*0.00*	*9 419.25*	*32 147.72*
Other equipment, operating and office equipment	964 230.78	688 205.64	511.44	665 673.11	986 251.87
IT equipment (hardware)	*712 422.97*	*641 143.84*	*0.00*	*577 512.21*	*776 054.60*
Office furniture	*133 691.09*	*16 989.59*	*511.44*	*37 440.74*	*112 728.50*
Other office equipment	*84 216.57*	*25 462.19*	*0.00*	*38 574.47*	*71 104.29*
Office machines, devices and systems	*33 900.15*	*4 610.02*	*0.00*	*12 145.69*	*26 364.48*
Low-value assets	0.00	76 351.72	0.00	76 351.72	0.00
Total	**2 263 822.44**	**1 332 908.86**	**511.44**	**1 198 866.73**	**2 397 353.13**

2. Intangible assets

	31 Dec. 2020	31 Dec. 2019
I. Services not yet invoiced to entities liable to pay costs	62 272 951.04	61 895 186.63
II. Receivables and other assets	1 457 000.57	1 302 209.51
III. Securities and shares	12 000 000.00	26 000 000.00
IV. Cash at bank and in hand	26 917 071.64	7 429 171.25
Total	102 647 023.25	96 626 567.39

I. Services not yet invoiced to entities liable to pay costs

This item comprises the expenses still to be borne by the entities liable to pay costs pursuant to Article 19 FMABG in the amount of € 62 272 951.04 (previous year: € 61 895k); specifically overall costs minus the federal grant pursuant to Article 19 para. 4 FMABG, authorisation fees pursuant to Article 19 para. 10 FMABG, as well as other income. The statement of costs is prepared according to the procedures stipulated under Article 19 FMABG.

In accordance with Article 19 FMABG, the FMA apportions cost shares as directly as possible to the accounting groups of banking supervision, insurance supervision, securities supervision and pension supervision. Costs that cannot be directly allocated are apportioned to the accounting groups based on the ratio of directly allocable costs (Article 19 para. 2 FMABG).

The 2020 cost shares for the four accounting groups are as follows:

	2020 in €	2019 in € thousands
1. Banking Supervision costs	36 211 627.01	35 816
2. Insurance Supervision costs	11 055 053.05	10 978
3. Securities Supervision costs	14 275 276.34	14 481
4. Pension Supervision costs	1 230 994.65	1 119
Total	62 772 951.04	62 395

(Rounding differences are ignored.)

After deduction of the costs of € 500 000.00 (previous year: € 500k), for the sub-accounting group Market Infrastructure in the Securities Supervision accounting group that were already charged in 2020, an amount of € 62 272 951.04 (previous year: € 61 895k) remains to be charged.

The allocation of costs to the individual entities liable to pay costs, and the offsetting against the advance payments made by the entities liable to pay costs in the 2020 financial year, are based on the reference data as listed in the relevant supervisory laws and reported to the FMA; this data is only available after the financial statements have been prepared.

II. Receivables and other assets

This item comprises the following sub-items:

	31 Dec. 2020	31 Dec. 2019
1. Trade receivables	743 094.30	774 921.37
2. Other receivables and assets	713 906.27	527 288.14
Total	1 457 000.57	1 302 209.51

1. Trade receivables

The receivables amounting to € 743 094.30 (previous year: € 775k) 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.

Trade receivables in the amount of € 12 779.30 (previous year: € 250k) constitute receivables pursuant to Article 74 para. 5 no. 2 of the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*).

Receivables of € 734 854.00 (previous year: € 529k) are still being carried from the actual cost accounting of previous years. Itemised valuation allowances of € 4 539.00 (previous year: € 4k) were recognised for receivables from actual cost accounting.

Itemised valuation allowances developed as follows:

As at 1 Jan. 2020	€	4 337.00
Allocation	€	202.00
Use	€	0.00
Release	€	0.00
As at 31 Dec. 2020	€	4 539.00

2. Other receivables and assets

Other receivables totalling € 713 906.27 (previous year: € 527k) include mostly receivables from orders imposing fees, administrative penalties, penalty interest, trustee fees, as well as transitory items concerning the ELAK electronic filing system.

The itemised valuation allowance for Other receivables, administrative penalties and coercive penalties amounts to € 7 168.17 (previous year: € 7k).

III. Securities and shares

Securities and shares show investments in Austrian government securities in the amount of € 12 000 000.00 (previous year: € 26 000k).

IV. Cash at bank and in hand

As at 31 December 2020 the Financial Market Authority held liquid assets in the amount of € 26 917 071.64 (previous year: € 7 429k). The year-on-year increase is primarily attributable to less investment in Austrian government securities (see Point B.III. above).

3. Prepaid expenses

The item Prepaid expenses amounting to € 1 403 887.97 (previous year: € 1 790k) comprises in particular prepaid expenses for rent, insurance expenses, royalties and maintenance fees, membership fees, as well as subscriptions.

4. Reserve pursuant to FMABG
   1. 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 2019 (1% of the FMA's total costs in 2019 in the amount of € 72 660 119.97 is € 726 601.20). 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 2019 (5% of the FMA's total costs in 2019 in the amount of € 72 660 119.97 is € 3 633 006.00). As at 31 December 2019 the reserve totalled € 3 466 741.80. Following the allocation of € 166 264.20, the total reserve pursuant to Article 20 FMABG therefore amounts to € 3 633 006.00 as at 31 December 2020.
   2. Reserve pursuant to Article 23a para. 8 FMABG (Regulatory Sandbox)
      In accordance with Article 23a para. 8 FMABG, the Government makes a ring-fenced contribution of € 500 000.00 (for 2020 on a pro rata basis), which is to be used by the FMA to cover the costs of the regulatory sandbox. Any surplus will have to be allocated to a provision. This provision amounted to € 156 993.71 (previous year: 0k) as at 31 December 2020.
      Please refer to Point 1. Federal Government contribution pursuant to FMABG/Information on the income statement for more information on the Federal Government's contribution of € 166 666.67 (previous year: 0k).
5. Provisions
   Provisions are established taking the prudent person principle pursuant to Article 211 para. 1 UGB into account.

		31 Dec. 2020	31 Dec. 2019
I.	Provisions for severance pay	2 550 968.95	2 420 094.95
II.	Other provisions	9 427 313.15	8 884 244.51
Total		11 978 282.10	11 304 339.46

   I. Provisions for severance pay
      Change:

	2020 in €	2019 in € thousands
As at 1 Jan. 2020	2 420 094.95	2 250
Use	–48 267.52	0
Allocation/Reversal	179 141.52	171
As at 31 Dec. 2020	2.550 968.95	2 420

(Rounding differences are ignored.)

The provisions for severance pay were calculated as in the previous year in accordance with actuarial principles using the entry age normal method and taking account of the current actuarial assumptions for pension insurance "AVOe 2018-P" (previous year: AVOe 2018-P). These assumptions are based on an interest rate of 1.60% (previous year: 1.97%) and a salary increase of 3.16% (previous year: 3.24%). The assumed interest rate corresponds to a 7-year average rate for a residual maturity of 15 years. The retirement age was assumed to be the pension age as set forth in the General Social Insurance Act (ASVG; *Allgemeines Sozialversicherungsgesetz*), also applying the transitional provisions of the Budget Accompanying Act 2003 (BBG 2003; *Budgetbegleitgesetz*). The raised retirement age for women as of 2024 was taken into account.

The provision for severance pay relates to employees and contractual employees of the FMA. Any allocations to or reversals of the provision are posted under Personnel expenses.

As at 31 December 2020, 50 (previous year: 52) employees were entitled to severance pay claims, with a provision having to be established for those claims. Of these employees, 18 have already transferred to the new severance pay scheme, which is unchanged on the previous year. Severance pay claims have been "frozen" for those employees as per the date of their transfer.

   II. Other provisions
      Other provisions were determined in accordance with the prudent person principle and include all risks recognisable as at the balance sheet date and all liabilities as yet uncertain in terms of their amount or reason, all contingent losses from pending business, as well as expenses that are essen-

tial in accordance with sound business judgement. These provisions were recognised with their respective settlement amounts.

	As at 1 Jan. 2020	Use	Reversal	Allocation	As at 31 Dec. 2020
Anniversary bonuses	255 168.00	84 035.00	6 163.00	17 387.00	182 357.00
Provision for annual bonuses	2 187 528.65	2 187 528.65	0.00	2 235 310.11	2 235 310.11
Unused holiday entitlement	4 680 549.30	0.00	0.00	442 818.93	5 123 368.23
Overtime to be paid	7 493.72	7 493.72	0.00	25 650.77	25 650.77
Additional hours	249 566.07	0.00	0.00	39 192.80	288 758.87
Remaining other provisions	1 056 994.21	472 869.96	174 772.74	782 531.29	1 191 882.80
Provision actual costs Banking Supervision 2018	446 944.56	0.00	446 944.56	0.00	0.00
Provision actual costs Banking Supervision 2019	0.00	0.00	0.00	379 985.37	379 985.37
Total	8 884 244.51	2 751 927.33	627 880.30	3 922 876.27	9 427 313.15

Provision for anniversary bonuses:

The provision for anniversary bonuses was calculated as in the previous year in accordance with actuarial principles using the entry age normal method and taking account of the current actuarial assumptions for pension insurance "AVOe 2018-P" (previous year: AVOe 2018-P). These assumptions are based on an interest rate of 1.60% (previous year: 1.97%) and a salary increase of 3.16% (previous year: 3.24%). The assumed interest rate corresponds to a 7-year average rate for a residual maturity of 15 years. The retirement age was assumed to be the pension age as set forth in the ASVG, also applying the transitional provisions of the BBG 2003. The raised retirement age for women as of 2024 was taken into account. For contractual employees non-wage labour costs were recognised at a rate of 3.9% (previous year: 3.9%) and social security contributions on a pro rata basis.

Provision for annual bonuses:

Provisions were made for annual bonuses, based on the percentage of employees' gross monthly salary to be paid if agreed targets are reached or exceeded.

Provision for unused holiday entitlement:

This provision was set aside for obligations relating to holiday entitlement that had not been used up by the reporting date.

Provision for overtime to be paid:

This provision covers overtime hours that have been worked but will only be paid in 2021.

Provision for additional hours:

This item is for employees' additional working time that will not be paid but transferred to the following year, subject to a maximum limit of 16 hours.

The remaining other provisions comprise the following items:

Maintenance and other IT expenses	442 977.10
Personnel expenses	193 193.70
Consulting costs and external services	173 436.42
Operating expenses	91 886.99
CPD expenses	84 837.50
Exemption levy for non-employment of disabled persons	67 660.00
Expenses FMA Annual Report	53 900.00
Contested payment notices AG3/sub-AG3	34 619.00
Other expenses	25 442.89
IT costs	17 929.20
Other contested payment and fee notices	6 000.00
Total	1 191 882.80

As in the previous year, these other provisions do not include any provisions established for the long term.

Provision for actual costs of Banking Supervision in 2018:

The provision established pursuant to Article 69a of the Austrian Banking Act (BWG; *Bankwesengesetz*) in one financial year must be reversed in the following financial statements of the FMA, i.e. the provision established in the 2019 financial statements for the actual costs incurred in 2018 was reversed in the 2020 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 1.

Provision for actual costs of Banking Supervision in 2019:

Pursuant to Article 69a BWG the difference between the calculated cost shares and the minimum amounts to be paid by the credit institutions for 2019 is to be allocated to a provision in the 2020 financial statements.

6. Liabilities

The liabilities are computed with the settlement amount taking the prudent person principle into account. All liabilities, with the exception of some amounts to be repaid to the OeNB (see Point 6.II.), have a residual maturity of up to one year.

	31 Dec. 2020	31 Dec. 2019
I. Advance payments received (Article 19 FMABG)	62 698 343.50	59 830 364.00
II. Trade payables	22 727 726.29	22 648 723.55
III. Other liabilities	5 232 097.75	3 382 917.40
Total	90 658 167.54	85 862 004.95

I. Advance payments received pursuant to Article 19 FMABG

	31 Dec. 2020	31 Dec. 2019
Prepayments by entities payment notices	62 108 033.00	58 517 251.00
Advance payments from entities following year	703 608.00	1 582 401.00
Itemised valuation allowances for receivables advance payments	12 514.75	500.00
Receivable/excess payments by entities advance payments	–125 812.25	–269 788.00
Total	62 698 343.50	59 830 364.00

For the 2020 financial year, the entities liable to pay costs had to make advance payments in the amount of € 62 108 033.00 (previous year: € 58 517k) as prescribed by administrative decision. Itemised valuation allowances of € 12 514.75 (previous year: € 1k) were recognised for the amounts not yet paid. The 2020 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 difference is either charged or repaid to the entities liable to pay costs.

As at 31 December 2020, € 703 608.00 (previous year: € 1 582k) had already been paid in advance for the 2021 financial year.

II. Trade payables

Trade payables comprise the following items:

	31 Dec. 2020	31 Dec. 2019
Mandatory OeNB costs pursuant to Article 79 para. 4b BWG	16 000 000.00	16 000 000.00
Mandatory OeNB costs pursuant to Article 3 para. 5 BaSAG	4 000 000.00	4 000 000.00
Mandatory OeNB costs pursuant to Article 6 para. 6 ESAEG	964 917.37	970 000.00
Mandatory OeNB costs pursuant to Article 182 para. 7 VAG	380 813.48	550 293.39
Summary account trade payables	970 681.31	860 432.13
Incoming invoices not yet received	411 314.13	267 998.03
Total	22 727 726.29	22 648 723.55

Amounts becoming due and payable within one year: € 12 061 726.29 (previous year: € 11 968k).

Amounts becoming due and payable after more than one year: € 10 666 000.00 (previous year: € 10 681k).

For 2019 (to be reimbursed by 31 March 2021 each):

Reimbursement amounts pursuant to Article 79 para. 4b BWG: € 8 000 000.00
Reimbursement amounts pursuant to Article 182 para. 7 VAG: € 210 813.48
Reimbursement amounts pursuant to Article 3 para. 5 BaSAG: € 2 000 000.00
Reimbursement amounts pursuant to Article 6 para. 6 ESAEG: € 468 917.37

For 2020 (to be reimbursed by 31 March 2022 each):

Reimbursement amounts pursuant to Article 79 para. 4b BWG: € 8 000 000.00
Reimbursement amounts pursuant to Article 182 para. 7 VAG: € 170 000.00
Reimbursement amounts pursuant to Article 3 para. 5 BaSAG: € 2 000 000.00
Reimbursement amounts pursuant to Article 6 para. 6 ESAEG: € 496 000.00

The Incoming invoices not yet received are for trade payables of 2020.

III. Other liabilities

	31 Dec. 2020	31 Dec. 2019
Taxes	713 378.29	698 271.76
Social security and similar obligations	812 554.87	792 788.04
Actual cost accounting for previous years	531 444.00	1 054 470.00
Other	3 174 720.59	837 387.60
Total	5 232 097.75	3 382 917.40

Composition of liabilities relating to taxes:

	31 Dec. 2020	31 Dec. 2019
Offset account tax office non-wage costs	691 567.66	683 032.57
Amount payable to tax office	18 444.63	11 035.19
Municipality of Vienna	3 366.00	4 204.00
Total	713 378.29	698 271.76

The liabilities relating to social security amount to € 812 554.87 (previous year: € 793k) and are primarily comprised of contributions to the district health insurance funds.
Liabilities carried from the actual cost accounting of previous years and amounting to € 531 444.00 (previous year: € 1 054k) essentially cover balances from the allocation of costs that are due to the entities liable to pay costs. The FMA repays such balances to the entities liable to pay costs upon being requested to do so by the entities.
The remaining Other liabilities totalling € 3 174 720.59 (previous year: € 837) are mainly composed of fees and self-balancing items that the FMA collects and then passes on to the competent authority. Expenses in the amount of € 549 702.75 (previous year: € 542k) that will only become due after the balance sheet date are also included here.

7. Deferred income

	31 Dec. 2020	31 Dec. 2019
Deferred income	21 815.00	47 657.00
	21 815.00	47 657.00

The item of Deferred income shows the prepayments on authorisation fees for investment funds pursuant to the Investment Fund Act 2011 (InvFG 2011; *Investmentfondsgesetz*) and the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*).

8. Contingent liabilities
As at 31 December 2020 there were no contingent liabilities or guarantees.
9. The liabilities from the use of tangible assets not shown in the balance sheet amount to approximately € 4 081 320.00 (previous year: € 3 952k) for the following year and a total of approximately € 20 406 600,00 (previous year: € 19 760k) for the following five years.

C. INFORMATION ON THE INCOME STATEMENT

1. Federal Government contribution pursuant to FMABG
The Federal Government contribution pursuant to FMABG for the 2020 financial year amounts to € 4 166 666.67 (previous year: € 4 000k) and is composed of the Federal Government's contribution pursuant to Article 19 para. 4 FMABG of € 4 000 000.00 (previous year: € 4 000k), which is used to cover part of the costs incurred during the 2020 financial year, and the pro rata Federal Government's contribution pursuant to Article 23a para. 8 FMABG of € 166 666.67 (previous year: € 0k), which is used to cover the costs of the regulatory sandbox.
2. Share of entities liable to pay costs
The share of entities liable to pay costs for 2020 amounting to € 62 772 951.04 (previous year: € 62 395k) is made up of the not yet chargeable share amounting to € 62 272 951.04 (previous year: € 61 895k), which will be settled with them at the 2021 year-end, as well as the share already charged in 2020 for the sub-accounting group Market infrastructure for 2020 amounting to € 500 000.00 (previous year: € 500k).

Please refer to Point B.2. I. Services not yet invoiced to entities liable to pay costs for further information.

3. Income from fees and the allocation of costs

Income from fees and the allocation of costs amounted to € 4 845 857.97 (previous year: € 5 016k) and included the following income:

	31 Dec. 2020	31 Dec. 2019
Income from fees pursuant to InvFG 2011 and AIFMG	3 490 448.67	3 419 145.99
Income FMA from authorisation fees	713 870.00	582 180.00
Income FMA from prospectus audits	416 400.00	524 540.00
Other	217 639.30	490 451.75
Contribution by VASPs	7 500.00	0.00
Total	4 845 857.97	5 016 317.74

Other fees and allocations of costs essentially comprise income pursuant to Article 74 para. 5 no. 2 BaSAG, as well as contributions to criminal proceedings and from fee income.

4. Other operating income

Other operating income made up € 896 004.40 (previous year: € 899k) and comprised the following income:

	31 Dec. 2020	31 Dec. 2019
a) Income from the reversal of provisions	640 448.78	609 079.21
b) Other income	255 555.62	289 450.04
Total	896 004.40	898 529.25

a) Income from the reversal of provisions

	31 Dec. 2020	31 Dec. 2019
Income from the reversal of provisions	640 448.78	609 079.21
	640 448.78	609 079.21

Income from the reversal of provisions concerns the provision for the actual costs of Banking Supervision in 2018, at € 446 944.56 (previous year: € 498k), with the remaining amount essentially being due to reversals of provisions for personnel, insurance and IT expenses.

b) Other income

Other income amounts to € 255 555.62 (previous year: € 289k) and includes income from transitory items concerning the ELAK electronic filing system, training costs, allowances for semi-retired employees and rental income.

5. Personnel expenses

	31 Dec. 2020	31 Dec. 2019
a) Salaries	37 438 546.71	35 907 120.57
b) Social security costs	9 788 137.80	9 668 092.70
Total	47 226 684.51	45 575 213.27

a) Salaries

The amount of € 37 438 546.71 (previous year: € 35 907k) posted under a) in the income statement mainly covers salaries including special payments and civil servants' salaries.

Expenses for severance pay and pensions, the average number of employees and the remuneration for the Executive Directors are presented in detail under Point D/Other information.

b) Social security costs

Social security costs amount to € 9 788 137.80 (previous year: € 9 668k) and essentially comprise social security contributions, employer's contribution, occupational retirement provision and contributions for staff provision.

Expenses for old-age provision amounting to € 1 609 760.15 (previous year: € 1 519k) concern expenses for occupational retirement provision for FMA employees.

aa) Expenses for severance pay and contributions to corporate staff provision funds

	31 Dec. 2020	31 Dec. 2019
Contributions to staff provision funds	489 177.28	470 238.16
Allocation to provision for severance pay	191 710.00	170 509.00
Severance pay expenses	158.00	0.00
Total	681 045.28	640 747.16

bb) Cost of statutory social security, payroll-related taxes and mandatory contributions
This item amounts to € 7 322 453.64 (previous year: € 7 124k) and includes the following taxes and contributions:

	31 Dec. 2020	31 Dec. 2019
Social security contributions	5 795 302.26	5 645 939,54
Employer's contribution	1 325 905.44	1 269 839,15
Allocation/Use provision for non-wage labour costs	76 692.76	90 611,42
Exemption levy for non-employment of disabled persons	67 660.01	61 387,00
Underground tax	43 544.00	43 642,00
Contributions to civil servants' insurance institution	13 349.17	12 842,46
Total	7 322 453.64	7 124 261,57

cc) Other social security costs
Other social security costs amounting to € 174 878.73 (previous year: € 384k) are mainly attributable to subsidised meals in the staff canteen.

6. Amortisation and write-downs of intangible assets, depreciation and write-downs of tangible assets
The depreciation, amortisation and write-downs amount to € 1 198 866.73 (previous year: € 1 410k) and cover the following items:

	31 Dec. 2020	31 Dec. 2019
Ordinary depreciation	1 122 515.01	1 361 146.76
Low-value assets	76 351.72	49 214.89
Total	1 198 866.73	1 410 361.65

These are presented in detail under Point B.1 Fixed assets/Information on the balance sheet.

7. Other operating expenses

	31 Dec. 2020	31 Dec. 2019
Costs pursuant to Article 79 para. 4b BWG – Banking Supervision	8 000 000.00	8 000 000.00
Costs pursuant to Article 182 para. 7 VAG – Insurance Supervision	170 000.00	211 000.00
Costs pursuant to Article 3 para. 5 BaSAG – Bank Recovery/Resolution	2 000 000.00	2 000 000.00
Costs pursuant to Article 6 para. 6 ESAEG – Deposit Guarantees	496 000.00	470.000.00
Other	13 210 439.95	14 487 883.01
Total	23 876 439.95	25 168 883.01

Other operating expenses include the following costs for services rendered by the OeNB in 2020 pursuant to:
- Article 79 para. 4b BWG: € 8 000 000.00 for Banking Supervision (previous year: € 8 000k)
- Article 182 para. 7 VAG: € 170 000.00 for Insurance Supervision (previous year: € 211k)
- Article 3 para. 5 BaSAG: € 2 000 000.00 for Bank Recovery/Resolution (previous year: € 2 000k)
- Article 6 para. 6 ESAEG: € 496 000.00 for Deposit Guarantees (previous year: € 470k).

The remaining Other operating expenses amount to € 13 210 439.95 (previous year: € 14.488k) and essentially include facility and IT expenses, membership fees for international supervision organisations, travel expenses and expenses for continuing professional development.

Audit expenses

Other operating expenses include the following expenses related to the statutory audit carried out by the auditing firm BBW Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH in accordance with Article 18 para. 2 FMABG:

	€
Audit of the financial statements of the Financial Market Authority	30 000.00
Audit of the resolution financing arrangement pursuant to Article 123d para. 2 BaSAG	3 000.00
Total	33 000.00

8. Other interest and similar income
   Credit interest is shown with an amount of € 1 100.19 (previous year: € 8k) and basically consists of interest from investments in Austrian government securities.
9. Interest and similar expenses
   Debit interest is shown with an amount of € 57 331.17 (previous year: € 34k).
10. Reserve pursuant to Article 20 FMABG
    Please refer to Point B.4.1. Reserve pursuant to Article 20 FMABG/Information on the balance sheet for details about the allocation to the reserve in the amount of € 166 264.20 (previous year: € 472k).
    Apart from the above allocation, an amount of € 341 694.03 of the reserve was used/released in the previous year.
11. Reserve pursuant to Article 23a para. 8 FMABG
    Please refer to Point B.4 2. Reserve pursuant to Article 23a para. 8 FMABG/Information on the balance sheet for details about the allocation to the reserve in the amount of € 156 993.71 (previous year: € 0k), which is composed of the Federal Government's contribution less the expenses incurred for running the regulatory sandbox in the financial year of 2020.

D. OTHER INFORMATION

1. Significant events after the balance sheet date
   No significant events took place after the balance sheet date. Any necessary reporting (quarterly reports, annual report) was carried out in good time.
2. Average number of staff pursuant to Article 239 UGB

	2020	2019
Civil servants	13	14
Employees (incl. contractual employees)	450	446
Staff total	463	460

3. Management of the FMA pursuant to Article 6 FMABG
   Klaus Kumpfmüller was reappointed by the Federal President on 14 February 2018 to serve as a member of the FMA's Executive Board from 14 February 2018 to 13 February 2023.
   Mr Kumpfmüller resigned from his position of Executive Director of the FMA effective from 31 January 2020.
   Eduard Müller was appointed by the Federal Minister of Finance as interim member of the FMA's Executive Board with effect from 1 February 2020. The Federal President appointed Mr Müller on 6 July 2020 to serve as a member of the Executive Board from 6 July 2020 to 5 July 2025.
   Helmut Ettl was reappointed by the Federal President on 14 February 2018 to serve as a member of the FMA's Executive Board from 14 February 2018 to 13 February 2023.
4. 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, are as follows for the respective financial years:

	2020 in €	2019 in € thousands
Executive Directors and executive employees	132 358.74	132
Other employees	2 158 446.69	2 027
Total	2 290 805.43	2 160

(Rounding differences are ignored.)

5. 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) and amounted to € 282 767.80 gross in 2020 per director and year.

The costs of any contractual old-age pension provision for the Executive Directors amounted to € 23 187.08 per individual in 2020.
The remuneration paid to the eight voting members of the Supervisory Board totals € 19 700.00 per year. This amount can be broken down as follows:
- Chairperson: € 3 600.00
- Vice-Chairperson: € 2 900.00
- Member: € 2 200.00

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.
The members of the Supervisory Board did not receive any advance payments or loans.
Members of the Supervisory Board appointed by the Federal Ministry of Finance:
- Alfred LEJSEK (Chairperson), Federal Ministry of Finance
- Robert HOLZMANN (Vice-Chairperson), Governor of the Oesterreichische Nationalbank
- Gottfried HABER, Vice Governor of the Oesterreichische Nationalbank; Director of Financial Stability, Banking Supervision and Statistics at the OeNB
- Gabriela DE RAAIj, Head of the Off-Site Supervision Division – Significant Institutions at the OeNB
- Dietmar SCHUSTER, Federal Ministry of Finance
- Elisabeth GRUBER, Federal Ministry of Finance
- Beate SCHAFFER, Federal Ministry of Finance
- Karin TURNER-HRDLICKA, Director of the Department for the Supervision of Significant Institutions at the OeNB

The co-opted members were nominated by the Austrian Federal Economic Chamber:
- Walter KNIRSCH (co-opted member), sworn auditor and tax consultant
- Franz RUDORFER (co-opted member), Managing Director of the Bank and Insurance Division, Federal Economic Chamber

Vienna, 7 April 2021

HELMUT ETTL	EDUARD MÜLLER
signed in person	*signed in person*

AUDITOR'S REPORT
REPORT ON THE FINANCIAL STATEMENTS
RESOLUTION FINANCING ARRANGEMENT 2020

AUDIT OPINION

We have audited the financial statements of the resolution financing arrangement, Financial Market Authority, Vienna, consisting of the balance sheet as at 31 December 2020 and the income statement for the financial year then ended. In our opinion, the attached financial statements comply with the legal provisions and present a picture of the arrangement that is as true and fair as possible with respect to net assets and the financial position as at 31 December 2020 as well as the results of operations of the resolution financing arrangement for the financial year then ended, in accordance with Austrian company law.

BASIS FOR AUDIT OPINION

We conducted our audit in accordance with the Austrian standards of proper auditing. These standards require us to apply the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards are further described in the section "Auditor's responsibilities for the audit of the financial statements" of our auditor's report. We are independent from the Financial Market Authority (FMA) acting in the capacity of resolution authority, as required in accordance with Austrian company law and professional regulations, and we have fulfilled our other professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained by 7 April 2021 is sufficient and appropriate to provide a basis for our audit opinion up to that date.

LEGAL REPRESENTATIVES' AND SUPERVISORY BOARD'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The legal representatives of the FMA acting in the capacity of resolution authority are responsible for the preparation of the financial statements consisting of balance sheet and income statement and for ensuring that they 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 resolution financing arrangement in accordance with Austrian company law. The legal representatives are also responsible for any internal control procedures that they deem necessary to enable preparation of financial statements consisting of balance sheet and income statement that are free from intentional or unintentional material misstatement, whether caused by fraud or other irregularity or error.

In preparing the financial statements consisting of balance sheet and income statement, the legal representatives are responsible for assessing the resolution financing arrangement's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the legal representatives either intend to liquidate the arrangement or to cease operations, or have no realistic alternative but to do so.

The Supervisory Board of the FMA is responsible for overseeing the resolution financing arrangement's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements consisting of balance sheet and income statement are free from intentional or unintentional material misstatement whether caused by fraud or other irregularity or error, and to issue an auditor's report including our audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Austrian standards of proper auditing, which require us to apply the ISA, will always detect a material misstatement when it exists. These can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Austrian standards of proper auditing, which require us to apply the ISA, we exercise professional judgment and maintain professional scepticism throughout the entire audit.

Additionally:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal controls.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control procedures of the FMA's resolution financing arrangement.
- We evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures made by the legal representatives.
- We conclude on the appropriateness of legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the resolution financing arrangement's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements consisting of balance sheet and income statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the resolution financing arrangement to cease operating as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements consisting of balance sheet and income statement, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Supervisory Board of the FMA regarding, among other matters, the planned scope and timing of the audit and significant audit findings,

including any significant deficiencies in internal control that we identify during our audit.

Vienna, 7 April 2021

BBW WIRTSCHAFTSPRÜFUNGS-
UND STEUERBERATUNGSGESELLSCHAFT MBH

BERNHARD WINTER
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. With regard to other versions, the provisions contained in Article 281 para. 2 UGB are to be observed.

Balance sheet as at 31 December 2020 (amounts in €)			Prev. year in € thousands				Prev. year in € thousands
ASSETS				**EQUITY AND LIABILITIES**			
A. Current Assets				**A. Liabilities**			
Other receivables and assets	326.35		*0*	Other liabilities	326.35		0
Amounts becoming due and payable after more than one year	*0.00*		*0*	*Amounts becoming due and payable within one year*	*326.35*		*0*
		326.35		*Amounts becoming due and payable after more than one year*	*0.00*		*0*
						326.35	
		326.35	**0**			**326.35**	**0**

Table 41: *Balance sheet of resolution financing arrangement 2020*

Income statement for the financial year 2020 (amounts in €)		Prev. year in € thousands
1. Other operating income	127 170.53	90
2. Other operating expenses	–4 435.10	–5
3. Subtotal of items 1 to 2	**122 735.43**	**85**
4. Interest and similar expenses	–122 735.43	–85
3. Subtotal of item 4	**–122 735.43**	**–85**
Net income for the year	**0.00**	**0**

Table 42: *Income statement of resolution financing arrangement 2020*

Vienna, 7 April 2021

HELMUT ETTL
Signed in person

EDUARD MÜLLER
Signed in person