

FACTS AND FIGURES TRENDS **2025** AND STRATEGIES

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TERMINAL BURCHARDKAI

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PANAMA

MEDIUM-TERM RISK ANALYSIS 2025-2029

MOVING TO A NEW WORLD ORDER

The global economy has only just got to grips with the aftermath of the Covid-19 pandemic and the price shock triggered by Russia's war in Ukraine. Inflation was gradually pushed back, the global economy remains robust, and the financial system has generally managed to withstand the crises. Now fear of inflation is giving way to fear of an economic crisis. For its part, Austria is worse off than other countries in many areas. Together with – and also because of – Germany, Austria is bringing up the rear when it comes to growth. Industrial weakness, real estate bankruptcies and dependence on Russian gas are a negative burden on the economy, while over-stretched budgets are restricting the state's ability to react. Austria and Europe must prepare themselves for the associated risks and potential upheaval. A strong and resilient financial system will be crucial.

Since the last issue of Facts and Figures, Trends and Strategies a year ago, the risk landscape has shifted. Concerns about inflation have been overtaken by fears about the economic cycle more generally. The interest rate cuts expected by the markets have begun, but there is still a lot of uncertainty about where rates will go next. Meanwhile, robust economic performance in the USA means that market expectations are repeatedly being revised and is triggering volatility on the bond and equity markets. Overall, there are no signs of any general global economic upturn. There is tentative growth in the European economy, while Germany and Austria are bringing up the rear with growth expectations that are constantly being revised downward.

Inflation in the euro area has reached its target of 2%. Austria has also been one of the worst performing developed economies with regard to lowering inflation. This is not just a political issue. It also raises the question of how well suited to Austria the ECB's monetary policy might actually be. The ECB began cutting interest rates before Austria had hit the 2% target. Having a higher inflation differential compared with the eurozone is equivalent to a slow devaluation, and Austria is becoming less competitive as a result.

In geopolitical terms, the high number of different flashpoints is striking: in addition to the intense conflicts in Ukraine and the Middle East, there are a number of areas with brewing tensions that have the potential to cause disruption, not least the simmering conflict between the People's Republic of China and Taiwan. Political uncertainty due to upcoming elections in Germany and a lack of unity within the EU also raise doubts as to whether we have the necessary political and fiscal capacity in Austria and at European level to effectively counter future disruptive events.

The real estate sector has not yet mastered the challenges of the pandemic and interest rate hikes, particularly in the commercial property segment. The exaggerated valuations built up during the low-interest phase have not yet been reduced again. Prices are taking their time to adapt, no new

equilibrium has been established, and there is a steep rise in loan defaults. Demand for residential property remains high and prices appear to have bottomed out ahead of the complete elimination of the fundamental overvaluation that is prevalent across Austria. Loan defaults remain at a very low level here, also thanks to macroprudential measures such as the Regulation on Real Estate Financing Measures in Credit Institutions (KIM-V; *Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung*).

Austria and Europe will face major challenges in the coming year. Uncertainty about the actions of the new US administration, the outcome of the elections in Germany, and the future of European cooperation will impact on the willingness to invest and consume.

Based on current forecasts, the central banks are likely to cut interest rates further next year as inflation falls. At the same time, economic growth is expected to rise slightly. With regard to Austria, the Austrian Institute of Economic Research (WIFO) currently anticipates real growth of 1%, a forecast that might well need revising given the current environment (trade war, weak productivity growth, ailing German industry) (> *Table 1*).

Numerous factors continue to result in high inflationary pressure, among them the expiry of energy grants, lack of available properties on the residential real estate market and possible consequences of budget consolidation. It is therefore unlikely that central banks will return to a policy of low interest rates. Higher real interest rates are increasingly having an impact on the financing of government debt, particularly in the USA but also in Europe, creating a need for budget consolidation, which will materialise in 2025.

Any normalisation of the monetary situation is also being hampered by the threat of a trade war and potential escalation of geopolitical tensions. Punitive tariffs and new supply chain problems could result in a resurgence in inflationary pressure and further restrict the ECB's room for manoeuvre.

THE AUSTRIAN FINANCIAL SYSTEM

The Austrian financial system has proven to be resilient and stable as it has faced the challenges of recent years. A few key figures help to provide a snapshot of the situation in mid-2024:

- Austria's banks have more Common Equity Tier 1 capital than ever before, at around the 18% mark. This places them well above the euro area average in contrast to where they have generally ranked in the past. Profitability is at a record level and a return of 1.2% of total assets is significantly above the euro area average of 0.7%.
- Insurance undertakings have strong solvency figures, meeting their solvency capital requirement (SCR) by over 300% on average. Their level of own funds that could be used to absorb any unforeseen losses is therefore more than three times higher than required.
- Asset managers such as *Pensionskassen*, provision funds and investment funds have now been able

Table 1: Key economic indicator forecasts for Austria
(Source: OeNB, WIFO, IHS)

	2024	2025	2026
GDP, real (year-on-year change in %)			
OeNB (13/09/2024)	-0.7	1.0	1.5
WIFO (04/10/2024)	-0.6	1.0	-
IHS (04/10/2024)	-0.6	0.8	-
HICP (year-on-year change in %)			
OeNB (13/09/2024)	2.9	2.3	2.2
WIFO (04/10/2024)	3.1	2.2	-
IHS (04/10/2024)	3.0	2.4	-
Unemployment rate (nat. def.) (as % of non-self-employed workforce)			
OeNB (13/09/2024)	7.1	7.5	7.3
WIFO (04/10/2024)	7.0	7.2	-
IHS (04/10/2024)	7.0	7.2	-



*FMA Executive
Directors
Helmut Ettl and
Eduard Müller*

to digest the massive slumps on the capital markets triggered by the turbulence of recent years and are slowly recovering their losses.

A crucial factor here was that politicians, regulators and supervisors all learnt the right lessons from their experience of the 2008 global financial crisis, particularly in Europe. They introduced cross-border regulatory guidelines for the single market for financial services, while also evaluating, revising and harmonising existing rules and closing any regulatory loopholes. The supervisory system has been Europeanised. Strong European institutions have been created, based on the network of national supervisors, thus remaining close to the market while at the same time guaranteeing the standardised and effective application and enforcement of the law throughout Europe. Today, regulation and supervision are carried out across Europe in accordance with best practice in the individual Member States. Any form of regulatory or supervisory arbitrage between individual Member States has been largely eliminated.

At the same time, however, the recent period of low interest rates lasting until mid-2022 has created major vulnerabilities in the Austrian financial system and made it susceptible to different kinds of shocks. Good economic performance, the successful reduction of non-performing loans left over from the crisis and the sharp fall in new loan defaults have made it more difficult to assess medium-term credit risks and also made it more likely that risks will be underestimated. Loan loss provisioning has been low given the low default rates, while credit growth has been extremely dynamic, above all in the property sector, where there have been huge overvaluations in both residential and commercial real estate, and thus also an overvaluation of loan collateral.

Inflation and the turnaround in interest rates have therefore left their mark and partially exposed the risks. High inflation, the strained economic situation and higher interest rates weigh on household incomes and company profits. The real estate markets found themselves in a downturn, as particularly dramatically demonstrated by the insolvency of a large Austrian property conglomerate with

extensive activities in neighbouring countries and beyond. In this environment, the risk of chaotic developments was heightened.

At the same time, this phase also showed how much more resilient the financial system had become as a result of the above reforms. The aforementioned bankruptcy – affecting a property group with estimated total assets in excess of € 20 billion – did not cause any bank to falter and there were no thoughts of the state having to step in and prop up the financial sector. Things might have been very different had the same thing happened 15 years ago – there was a similar amount at stake in the case of the failed Hypo Alpe-Adria Bank.

Examining the reasons for the limited impact on the Austrian financial sector helps to shed light on what has changed in practice in Europe and in Austria:

- **Forward-looking risk analysis:** The FMA's focus on commercial real estate finance, dating back to well before the interest rate turnaround, has helped to prevent the emergence of cluster risk in the Austrian financial system.
- **Strong capital base:** The significant build-up of equity over the past 15 years means that banks can now withstand losses from risky credit exposures using their own resources. For market discipline in the financial system, it is crucial that bad investments actually lead to losses without the need for government bailouts, as happened in the 2008 financial crisis.
- **European networking:** In this case, dialogue with supervisors from other European countries was also important, helping to paint a complete picture of the risk situation. This type of body did not even exist 15 years ago, and everyone was just looking out for their own national interests.

However, this does not in any way mean that we can sit back and relax in the knowledge that the protective walls and capital buffers were a one-off effort and can now be relied on forever. Maintaining the resilience and stability of the financial system is an ongoing, long-term task because the challenges are also constantly changing.

The Austrian financial system has proven to be resilient and stable as it has faced the challenges of recent years. However, this does not in any way mean that we can sit back and relax in the knowledge that the protective walls and capital buffers were a one-off effort and can now be relied on forever.

TWO INTEREST RATE REVERSALS

In an environment of high inflation, rising interest rates, subdued economic prospects and falling real incomes, the upturn in the financial cycle has slowed since 2022, turning into a steep downturn from 2023 onwards. Valuations and new lending fell rapidly and moved into the negative zone in some areas, such as financing for private residential property. In light of the steady improvement in the macro-financial environment in 2024, with falling interest rates and gradually rising real incomes, this downturn slowed significantly. The downward trend in demand for corporate loans – which, in addition to high interest rates, was hampered by a reluctance to invest in fixed assets – has eased. Demand for private residential construction loans has risen again slightly. Demand for residential construction loans is likely to have bottomed out, after hitting a historic low, by early 2024.

Residential property prices have fallen significantly since 2022, particularly compared with the sharp rise in incomes over the same period. Overvaluations from the low-interest phase have fallen sharply, but have not yet been completely eliminated. The same applies to affordability, i.e. the gap between

prices and incomes, which has improved compared with 2022, but has not yet been completely closed. Lower interest rates, higher incomes and weak levels of new construction activity are now propping up residential real estate prices again.

The FMA has been highlighting the discrepancy between property prices and incomes for many years. Despite recommendations to the contrary from the Financial Market Stability Board (FMSB), the lending standards applied by banks continued to slip during the low-interest phase, thus fuelling the price trend. However, countering rising prices with ever bigger loans and thus pushing households into excessive levels of debt is not a sustainable solution. The Regulation on Real Estate Financing Measures in Credit Institutions (KIM-V), which was issued by the FMA on the recommendation of the FMSB in August 2022, has made a significant contribution to reducing systemic risks and putting bank lending back on a sustainable course. The criteria – maximum loan-to-value ratio of 90%, maximum debt service-to-income ratio of 40% and maximum term of 35 years – are in line with standard international values, which are also designed to protect consumers. Generous exceptions provide leeway for individual cases in which the upper limits of the KIM-V do not have to be observed.

Two and a half years later, one thing is clear: the KIM-V is working. It has significantly improved both

Chart 1: Proportion of non-performing loans for residential and commercial real estate 2019–2024 (source: OeNB, FINREP)

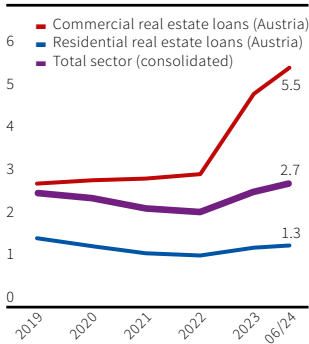
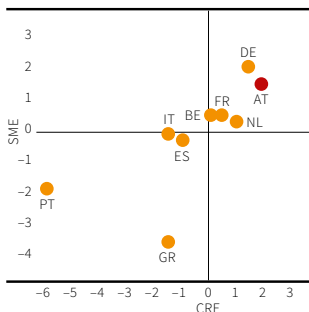


Chart 2: Net NPL flows for SME and CRE lending in the euro area (Q3 23–Q2 24, percentages of total loan stock, CRE lending to SME firms excluded from CRE sample; source: European Commission and ECB)



the lending standards and the credit quality in the portfolio. The fact that the exception quotas are not close to having been used up shows that the decline in lending is mainly due to other factors (particularly high interest rates). The success of the KIM-V and the capital ratios strengthened by the banks' exceptional profits have meant that the Oesterreichische Nationalbank (OeNB) currently no longer sees any elevated risk to system stability. The Regulation is scheduled to expire by law, with the result that the FMA and OeNB are examining capital-based measures to address the considerable risks that still remain. The FMA expects the institutions to continue to comply with the lending standards even after the expiry of the Regulation.

The FMA also recognises that, in many European countries, borrower-related measures are not only used in the event of systemic risks, but are in fact a structural component of property lending more generally. The European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the International Monetary Fund (IMF) also consider these measures to be structural – sustainable lending standards are an important foundation for stable financial markets at all times.

In the area of commercial real estate loans, which has been the focus of supervisory attention for years, the risks are growing. The number of business insolvencies is on the rise, as is the volume of non-performing loans on banks' balance sheets. The proportion of non-performing commercial real estate loans in Austria has more than doubled from its lowest point in 2020 to 5.5% by mid-2024. Commercial real estate prices – an important safety cushion to protect banks in the event of loan defaults – also remain under pressure, which could intensify as a result of distressed sales or the realisation of loan collateral. Net cash outflows from real estate funds could also further exacerbate the falling prices on the commercial real estate market if a large number of funds are forced to sell off properties.

The Austrian FMSB is therefore recommending a sectoral systemic risk buffer for commercial real estate finance, to enter into force in mid-2025. The aim is to ensure that banks can absorb the sharp increase in non-performing loans in this area with sufficient capital and thus continue to be able to grant loans to the healthy parts of the real economy. The buffer of 1% of the corresponding risk-weighted assets – around € 700 million in absolute terms – ensures that they hold sufficient capital for this purpose.

Banks' risk assessment of the general economic situation and the creditworthiness of companies has gradually deteriorated over time with a correspondingly restrictive effect on the supply of credit. Consequently, banks tightened up their supply policy for corporate loans across the board with effect from the second quarter of 2022. Both the weak demand and the more restrictive credit supply reflect the challenging economic environment: the economic weakness and rising costs are putting companies under pressure. The current sluggish growth is stifling demand for products and services. At the same time, companies face higher costs. The rise in interest rates has also forced up borrowing costs. With some companies still benefiting from comparatively favourable financing costs secured in the past, this trend is becoming even more pronounced.

Insolvencies have sky-rocketed in Austria in 2024. Estimated insolvency liabilities increased more than eightfold in the first three quarters of the year – reaching € 15.4 billion. The retail, real estate and construction sectors as well as the hospitality industry are particularly seriously affected. Expiring bank guarantees and the end of the award of grants by the Covid-19 Federal Financing Agency (COFAG) are further exacerbating the situation.

All of this means that the banks' extraordinarily high profits of 2024 will not be repeated in 2025. Not only could competition from alternative forms of financing and increased default rates have a negative impact on earnings, banks will also have to pass on a larger proportion of interest gains to their customers in order to ensure their deposit-taking products remain attractive. This will have an adverse effect on the interest income that drove profits up in 2023 and 2024.

THE “PREVENTION PARADOX”

With regard to financial regulation, Claudia Buch, Chair of the Supervisory Board of the ECB, spoke recently about the “prevention paradox”. She explained that, in the past ten years, there have not been any major financial or banking crises in Europe. This is in part thanks to better supervision and regulation, but it also reflects the fact that shocks have often been buffered by fiscal and monetary policy. The costs of financial crises to the public at large can thus easily be forgotten.

Our focus, therefore, lies in further strengthening the resilience of the financial system. There is still an opportunity to be prepared for the credit losses that will inevitably materialise at some point in the future. Particularly at a macroprudential level, it is important to resist the temptation to relax regulation and supervision too soon. Any measures that are introduced must be aligned with the conditions of the financial cycle. At a microprudential level, the supervisor should act to curb risk appetite and help to ensure adequate provisioning and realistic asset valuations.

The idea of relaxing regulation and supervision with the misguided hope of promoting growth or competitiveness might seem tempting. However, such a policy shift would have severe unintended



consequences. It would tilt the hard-won balance between growth and stability to the wrong side. It would ultimately deliver less stability without creating more growth. The empirical evidence is quite clear: better regulation and supervision, in particular better capitalisation of banks, have positive implications for lending to the real economy, including during periods of stress.

When it comes to safeguarding financial stability, it is a matter of ensuring the safety and soundness of banks. It is not about preventing all failures, but about preventing failures at banks from imposing costs on taxpayers or causing widespread disruption to the financial system.

This is why the sectoral systemic risk buffer for commercial real estate finance, for example, is not procyclical, as some criticise, but the very opposite. It would be procyclical if the bad loans were to lie like lead on balance sheets and impede the granting of loans to the real economy.

CENTRAL RISKS OF THE COMING YEARS

Against this backdrop, the following key risks are emerging for the Austrian financial system in the coming years:

- **De-globalisation, protectionism, deregulation:** The geopolitical and economic trends of recent years are heralding sweeping changes to the world order, economic and monetary flows, and the international trade and financial system. A new era of protectionism is on the horizon. High valuations and risk concentration make the markets susceptible to sudden, sharp corrections, exacerbated by hidden leverage and underestimated complexity. The regulatory framework for the international financial system is more interconnected globally than almost any other. Stronger unilateral action, the hunt for regulatory arbitrage, and a global race for the most relaxed rules could have unforeseeable consequences. After the last financial crisis, it was not those who won this race that came out on top. Europe – and Austria – must arm themselves with strong rules and robust supervision.

- **Economic crisis and credit risks:** Loan defaults are on the rise and this trend is likely to continue, especially in the case of commercial real estate and corporate loans. Insolvencies and industrial plant closures in Austria are also becoming more common. Higher interest rates are gradually impacting refinancing, Covid support is coming to an end, unemployment is rising and the economic downturn is adding to the pressure. Until now, banks' high profits have helped them strengthen their reserves, but these have likely peaked. This makes it all the more important that banks retain sufficient profits in order to be prepared for the challenges ahead. The KIM-V has so far guaranteed resilience in residential property financing – lending must remain sustainable after the Regulation expires.
- **Ailing public finances:** Government debt is once again becoming a problem area. Growing levels of debt and rising interest rates form a toxic mix. Even countries with healthy balance sheets are facing austerity packages that could cause severe economic disruption. At the same time, record levels of investment are needed in green transformation, energy and defence. The Draghi report puts this at around 5% of GDP per annum. Doubts about the debt sustainability of other countries, particularly in the eurozone and the USA, could have repercussions for the Austrian financial system.
- **Disruption through digitalisation:** Digitalisation is an opportunity for greater efficiency and innovation in the financial system, but it also brings risks of disruptive developments. Pessimistic prophecies of doom from previous years are materialising beneath the surface. Neobrokers and challenger banks are on the rise among young customers, and an exodus from the traditional banking sector is looming, potentially with structural consequences. Financial products are becoming more accessible, but not necessarily more straightforward or less risky. Cyber risks – from attacks on IT infrastructure to human error and the resulting failure of critical IT systems – are increasing with more serious effects. Artificial intelligence has the potential to turn professions, products and services in the financial sector on their head.

THE DIGITAL REVOLUTION, NEW BUSINESS MODELS AND ARTIFICIAL INTELLIGENCE

Digitalisation is progressing rapidly and is profoundly changing the economy and society. Smartphones that are now as powerful as the mighty desktop computers of just a few years ago are becoming the cockpit of everyday life. Key financial functions such as making payments, saving, investing, financing, pensions and insurance are now also possible digitally in real time, with no limits on time or location.

This digital transformation has had a lasting impact on the financial sector and the financial markets. Established providers have long since supplemented or even replaced their original analogue business models, which relied on an on-site presence and personal advice, with digital alternatives. At the same time, innovative providers have created technological business models, taken traditional financial products a step further and also established completely new solutions. Technologies such as cloud computing, machine learning (ML), artificial intelligence (AI), large language models (LLMs), data mining, data engineering and big data are constantly driving this change.

However, technological progress is not just associated with opportunities. There are also considerable risks, creating ever greater challenges for both regulators and supervisors. In this context, the

FMA closely monitors developments on the Austrian financial market in order to recognise new trends and drivers of development at an early stage, identify risks and implement appropriate measures.

A recent example of a cybersecurity risk was the CrowdStrike-related IT outage in 2024. CrowdStrike, a leading cybersecurity provider, distributed a faulty software update, resulting in widespread operational disruption for customers across the world. Although this incident had nothing to do with cyber criminality, it vividly demonstrated how quickly critical dependencies in digital infrastructures can generate far-reaching problems. This type of event highlights the need to carry out regular tests and comprehensive quality controls, even for systems that are assumed to be secure.

As shown by the Federal Minister of the Interior's Cybercrime Report for 2023, cyber attacks and data theft have been on the rise for years, both globally and in Austria. Geopolitical tensions are compounding the threat situation, as cyber attacks are increasingly being used as weapons in hybrid warfare. Attacks on central infrastructures are particularly critical, as their failure could completely undermine confidence in the financial system.

In order to counter these risks, the FMA has made the IT security and cybersecurity of supervised companies one of its strategic priorities. This encompasses the protection of information and communication systems, networks and cloud services, as well as the monitoring of outsourced critical services. The FMA uses the ICT (information and communication technology) service provider map to analyse cluster risks, critical players and potential contagion channels.

An important regulatory milestone is the EU's Digital Operational Resilience Act, which enters into force in January 2025. DORA sets EU-wide standards for ICT risk management, reporting and digital resilience testing, and extends supervision to third-party providers such as cloud service providers. The aim is to ensure that financial companies can continue to operate stably even in the event of major cybersecurity incidents or IT infrastructure disruption.

The 2024 CrowdStrike incident once again highlights the need to strengthen digital resilience not only against attacks, but also against internal disruptions and technical faults in order to maintain confidence in the financial system.

Digitalisation has also given rise to a whole new world of financial services and assets, namely virtual or crypto assets. This rapidly growing universe offers opportunities, but also brings considerable risks. Due to the frequent lack of regulation and the cross-border nature of the internet, it is not only reputable providers who are flourishing on these markets. Many dubious or even criminal players have also emerged.

Through the EU Markets in Crypto-Assets Regulation (MiCAR), which has been introduced in stages since mid-2024, this world will be comprehensively regulated in Europe for the first time. MiCAR is intended not only to standardise the legal situation, but also to create a level playing field between traditional financial products and innovative digital assets.

The Regulation makes a distinction between primary market activities such as the issuance of crypto assets and secondary market activities, namely crypto-asset services. It regulates transparency and disclosure requirements for the issuance and trading of crypto assets, the authorisation and supervision of crypto-asset service providers (CASPs) and the proper business organisation of crypto-asset issuers and service providers. In addition, MiCAR includes investor and consumer protection regu-

lations, measures to combat market abuse and requirements in relation to the custody of digital assets.

The importance of such a regulatory framework is also evident in the context of global developments. Donald Trump's victory alone has triggered a new market dynamic on the back of his announcement of crypto-friendly policies. Bitcoin rallied in the weeks following Trump's re-election as US president and soared to new record highs. However, the unchecked promotion of the crypto sector in the US could lead to speculative excesses and an elevated risk of market manipulation. The same principle applies in this case: in a deregulation race, it is seldom those entities that abandon the most rules that finish in top place. Robust regulatory mechanisms such as MiCAR are crucial to ensuring stability and security. The inclusion of certain virtual asset service providers (VASPs) in the anti-money laundering prevention regime back in 2022 has already shown how challenging it can be to regulate the crypto sector. Of the 79 registration applications submitted, only 13 are still valid. The others were either rejected or withdrawn due to failure to fulfil legal obligations or were cancelled by the applicants themselves.

MiCAR will play a key role in separating the wheat from the chaff in the digital asset market. In an environment characterised by the combination of booming crypto markets and politically supported dynamics, clear and effective regulation becomes all the more important to guarantee market stability and protect consumers and investors.

Ultimately, the digital transformation is not bypassing the supervisory activities themselves. The FMA is already using AI techniques such as natural language programming and large language models in its work in order to be able to analyse large volumes of text and documents more effectively. It is also developing a new standardised IT platform for supervisory work under the title 360-degree supervision.

“MiCAR will play a key role in separating the wheat from the chaff in the digital asset market. In an environment characterised by the combination of booming crypto markets and politically supported dynamics, clear and effective regulation becomes all the more important to guarantee market stability and protect consumers and investors.”

*Eduard Müller,
FMA Executive Director*

THE CLIMATE CRISIS AND THE FINANCIAL SECTOR

Man-made climate change comes at an enormous cost and is already having severe economic and social consequences. The storm damage experienced in Austria and neighbouring countries in September 2024 once again highlighted just how real and acute the risks of the climate crisis now are. Around two million people were affected by the floods, tens of thousands were evacuated from their homes, and at least 28 people lost their lives. The total insurance claims from the floods alone, which only cover a fraction of the economic damage, are estimated at between € 2 billion and € 3 billion, of which around € 600 million to € 700 million was incurred in Austria. These weather events not only caused considerable financial losses, but also demonstrated the vulnerability of critical infrastructure and communities.

In order to prevent a climate catastrophe, the global community undertook in the Paris Agreement to limit global warming to a maximum of +2 degrees Celsius, but ideally to +1.5 degrees. The EU has put this into concrete terms with its European Climate Law, which aims to reduce net greenhouse gas emissions by at least 55% compared with 2019 levels by 2030 and to achieve climate neutrality by 2050. For its part, Austria is aiming for climate neutrality by the earlier date of 2040.

Ambitious plans like these require a far-reaching transformation of the economy and society. The financial sector has a key role to play here, as investments and financing decisions have a huge influence on how quickly and effectively this transformation succeeds. However, it is a process associated with major challenges.

The FMA is fully committed to combating climate change and considers it a central task of the financial sector to support the transition to a sustainable economic model. Climate risks have the potential to jeopardise not only individual players, but also the stability of the entire financial system:

- Physical risks such as the increasing frequency and intensity of natural disasters can lead to enormous financial losses that also destabilise the financial markets.
- Transition risks resulting from the changeover to a climate-neutral economy can have a massive impact on financial service providers and markets. These risks are often underestimated, which could lead to mispricing and instability.

The European supervisory authorities (EBA, EIOPA and ESMA – the ESAs)¹, together with the ECB, conducted a climate scenario analysis for the financial sector for the first time in 2024. According to the scenarios analysed, they are unlikely to pose a threat to financial stability individually. However, if transition risks occur in conjunction with macroeconomic shocks, they can increase losses for

financial institutions and potentially trigger disruption. This highlights the need for a coordinated policy approach to financing the green transition and the importance of the comprehensive and timely integration of climate risks into the risk management of financial institutions.

A growing awareness is evident among investors: the market for sustainable investment products is booming, which is why the fight against greenwashing is so important. Any product promises made in the course of marketing and sales must also be reflected in reality. A new ESMA guideline, which the FMA also applies, is applicable to investment funds. If funds advertise using terms such as “green”, “sustainable” or “ESG” (environmental, social and governance), a minimum of 80% of the assets under management must now fulfil these criteria. Depending on the ESG-related term in the fund name, investments in companies in certain sectors are also excluded: coal, oil, gas and emissions-intensive power generation, controversial weapons, tobacco and companies that do not adhere to specific principles of good corporate governance.

“A growing awareness is evident among investors: the market for sustainable investment products is booming, which is why the fight against greenwashing is so important. Any product promises made in the course of marketing and sales must also be reflected in reality.”

Helmut Ettl, FMA Executive Director

The FMA’s Guide for Managing Sustainability Risks published in 2020 raises awareness among financial service providers of these challenges. It shows how sustainability risks can be integrated into risk management, corporate governance and transparency obligations. The Guide was fundamentally revised in 2024 and will be published in 2025 following a consultation process. It will then take into account the regulatory and methodological developments of recent years and thus reflect the dynamic environment in the field of sustainable finance.

The FMA is committed to driving change through comprehensive data collection, big data analyses

¹ European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA).



and innovative technologies such as AI. The transition to a sustainable economic model is urgently required, but it also represents a huge challenge that is equally demanding on the financial sector and supervisors alike.

AUSTRIA AS A CLEAN FINANCIAL CENTRE

Since the financial crisis, the understanding of what constitutes acceptable behaviour on the financial market has changed significantly. Some things that were once dismissed as trivial offences, informally at least, are now deemed unacceptable and can pose a reputational risk and threaten a company's survival. The fight against money laundering and terrorist financing, but also against insider dealing and market manipulation, as well as the enforcement of financial sanctions are absolute priorities in the regulation and supervision of the financial markets.

Since being given supervisory responsibility for the prevention of money laundering at the companies it supervises more than ten years ago, the FMA has consistently pursued a zero-tolerance policy. It always takes action and imposes harsh penalties if a violation has been committed. This year, the FMA became aware of one supervised bank where persistent major deficiencies in this area were severe enough to jeopardise the institution's existence.

To date, the major challenge in the fight against money laundering has been the fact that supervision is organised nationally but money launderers operate across borders, if not globally. There has been a quantum leap with the EU's regulatory package, which has tightened up and harmonised Europe-wide requirements for money laundering prevention and established the EU's dedicated Anti-Money Laundering Authority (AMLA), the operation of which will progress further in 2025.

EU sanctions against Russia in response to the latter's war of aggression against Ukraine have focussed attention on how efficiently and effectively such decisions are enforced. The FMA is taking on new areas of responsibility in this regard. The first legislative resolution of the newly elected

National Council in 2024 transferred the relevant tasks from the OeNB to the FMA. Legislators expect the consolidation of competences under one roof to result in more efficient monitoring. The legislative package implements recommendations made several years ago by international money laundering experts of the Financial Action Task Force (FATF) and EU regulatory requirements. The winners will be those market participants who adhere to the rules and the international code of conduct. It will become even more difficult for oligarchs or criminals to gain a foothold in the Austrian financial market in order to channel assets from criminal activities through the financial system. The FMA will begin working closely with the OeNB to monitor financial sanctions at credit and financial institutions and payment service providers in 2025 before assuming full responsibility for these tasks from 1 January 2026. The group of supervised entities will be expanded to include insurance undertakings, investment firms and crypto-asset service providers in order to ensure comprehensive compliance with financial sanctions. Moreover, the provisions on the transparency of beneficial owners will be fleshed out to prevent any circumvention of money laundering rules and sanctions.

COLLECTIVE CONSUMER PROTECTION

The persistently low interest rate environment and the digital revolution have fundamentally changed the way consumers and investors behave. Younger age groups in particular are increasingly making the switch to riskier asset classes in search of higher returns: moving from traditional savings accounts to bonds, from bonds to shares, and from shares to certificates or exchange-traded funds (ETFs). This has led to a significant rejuvenation of the capital market: in the space of just three years, the number of 18 to 24-year-old investors has more than quadrupled, while the figure for 25 to 39-year-olds is around two and a half times higher.

This is a trend driven by digital tools such as online and mobile banking, trading apps and neobrokers, all of which are designed to make accessing stock exchanges and securities markets significantly

easier. Yet this simplification also brings risks. Many consumers are dazzled by tempting promises of returns, opting to invest in unregulated, unsupervised markets via the internet. Highly speculative crypto assets and questionable trading platforms draw investors in, often without carrying out any prior legitimacy checks. Crypto is once again the clear leader when it comes to cases of investment fraud being reported to the FMA.

The risk appetite of younger investors – shaped by the low interest rate environment – frequently goes hand in hand with a lack of financial education and investment experience, often resulting in insufficient diversification or excessive trading intensity. It is these more complex and riskier financial products that require a deeper understanding, something that many young investors lack.

In addition, the digital offering is increasingly replacing traditional advice with the more cost-effective execution-only approach. This is not fundamentally negative, but it requires consumers to have a higher level of financial knowledge in order to make reasoned decisions. At the same time, many digital financial products and apps are designed in a way that is increasingly similar to computer games, leading

The FMA is expanding its long-established “Let’s talk about money” series in various dimensions. Greater use will be made of social media in future, with plans for Instagram content, a podcast and descriptive explanatory videos, which will specifically address younger target groups and make them more aware of the challenges of modern investment approaches.

to the gamification of investing. Features such as bonus systems, competitions and interactive functions often make investing seem like a game, which leads to impulsive behaviour and more intensive trading, with a negative impact on investment performance.

And there is another problem: statutory information on consumer protection is often perceived as an irritation in an online setting, with investors clicking it away without reading it first. This means that investors are voluntarily foregoing essential information and even forfeiting their rights as consumers.

This poses new challenges for collective consumer protection. Innovative approaches and technical solutions are needed to restore information and transparency while affording better protection to inexperienced investors. The aim is to provide easy-to-understand information tailored to the respective target group so that consumers can make informed decisions in line with their financial needs. In particular, this information must be adapted to the digital channels favoured by today's consumers.

The FMA is therefore expanding its long-established "Let's talk about money" series in various dimensions. Greater use will be made of social media in future, with plans for Instagram content, a podcast and descriptive explanatory videos, which will specifically address younger target groups and make them more aware of the challenges of modern investment approaches. In cooperation with the Vienna University of Economics and Business, the series has also been used in schools since 2024 with notable success.

THE FMA'S GUIDING PRINCIPLES

The FMA has set out its activity in the context of this medium-term risk analysis for the next three years based on six medium-term guiding principles designed to steer supervisory and inspection activities. These guiding principles are explained further on the following pages along with information on the priorities for supervision and inspections in the coming year.

FIT FOR FUTURE – FMA 2025

The FMA launched its Fit For Future – FMA 2025 transformation programme in 2023 with the aim of preparing in a sustainable way for the challenges of the future and improving its efficiency and efficacy as a financial supervisor.

This transformation programme was deliberately set up on a broad basis with the aim of repositioning the FMA as a modern, future-oriented supervisory authority and strengthening its ability to act in the face of an increasingly complex and dynamic financial market. The aim of the programme was to scrutinise all areas of the organisation, develop innovative approaches and implement optimisation potential in a targeted manner in the interests of comprehensive and sustainable modernisation.

One of the central elements of the programme involves aligning the FMA as a data-driven supervisor (*further information on page 52*). In terms of data-based supervisory work, the FMA prioritises ensuring that its employees have the best possible access to high-quality, relevant data. It has implemented far-reaching organisational changes to its data management systems to create the basis for efficient and effective data-based work. One particular highlight has been the creation of an Innovation Lab, which is a creative and development hub for ideas and SupTech solutions. It is used to test out and develop technologies including large language models, machine learning and AI in order to take supervisory activity to the next level.

Another key step as part of the Fit For Future programme has been the development of the FMA's new IT strategy, which focuses on modern collaboration solutions, optimising information security, the further development of the system landscape and the gradual introduction of cloud-based solutions ("cloudification"). As well as future-proofing the FMA's IT infrastructure, these measures are also helping to make it more flexible and more efficient.

Another key objective of the FMA's 2025 Strategy is to promote dialogue and transparency in relation to the supervised entities. This has meant developing new communication tools, such as the new "Let's talk about supervision" format. It offers a concise presentation of supervisory expectations and is designed to facilitate dialogue and cooperation with market participants.

In light of the sweeping changes to the regulatory environment and the increasingly complex demands being made of supervision, the FMA has made specific organisational adjustments as part of its transformation programme. It has also created innovative, cross-departmental cooperation models that enable it to react flexibly to new challenges and be even more effective in its supervisory work.

Various different HR and IT initiatives have been launched to support employees and promote a modern work culture, aiming to make working conditions more attractive in the long term and to improve employee satisfaction. Targeted measures to make work structures more flexible and promote internal networking have helped create an agile and team-oriented way of working that strengthens the entire organisation's fitness for change.

Overall, the FMA has reached an important milestone with its Fit For Future – FMA 2025 programme. Implementation of the diverse measures and projects has not only resulted in tangible optimisation in numerous areas, but has also sustainably promoted the organisation's innovative strength and willingness to embrace change. Thanks to this comprehensive transformation programme, the FMA is ideally equipped to continue in its role as an effective and modern supervisory authority.

The Fit For Future – FMA 2025 programme will be concluded at the 2024 year-end as planned. The insights gained and structures established will ensure that the transformation taking place within the FMA will continue beyond the programme. The foundations laid and the strengthened culture of innovation will enable the FMA to react flexibly and sustainably to changes in the financial market in the future. In other words, the transformation is more than just a one-off project. It will leave a lasting legacy, shaping the FMA as a learning and adaptable organisation and making it fit for the challenges of the future.

THE FMA'S PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2025



he FMA lives by the principle of transparency and maintains an open dialogue with all of its stakeholders, the market and the companies that it supervises. Publishing the priorities for supervision and inspections for the coming year is an important aspect in this regard.

Based on its annual medium-term risk analysis, in which it identifies and analyses the particular challenges facing the financial markets in the coming years, the FMA evaluates and revises its supervisory strategy. This consists of medium-term guiding principles for supervision, which are translated into priorities for supervision and inspections for the coming year. The FMA publishes the results on its website in its annual publication Facts and Figures, Trends and Strategies.

Using its medium-term risk analysis, the FMA has derived and defined the following medium-term guiding principles and supervisory and inspection priorities for the year 2025. Their publication is intended to draw the supervised entities' attention to risk areas in their particular field of activity while at the same time giving them the opportunity to prepare for the risk-based supervisory priorities in a targeted way. This raises awareness of risk and creates transparency around the challenges that the supervisory authority has identified and wishes to focus on. In this way, the supervised entities are also given a clear indication of which areas they should be focusing on.

GUIDING PRINCIPLE 1: RESILIENCE AND STABILITY

Rising geopolitical tensions and economic uncertainty pose increased risks for the Austrian financial market in the future. At the FMA, we work to maintain a resilient financial market through forward-looking, cross-sector and integrated supervision and to make the supervised institutions more resilient to crisis.



Chart 3: FMA's supervisory priorities for 2025

Priorities for supervision and inspections in 2025:

- Interest rate and credit risk
- Risks relating to real estate finance
- Implementation of the Insurance Recovery and Resolution Directive (IRRD)
- Contribution to the IMF's Financial Sector Assessment Program (FSAP).

GUIDING PRINCIPLE 2: DIGITALISATION AND NEW BUSINESS MODELS

Digitalisation is continuing to transform the financial sector, pushing cyber security and digital resilience to the very top of the agenda. Furthermore, disruptive developments such as AI, blockchain technology and quantum computing are creating entirely new business models. At the FMA, we guarantee a form of supervision that is geared around business models and based on risk, securing the regulatory framework for the opportunities and risks of digitalisation and ensuring that the financial markets are digitally resilient.

Priorities for supervision and inspections in 2025:

- Implementation of the Digital Operational Resilience Act (DORA)
- Implementation of the Markets in Crypto-Assets Regulation (MiCAR)
- Supporting the implementation of the Regulation on Artificial Intelligence (AI Act)
- Supervision of consumer protection and distribution within the context of MiCAR.

GUIDING PRINCIPLE 3: SUSTAINABILITY

Risks associated with the climate crisis and the transition to a more sustainable economy are set to become even more significant. At the FMA, we call for sustainability risks to be taken seriously, we promote market transparency and we take action against greenwashing.

Priorities for supervision and inspections in 2025:

- Sustainability risks and business models – climate stress tests
- Greenwashing and disclosure
- Sustainability reporting.

GUIDING PRINCIPLE 4: COLLECTIVE CONSUMER PROTECTION

Making investment decisions is only going to get more complex for consumers in future given the overload of financial information and the efforts of professional financial fraudsters. At the FMA, we work to uphold collective consumer protection and market transparency through effective complaints management at financial institutions, the targeted provision of information and a range of supervisory measures.

Priorities for supervision and inspections in 2025:

- Development of a Conduct Hub
- Collective consumer protection as a priority for inspections.

GUIDING PRINCIPLE 5: CLEAN FINANCIAL CENTRE

Economic and financial crime and the circumvention of financial sanctions are increasingly jeopardis-

ing the integrity and stability of the financial market. At the FMA, we play an important part in maintaining a clean financial centre by upholding market integrity.

Priorities for supervision and inspections in 2025:

- Development of an AMLA interface
- Development of sanctions supervision at the FMA
- Contribution to the audit by the Financial Action Task Force (FATF)
- Unauthorised business.

GUIDING PRINCIPLE 6: DATA-DRIVEN SUPERVISION

Technologies such as artificial intelligence and digitalisation are further promoting the interlinking of different financial markets and both demand and enable new forms of data-based 360-degree views of supervised institutions. The FMA is meeting these challenges with a high-performance IT infrastructure, integrated and data-based supervisory methods, and a flexible organisational structure.

Priorities for supervision and inspections in 2025:

- Implementation of the FMA's new IT strategy
- Implementation of the FMA's data strategy
- Innovation Lab
- Development of 360-degree supervision.

■ GUIDING PRINCIPLE 1: **RESILIENCE AND STABILITY**

Heightened geopolitical tensions and economic uncertainty continue to pose a risk to the Austrian financial market. At the FMA, we work to maintain a resilient financial market through forward-looking, cross-sector and integrated supervision and to make the supervised institutions more resilient to crisis.

The world economy appears to be slowly moving on from the impact of the Covid-19 pandemic and the commodity price shock triggered by Russia's war in Ukraine. The market's worst fears have not materialised; inflation is back below target levels, and the economy and financial system have proved remarkably robust so far. This was by no means a foregone conclusion just a year ago.

The resilience and stability displayed by the financial market and its participants despite the abrupt turnaround in monetary policy can be primarily attributed to the regulatory and supervisory lessons learnt from the financial crisis of 15 years ago. More capital and liquidity, greater transparency and control, and a robust national and international supervisory and resolution architecture have helped to keep individual – yet by no means minor – crisis hotspots in check.

There remains a 'but', however. Challenges remain. Financial vulnerabilities have not completely disappeared. The number of insolvencies and non-performing loans is rising at an alarming rate, especially in the commercial property sector. The structural malaise afflicting the industry of our most important trading partner is also weighing on the Austrian economy. The geopolitical risk has not diminished as a result of the conflict in the Middle East.

A combination of higher interest rates and weak corporate balance sheets is reflected in high levels of borrowing and excessively high valuations. This toxic mix has already claimed its first victims and is far from being resolved. To date, the stress has mainly been a consequence of the turnaround in interest rates, which shook valuations without borrowers defaulting. However, the credit risk is now growing increasingly acute. This development has only just begun, and the question is how much worse it could get and how long it will last. The economy is not springing back to life, and low-interest debt has to be refinanced at higher rates.

Some specific pressure points are clearly identifiable. To take one example, the FMA has been focusing for some time now on commercial real estate financing, historically a trigger of vicious circles that have spiralled out of control in the banking sector. Thanks to the macroprudential measures taken by the supervisory authority, residential property financing has fared much better. The financial system must be made more resilient without delay so that there are sufficient buffers in place to quickly absorb losses and to finance the kick-starting of growth in the coming years. The banks are well capitalised and have performed very well in the last two years thanks to rising interest rates. However, a sufficient portion of these extraordinary profits should be retained, as incipient interest rate cuts and loan defaults will have an impact over the next few years.

In addition to these topics, the FMA will be focusing over the coming years on the implementation of several European legislative packages intended to make the financial system stronger and more resilient. These include, in particular, the European Union's new Insurance Recovery and Resolution Directive and the implementation of the final chapters of the Basel III package.

→ RESILIENCE AND STABILITY: PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2025

- **Real estate risks for the financial market** (> page 28)
- **Interest rate and credit risk**
 - Monitoring and reduction of non-performing loans
 - Interest rate risk for asset managers
- **FMA contribution to the IMF's routine review of the Austrian financial system (Financial Sector Assessment Program)** (> page 30)
- **Implementation of the Insurance Recovery and Resolution Directive (IRRD)** (> page 29).

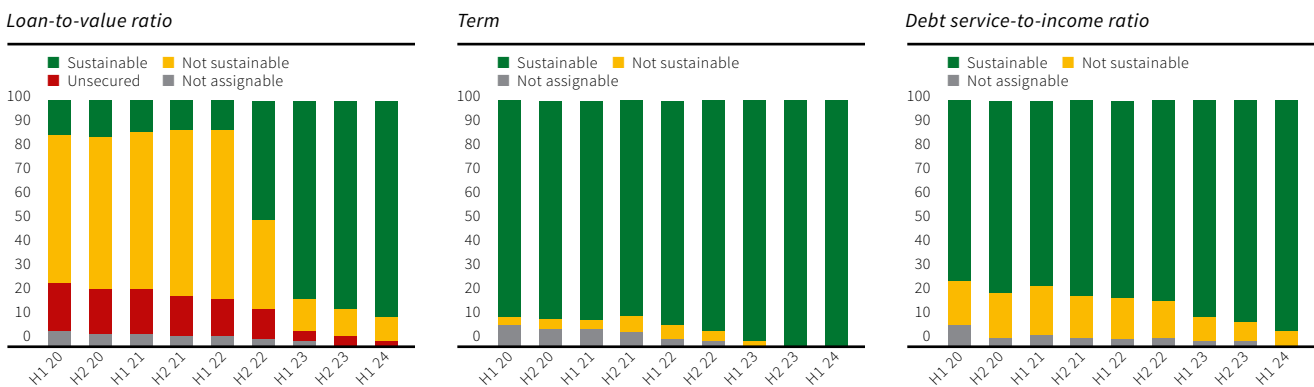
PRIORITY FOR 2025: REAL ESTATE RISKS

Real estate finance will come under particular regulatory scrutiny in the coming year, as has already been the case for some time at the FMA. This type of financing accounts for a good quarter of the total assets and thus a significant proportion of the business activities of Austrian credit institutions and has historically been the trigger for financial crises over and over again. Residential and commercial property financing is taken into account both microprudentially (at the level of the individual institutions) and macroprudentially (at systemic level). The objectives of supervision include risk management, the protection of consumers from over-indebtedness and the limitation of cluster risks at individual institutions and across the financial system as a whole. Real estate risks are not just relevant for credit institutions, but also, to a specific extent, for funds and insurance undertakings.

PRIVATE RESIDENTIAL REAL ESTATE FINANCE

In the area of private residential real estate finance, the FMA has been focussing on lending standards for several years. History shows that loan defaults in this area are not a leading indicator. If anything, the opposite is true. Experience has shown that only reacting when defaults start to rise is too late. Even low default rates result in high losses in this sector, as the low-risk weighting of residential property financing very quickly erodes their capital backing.

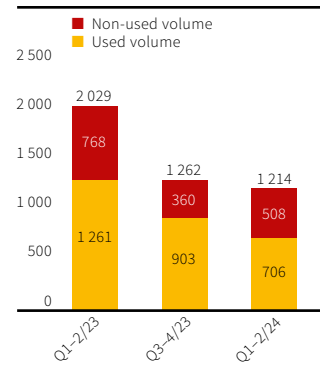
Chart 4-6: Sustainability standards in private residential property lending (share of new lending over time, in %)
(Source: Vera-H, internal calculation 30/10/24. Minor loans are excluded from Q4 2022 and interim financing from Q2 2023.)



Following a serious deterioration in lending standards in the era of low interest rates, combined with waning affordability and the rising overvaluation of residential property, the Regulation on Real Estate Financing Measures in Credit Institutions (KIM-V; *Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung*) was introduced as a macroprudential measure. This has resulted in appropriate lending standards on the Austrian market and has effectively prevented the build-up of systemic risks, as has also been positively highlighted by the International Monetary Fund, the European Central Bank and the European Systemic Risk Board. The successful KIM-V and the banks' solid capital ratios made possible by the exceptionally high profits generated in 2023 and 2024 mean that there is no longer any systemic risk, according to OeNB analysis. Had there been signs of any such risk, however, the KIM-V would have been extended beyond June 2025.

The FMSB has asked the FMA and OeNB to prepare measures that would guarantee appropriate lending standards in future. This includes lending guidelines and capital-based measures such as capital buffers and risk weights. Nevertheless, the FMA continues to believe that the lending criteria of the KIM-V (maximum loan-to-value ratio of 90%; maximum debt service-to-income ratio of 40%; maximum term of 35 years) are conventional and appropriate criteria, including by international standards.

Chart 7: Use of exception quotas (until 06/24, in EUR millions; source: OeNB)



PRIORITY FOR 2025: INSURANCE RECOVERY AND RESOLUTION DIRECTIVE

The insolvency of the German parent company of an Austrian insurance undertaking has made the new EU **Insurance Recovery and Resolution Directive** (IRRDR) surprisingly topical in 2024. For the first time, the Directive lays down requirements for preventive recovery and resolution planning along with mechanisms for the resolution of failing insurance undertakings, in analogy to the rules already in force for banks. It also provides for the appointment of a national resolution authority and the establishment of a financing mechanism.

According to the IRRDR, preventive recovery plans must be drawn up by insurance undertakings and groups that together account for at least 60% of the life and non-life insurance market in Austria. Resolution plans must be drawn up by the resolution authority for insurance undertakings and groups that account for at least 40% of the life and non-life insurance market in Austria. In the event of an insurance undertaking failing, the IRRDR provides the resolution authorities with resolution tools and powers that can be applied if the conditions for resolution are met.

The FMA is making extensive preparations for its likely tasks in connection with the IRRDR, particularly with a view to its potential appointment as the national resolution authority.

COMMERCIAL REAL ESTATE FINANCE

The financing of commercial property projects is less standardised, more complex and therefore potentially riskier than private residential property financing. Reviewing the lending process, lending standards, the value of collateral, risk management, the identification of problem loans and risk provisioning therefore remains an important part of microprudential supervision.

In addition, those institutions that have already recorded loan defaults due to commercial property financing or that are highly exposed to these risks are closely monitored. These risks are also taken into account as part of the supervisory review and evaluation process (SREP) and the resulting additional capital requirements imposed on individual banks. When the European Union's third Capital Requirements Regulation (CRR III) enters into force on 1 January 2025, the calculation of capital requirements for exposures secured by real estate will also be overhauled, bringing with it significant changes for individual institutions.

At a systemic level, it has been shown that commercial property financing in Austria poses a risk not only to individual institutions, but also to financial market stability. Following the recommendation of the Financial Market Stability Board (FMSB), the FMA will therefore prescribe a sectoral systemic risk buffer of 1% for all receivables that are classified as commercial property finance. This will promote a further broad-based build-up of capital, which will ensure that credit losses can be quickly offset and new lending does not suffer as a result of defaults. The high profits recognised in 2023 and

PRIORITY FOR 2025:

ROUTINE IMF REVIEW OF THE AUSTRIAN FINANCIAL SYSTEM

The **IMF's Financial Stability Assessment Program** (FSAP) is a comprehensive and in-depth assessment of a country's financial sector carried out on a regular basis. This assessment includes stress testing financial institutions, an assessment of the quality of supervision and regulation of the respective sector, and a review of the crisis management architecture. Major financial systems, like Austria, are subject to this review every five years. An FSAP is therefore due in 2025.

This health check will cover all areas of the Austrian financial market and be carried out in close consultation with the OeNB and the Federal Ministry of Finance. The recommendations of the last FSAP, conducted in 2019, will serve as the basis for this latest review. By way of preparation, the FMA is also heavily involved in the FSAP currently taking place for the entire eurozone and is supporting the process by seconding staff to the European Central Bank.

The Austrian FSAP will focus on the topics of governance, open banking, stress testing in the areas of banking and insurance supervision, and residential and commercial real estate finance. The Financial Action Task Force (FATF) will also be carrying out an audit of compliance with standards to combat money laundering and terrorist financing over the same period in 2025 (> page 49).

Chart 8: Mortgage loans to non-financial companies as a proportion of total assets (in %, Q1/2024; source: ECB; SDW, CBD2, internal calculation 25 October 2024)

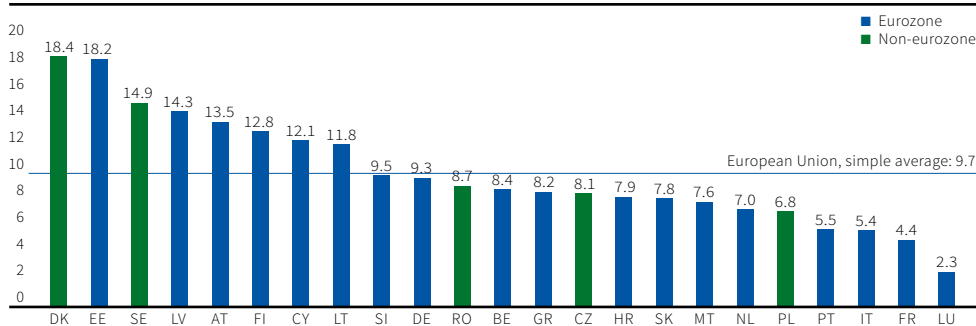
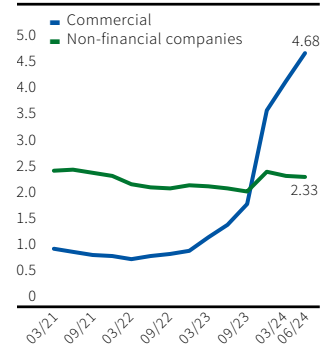


Chart 9: Non-performing loan ratios (NPLs) by sector (until 06/24; source: OeNB/FMA, GKE/AnaCredit data)



2024 due to the conducive interest rate environment give banks plenty of scope to build up this additional risk buffer.

REAL ESTATE RISKS FOR FUNDS, INSURANCE UNDERTAKINGS AND PENSIONSKASSEN

The ongoing close reporting and monitoring of Austrian property funds will continue. The aim is to detect risks at an early stage and take supervisory action if necessary. The particular focus here is on liquidity, which is also analysed under stress conditions, as well as valuations.

Austrian insurance undertakings are invested directly in real estate to a significant extent, while debt financing only plays a subordinate role. In the coming year, the FMA will focus on valuation issues, analysing price data and examining it with regard to suitability for the OeNB's commercial property price index. The FMA will also examine property price risk models and deal with property valuation issues at individual insurance undertakings.

A harmonised recovery and resolution regime for insurance undertakings will soon enter into force in the form of the Insurance Recovery and Resolution Directive (IRRD), which EU Member States will be required to transpose into national law within two years.

■ GUIDING PRINCIPLE 2: **DIGITALISATION AND NEW BUSINESS MODELS**

Digitalisation has had a profound effect on the financial industry, making cybersecurity and digital resilience number-one issues. And disruptive technologies such as AI, blockchain technology and quantum computing have caused completely new business models to emerge. At the FMA, we guarantee to deliver supervision that is mindful of business models and risks, thereby providing a regulatory framework that reflects both the opportunities and the risks of digitalisation and that ensures the financial market's digital resilience.

Technological innovation is transforming the financial system by way of three main channels. First of all, it is expanding the universe of financial services and products, as well as the distribution channels through which they are offered. Secondly, it is expanding the universe of market participants, with new providers coming into existence: fintechs, big techs that are pushing into the world of finance, and new suppliers of novel financial services. Thirdly, new digital technologies are also overhauling financial institutions from the inside: they have turned into a fixed component of the financial sector's infrastructure, and are becoming ever more important for risk monitoring and risk management.

These developments leave the financial sector and its regulator with a number of challenges to be tackled over the coming years – challenges that will evolve dynamically and not always predictably. Some of what is still to come is probably beyond our imagination today, just as few of us had any inkling of the tremendous impact that the sudden and rapid dissemination of generative artificial intelligence (genAI) would have on the world with the advent of ChatGPT and similar models.

These explosive developments may well completely transform the financial system in the coming years. Artificial intelligence is already being used for new financial products and in customer care. It will have a profound impact on job profiles and the number of jobs in the financial sector. New, highly specialised technology providers wielding huge market power and offering unique selling points are entering the frame. Meanwhile, the related legal framework for supervision, which is the AI Act in the EU, is only beginning to emerge and will need to be developed further over the next few years.

Digitalisation and networking have had a huge impact on the global financial system in these past decades, more so than in almost any other market. Without these technologies, financial infrastructure is no longer conceivable. Cloud services, quantum computers and open banking technologies are

changing the face and structure of the industry. All of this has led to enormous leaps forward in efficiency but has also made us vulnerable. Terrorist and criminal attacks have the potential to paralyse digital systems. If a server farm goes down or a software update has been missed at a crucial point in the system, the result can be chaos, with payment systems and cash machines no longer able to function. In this context, the European Union has devised a comprehensive set of rules in the form of the Digital Operational Resilience Act (DORA), the implementation of which will pose additional challenges for the industry over the new few years.

A new universe of financial products and service providers has opened up with the emergence and increasing popularity of crypto assets. Established in opposition and as an alternative to the traditional financial system, they are increasingly seeping into the markets. As a consequence, they are also becoming part of financial market supervision, as now also defined in law. For its part, the FMA has already taken action in recent years to ensure that crypto-asset service providers are obliged to comply with anti-money laundering rules. Now that the EU Markets in Crypto-Assets Regulation (MiCAR) has entered into force, a comprehensive regulatory framework has been created that will be rolled out in the coming years.

→ DIGITALISATION AND NEW BUSINESS MODELS: PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2025

- **Transposition of the EU Digital Operational Resilience Act in the financial sector** (*> page 34*)
- **European Artificial Intelligence Act** (*> page 37*)
- **Supervision of crypto assets in accordance with the EU Markets in Crypto-Assets Regulation** (*> page 36*)
- **Consumer protection and sales supervision in relation to crypto assets and crypto-asset service providers.**

PRIORITY FOR 2025: DORA MARKS THE ONSET OF A NEW ERA

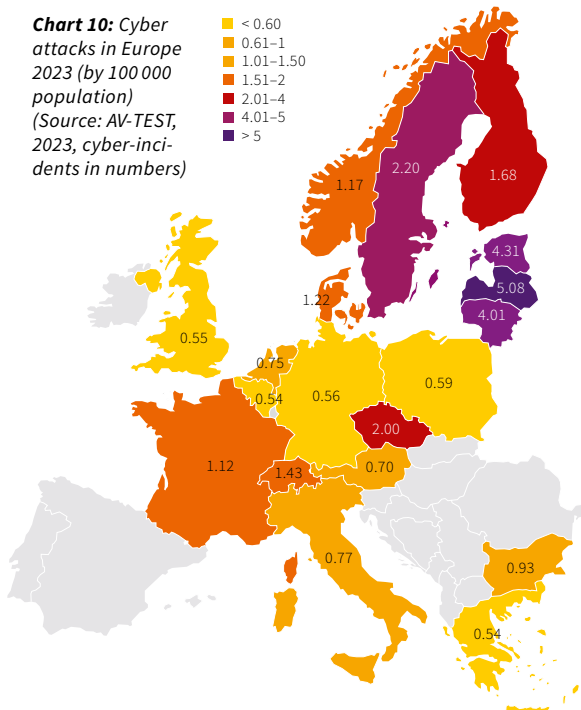
The European Digital Operational Resilience Act (DORA) will apply from 17 January 2025. It aims at strengthening the information and communication technology (ICT) security and resilience of financial entities. To this end, it consolidates and improves the requirements that have been applicable in the sector so far.

This issue has become ever more important in the last few years: modern IT infrastructures such as cloud services, customers' increasing use of digital channels and, more recently, AI applications are changing companies' business models. And to use these technologies efficiently, financial entities are increasingly reliant on ICT service providers. The tools and systems are getting more and more complex, while at the same time cyber attacks are growing more and more frequent, with attackers often exploiting the vulnerabilities of those ICT service providers. The CrowdStrike incident of July 2024, which caused systems to crash all over the world, has shown that it is not only cyber attacks that can have serious consequences. Faulty testing processes or weaknesses in ICT risk management can have equally disastrous consequences.

The main objectives of DORA are to ensure operational resilience against such risks and attacks, and better management of crisis situations. DORA covers the following topics:

- ICT risk management:** DORA explicitly specifies for the first time that digital resilience is a responsibility for senior management. The regulation sets out the roles and responsibilities of the management body from the outset. It also specifies additional requirements for ICT risk management and ICT systems, protocols and tools, as well as for ICT functions. The FMA has already investigated supervised entities' cyber resilience maturity levels through its Cyber Maturity and Cloud Maturity Level Assessments in the past. This has enabled it to draw comparisons and give individual market participants the opportunity to make targeted improvements. In keeping with its supervisory remit, the FMA is now also complying with the DORA requirements, some of which are extremely detailed.

Chart 10: Cyber attacks in Europe 2023 (by 100 000 population) (Source: AV-TEST, 2023, cyber-incidents in numbers)



- Management, classification and reporting of ICT-related incidents:** Most supervised companies have so far been unfamiliar with the requirement to report major ICT-related incidents. This requires new reporting channels and processes, and also allows companies to voluntarily exchange information about cyber threats among themselves. And it should help reduce the number of incidents, if not prevent them. The FMA has set up appropriate processes to comply with these new requirements, enabling it to provide companies with guidelines and to give them feedback.

- Digital operational resilience testing:** While all companies need to apply a risk-based testing program, significant companies that meet certain criteria will be required to perform threat-led penetration testing (TLPT) on live production systems. The FMA will continue to carry out cyber exercises and assessments to evaluate security measures in selected attack scenarios, thereby supporting the supervised entities in designing their testing programs.

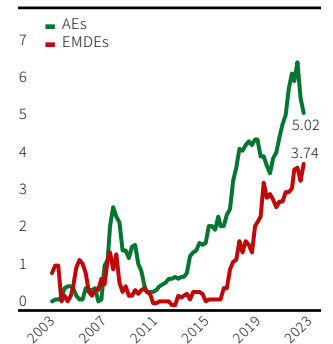
- ICT third-party risk management:** DORA breaks new ground in outsourcing to ICT third-party service providers. The regulation requires financial entities to adopt a strategy on ICT third-party risk, pre-contractual and contractual arrangements, as well as exit strategies. A register of information on ICT third-party service providers is to be maintained and submitted to the FMA once a year. This register forms the basis for the designation of critical ICT third-party service providers, who will in future be subject to an oversight framework for their ICT risk management.

The FMA has been analysing the connections between supervised companies and their ICT service providers for quite some time. The reporting requirements installed for that purpose can now be used to help prepare to meet the new DORA requirements. In future, the register of information on ICT third-party service providers will also need to be forwarded to the European supervisory authorities, with the FMA already having put in place relevant processes. The FMA also works with the companies to achieve improvements in the quality of the information.

In summary, the FMA is working to achieve the following DORA objectives:

- Continued exchange of information and active communication with supervised entities
- Coordination and safeguarding an FMA-wide common approach to supervision
- Coordinated contributions to DORA amendments
- Implementation and continued improvement of processes used to efficiently comply with DORA requirements.

Chart 11: Cybersecurity keywords in firms' earnings calls 2003–2023 (mentions per 10 000 sentences) (Source: IMF, *Global Financial Stability Report*, April 2024, p. 80)



PRIORITY FOR 2025: MICAR AND CRYPTO MARKET REGULATION

As early as in 2020, the European Commission presented a digital finance package. A key component of the package was the Markets in Crypto-Assets Regulation (MiCAR), a harmonised regulatory framework for the public offering, admission to trading and provision of services in relation to crypto assets in the EU, which entered into force in 2023. The year 2024 was dominated by the gradual implementation and application of MiCAR, whose impact will be increasingly felt in practice in 2025. All of this also comes with new responsibilities and powers for the FMA. A whole range of measures in connection with existing MiCAR requirements relating to asset-referenced

Chart 12: Registrations pursuant to Article 32a FM-GwG (as of 31 October 2024)

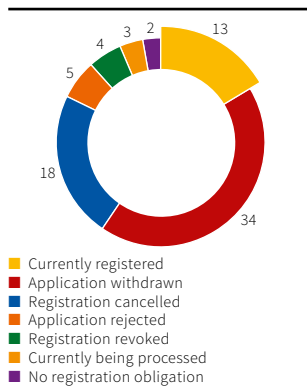
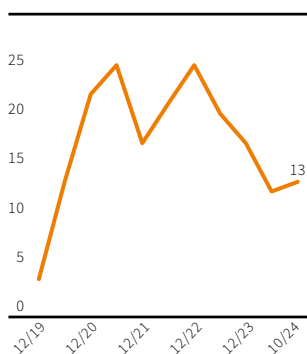


Chart 13: Registered VASPs (2019–2024)



tokens (ARTs) and e-money tokens (EMTs) have already been introduced in the past year, and further measures are currently being implemented. The authorisation process for crypto-asset service providers (CASPs) has also been established, and work on authorisation applications commenced.

An important part of MiCAR is the expansion of the supervision of CASPs (called virtual asset service providers, or VASPs, before MiCAR), which previously only covered AML/CFT prevention but is now moving towards comprehensive and therefore both prudential and conduct supervision. Owing to the technical nature of crypto assets, anti-money laundering (AML) and countering the financing of terrorism (CFT) is a key factor in the authorisation and notification procedures, as well as in continued supervision, in the MiCAR regime too. The FMA's high standards in the registration procedure and in supervision, achieved to date in accordance with the Financial Markets Anti-Money Laundering Act (FM-GwG; *Finanzmarkt-Geldwäschegesetz*), will be continued and further developed under MiCAR. The experience gained over the last few years will be highly useful in this regard.

MiCAR introduces a comprehensive regime for CASPs that also considers collective consumer protection and financial market stability. It clearly extends the range of obligations for service providers (such as prudential safeguards, corporate organisation) and gives the FMA more powers to monitor and enforce requirements. The authorisation procedure for CASPs and subsequent continued supervision is not influenced by MiCAR but by the national MiCAR Enforcement Act (MiCA-VVG; *MiCA-Verordnung-Vollzugsgesetz*), which designates the FMA as the competent supervisory authority in Austria. The FMA has allowed interested entities to submit an application for authorisation as a

CASP under MiCAR since 1 October 2024, in order to provide a smooth transition for those VASPs that had already been supervised under the old regime, as well as an efficient authorisation procedure for new market participants.

In order to guarantee a smooth transition from authorisation to supervision, the FMA is preparing its subsequent supervision activities as early as during the authorisation procedure. With its integrated approach to supervision, the FMA benefits from cross-departmental and cross-divisional cooperation and can therefore ensure that authorised CASPs will be supervised in an efficient manner in keeping with the law. The Authority is therefore focused on tackling these challenges:

- Smooth transition from authorisation procedure to continued supervision of CASPs
- Regular dialogue with CASPs
- Implementation and evaluation of internal mechanisms and processes
- Preparation of on-site inspections and use of existing cross-departmental synergies
- Consideration of the interplay between MiCAR and DORA in supervisory processes
- Grandfathering of existing VASPs up until the end of 2025 and transition into CASP regime of MiCAR.

The FMA's careful preparation ensures that it will be able to implement authorisation procedures and continued supervision in a smooth and legally secure manner.

PRIORITY FOR 2025:

EUROPEAN ARTIFICIAL INTELLIGENCE ACT (AI ACT)

The EU AI Act entered into force on 1 August 2024, and will be applicable step by step from 2 February 2025. It will apply to providers and deployers of AI systems, which also includes supervised companies from the financial sector.

The AI Act is based on a risk-based approach, differentiating between:

- **Unacceptable risk:** Uses of AI that contravene EU values are banned (manipulation, social scoring, certain types of biometric identification)
- **High risk:** For AI systems potentially having an adverse impact (e.g. creditworthiness checks, assessments in relation to life and health insurance) there are specific obligations
- **Specific transparency risk:** Applications such as chatbots, “deep fake” software or certain biometric systems are required to comply with transparency and disclosure requirements
- **Minimal risk:** Systems with a low risk, such as AI-supported spam filters, are expected to resort to self-regulation and adherence to voluntary codes of conduct.

In the financial sector, AI is used to boost efficiency, to help prevent money laundering and fraud in payment transactions, and in knowledge management. In customer care, it is used to shorten processing times and to improve advice and products. Artificial intelligence is also used or evaluated in risk management and data analysis. The question of which authority or authorities will be put in charge of monitoring the financial sector will be determined by national legislators as they draw up the required legislation to accompany the AI Act.

■ GUIDING PRINCIPLE 3: SUSTAINABILITY

Risks associated with the climate and biodiversity crises and the resulting need for a transition to a more sustainable economy are set to become even more significant. At the FMA, we call for sustainability risks to be taken seriously, we promote market transparency and we take action against greenwashing.

The financial industry is now being strongly impacted by the climate crisis and the biodiversity crisis. The associated economic, social and societal consequences and risks, as well as the regulatory and political approaches aimed at addressing these challenges – including the political discourse about the pros and cons – and the harmonisation/aligning of financial flows with the goals of the Paris Agreement are all key factors.

Even in the best-case scenario, Europe is on course for a temperature increase of 3° and the associated rise in heatwaves, heavy rainfall and other extreme weather events. This poses direct and indirect risks for insurance undertakings, banks and other financial institutions, and these will be analysed quantitatively and qualitatively as part of further climate stress testing over the coming years. The financial system also plays a central role in financing the transition to a low-carbon economy. In the European Union, this transition is referred to as “Fit for 55”, a package of measures with which the EU is aiming to slash its emissions by 55% compared with 1990 by the year 2030 and to achieve a climate-neutral economy by 2050.

The implementation of this package is also influencing how businesses and consumers plan for the future and invest, and thus impacting on the financial markets too. The European supervisory authorities’ first comprehensive scenario analysis, conducted in 2024, analysed the impact of the transition on the financial sector and concluded that it does not pose a threat to financial stability. For its part, the FMA will continue with its own stress testing programme.

Investors’ preferences and assessments in relation to sustainability, as well as statutory requirements and framework conditions for investments, require the uniform, transparent and credible categorisation and disclosure of financial products. As the market for sustainable financial products grows, so too does the risk of greenwashing. The European supervisory authorities define greenwashing as the

practice of sustainability-related statements, declarations, actions or communications that do not clearly or accurately reflect the underlying sustainability profile of a company, financial product or financial service. This can be misleading for consumers, investors and other market participants.

Greenwashing poses a high risk to both investor protection and the necessary transition to a climate-resilient economy, and can take many different forms. For example, the name of a product or information included in advertising can create an incorrect impression with regard to how sustainable that product actually is.

With the implementation or first-time application of important legislative packages on sustainability reporting, the inclusion of climate risks in bank balance sheets, ESG ratings and ESG-related fund names, the regulatory framework has been significantly expanded over recent years. This framework is likely to be expanded further with the finer details being fleshed out. Additionally, some countries are yet to complete the implementation process at national level.

The FMA was one of the first European supervisory authorities to sensitise the financial sector to ESG risks back in 2020 with its cross-sector Guide for Managing Sustainability Risks. The Guide shows that these risks can have a negative impact not only on financial market participants or the performance of individual assets, but potentially even on financial stability more generally. It helps the supervised companies to incorporate sustainability risks into their business activities and prepares them for regulatory developments and requirements. The FMA will therefore be updating its Guide in 2024.

In the coming year, the FMA will be focusing its supervisory and inspection activities on the following areas:

→ SUSTAINABILITY: PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2025

- **Greenwashing and disclosure** (> page 40)
- **Sustainability risks and business models – climate stress tests** (> page 41)
- **Sustainability reporting.**

PRIORITY FOR 2025: COMBATING GREENWASHING

Combating greenwashing and promoting the transparency of sustainable financial products are an important supervisory and inspection focus of the FMA when it comes to the guiding principle of sustainability. The FMA has already introduced the following measures:

- Implementation of new regulatory requirements for sustainability funds:** New guidelines drawn up by the European Securities and Markets Authority (ESMA) on fund names are due to enter into force on 21 November 2024 for new funds and on 21 May 2025 for all existing funds. These set out specific requirements for funds that advertise using ESG or sustainability-related terms in the name of the fund. For the first time on a Europe-wide basis, the guidelines stipulate a minimum threshold of 80% with regard to fulfilling environmental or social characteristics and sustainable investment objectives. The guidelines also provide for exclusion criteria for various words that may not be used in the fund names of these funds.

The FMA will incorporate the ESMA guidelines into its administrative practice and, particularly in the case of new funds, will review compliance with the requirements in the fund regulations as part of its authorisation procedure.

- Screening sustainability funds for greenwashing:** In order to ensure that the sustainability-related investment strategies are complied with in the context of fund investment and to reduce the risk of greenwashing, the FMA carries out targeted supervisory activities as part of its off-site analyses and on-site audits to verify the disclosures and compliance with the disclosed investment

strategy.

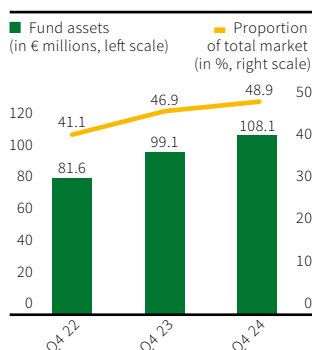
To this end, the FMA will further develop the greenwashing analysis framework for retail funds, which was first applied in 2023 and also incorporates automated text analysis and artificial intelligence.

- Disclosures on adverse sustainability impacts:** According to the EU's Sustainable Finance Disclosure Regulation (SFDR), financial market participants must disclose at both company and financial product level whether and how they take into account the main adverse impacts of their investment decisions on sustainability factors.

In 2025, the FMA will focus on analysing disclosures on adverse sustainability impacts on the Austrian financial market across all sectors.

- Disclosures in sustainability reporting:** With the introduction of the EU Corporate Sustainability Reporting Directive (CSRD), a large number of companies will be obliged to

Chart 14: Performance of Austrian funds as defined in InvFG 2011 and ImmoInvFG that take account of sustainability criteria (2022–2024)



report on their impact on the environment and society, as well as on the impact of the environment on the company. This means that standardised information on sustainability aspects will be available on a larger scale in future. In order to ensure the quality of the information provided, a mandatory external audit of the sustainability reports is planned; in addition, the sustainability reports will also form part of the annual financial reports, which are subject to financial reporting enforcement by the FMA and the Austrian Financial Reporting Enforcement Panel (AFREP).

- **Green bonds – transparency in the prospectus and advertising:** Green bonds have established themselves as important financing instruments for the promotion of sustainable projects. A transparent description of the framework conditions in the relevant prospectuses helps to prevent greenwashing. The FMA’s prospectus review is therefore key to safeguarding the integrity of the sustainable finance market. The FMA will ensure that advertising for green bonds continues to be transparent and in line with the regulatory requirements.
- **Distribution of sustainable financial instruments:** Financial institutions must ensure that their clients’ sustainability preferences are taken into account when selling sustainable financial instruments. The FMA reviews compliance with these requirements as part of a supervisory measure coordinated by ESMA. In the course of its supervisory measures – such as on-site inspections – the FMA also reviews compliance with regulatory requirements when financial institutions advertise green financial products.

PRIORITY FOR 2025: **CLIMATE STRESS TESTS**

The extreme weather events of 2024 in Austria and neighbouring countries (extreme heat, heavy rainfall and flooding) have once again highlighted in dramatic fashion that the climate crisis is not an abstract phenomenon. In fact, its effects are increasingly and massively becoming reality here in Austria.

With this in mind, the European supervisory authorities carried out a Europe-wide **climate scenario analysis** in 2024, the aim of which was to assess the resilience of the EU financial system in the implementation of the regulatory Fit for 55 package and to gain insights into how well the financial system could cope with the transition to a low-carbon economy even under stress conditions.

On this basis, the FMA also plans to carry out **climate stress tests** on insurance undertakings, *Pensionskassen*, corporate provision funds and investment funds in 2025, and to further develop existing methods in order to assess and monitor the risk posed to the Austrian financial market and individual supervised entities.

■ GUIDING PRINCIPLE 4: **COLLECTIVE CONSUMER PROTECTION**

Making investment decisions is only going to get more complex for consumers in future given the overload of financial information and the efforts of professional financial fraudsters. At the FMA, we work to uphold collective consumer protection and market transparency through effective complaints management at financial institutions, the targeted provision of information and a range of supervisory measures.

From a consumer's perspective, digitalisation, big data and artificial intelligence are also turning the financial world on its head. Consumers' access to these markets is now much simpler and quicker thanks to digital financial products and online sales channels. Young digital natives are the main group taking advantage of these new options, which as well as bringing new opportunities are also creating new risks. Online banking, smartphone apps and neobrokers are changing the way people handle their money and how they borrow and save. Financial transactions once required a visit to a branch, a face-to-face meeting and a lot of form filling. Today, the algorithm will already have filled everything in and the statutory warning and information windows are all too easy to click away. Transparency is often lost in the flood of information and the decision-making process is frequently rushed.

Conversely, however, digitalisation and the internet also provide access to information that was previously only available to experts. This means that anyone who knows what they are doing can use it to compare and access incomparably larger product universes. The FMA has also developed its own products to facilitate comparisons, such as its Zertifikate Lupe (literally: certificate magnifying glass) comparison platform, and will continue to expand its work in this area.

The closure of traditional bank branches and the loss of personal advice is also increasingly excluding people who are not confident using technology or who have rejected these new products, making it more difficult for them to access basic financial services.

Digitalisation has long been a factor in the criminal sector too. Financial fraud on the internet is a growth market, and the number of complaints to the FMA is on the rise. The topics follow the latest trends. After the end of the "crypto winter", virtual currencies are back in vogue, and supposedly "green" investments have been on the rise recently too. However, the techniques used by the fraud-

sters are generally the same techniques that have been used for centuries: the promise of risk-free high returns; an insider tip where time is of the essence; playing on people's desires and fears. These developments pose major challenges for collective consumer protection and the FMA is also expanding its preventive financial education measures in this area together with its partners. The FMA is committed to ensuring that consumers receive easy-to-understand and targeted information so that they can make smart financial decisions. Financial supervision must also adapt in order to keep pace with the digital revolution. Consumer protection must be realigned, and impartial information must be better tailored to target groups and digital channels.

→ COLLECTIVE CONSUMER PROTECTION: PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2025

- **Development of a cross-sector Conduct Hub** (> page 44)
- **Consumer protection as a priority for supervision**
 - Unit-linked life insurance
 - Complaints management for insurance undertakings
 - Marketing communications for credit institutions
 - Development of a “Fund magnifying glass” tool similar to the FMA’s “Certificate magnifying glass”.

PRIORITY FOR 2025: CONDUCT SUPERVISION

In addition to prudential supervision, the FMA is focusing increasingly strongly on conduct supervision, in other words supervision of how financial market participants behave. Conduct supervision primarily relates to ensuring compliance with rules of conduct and in this sense is a key pillar of collective consumer protection.

The FMA has always been an integrated supervisory authority with a remit that covers all areas of the financial market, and although the rules of conduct are defined separately for each sector, they are largely the same in practice. European supervision is continuing to move in the direction of harmonisation. It should not matter if consumers acquire financial instruments through a bank, an insurance undertaking or an investment firm, there must be no difference in the level of protection.

In order to organise coherent cross-sector, cross-industry and cross-product conduct and sales supervision of all supervised financial market players, the FMA will be setting up an internal FMA hub in the coming year. This will jointly develop the supervision of rules of conduct across all supervisory areas of the FMA. Great importance is attached to uniform and proportionate standards. These are designed to ensure that all market participants act in accordance with the law and in the best interests of consumers, thereby creating a fair competitive environment.

One of the most important tasks of integrated conduct supervision is to provide a holistic market overview of the sales activities of the supervised companies. Coordinated supervisory activities and ensuring coherent legal interpretation and supervisory development across all sectors are also essential. The aim of a common market overview is to ensure that the data collected or available (reporting data, company data, sales figures) is comparable and can be analysed across different sectors. Important findings can be derived from this for the purposes of risk-based supervision.

Based on the information covering the financial market as a whole and individual sectors too, a joint risk assessment can then be carried out in the conduct area and carried over to risk-based supervision. With the help of joint prioritisation and supervisory activities based on a common understanding of supervision, the standard can be raised across the entire Austrian market. This means that consumers benefit from the same high standards of protection regardless of contractual partner and sector.

This coordinated work as an integrated authority in the area of conduct supervision also provides legal certainty for the Austrian financial market. Harmonised legal interpretations prevent supervisory arbitrage. Harmonisation takes place at both national and European level, as the European

bodies for banking, insurance and securities supervision are important drivers of conduct regulation. The topic of sustainability, particularly in sales, will also be a greater priority as part of future conduct supervision. The FMA's objectives will be jointly pursued and implemented in cooperation with the individual experts in the FMA Divisions and Sustainability Hub. The fight against greenwashing is an absolute priority too (see also page 40).

PRIORITY FOR 2025: PREVENTION OF INVESTMENT FRAUD

Investment fraud is the clear frontrunner when it comes to the topics being raised by members of the public in need of advice from the FMA. This can also be attributed to the fact that appetite for risk has increased again after the pandemic and crypto assets are back in vogue again. Unfortunately, investment fraud is also on the up. When it comes to scams, attempted fraud involving crypto assets is pushing investment fraud based on traditional financial instruments such as shares, bonds and derivatives and authority scams back into the background.

In total, around 5 600 consumers contacted the FMA consumer information service over the last year and a half. Approximately three quarters of the enquiries from consumers take the form of questions to the FMA, and around a quarter are complaints. In order to deal constructively with these enquiries, the FMA uses artificial intelligence (AI) to carry

out initial categorisations. This AI tool is to be further developed. With the aim of being able to derive trends from these submissions, the FMA is working on another AI solution that will identify and cluster similar cases. Subsequently, there are also plans to work on an AI-supported, automated system for responding to recurring enquiries.

Due to the huge importance of investment fraud in this context, the FMA has been focussing on effective prevention for many years now. This work will be further expanded in the coming year with the following projects:

- Cooperation with the Center for Financial Education at Vienna University of Economics and Business, at which the FMA's "Let's talk about money" information tool is prepared for use in schools
- International exchange of experience on financial education projects for adults
- The "Let's talk about money" format will be promoted on social media and via tie-ups with traditional and new media
- Cooperation arrangements with Oesterreichische Nationalbank (OeNB), the Federal Bureau of Anti-Corruption (BAK) and the Criminal Intelligence Service Austria (BK).

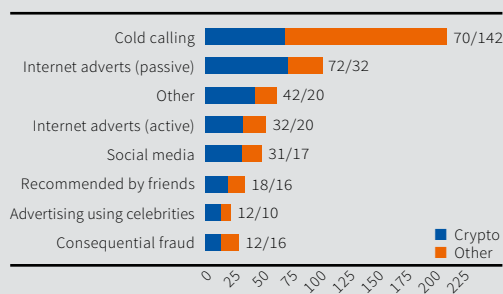


Chart 15:
Investment fraud:
type of contact 2024
(as of 11 Nov. 2024)

■ GUIDING PRINCIPLE 5: **CLEAN FINANCIAL CENTRE**

Economic and financial crime, as well as the circumvention of financial sanctions, pose an ever greater threat to the integrity and stability of the financial market. At the FMA, we strive to guarantee market integrity and thereby make an important contribution to a clean financial market.

A clean status on the financial market has many dimensions. It means market participants engaging in clean business practices, and not a market occupied by dubious and criminal providers. A clean financial centre is one where money laundering and terrorist financing are prevented, and where financial sanctions are complied with and enforced. All of these dimensions are important to ensure confidence in the proper functioning of the financial market, to guarantee its stability and to provide the real economy and consumers with financial services.

Digitalisation, the economic upheavals triggered by wars and geopolitical crises, surging inflation and the abrupt turnaround in interest rates, as well as changed consumer behaviour, are all contributing to the emergence of new dubious business practices and product designs. Periods of great uncertainty and profound upheaval are also periods when fraudulent providers and those engaged in criminal activity tend to fare best. From 2025 onwards, the FMA will therefore be combining the prosecution of unauthorised business activities with market monitoring and collective consumer protection.

Since the FMA took over the supervision of anti-money laundering (AML) and countering the financing of terrorism (CFT) in the companies it supervises more than a decade ago, it has pursued a consistent zero tolerance policy. It clamps down on any breaches of the rules with harsh penalties. Negligence in governance and AML prevention is no trivial offence but poses a serious operational risk. Market players that do not adhere to the requirements in this area risk having to exit the market, as the FMA has again made unmistakably clear and also enforced in 2024.

The number of suspicious transaction reports received by the Financial Intelligence Unit (FIU) at the Criminal Intelligence Service Austria (BK) has been rising significantly for years. Rather than being a sign of a rise in money laundering cases in the Austrian financial system, this is actually proof that the system of prevention is working.

In 2025, international experts from the Financial Action Task Force (FATF), the global standard setter, will examine implementation of its recommendations following its previous country evaluation of Austria. It is one of the FMA's work priorities to coordinate this examination, also making sure its own positions are heard.

Our supervisory priorities over the last few years, including those relating to correspondent banking relationships, business relationships with offshore centres and back-to-back transactions, have proven to be effective. A big challenge in the fight against money laundering continues to be that AML supervision is organised at national level. Any cross-border cooperation between authorities is complicated and time-consuming, especially in light of the different legal frameworks in each country. Supervision is coming up against its limits in this area. The FMA therefore expressly welcomes the establishment of the European Anti-Money Laundering Authority. AMLA, together with the supervisory authorities in the Member States, will be tasked with ensuring that the legal provisions are uniformly applied and with fostering cooperation with the national criminal authorities, the Financial Intelligence Units (FIUs). The FMA, as the national competent authority within this new European supervisory regime, will represent Austria's interests, contribute its broad expertise and work in close collaboration with its partners in the network.

The sanctions imposed by the European Union on Russia as a consequence of Russia's war of aggression in Ukraine have again focused attention on the enforcement of such resolutions. It is obvious that there are huge overlaps in the financial market where AML prevention is concerned. In Austria, it is presently up to the Oesterreichische Nationalbank (OeNB) to sanction banks, while all other financial market participants and involved parties are subject to supervision by the State Protection and Intelligence Directorate (DNS) based at the Federal Ministry for the Interior (BMI). As an integrated supervisory authority, the FMA welcomes the initiative to also entrust it with the power to monitor all financial service providers' compliance with the sanctions regime. This will increase synergies, boost efficiency and effectiveness, and create a "governance competence centre" for the entire financial market in Austria.

→ CLEAN FINANCIAL CENTRE: PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2025

- **Preparation of financial sanction supervision (depending on law amendment)**
- **FATF evaluation: coordination and FMA contributions** (> page 49)
- **Reorganisation of the Division for Combat against Unauthorised Business, integrating market monitoring and consumer information**
- **Interface to new European Anti-Money Laundering Authority** (> page 48).

PRIORITY FOR 2025: INTERFACE TO NEW EU ANTI-MONEY LAUNDERING AUTHORITY

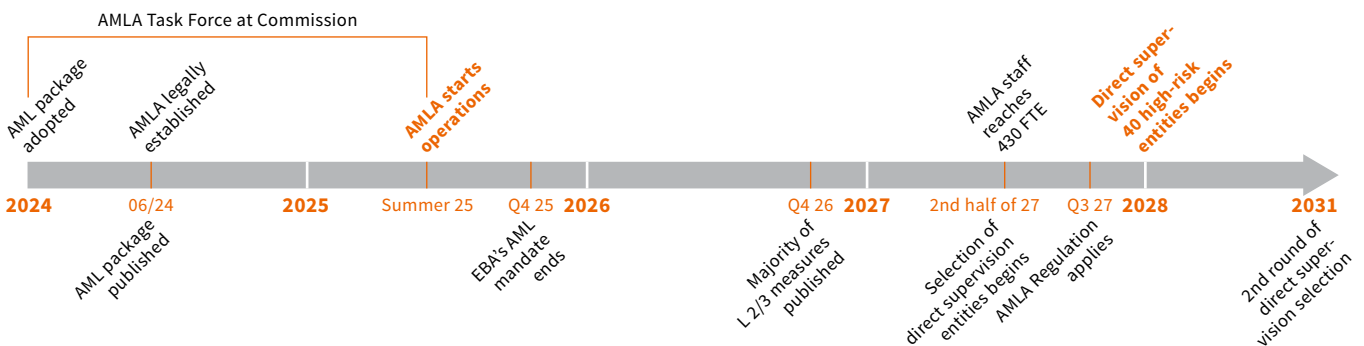
The entry into force of the EU’s AML legislative package in the summer of 2024 provided the legal foundation for the new European supervisory system to prevent money laundering and terrorist financing. The new EU Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA) is at the helm of these efforts. AMLA is set to carry out regulatory tasks, such as preparing some 70 technical standards and guidelines over the next three years. But AMLA will also have direct and indirect supervisory powers. From 2028, it will directly supervise up to 40 high-risk obliged entities from the EU financial sector, a number that will increase over time. In addition, it will be given several powers to carry out its indirect supervision remit. As a type of super-authority, AMLA will also have a supporting role in relation to the non-financial sector, as well as coordinating and fostering the FIUs in the EU Member States.

The implementation of the AML package and operational preparations for AMLA began in 2024. The Authority is due to start operations in 2025, with the launch of direct supervision being planned for 2028. AMLA is based in Frankfurt, Germany.

The European Commission has invited the European Banking Authority (EBA) and the national competent authorities (NCAs) to provide advice on selected level 2 and 3 mandates in connection with the AML package. With its many years of experience and vast expertise, the FMA is playing a constructive part in this process, proactively contributing to the establishment of the new supervisory system; the Austrian authority is represented in both current work streams at the EBA, the Sub-group on Risk and the Sub-group on CDD/Sanctions.

In its preparation for the new supervisory architecture and Single Rulebook, the FMA will need to

Chart 16:
AMLA timeline



adapt its strategies, structures and processes accordingly, drawing on the experience gained during SSM (Single Supervisory Mechanism) implementation. It aims to prepare for the new EU requirements in a targeted and timely manner, and to successfully steer itself both internally and externally through supervisory transformation.

The FMA is also working towards covering the issues of policy and steering, as well as stakeholder management, and in so doing is gathering, evaluating and prioritising developments, and voicing its own positions. At the FMA's initiative, the EBA set up a Forum of EU AML/CFT supervisors, as part of which the NCAs, EBA and new AMLA Task Force meet regularly.

To help actively participate in the development of AMLA in Frankfurt, the FMA intends to second specific national experts to the new Authority early on. Its HR strategy is to provide potentially interested employees with optimum support and to promote mobility. Another aim is to visibly position FMA staff as AML/CFT experts within the new EU Authority.

Preparations are also ongoing in the field of IT systems and data strategies. The question of whether a full switchover to an AMLA IT system (such as the IMAS portal or Darwin operating system) for the purposes of the FMA's AML/CFT supervision makes sense will have to be evaluated in due course. Important aspects such as feasibility, redundancies and costs will all need to be factored in.

PRIORITY FOR 2025: **FATF INSPECTION**

As a member of the Financial Action Task Force (FATF), Austria will be re-evaluated as part of the FATF's mutual evaluations in 2024-2026. The FATF will assess to what extent and how efficiently the 40 FATF Recommendations on combating money laundering and the financing of terrorism have been implemented. One focus of those evaluations is the financial sector's measures to combat ML/TF.

The evaluation conducted by the International Monetary Fund (IMF) for the FATF was based on a **standardised methodology** and launched in October 2024 with information on the technical implementation of the recommendations. This was followed by an evaluation of the national ML/TF system's effectiveness. The evaluation team has scheduled an on-site visit and interviews with selected stakeholders for the second quarter of 2025. The whole evaluation process is set to be finalised in February 2026 with the presentation of the country report at an FATF plenary meeting.

In the FMA's view, Austria has made **major steps in ML/TF prevention** since its last evaluation in 2016. For example, the financial sector's awareness of efficient monitoring systems and reporting processes has been heightened, and the FMA's risk-based supervision successively enlarged and advanced. The evaluation and optimum presentation of all measures taken are of utmost priority to the FMA. To this end, the FMA is closely engaged with all relevant national and international stakeholders.

With regard to data and reporting, AMLA is likely to be requesting huge amounts of data from the supervisory authorities, particularly in relation to harmonised risk analysis. This can only be achieved with high-quality data and easy access to that data. The FMA's own AML tool will also have to be aligned with AMLA's harmonised risk analysis methodology. As can be seen already, financial market participants will very likely be required to supply more risk analysis data in future. The FMA is involved in the preparation of the new risk analysis methodology and is very much in favour of data-driven, user-friendly and practical supervision, without putting undue burden on financial market participants.

At the time of this publication being prepared, concrete preparations were under way with the Federal Ministry of Finance (BMF), the Federal Ministry of Labour and Economy (BMAW), the Federal Ministry of Justice (BMJ) and other supervisory authorities for the non-financial sector to agree on an Austrian representative for the AMLA General Board in supervisory composition. The ministries and authorities have decided to send the FMA as permanent representative to the General Board in supervisory composition. The FMA is now working with the above institutions on the establishment of a national coordination mechanism, which will be managed by a central interface (AT-AML Secretariat)

PRIORITY FOR 2025: **ADVANCEMENT OF REPORTING TOOL**

Even if the cases of unauthorised providers can be very colourful and diverse, they all have some things in common: offshore addresses that financial fraudsters use time and again; specific ways of enticing investors, such as fabricated celebrity endorsements. But there are also new trends emerging, such as crypto bots, that promise passive income. There are also the perennial favourites such as aggressive trading platforms designed to fool people into believing they can make a quick buck.

Recognising patterns, similarities and trends makes **combating unauthorised business activities** much more effective. Since 2023 the FMA has systematically set data points on the providers that it has been forced to issue warnings about on its website. This data forms a matrix that can reveal clusters. It shows, for instance, that the known CFD and forex platforms have recently been particularly keen on using speculative crypto trading to lure investors.

The data is visualised using the Microsoft Power BI software. This helps investigators to proceed in a more targeted manner and to model their prevention efforts according to the relevant target groups too.

Some of the investigative paperwork is also automated. This will further speed up the time taken to issue an official investor warning; a period that has already been cut to just two days from receipt of an investor complaint. Combating unauthorised business thus becomes more data-driven, more rapid and more effective overall.

based at the FMA. The General Board in supervisory composition will meet for the first time in the fourth quarter of 2024 in Frankfurt.

In terms of the implementation of the new supervisory system and the processes needed now and in the near future, the FMA is drawing on its experience from implementing the SSM and working within it. However, since AMLA and SSM differ greatly in their composition, many aspects will need to be redefined. The inclusion of the non-financial sector in AMLA's responsibilities will raise the level of complexity, and will have to be tackled at both national and European level. In addition, the risk factors applied to determine which institutions will be directly supervised differ fundamentally from those applicable in the SSM, which means that the range of entities directly supervised by the ECB and AMLA will differ too.

FMA SET TO BECOME SANCTION AUTHORITY FOR THE AUSTRIAN FINANCIAL SECTOR

The Sanctions Act 2024 (SanktG 2024; *Sanktionengesetz*) and the Financial Markets Anti-Money Laundering Act's Adaptation Act (*FM-GwG-Anpassungsgesetz*) confer new powers on the FMA: supervision of financial sanctions will be combined with AML supervision at the FMA in order to help protect the Austrian financial market as efficiently and effectively as possible. The reform implements additional FATF recommendations as well as key elements of the EU's anti-money laundering package.

- **FM-GwG Adaptation Act:** As of 1 January 2025, obliged financial market participants (financial institutions and crypto-asset service providers) are required, in accordance with the FM-GwG, to comply with specific risk management requirements related to targeted financial sanctions imposed in connection with proliferation financing. These requirements will apply to all targeted financial sanctions with effect from 1 January 2026.
- **Sanctions Act 2024:** All monitoring and authorisation tasks are being reorganised, and will be gradually transferred to the FMA. The supervisory authority will work closely with the OeNB and BMI to monitor financial sanctions and fully take over their financial market-related tasks with effect from 1 January 2026.
 - The FMA will be given the supervisory powers in relation to financial market participants as defined in the FM-GwG (except that for the insurance area this includes the pursuit of all insurance classes) and is also responsible for administrative penal proceedings as well as the granting of special approvals in relation to frozen assets.
 - Strategies, inspections and procedures will have to be applied on a group-wide basis.
- **Beneficial owners:** Transparency requirements will be standardised in more detail to prevent circumvention.

The new regulations and their implementation will have an impact on the FMA's prioritised supervision and inspection practice in 2025.

■ GUIDING PRINCIPLE 6: DATA-DRIVEN SUPERVISION

Technological advances such as artificial intelligence and digitalisation are creating even closer links between financial markets while at the same time requiring and enabling new forms of data-based 360-degree views of supervised institutions. At the FMA, we meet these challenges with a high-performance IT infrastructure, integrated and data-based supervisory methods, and a flexible organisational structure.

Digitalisation, networking and artificial intelligence (AI) are not only shaping market participants in the financial system, but are also increasingly influencing the work of supervisory authorities. The on-trend terms here are data-driven supervision and SupTech, short for supervisory technology.

This generally encompasses data visualisation, regulatory reporting, risk analysis and the automation of supervisory activities. For supervisory authorities such as the FMA, this firstly creates potential for increasing efficiency; secondly, resources can be deployed more usefully – as data-driven supervision helps with a proportional and risk-oriented approach; thirdly, it creates new auditing options.

Data-driven supervision affects the supervisory process, comprising data and information collection, analysis and decision-making, in several different ways:

- In terms of **collecting data and information**, SupTech supports a uniform and consistent reporting system and helps with the setting up of optimised interfaces with the supervised companies. Technologies such as APIs, web crawling, text recognition, data storage etc. are all used here.
- **Analysis and interpretation** can be technologically supported in relation to the preparation and evaluation of data, quality control, the detection of anomalies, stress testing and the calculation of various forecast scenarios, the detection of trends, irregularities or the automatic allocation of incoming enquiries and complaints. This is where AI technologies, machine learning and LLMs come in.
- Ultimately, it is the actual **supervisory action** that matters. This will still be taken by humans, but it can be documented and communicated more efficiently with the help of SupTech.

In recent years, the FMA has already been using SupTech in its sales supervision, market supervision, consumer communication and market monitoring. By way of example, it has created the unique

“Certificate magnifying glass” comparison tool. AI methods have been used to analyse thousands of key information documents for investment products aimed at retail investors (PRIIP KIDs), without which such a comprehensive analysis would have been impossible. Similar methods are also being rolled out in the area of sustainable finance.

Over the coming years, the FMA will focus primarily on the data-driven and technology-based standardisation and modernisation of supervisory activities under the umbrella of 360-degree supervision. The aim is to provide an all-round view of supervisory activities and areas by making information available in a standardised, up-to-date, complete and clear manner. Modern applications help to support and simplify workflows. The focus here is on the harmonisation and technological realignment of internal processes, not only minimising internal search costs and the effort required for data management, but also making it much easier to access the relevant supervisory data. This contributes to more efficient decision-making processes and better regulatory control.

We are paving the way for modern, automated and integrated data management within the FMA that can provide all departments with a quick and precise overview of key supervisory activities – with minimal manual effort. In this way, we are creating a solid foundation that will also enable us to integrate new technologies in the future.

→ DATA-DRIVEN SUPERVISION: PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2025

- **Implementation of the FMA's IT strategy**
 - Further development of supervisory applications
 - Migration to the cloud
- **Implementation of the FMA's data strategy**
- **FMA's Innovation Lab**
 - Move to new governance structure and implementation of innovation projects
 - Creation of a platform of integrated knowledge exchange on tools
- **Pilot project 360-degree view supervisory tool (> page 54)**
 - Implementation of initial modules
 - Creation of core process for audits
 - Further development of tool
- **Agile organisational forms**
 - Creation of integrated banking supervision teams
 - Embedding of lateral organisational elements in the FMA.

PRIORITY FOR 2025: **360-DEGREE SUPERVISION**

The introduction of comprehensive 360-degree supervision creates a holistic perspective that enables us to cover all relevant aspects affecting the market participants, thus ensuring even more effective supervision. The supervisory tools developed as part of the programme lay the foundation for the FMA to meet the high demands of an increasingly complex financial world.

Following an intensive proof of concept phase, the FMA decided to adjust the primary work systems and establish a 360-degree approach. This central project serves as a guide for many other measures and is due to be implemented by the end of 2027.

Our aim is to create a holistic solution that provides a complete and transparent overview of all relevant supervisory activities at all times. The 360-degree view is based on the seamless integration of all data sources used within the FMA.

A key component of this solution is the automation of the data connection. The use of modern technologies minimises the manual effort required for data processing and maintenance. This not only significantly improves efficiency but also reduces the susceptibility to errors and ensures that information can be provided in real time.

The focus in 2025 will be on the development of a new, integrated working environment for the core activity of on-site inspections. For this project, the FMA will begin by evaluating and optimising the necessary workflows in the individual on-site inspection divisions so that they can then be implemented in new technical systems. These new systems support the goal of 360-degree supervision, namely having fast access to up-to-date information so that an overall view of the FMA's activities can be established whenever it is needed.

