AUSTRIAN FMA · FINANCIAL MARKET AUTHORITY

2018

ANNUAL REPORT OF THE FINANCIAL MARKET AUTHORITY

Key figures of the Austrian financial sector 2014–2018

	2014	2015	2016	2017	2018
BANKING SECTOR					
Capital base[1]					
Common Equity Tier 1 (in € billions)	66.0	69.0	65.8	70.0	71.7
Tier 1 capital (in € billions)	66.4	69.3	66.1	71.5	74.6
Common Equity Tier 1 capital ratio (CET1, in %)	11.7	12.8	14.9	15.6	15.4
Tier 1 capital ratio (in %)	11.8	12.9	14.9	15.9	16.0
Solvency ratio (in %)	15.6	16.3	18.2	18.9	18.6
Leverage ratio (in %)	6.1	6.3	7.6	7.7	7.4
Liquidity coverage ratio (LCR, in %)	–	–	145.2	148.8	150.6
Development of assets and liabilities, non-consolidated (in € millions)					
Total assets[1]	847 619	824 399	797 971	776 979	819 982
Claims on credit institutions	198 291	179 202	168 026	163 105	162 229
Claims on non-banks	421 707	425 228	422 923	418 645	443 517
Debt securities and other fixed-income securities	65 382	54 154	47 742	40 236	41 281
Shares and other variable-yield securities	10 021	9 948	11 283	10 095	9 418
Other assets	152 217	155 867	147 997	144 898	163 536
Liabilities to credit institutions	188 351	179 391	157 184	157 028	161 795
Liabilities to non-banks	361 926	371 869	387 940	390 409	411 483
Securitised liabilities	164 675	142 971	128 581	114 009	127 739
Other liability items	132 667	130 168	124 267	115 533	118 965
Sustainability of business activity, non-consolidated					
Loan-to-deposit ratio (non-banks, in %)	116.5	114.3	109.0	107.2	107.8
Foreign currency loans (as % of loans to households)	18.3	16.9	14.5	10.9	9.6
Non-performing and irrecoverable loans (as % of total loans)	4.4	4.0	3.2	2.5	2.0
Earnings situation, non-consolidated[1] (in € millions)					
Net interest income	9 119	8 818	8 361	7 885	8 282
Operating income	19 449	20 352	18 567	18 828	18 646
Operating expenses	14 027	13 478	13 333	12 453	12 763
Operating result	5 422	6 874	5 234	6 375	5 883
Net income for the year	–8 014	3 257	4 219	5 136	5 501
Cost-income ratio (in %)	72.12	66.23	71.81	66.14	68.45
Market shares of banks (as % of total assets)					
Joint stock banks	29.0	29.7	28.6	28.4	26.9
Savings banks	17.8	17.7	18.5	19.6	20.3
Mortgage banks	7.1	7.1	7.0	6.7	6.6
Raiffeisen cooperatives	31.7	31.7	32.3	32.8	33.6
Volksbank cooperatives	5.0	4.0	4.0	4.0	4.0
Building societies	2.7	2.8	2.8	2.9	2.7
Special-purpose banks[2]	6.7	7.0	6.7	5.6	5.9

Source: OeNB (2014–2017 financial statement figures, 2018 asset, trading and risk statements).
[1] Excluding branches from EEA countries in Austria (Article 9 BWG), credit guarantee banks and corporate provision funds.
[2] Excluding credit guarantee banks as specified in Article 5 no. 3 KStG.

Key figures of the Austrian financial sector 2014–2018

	2014	2015	2016	2017	2018
INSURANCE SECTOR					
Premiums written in Austria (direct gross amount, in € millions)	17 077	17 342	16 915	16 975	17 178
Life insurance	6 663	6 695	6 038	5 732	5 516
Health insurance	1 880	1 959	2 051	2 129	2 220
Non-life/accident insurance	8 534	8 688	8 826	9 115	9 442
Technical account balance	477	475	560	581	507
Financial result	3 211	3 216	3 051	2 815	2 528
Result from ordinary activities	1 421	1 354	1 414	1 244	1 168
PENSIONSKASSEN					
Assets under management (in € millions)	19 011	19 646	20 839	22 323	21 404
Investment performance (in %)	7.8	2.3	4.2	6.1	–5.1
CORPORATE PROVISION FUNDS					
Assets (in € millions)	7 324	8 306	9 423	10 610	11 496
Performance (in %)	3.9	1.2	2.2	2.2	–2.0
INVESTMENT FUNDS					
Assets under management (in € millions)	157 773	162 697	167 099	175 439	164 561
Money market funds	156	82	73	54	32
Short-term bond funds	7 778	7 634	7 405	6 890	6 231
Bond funds	62 523	63 100	62 896	64 008	60 047
Equity funds	22 374	23 749	25 334	28 394	25 890
Mixed funds	64 266	67 780	71 136	75 817	72 112
Hedge funds of funds	413	155	156	148	136
Derivative funds	263	198	98	127	112
Annual net growth/net outflows	–809	3 522	–643	5 058	4 167
Real estate funds	4 744	5 558	6 699	7 471	8 341
Alternative investment funds by AIFMs licensed or registered pursuant to the AIFMG only	753	990	984	886	868
CAPITAL MARKET					
ATX at year-end	2 160	2 396	2 618	3 420	2 746
ATX performance (in %)	–15.2	11.0	9.2	30.6	–19.7
Market capitalisation (in € millions)	77 773	86 162	93 341	123 799	100 333
Market capitalisation equity segment (as % of GDP)	23.3	25.0	26.2	33.5	26.3
Sales equity segment (in € millions, double counting)	47 735	58 384	55 930	66 709	70 409
Sales bond segment (in € millions)	230	218	348	277	635
Sales structured products.at (in € millions)	480	530	427	554	744
Average government bond yields weighted by outstanding amounts (in %, year-end)	–	0.37	0.08	0.16	0.25
Number of issuers (regulated market)	146	141	134	118	112

Key figures FMA 2014–2018[1]

	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
INCOME (in € millions)					
Federal contribution (Article 19 para. 4 FMABG)	3.5	3.5	4.0	4.0	4.0
Income from entities liable to pay costs	46.2	53.1	56.5	57.6	60.1
Income from fees, other income	6.7	4.7	4.1	4.8	5.2
Total	56.4	61.3	64.6	66.4	69.3
EXPENSES (in € millions)					
Personnel expenses	34.9	37.8	39.5	41.3	43.7
Material expenses	20.0	21.7	23.2	23.2	23.9
Depreciation and amortisation, other expenses	1.4	1.7	2.0	1.9	1.7
Total	56.4	61.3	64.6	66.4	69.3
Employees at year-end in FTEs	354.71	373.31	379.79	380.03	379.34

[1] Due to the figures summed up in € millions, there might be some rounding differences.
*Figures without special effects owing to 2015 Asset Quality Review and reimbursement of costs pursuant to Article 74 para. 5 no. 2 BaSAG.

Supervised companies 2014–2018

	2014	2015	2016	2017	2018
CREDIT INSTITUTIONS					
Joint stock and special-purpose banks	77	76	75	72	70
Savings banks	49	49	49	49	49
Raiffeisen cooperatives	498	488	448	419	399
Volksbank cooperatives	53	42	20	14	9
Mortgage banks	11	10	10	9	8
Building societies	4	4	4	4	4
(Real estate) investment fund management companies	29	29	26	23	21
Corporate provision funds	10	9	8	8	8
Exchange offices / remittance services	3	3	4	4	4
EU branches	30	30	28	27	25
Total	764	740	672	629	597
INSURANCE UNDERTAKINGS					
Mutual associations (excluding small mutuals)	6	6	7	7	6
Joint stock companies	37	35	31	30	29
Small mutual associations	52	52	50	49	49
Total	95	93	88	86	84
Mutual associations dealing in asset management/ private foundations	6	6	6	6	6
Life insurance	28	27	23	23	22
Non-life and accident insurance	38	35	33	32	30
Health insurance	9	9	9	9	9
Reinsurance only	3	2	3	2	1
PENSIONSKASSEN	14	13	12	10	9
CORPORATE PROVISION FUNDS	10	9	8	8	8
ASSET MANAGERS					
Investment fund management companies pursuant to InvFG	24	24	21	18	16
Licensed AIFMs	22	27	26	25	23
Real estate investment fund management companies pursuant to ImmoInvFG	5	5	5	5	5
Registered AIFMs	18	21	20	24	27
EuVECA managers	–	3	4	6	7
INVESTMENT SERVICE PROVIDERS					
Investment firms	74	66	60	60	61
Investment service providers	65	57	51	51	45
Total	139	123	111	111	106

ANNUAL REPORT OF THE FINANCIAL MARKET AUTHORITY 2018

PURSUANT TO ARTICLE 16 PARA. 3 FMABG

THE FMA

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

COMPETENCE

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

CONTROL

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

CONSISTENCY

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

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PREFACE BY THE FEDERAL MINISTER OF FINANCE

The past year was a very special one for our country. On 1 July 2018 Austria took over the six-month presidency of the Council of the European Union for the third time, following previous stints in 1998 and 2006. The Austrian presidency achieved great successes, both quantitatively and qualitatively, recording commendable results in the financial services sector in particular. In this way Austria made a key contribution to the completion of the European single market. The RRM package, containing measures to reduce risk and improve banking resolution, marked an important milestone in the reduction of risk in the European banking system.

The agreements reached during the Austrian presidency demonstrate how Europe, despite national differences, has succeeded in making common progress. This sends a positive signal to the markets and strengthens Europe's external impact.

I would like to express my warm thanks to the Financial Market Authority (FMA) for its hard work during both the preparatory stage and the presidency itself. My thanks also go to all those people who supported Austria on the ground at our Permanent Representation in Brussels, as well as those involved in organising the many Council working groups and trialogues, and in preparing content for the many dossiers. A key aspect of this success was undoubtedly also the FMA's willingness to boost the size of the team at Austria's Permanent Representation in Brussels.

Meanwhile, 2018 was a busy year within our national borders too. Based on the government programme, we adopted an agreement in the Cabinet in November that provides for the amalgamation of banking supervision agendas within the FMA. In future all official supervision of the financial market will be based at the FMA. What this means is that responsibility for official inspections and analysis in the area of banking supervision currently held by the OeNB will be transferred to the FMA. This decision is based on recommendations from the Court of Audit, which repeatedly reviewed banking supervision and has recommended that the supervisory agendas be merged within one institution.

The aim of the reform is to make the overall system of financial market supervision more efficient and to strengthen the focus on providing a service. To achieve these goals, the FMA, OeNB and the Federal Ministry of Finance are working on a joint structural reform project.

It was also gratifying to note that Austria was recognised as having made further progress in tackling money laundering and terrorist financing in 2018, as acknowledged in the second report prepared as part of the follow-up process of the Financial

Action Task Force (FATF). At a technical level, these improvements have been achieved through numerous changes to the legislation, including the Financial Markets Anti-Money Laundering Act (FM-GwG) and the Beneficial Owners Register Act (WiEReG).
Last year was again dominated by digitalisation, which has been impacting on Austria's financial sector for some time now. The range of financial products is growing every day, and demand from consumers and investors is changing. It was important that we reacted to the resulting risks and uncertainties.
With the help of the FinTech Advisory Board, we are looking to define rules that will help keep financial market developments in relation to digital financial services such as ICOs and cryptocurrencies in check. For me, it was important to prioritise growth over regulation.
To support innovation in the financial sector, the FMA is setting up a tie-in licensing procedure known as a regulatory sandbox. This will give FinTechs and innovative business models from established financial institutions access to a quick and secure approval and licensing process.
Since taking office I have been working intensively to improve access to the capital market for small and medium-sized businesses. By amending the Stock Corporation Act (AktG), we have changed the legal situation regarding registered and bearer shares so that joint stock companies for which a listing on a regulated market does not seem worthwhile can still access the capital market, all without sacrificing the high standards of ownership transparency. The admission to and tradability of bearer shares on the third market have been designed on the basis of the German model.
The fact that this important amendment to the law could be implemented so quickly is very good news in terms of strengthening the Austrian capital market. This approach will in any case enable us to secure investment in Austria, and with it jobs. The level of demand is impressive, with several domestic companies making use of a listing in the "direct market plus" segment. For me, this is confirmation that we are pursuing the correct approach to capital procurement in Austria.
The FMA was a consistently important partner during all processes, considerations and decision-making in 2018. I would therefore like to take this opportunity to express my particular thanks for the good and constructive working relationship we have enjoyed over the year, and I look forward to us continuing to work together.

HARTWIG LÖGER

PREFACE BY THE EXECUTIVE BOARD OF THE FMA

After a relatively long period of stable economic recovery, uncertainties started to grow on the financial markets over the course of 2018. This mood was pre-empted by the stock markets with the ATX ending the year in the red for the first time since 2014. In contrast, the credit markets recorded robust growth. Economic development in 2018 reflects the marked sense of political uncertainty. Globally, trade conflicts between the USA and both the EU and China were just one disruptive factor, while Europe was hit by the major uncertainty surrounding Brexit. We believe that the direct risks for the Austrian financial market are manageable. However, we have also instructed our supervised companies to prepare for all eventualities and to provide customers affected by Brexit with information on all of the potential knock-on effects. Here at the FMA we have also been working with our European partners and at a national level to put measures in place to cope with a worst case scenario.
Set against this background, one of our main focuses over the past year has been to secure the sustainability of supervised companies' business models in what remains a good economic context and to reduce risks.

INCREASING THE SUSTAINABILITY OF BUSINESS MODELS
A balanced form of corporate governance and appropriate control systems are being given ever more weighting nowadays when assessing the sustainability of business models. Shortcomings in the sphere of compliance, including with regard to anti-money laundering efforts, can now quickly pose a risk to the stability of the company in question, as all too dramatically demonstrated in several instances in Europe in 2018. At the FMA we see it as our duty to continue with a policy of zero tolerance in relation to money laundering. A clean financial centre provides a foundation for stability and growth.
Creating a financial market that is sustainable also means embracing the opportunities of the digital age without overlooking the associated risks. In 2018 we introduced a comprehensive package of measures designed to improve IT security in the supervised entities. The entire financial market – companies and customers – are now benefiting from transparent, proportionate and, above all, uniform supervisory standards in this key area.
As an integrated supervisory authority, with integrated risk supervision and a comprehensive range of supervisory measures at our disposal, we are optimally placed to face up to this new and more complex risk situation.

RISK REDUCTION AND PROPORTIONALITY IN EUROPEAN REGULATION

At European level, an important package of risk reduction measures for the European financial market was agreed in the second half of 2018 during the Austrian presidency of the EU Council. The principle of proportionality has been strongly enshrined in European banking regulation, with an easing of the regulatory burden on small and regional banks that are exposed to a low level of risk. We have been calling for greater proportionality in banking regulation for many years now and consequently regard this important agreement as an Austrian success too. The principle of proportionality has also been more firmly anchored in other regulatory areas.

POLICYMAKERS STRENGTHEN THE INTEGRATED APPROACH TO SUPERVISION

For the FMA, 2018 was a year of change from the very beginning. The legal reform intended to improve efficiency that had been agreed in 2017 entered into force at the start of the year, also improving the transparency of our official actions.

From the FMA's perspective, improvements have been made to procedural efficiency, enabling us to focus our resources on larger, more complex supervision cases. For the first time, the FMA published its priorities for supervision and inspections for 2018 at the start of the year.

In November 2018 the Austrian Federal Government finally introduced a comprehensive reform of Austrian financial market supervision: pooling of all financial market supervision agendas within the FMA. Responsibilities for on-site inspections and analysis currently held by the Oesterreichische Nationalbank will be transferred to the FMA. In order to implement this package we have been working in close collaboration with the OeNB and the Federal Ministry of Finance on a joint reform package since the autumn.

Fully in keeping with the spirit of transparent supervision, we are delighted to be able to present our Annual Report in a new format. We look back over the past year and describe the implementation of our priorities for supervision and inspections over the course of the last twelve months, including how these have taken effect.

We firmly believe that you, the reader, will gain an even closer insight into our actions, our aims and our measures.

Knowing how to act in uncertain times is a challenge, and that is no different for the FMA. The fact that we have been able to master the challenges of 2018 is due first and foremost to our employees. With their knowledge, experience and professionalism, but not least thanks to their huge commitment and exceptional dedication to their work, they are the foundation of our efficient and effective financial market supervision. Our warm thanks also go to our Austrian partners in supervision, at the OeNB and Federal Ministry of Finance, as well as to our colleagues in the European supervisory institutions for our good working relationship in 2018.

HELMUT ETTL, KLAUS KUMPFMÜLLER

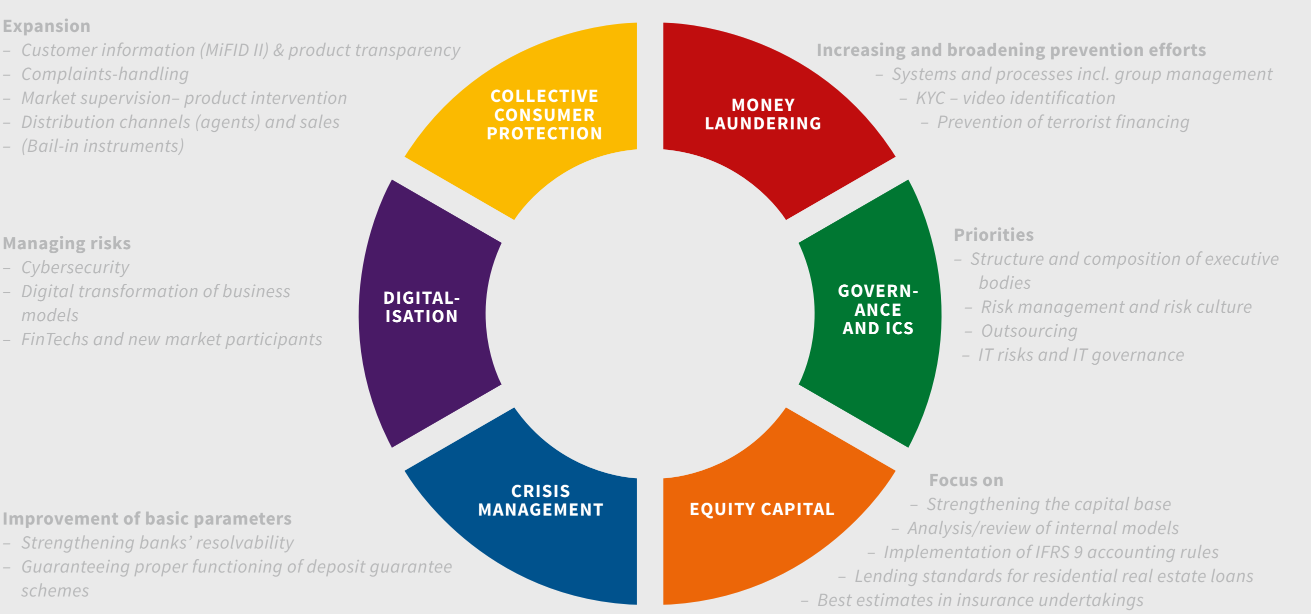
PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2018

At the start of the financial year the FMA published its priorities for supervision and inspections for the first time (> *Figure 1),* in its *Facts and figures, trends and strategies* publication. The six priorities set for 2018 were based on in-depth analysis of the key challenges and risks facing the Austrian financial market. Based on this analysis, specific targets and measures were formulated for each priority area. The FMA's transparent presentation and explanation of these priorities, targets and measures is designed to further improve the level of understanding and acceptance of its actions amongst the general public and on the financial market.

At the end of the financial year the FMA subsequently evaluated the measures and reviewed how effective they had been and to what extent the aims associated with the priorities for supervision and inspection had been met. The following is an overview of the FMA's findings. Some of the key priority areas are also tackled in greater detail elsewhere in this report in the relevant chapters.

In accordance with the supervisory reform package that entered into force at the start

Figure 1: **Priorities for supervision 2018**



of 2018, the FMA is now, as of 2019, obliged by law to publish its priorities for supervision and inspections on an annual basis for the coming year.

STRENGTHENING THE CAPITAL BASE OF SUPERVISED COMPANIES

While there was a slight reduction in the capital base of the supervised companies in quantitative terms in 2018, the quality of their own funds was, however, maintained. Key contributory factors in this regard included the focus on the consistency of internal models and the calculation of the best estimate in the insurance sector.

Implementation of the new IFRS 9 accounting standard was accompanied by in-depth analysis and an impact assessment for banks' regulatory capital. Thematic reviews were used to raise banks' awareness of the problem and thus to contribute to high-quality implementation.

The FMA used far-reaching official and communicative measures to make the granting of real estate loans by banks more sustainable. At the same time, macroprudential tools have been created to cope with any potential bubble on the residential real estate market.

OPTIMISING INTERNAL CONTROL SYSTEMS AND GOVERNANCE STRUCTURES

With a package of measures comprising guides and an on-site presence, transparent and uniform supervisory requirements in relation to IT security have been established, and their implementation has begun.

The governance priority has been implemented through circulars and also through consistent fit and proper tests of key function holders. With regard to banks, compliance with European standards and EBA rules in particular has been achieved. Quality improvements are already in evidence in the control bodies of credit institutions.

The issue of outsourcing was focused on the banking sector on the basis of the new statutory rules. All existing outsourcing arrangements in banking were surveyed and the statutory requirements implemented in the SREP questionnaire.

IMPROVING CRISIS MANAGEMENT

The resolvability of banks was improved and will be further developed over the coming years as part of a consistent iterative process.

Banks' compliance with disclosure and information requirements when selling bail-in able securities to retail customers was the subject of an integrated analysis and review. Alongside investor protection, good conduct in relation to the sale of such instruments is a prerequisite for the practical viability of a bail-in should a crisis occur.

The close involvement of the supervisors in the creation of the new deposit insurance scheme had a stabilising impact for the protection of savers while also boosting confidence in the financial market.

ENHANCING COLLECTIVE CONSUMER PROTECTION

The supervised entities' compliance with the rules of conduct on product transparency, customer information, complaints-handling and sales requirements was further improved. In particular, adherence by the supervised companies to the new provisions of the PRIIPs[1] KID was guaranteed by ongoing KID monitoring. Close cooperation with

[1] *Packaged retail and insurance-based Investment products.*

the supervised entities in this newly regulated area also helped to strengthen legal security.

The increased density of information on the basis of new statutory rules and the setting of uniform product governance standards were guaranteed.

By engaging in comprehensive communication measures, the FMA took part in dialogue forums and events to provide supervised entities with transparent information on its expectations and to ensure a strong preventive effect.

INCREASING AND BROADENING EFFORTS FOR PREVENTING MONEY LAUNDERING

Focused on-site measures in Austria and abroad achieved specific improvements in group management in the supervised companies.

On-site inspections were another key element as weaknesses in Austrian banks' existing video identification processes were eliminated and higher standards established, particularly in relation to the outsourcing of these services.

With regard to the prevention of terrorist financing, both intensive dialogue with the sector as well as on-site inspections were used to raise awareness among the institutions concerned.

USING DIGITALISATION OPPORTUNITIES AND MANAGING ITS RISKS

The FinTech point of contact has continued to make a name for itself as a one-stop shop for regulatory issues around innovative, digital business models on the Austrian market.

The current state of digitalisation and business models on the Austrian financial market was reviewed and analysed as part of the digitalisation project, helping to identify the implications for the FMA's supervision strategy.

THE INTERNATIONAL PARAMETERS

THE GENERAL ECONOMIC ENVIRONMENT

Growth in the global economy remained buoyant in 2018 although some regions experienced a slight slowdown. According to the International Monetary Fund (IMF) both industrialised countries in Europe and emerging markets suffered a loss of momentum. These negative trends contrasted, however, with the continuation of above-average growth in the USA. Overall, the IMF estimates that the world economy expanded by 3.7% compared with 2017 growth levels. The main obstacles to growth were international trade conflicts and the gradual tightening of monetary policy by the US Federal Reserve.

The economy in the USA grew by 2.9% in 2018, compared with 2.2% in the previous year. This rise was driven by strong consumer demand and higher levels of public investment. As economic growth remained solid, the unemployment figures fell to around 4.0%. While fiscal policy helped to stimulate the economy and boost corporate activity, international trade barriers had the opposite effect.

In contrast to the USA, China experienced a slight dip in growth in 2018, which was down 0.3 percentage points to 6.6%. This small decrease can be attributed to such factors as concerns about US protectionism, rising commodity prices, higher labour costs and tougher environmental rules. Additionally, the private sector's high levels of borrowing, at more than 250% of China's gross domestic product, remain a further potential source of risk.

Alongside the waning support from the Fed, geopolitical conflicts and national crises in some emerging markets pushed the economy in a downwards direction, as was the case in Turkey and Argentina. While real growth in Turkey shrank by 3.9 percentage points to 3.5% in 2018, growth in Argentina was down by 2.6% overall. In both countries these developments are accompanied by high levels of foreign debt among financial and non-financial companies.

EUROPE

In Europe, there were increasing signs of an economic slowdown during the past year, in contrast to the USA. Economic performance in Germany and Italy actually declined during the third quarter, although this can be explained by one-off factors. At 1.4% in Germany and 1.0% in Italy, growth in these two countries, both of which are major export markets for Austria, remained below expectations. Overall, economic growth in the EU and in the eurozone was 1.9% *(> Chart 1)*. Against the background of Brexit and the uncertainty emanating from Italy, the future outlook remains gloomy.

Chart 1: **Development of GDP 2014–2018** (in %; source: Eurostat)

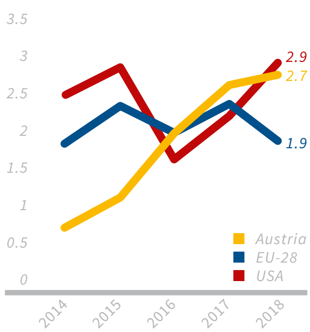
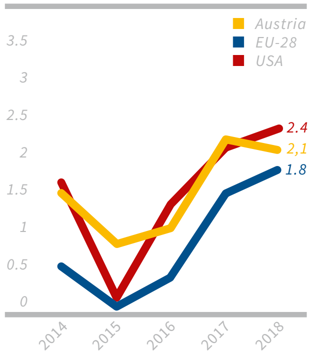


Chart 2: **Development of inflation 2014–2018**
(in %; source: Eurostat)



Meanwhile, the situation in Eastern Europe proved more positive. Economic growth started to rise again in Central, Eastern and South-Eastern Europe (CESEE), countries that are important to the Austrian economy. GDP growth of more than 3% was recorded in Slovenia (+4.3%), Hungary (+4.3%), Slovakia (+4.0%) and Poland (+4.8%). Further CESEE countries also recorded noteworthy growth levels, namely Romania (3.6%), Bulgaria (+3.5%), Czech Republic (+3.0%) and Croatia (+2.8%). In another gratifying development, Greece's economic recovery continued during 2018, with growth of 2.0%.

Following several years of an economic boom and an expansionist approach to monetary policy, inflation rose slightly in the euro area in 2018 *(> Chart 2)*. The annual inflation figure for 2018 for the eurozone is expected to be 1.7% compared with 1.5% in 2017. In response to developments in the economy, the jobless figures in the EU and eurozone also dropped to 7.0% and 8.2% respectively. Yet unemployment remains a problem in Europe, with high jobless rates in some EU Member States, and high levels of structural youth unemployment in particular.

AUSTRIA

Despite slowing economic activity in its key export markets in the euro area, the Austrian economy was able to hold its own, growing by 2.7% according to estimates from the Austrian Institute of Economic Research (WIFO) and the Institute for Advanced Studies (IHS). As well as a greater propensity to invest, export activity and, in particular, expanding private consumption helped to support growth. The economy appears to have peaked, however, as growth visibly slowed over the course of the year and with forecasts for the coming years pointing to a moderate growth path. Unemployment fell to around 4.9% on the back of positive developments, while inflation in 2018, at an estimated 2.1%, was above the rate for the euro area as a whole. Significant price increases in relation to housing, energy, health and eating out were the main factors pushing up inflation.

THE INTERNATIONAL FINANCIAL AND CAPITAL MARKETS

The vast majority of the world's financial markets experienced losses in 2018. The US Federal Reserve's monetary policy decisions were one of the main factors responsible for the darker mood on the stock exchanges. While technical one-off effects had a short-lived impact on the equity markets at the start of the year, boosting volatility, geopolitical tensions and international trade conflicts had a more sustained effect. Sudden revaluations and rising refinancing costs in relation to foreign creditors posed the greatest threats to global financial stability during the year under review.

MONETARY POLICY AND CURRENCIES

The European Central Bank (ECB) stuck with its interest rate policy, keeping its key interest rates at a consistently low level. The base rate was held at 0%, while the deposit facility rate and overnight rate remained unchanged at -0.4% and 0.25% respectively. In addition, the ECB confirmed several times that it would be keeping rates low at least until the second half of 2019 in order to meet the medium-term inflation target of just below two per cent and to continue to support the economy in the eurozone. One area that did feature a change in terms of monetary policy was the ECB's asset purchase programme (APP). Following a decision made in mid-September, the scale of the programme was halved to a monthly level of € 15 billion from October onwards. A further decision was then made in December to stop the pro-

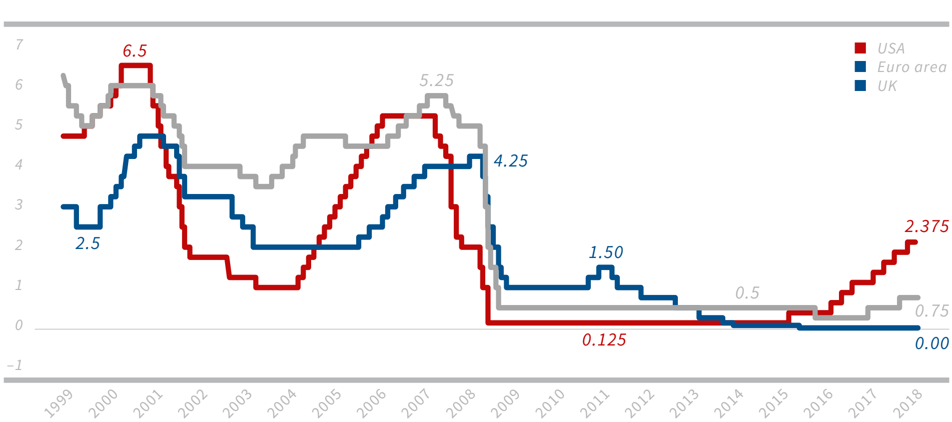


Chart 3: **Development of key interest rates 1998–2018** (in %; source: Federal Reserve Bank St. Louis, ECB)

Table 1: **Average exchange rates 2008–2018** (source: ECB, yearly average)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
USD/EUR	1.47	1.39	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.13	1.18
JPY/EUR	152.5	130.3	116.2	111.0	102.5	129.7	140.3	134.3	120.2	126.7	130.4
GBP/EUR	0.80	0.89	0.86	0.87	0.81	0.85	0.81	0.73	0.82	0.88	0.88
CNY/EUR	10.22	9.53	8.97	8.96	8.11	8.16	8.19	6.97	7.35	7.63	7.81
CHF/EUR	1.59	1.51	1.38	1.23	1.21	1.23	1.21	1.07	1.09	1.11	1.15

gramme altogether at the end of the year. However, the proceeds from maturing bonds will be reinvested in full until at least the end of 2019.

Unlike the ECB, the Federal Reserve continued to pursue a restrictive interest rate policy, raising its federal funds rate four times in total in 2018, from 1.25–1.50% to 2.25–2.50% by the end of the year. The Fed also continued to shrink its balance sheet. Its new chair, Jerome Powell, who took over from Jenet Yellen in February 2018, seamlessly picked up where his predecessor had left off. The impact of geopolitical decisions manifested itself over the course of the year in the form of falling stock market prices and the withdrawal of capital from some developing nations.

Meanwhile, on the forex markets, the dollar flexed its muscles against the euro. Europe's single currency was hampered by weak economic figures in some of the eurozone's main industrialised nations and by political uncertainty, while the dollar benefited from a flourishing economic environment and rising interest rates. Overall, the euro had lost around 4.5% against the US dollar by the year-end, having fluctuated between USD 1.25 and 1.12 over the preceding twelve months. The Swiss franc also bounced back by the year-end after displaying some volatility during the year. Compared with the last trading day of 2017, the euro shed 3.7% against the Swiss currency, after fluctuating between CHF 1.19 and 1.11 throughout the year. Against sterling, however, the euro was able to make up some ground, moving in a range between GBP 0.86 and 0.90 and ending the year up 1.22%. In the CESEE region, countries that are important to the euro area in general and Austria in particular, the euro made year-on-year gains against the Polish zloty (+2.67%) and the Hungarian forint (+3.32%), while recording small losses in value against the Romanian leu (-0.27%) and the Croatian kuna (-0.31%).

Meanwhile, some emerging markets faced huge losses in the value of their currencies over the past year. In Turkey, for example, the value of the lira plummeted, down by more than 40% at times. The reasons for this collapse are diverse, ranging from the withdrawal of foreign capital following the turnaround in US interest rate policy, to the exceptionally high level of inflation in evidence in Turkey for many years now, and the fears of many investors regarding companies' ability to repay high levels of borrowing in foreign currencies.

CREDIT MARKETS

Despite ongoing hikes in the federal funds rate in the USA, key interest rates in the USA and Europe remain at a historic low. The resulting positive conditions for loans meant that lending developed positively compared with the previous year, reaching the 1.7% mark in the eurozone by the year-end, while growing more strongly in the USA, at just under 5.0%. Lending in Austria grew far more strongly than in the eurozone, up by approximately 5.6%. At the same time, low interest rates are benefiting state budgets, helping governments to save on refinancing costs and to repay outstanding liabilities.

By considering the individual components of lending growth, further conclusions can be drawn about the source of this economic impetus. Both nationally and internationally, corporate lending rose particularly strongly during the past year. Adjusted growth in loans to non-financial companies totalled 8.7% in Austria in December 2018, the highest value since the financial crisis. Again, this value is higher than the eurozone equivalent of 2.8%. However, with the expectation that GDP growth will slow down over the coming years, demand for loans from non-financial companies could also decline. It also remains to be seen how the forecast levels of economic momentum and the monetary policy route pursued by the Oesterreichische Nationalbank (OeNB) will impact on demand for loans from retail customers. While housing loans have developed consistently in Austria since 2016, the granting of consumer credits to private households further accelerated during the year under review. Loans to households for housing purposes were up by 4.8% by the year-end, while consumer credits were continuing to move in a sideways direction. For the euro area, the corresponding December figures for year-on-year growth were 3.2% for housing loans and 6.4% for consumer loans. Gratifying developments were also recorded with regard to non-performing loans, which were down overall.

EQUITY MARKETS

On the stock markets, 2018 was a mixed bag. The Federal Reserve's restrictive monetary policy and rising tensions in international trade forced losses on the stock markets, some of which were significant. In the USA, the S&P 500, which encompasses the shares of the 500 largest listed US companies, was down 6.24% as at the year-end. The year got off to a volatile start, followed by a solid upwards trend in the middle of 2018 before significant price falls set in towards the end of the year. The low for the year, at 2 351.10 points, was recorded in December. Elsewhere, the losses on the stock markets of developing countries were even greater. The MSCI Emerging Markets Index, comprising the weighted average of the stock markets in the emerging markets, ended the year on 965.67 points, down 16.64% on the previous year-end. Overall, it fluctuated between 1 273.07 and 934.80 points.

The European stock markets recorded a similar performance. The Vienna Stock

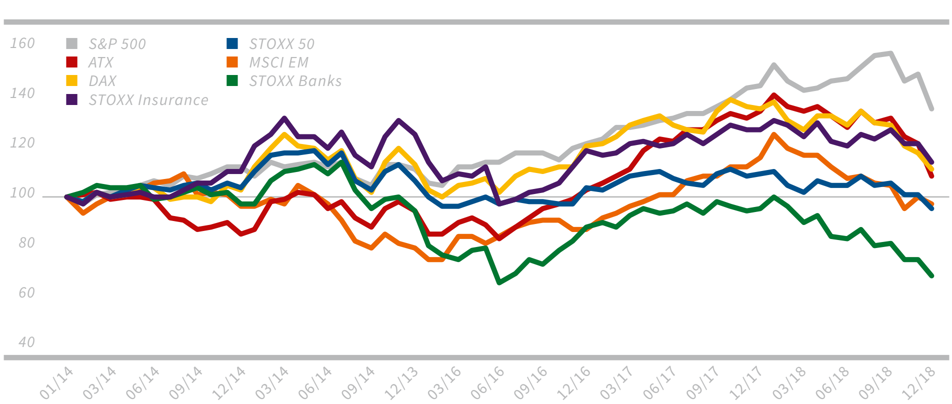


Chart 4: **Equity markets 2014–2018**
(January 2014 = 100%)

Exchange's blue-chip index (ATX) shed 19.72% in 2018 compared with the 2017 year-end and, at 2 745.78 points, ended the year well down on its peak of 3 688.78 points recorded back in January. The losses recorded by stocks of export-oriented industrial companies were one of the main factors behind the falls, some of which were dramatic. The ATX therefore plunged further into the red than other leading European indices. The Frankfurt DAX was down 18.26% over the same period, fluctuating between 13 559.60 and 10 381.51 points. The EURO STOXX 50 fell by 13.15% compared with the last trading day of 2017, moving in a range between 3 274.97 and 2 696.36 points. Both the German index and the European index for the top 50 blue chips fell over the course of 2018 and during the second six months in particular. One of the key contributory factors was the introduction in the third quarter of new standards for measuring exhaust emissions in the automotive sector, resulting in delayed deliveries of new vehicles.

2018 was not a good year for European banking and insurance stocks. The EURO STOXX Banks was down 28.04% year-on-year by the last trading day of 2018, while the STOXX insurance index had shed 10.05%. Heightened geopolitical tension and the introduction of international trade barriers did little to benefit the global financial markets. This is particularly clear from the state of the volatility indices, which generally serve as an indicator of uncertainty levels on the equity markets. The VIX, which depicts the implicit volatility of the US S&P 500 on the basis of option prices, varied between 9 and 38 points, while the VSTOXX, which measures the implicit volatility of the EURO STOXX 50, moved within a bigger range, from 10 to 35 points. At the same time, technical one-off effects triggered by algorithm-based trading strategies generated short-lived excitement that caused the volatility indices to shoot up temporarily.

BOND MARKETS

As far as the bond markets were concerned, 2018 was a diverse year. Activity in the USA was dominated by the tighter interest rate policy, resulting in soaring yields on all Treasury maturities, albeit with shorter maturities rising more strongly than medium and long-term maturities. The ensuring change in the yield curve attracted the attention of experts, who interpreted the new shape as an indicator of an imminent upturn. The yield on 10-year US Treasuries fluctuated between its lowest point of 2.40% at the start of the year and a high of 3.24%, recorded in November. By the year-end, however, the US benchmark bond had dropped to 2.68%, ending 2018 just 28 basis points up on where it started. The differential compared with ten-year German Bunds was 2.45 percentage points at the year-end. The spreads for investment grade and high-yield bonds also widened considerably in the corporate bond sector, despite an improvement in companies' profitability levels.

On the European markets, the focus increasingly shifted to the political risks emanating from Italy. The formation of a government coalition made up of the populist Five Star Movement and the right-wing Northern League, as well as the subsequent budget row with the European Commission on levels of new government borrowing, created a nervous mood on the markets. The yield on ten-year Italian government bonds took some time to respond to the elections in March but had reached 3.1% by May. This figure rose slightly further during the budget row in the autumn, hitting 3.68%. The differential compared with the benchmark ten-year German bond at this

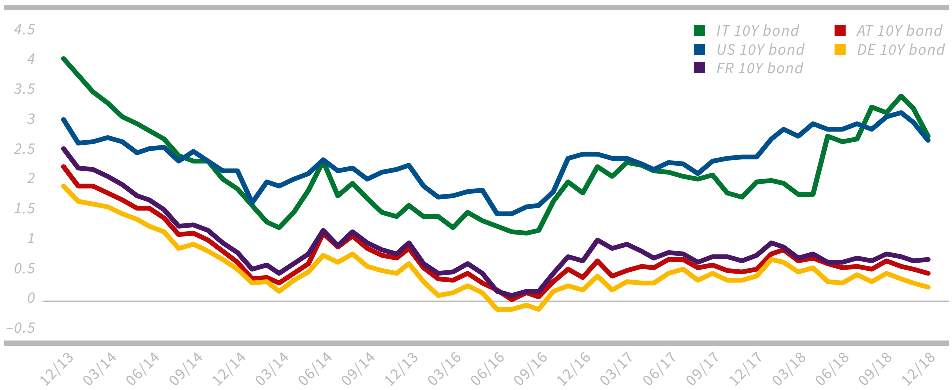


Chart 5: **Yields on 10-year government bonds 2014–2018**

point was 3.3 percentage points. Once agreement was reached on the Italian budget, with new borrowing cut to 2.04% and the need for excessive deficit procedures avoided, the situation started to calm down again. In France, meanwhile, the emerging social conflict between the yellow vests and Macron's government had no impact on the bond markets. The difference between ten-year French government bonds and their German equivalent rose only slightly to around 0.48 percentage points. In Germany, the yield dipped towards the year-end in the face of greater demand for safe investments. It ended the year at 0.24%, down 0.18 percentage points on the previous year. Austria's ten-year government bond reached 0.47% by the year-end, seven basis points down on its 2017 level. In terms of corporate bonds, there was a clear rise in the spreads for investment grade bonds, some of which reached the level recorded prior to the launch of the ECB's asset purchase programme. The gap between investment grade and high-yield bonds also widened during 2018. Experts put this development down to investors' growing preference for safer forms of investment.

THE AUSTRIAN FINANCIAL MARKET

Licensed and registered companies on the Austrian financial market: **976**

Assets of Austrian financial institutions: **€ 1 133.6 billion**

Market capitalisation of Vienna Stock Exchange: **€ 100.3 billion**

Achievements of the Austrian financial market:

Payments made by Austrian insurers for insurance claims: **€ 13.8 billion**

Individuals receiving a supplementary pension from an Austrian *Pensionskasse*: **103 976**

Lump sums received by individuals from Austrian corporate provision funds: **€ 526.44 million**

THE AUSTRIAN CAPITAL MARKET

THE PRIMARY MARKET – ISSUING ACTIVITY ON THE AUSTRIAN CAPITAL MARKET

Viewed across all categories of issuers, issuing activity declined by some 8.5% in 2018, from € 91.5 billion to € 82.8 billion *(> Table 2).*

The most significant group among Austrian issuers are monetary financial institutions (banks in essence), followed by the Republic of Austria. The issuing activity of monetary financial institutions picked up again in 2018, after a dip in 2017, totalling € 48.3 billion and matching the level of 2016. The Austrian Federal Government's issuing activity was clearly down, however: by about one third compared with 2016 and 2017.

Excluding the public sector's issuing activity, companies' gross issuing volume rose from € 49.9 billion to around € 55 billion, or by some 10%.

Table 3 shows issues by issuing currency. With one third of issues being in foreign currency, the trend of previous years thus continued in 2018.

Table 2: **Issuing activity in Austria 2014–2018 by category** (in € millions, source: OeNB)

	2014	2015	2016	2017	2018
MFIs (including the OeNB)[1]	60 177	45 671	48 269	41 996	48 321
Financial companies excluding MFIs[2]	890	1 638	906	1 653	1 202
Non-financial companies[3]	5 877	6 412	4 441	6 261	5 435
Central government	44 768	28 743	42 288	40 977	27 509
Other government	697	505	451	621	308
Total	**112 412**	**82 968**	**96 357**	**91 509**	**82 774**

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

Tabelle 3: **Issuing activity in Austria 2014–2018 by currency** (in € millions, source: OeNB)

	2014	2015	2016	2017	2018
In foreign currency	37 602	29 217	29 275	29 302	27 761
In €	74 808	53 755	67 082	62 205	55 013
Total	**112 412**	**82 968**	**96 357**	**91 509**	**82 774**

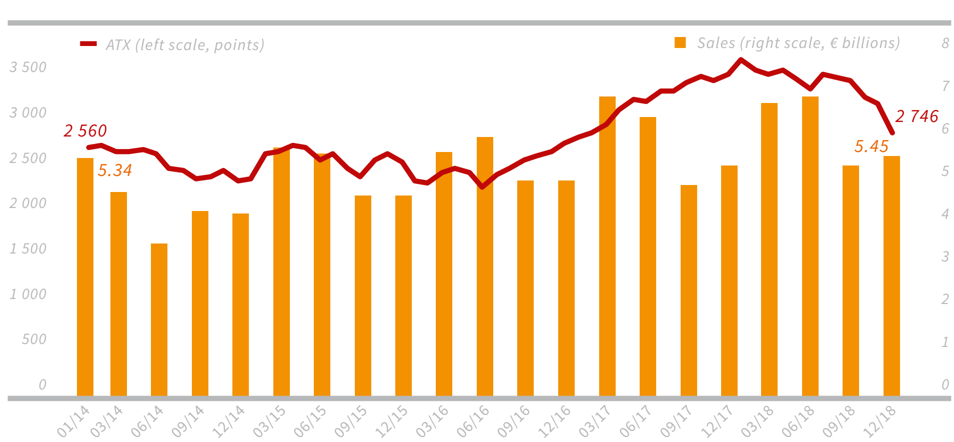
THE VIENNA STOCK EXCHANGE

The Vienna Stock Exchange suffered some bitter losses in 2018. The Austrian Traded Index (ATX) lost 19.72% over the course of the year, ending at 2 745.78 points, a far cry from its highest level of the year, namely 3 688.78 points back in January. Both the slackening economic activity in various European countries and the USA's more restrictive interest rate policy dampened the mood among stock market investors. Mounting uncertainties as a consequence of international trade conflicts and geopolitical tensions also impacted on the stocks of export-oriented companies on the Austrian market.

Over the year as a whole, 17 shares in the Vienna Stock Exchange's blue-chip index ATX lost ground while three shares recorded price gains. The winners among Austrian blue-chips included Verbund AG (+84.86%), Do & Co AG (+71.11%) and CA Immobilien Anlagen AG, which withdrew from the market having grown by 7.03%. Viewed by sector, the largest losses occurred in technology, production engineering and commodities: Voestalpine AG shed 47.64%, followed by AT&S AG with a fall of 34.58% and Schoeller-Bleckmann Oilfield Equipment AG down 32.53%. The OMV AG share dropped by 27.60% in 2018 compared with the last trading day of 2017. Otherwise the general trend was negative, albeit to varying degrees. While Immofinanz AG almost managed to maintain its level in a year-on-year comparison (–2.65%), the stocks of Raiffeisen Bank International AG were down 26.49%. Between these two extremes, the banking stocks of Erste Group Bank AG and Bawag Group AG fared almost the same, down 19.54% and 19.78% respectively, while the difference in performance between the insurance stocks of Uniqa Insurance Group AG and Vienna Insurance Group AG was much more marked, with falls of 10.88% and 21.29% respectively. Apart from the three stocks referred to above, Valneva SE (+9.09%) and Flughafen Wien AG (+2.53%) ended the year with a positive result in the prime market, while Semperit AG (–54.93%) and Polytec Holding AG (–54.70%) posted the largest mark-downs. Overall, five shares in this market segment recorded a positive performance, with the remaining 31 members developing negatively compared with last year's final trading day.

Trading volumes (based on double counting) in the entire equity market.at segment increased from € 66.7 billion to € 70.4 billion in 2018, up € 3.7 billion (5.5%) on the previous year. At € 100.33 billion as at the 2018 year-end, capitalisation of the

Chart 6: **Development of the equity market.at segment of the Vienna Stock Exchange 2014–2018** (quarter-end results; source: Wiener Börse AG)



	2014	2015	2016	2017	2018
Market capitalisation year-end (in € billions)	*77.77*	*86.16*	*93.34*	*123.80*	*100.33*
Market capitalisation equity segment (as % of GDP)	*23.35*	*25.03*	*26.20*	*33.47*	*26.26*
Annual trading volume equity market.at *(in € billions)*	*47.74*	*58.38*	*55.93*	*66.71*	*70.41*
Average daily trading volume (in € millions)	*193.26*	*235.42*	*224.62*	*270.08*	*285.06*
Annual trading volume bond market.at *(in € millions)*	*230.41*	*218.25*	*348.29*	*276.96*	*635.28*
Annual trading volume structured products.at *(in € millions)*	*480.00*	*529.88*	*426.94*	*553.94*	*743.60*
ATX performance (in %)	*–15.18*	*10.97*	*9.24*	*30.62*	*–19.72*

Table 4: **Business development of the Vienna Stock Exchange 2014–2018** (source: Wiener Börse AG)

	2014	2015	2016	2017	2018
Number of issuers:					
Regulated market	*146*	*141*	*134*	*118*	*112*
Third market	*221*	*353*	*337*	*776*	*977*
Number of listed securities:					
Regulated market	*8 055*	*7 912*	*8 873*	*9 922*	*9 119*
Third market	*1 081*	*1 442*	*1 350*	*2 348*	*2 823*

Table 5: **Structural data 2014–2018** (source: Wiener Börse AG)

Austrian stock market corresponded to around 26.26% of GDP[1] and was therefore down by around € 23 billion year-on-year *(> Table 4)*. Average daily trading volume in the equity market.at segment amounted to € 285.1 million, up 5.5% on the previous year.

In the bond market.at segment on the Vienna Stock Exchange, the volume of new issues (including foreign bonds) totalled € 112 billion in 2018, with one third (33%) accounted for by Austrian bonds. While the figures for new issues by Austrian and foreign issuers are very similar for the financial sector (€ 20.3 billion vs. € 20.4 billion) and the public sector (€ 12.6 billion vs. € 17.4 billion), the corporate sector is quite obviously dominated by foreign issuers (€ 3.9 billion vs. € 37.3 billion).[2]

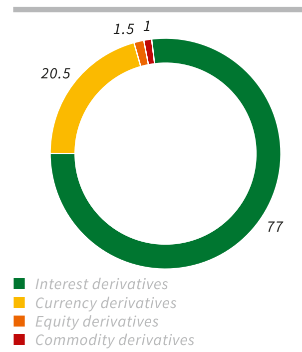
THE AUSTRIAN DERIVATIVE MARKET

The volume of outstanding derivatives with Austrian involvement (based on nominal value and the available EMIR[3] data) as at the year-end 2018 was € 1 266 billion. This figure includes derivatives traded both on-exchange and off-exchange. Off-exchange trading was the dominant form of trading in derivatives within the EU. Similarly, in Austria 6% of the outstanding derivatives were traded on an exchange, compared with 94% on an over-the-counter (OTC) basis.

Measured in terms of nominal value, interest derivatives dominate, accounting for 76.9% of the total market value, followed by currency derivatives at 20.4%. The other classes, in the form of credit, equity and commodity derivatives, each account for less than 1.5% of the total value of the market. Despite the uncertainties of 2018, and the background of Brexit in particular, the year-end aggregated volume of derivatives remained stable.

The residual maturities reported varied according to asset class and contract type.

Chart 7: **Outstanding derivatives by asset class (based on nominal value)** (in %, rounded)



Source: Trade repository reports in accordance with EMIR.

[1] The benchmark used was the total of the most up-to-date quarterly values available from Statistics Austria at the time of this report being prepared (€ 382.09 billion).
[2] Source: Wiener Börse AG.
[3] European Markt Infrastructure Regulation.

With regard to standard contract types for credit and loan derivatives (credit default swaps and interest swaps), the average residual maturities were 3 or 4 years. In relation to currency derivatives, the residual maturity for the major contract type (forwards) averaged four months.
Meanwhile, equity and commodity derivatives showed greater variation in terms of contract type. While contracts for difference and options dominated equity derivatives, commodity derivatives tended to take the form of swaps, futures or forwards.
Credit and equity derivatives also included some products with an Austrian underlying. The credit derivative market, with its manageable size, was focused on Austrian government bonds and bonds issued by a small number of Austrian companies with international operations. Most equity derivatives related to ATX heavyweights and IT companies.

MARKET INFRASTRUCTURE IN AUSTRIA

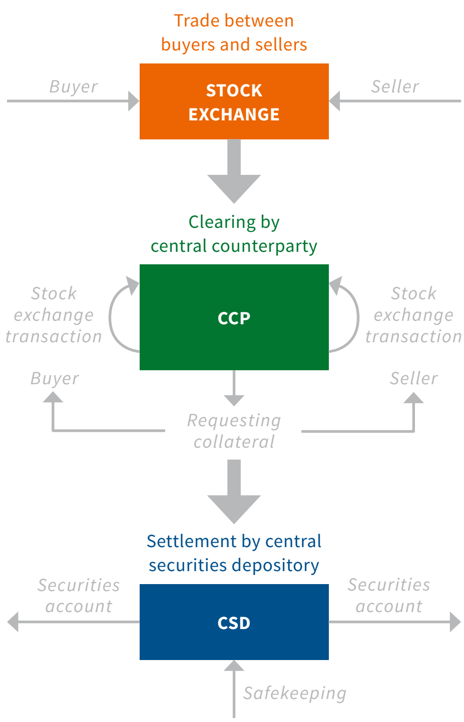


Figure 2: **Stock exchange trading in Austria**

The market infrastructure in Austria enables the entire cycle of stock exchange trading to be carried out in Vienna, under the FMA's supervision: from initial stock exchange offers by a trading participant through to the safekeeping of securities. Each securities transaction carried out on the stock exchange follows a complex path *(> Figure 2):*

- Using an electronic trading system, one trading participant's orders are automatically matched with corresponding orders placed by another participant.
- After the stock exchange transaction has been completed, the central counterparty (CCP) clears the deal. The CCP is the intermediary between buyers and sellers of financial instruments, and cushions the counterparty default risk. The CCP is also the link between stock exchanges and central security depositories (CSDs). The CCP records the transaction from the matching of orders at the beginning of the process through to performance, with the preparation of delivery instructions for the CSD.
- The third and final step in securities trading is settlement, which is carried out by the CSD after the CCP has netted the offsetting positions and issued the delivery instructions. These concern the physical delivery of or payment for the security to the buyer's and seller's securities accounts.

In 2018, OeKB CSD GmbH entered the market, making it the third licensed provider in the Austrian financial market.

- OeKB CSD GmbH was authorised in accordance with the European Central Securities Depositories Regulation (CSDR) in the summer of 2018 following comprehensive analysis and on-site inspections by the FMA and OeNB.
- Wiener Börse AG (WBAG) operates a regulated market (official market) and a multilateral trading facility (MTF – third market) and as such has had to meet the requirements of the Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR) as well as of the Stock Exchange Act 2018 (BörseG 2018; *Börsegesetz*) since January 2018.
- In the past year WBAG has also registered with the FMA as a data reporting services

provider, or APA (approved publication arrangement) as defined in MiFID II. MiFIR requires investment firms to publish certain information such as price and volume through APAs to guarantee over-the-counter post-trade transparency.

Central Counterparty Austria (CCP.A) has been subject to the FMA's supervision since its authorisation pursuant to the European Market Infrastructure Regulation (EMIR) in 2014. The FMA carries out mandatory inspection once a year. In 2018 the FMA also presented the results to the international college, which it chairs.

THE COMPANIES ON THE AUSTRIAN FINANCIAL MARKET

STRUCTURAL DEVELOPMENTS

BANKS AND PAYMENT SERVICE PROVIDERS

As at 31 December 2018 there were 572 banks in Austria, as well as 25 branches of banks that pursue activities in Austria under the EU's freedom of establishment *(> Table 6)*. The total number of banks fell by 32 compared with the end of 2017, marking the continuation of a trend in evidence for some years now. As in previous years, further consolidation affected the decentralised sectors (Raiffeisen and Volksbank cooperatives, savings banks), with a drop in the number of individual institutions from 482 to 461.

The business volume (total assets) of Austrian banks came to € 820 billion at the end of 2018, and had thus increased by 5.3% compared with one year earlier *(> Table 7)*. All sectors recorded positive growth rates, with the exception of building societies, which declined by 0.6%. Special-purpose banks grew by 10.8%, followed by savings banks, up 8.9% and Raiffeisen cooperatives, up 8.0%. In terms of business volume, Raiffeisen cooperatives were also able to maintain their leading position on the market, with a share of 33.6%. Joint stock banks continue to hold the second largest market share (26.9%), with savings banks taking third place (20.3%). Chart 8 shows the shares of

Table 6: **Number of credit institutions 2014–2018**

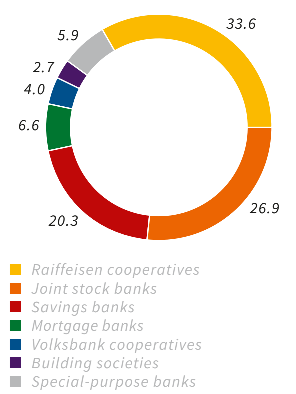
	2014	2015	2016	2017	2018
Joint stock banks and special-purpose banks	77	76	75	72	70
Savings banks	49	49	49	49	49
Raiffeisen cooperatives	498	488	448	419	399
Volksbank cooperatives	53	42	20	14	9
Mortgage banks	11	10	10	9	8
Building societies	4	4	4	4	4
Investment fund management companies	29	29	26	23	21
Corporate provision funds	10	9	8	8	8
Exchange offices/remittance services	3	3	4	4	4
EU branches	30	30	28	27	25
Total	764	740	672	629	597
Number of payment institutions	3	3	4	5	5
Licensing processes pending as at 31 December	1	1	0	0	1
Passive notifications	100	255	247	183	246

	2014	2015	2016	2017	2018
Total assets non-consolidated (sum total)[1]	847 619	824 399	797 971	776 979	819 982
Joint stock banks	245 952	244 483	228 035	220 419	220 970
Savings banks	150 908	146 150	147 553	152 517	166 153
Mortgage banks	59 775	58 270	56 146	52 011	53 959
Raiffeisen cooperatives	268 462	261 344	257 841	255 115	275 599
Volksbank cooperatives	42 426	33 291	31 985	31 042	32 881
Building societies	23 242	22 757	22 679	22 499	22 372
Special-purpose banks[2]	56 854	58 103	53 731	43 376	48 049

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

Tablle 7: **Total assets of banks 2014–2018** (source: OeNB; 2014–2017 financial statement figures, 2018 asset, trading and risk statements)

Chart 8: **Market shares of banks in 2018 excluding branches from EEA countries in Austria** (Article 9 BWG) **and corporate provision funds** (included under special-purpose banks) (in %)



the different sectors in the aggregate total assets of the Austrian banking market. Branches from EEA countries and corporate provision funds are not included.

INSURANCE UNDERTAKINGS

As at the 2018 year-end, 84 Austrian insurance undertakings and mutual associations held a licence granted by the FMA and were thus subject to continued supervision by the Authority. The number of insurance companies has fallen by 37 since 2000, with the loss of two undertakings during the reporting year (2017: 86). These were Sparkassen Versicherung AG Vienna Insurance Group, which was merged with Wiener Städtische Versicherung AG Vienna Insurance Group with the FMA's approval, and Gegenseitiger Brandschaden Versicherungsverein Enzenkirchen, which was dissolved by means of a resolution adopted by the general meeting of members. The mutual association is therefore currently being wound up.

Table 8: **Key insurance figures 2014–2018**

	2014	2015	2016	2017	2018
LEGAL FORMS					
Mutual associations (excluding small mutuals)	6	6	7	7	6
Joint stock companies	37	35	31	30	29
Small mutual associations	52	52	50	49	49
Total	95	93	88	86	84
Mutual associations dealing in asset management/private foundations	6	6	6	6	6
BUSINESS AREAS					
Life insurance	28	27	23	23	22
Non-life and accident insurance	38	35	33	32	30
Health insurance	9	9	9	9	9
Reinsurance only	3	2	3	2	1
Business areas small mutual associations					
Fire insurance associations	34	34	34	33	32
Animal insurance associations	17	17	16	16	16
Death benefit funds	0	0	0	0	0
Reinsurance associations for small mutuals	1	1	0	0	1
TOTAL ASSETS AT MARKET VALUES *(excluding investments for unit-linked and index-linked life insurance, in € billions)*	107.44	107.93	110.68	108.98	106.91
EEA INSURERS IN AUSTRIA					
Operating through branches	30	30	29	29	30
Providing services directly	953	967	986	1 012	1 090

PRIORITY FOR SUPERVISION: TRANSITION TO THE NEW AUSTRIAN DEPOSIT GUARANTEE SCHEME

The Austrian deposit guarantee scheme has been fundamentally overhauled. With effect from 1 January 2019, Einlagensicherung AUSTRIA Ges.m.b.H. (ESA) replaces the four deposit guarantee schemes that had previously been provided by the relevant trade associations (Einlagensicherung der Banken & Bankiers Gesellschaft mbH, Österreichische Raiffeisen-Einlagensicherung eGen., Volksbank Einlagensicherung eG and Hypo-Haftungs Gesellschaft mbH) in the form of one single DGS. The Sparkassen sector has its own DGS following recognition of its institutional protection scheme (IPS), Sparkassen-Haftungs GmbH, as a deposit guarantee and investor compensation scheme. There are therefore now only two DGS in Austria. The changes have been effected in accordance with the Deposit Guarantee Schemes and Investor Compensation Act (ESAEG; *Einlagensicherungs- und Anlegerentschädigungsgesetz*), which transposed the European DGS Directive of 2014 into Austrian law in 2015.

The transition period to establish the new deposit guarantee scheme started in mid-August 2015 and spanned nearly three and a half years. Throughout this period, the FMA, in the capacity of competent supervisory authority, worked closely with the deposit guarantee facilities, assisting them and monitoring the whole process of realignment. The year 2018 brought particular challenges, both for the deposit guarantee facilities and for the supervisor. Major focus areas were the operational merger of the four different sector-specific schemes into ESA as well as the recognition of the Sparkassen IPS as a DGS.

To ensure the proper functioning of the new deposit guarantee scheme, the FMA introduced several supervisory measures. These ranged from management talks to requiring the deposit guarantee facilities to regularly submit status and implementation reports to the FMA. The supervisory activities were supplemented by on-site inspections and analysis work carried out by the OeNB. In this way the FMA was at all times able to satisfy itself that the merger was progressing as intended. Potential weaknesses would have been rapidly uncovered, and addressed and rectified by means of appropriate supervisory measures. During the merger process the FMA focused particularly strongly on data quality and the compatibility of internal systems and processes. High data quality, as well as robust and adequate processes and internal systems, guarantee that the DGS will function properly in the event of a pay-out becoming necessary. Through its measures, the FMA ensured that the transition from the old to the new DGS was smooth and successful. Depositors can rely on their deposits being covered in a pay-out event to the extent provided by law, and know that they will be reimbursed within the legally stipulated deadlines. The deposit guarantee facilities, in turn, have installed the necessary internal processes and systems to enable them to fulfil their legal remit of proper investor compensation.

A total of 36 insurance undertakings held a licence in Austria in 2018. Six of these were mutual associations, and 29 joint stock companies. Additionally, one foreign insurance undertaking is also licensed in Austria. All in all, the 36 domestic and foreign insurance undertakings licensed in Austria, excluding small mutual associations, were engaged in 62 areas of business.
Austria is traditionally dominated by composite insurers which, besides life insurance, also pursue activities in at least one other balance sheet group, i.e. health insurance or non-life and accident insurance.
The FMA supervised a total of 49 small mutual associations as at the end of December 2018.
Of these 49 associations, around two thirds operate in the form of fire insurers, with the remaining third involved in animal insurance.
As at the year-end, 30 insurance undertakings from within the EEA were operating in Austria under the freedom of establishment or through a branch. An additional 1 090 companies were registered to provide services here, which is 78 more than in 2017.
At the same end of period, the insurance sector managed assets totalling € 106.91 billion, excluding investments for unit-linked and index-linked life insurance. Compared with last year's figure of € 108.98 billion, investments were thus down by € 2.07 billion (1.9%).

PENSIONSKASSEN

The number of *Pensionskassen* has decreased over the past five years from 16 to nine companies *(> Table 9)*. This can be attributed to single-employer *Pensionskassen* discontinuing activities, with their investment and risk sharing groups (IRGs) being transferred to existing multi-employer *Pensionskassen*. Market consolidation continued in 2018. The licence of Valida Industrie Pensionskasse AG expired, and the company's portfolio was transferred to Valida Pension AG after a merger. Single-employer

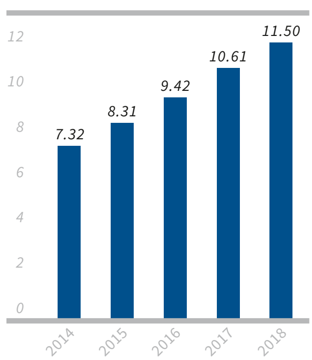
Table 9: **Overview of pension company market 2014–2018**

	2014	2015	2016	2017	2018
NUMBER OF PENSIONSKASSEN AND IRGS					
Number of Pensionskassen	14	13	12	10	9
Number of investment and risk sharing groups	118	113	112	104	101
Number of security-oriented IRGs	5	5	4	4	4
Number of sub-IGs	23	28	32	34	34
ASSETS MANAGED IN THE PENSION COMPANY MARKET					
Assets managed by Pensionskassen *(total, in € millions)*	19 011.00	19 646.40	20 838.76	22 322.78	21 404.45
Single-employer	1 921.00	1 850.30	2 019.84	1 880.29	1 920.36
Multi-employer	17 090.00	17 796.10	18 818.91	20 442.49	19 484.08
NUMBER OF BENEFICIARIES IN THE PENSION COMPANY SYSTEM					
Number of beneficiaries (total)	858 433	880 141	902 972	924 107	947 545
Single-employer	256 087	254 122	258 914	255 632	261 562
Multi-employer	602 346	626 019	644 058	668 475	685 983
Beneficiaries (entitled)	772 835	791 124	809 279	825 778	843 569
Beneficiaries (recipients)	85 598	89 017	93 693	98 329	103 976
Beneficiaries (recipients) (as a % of total)	9.97	10.11	10.38	10.64	10.97
Beneficiaries (entitled) (as a % of dependently employed persons in Austria)	20.96	21.67	21.92	21.97	22.12

Pensionskassen are entitled to carry out pension company activities for the beneficiaries of only one employer or company group. They were primarily founded as subsidiaries of international groups. Multi-employer *Pensionskassen* can carry out pension company activities for the beneficiaries of more than one employer.
At the end of 2018 there were 101 IRGs, four security-oriented IRGs and 34 sub-IGs. There were about 948 000 beneficiaries at the end of the year, representing a year-on-year increase of approximately 2.5%. This figure covers both those for whom contributions are being made for future benefits and those who are already receiving benefits.
Around 22% of all employed persons in Austria[1] held an entitlement to a pension from a *Pensionskasse*. Approximately 11% of these beneficiaries are already drawing a pension. The vast majority of the beneficiaries are therefore still in the savings period for a pension benefit.

CORPORATE PROVISION FUNDS

Chart 9: **Assets under management of corporate provision funds 2014–2018** (in € billions)



As at 31 December 2018, eight corporate provision funds held licences in Austria. During the reporting period no corporate provision funds applied for a licence or relinquished their licence. There are currently two corporate provision funds that manage two collective investment undertakings each. The remaining funds each manage one collective investment undertaking, accounting for a total of ten such undertakings *(> Table 10).*
The number of membership contracts as at the reporting date of 31 December 2018, measured on the basis of employer account numbers, had increased by 2.59% from 1 351 933 to 1 386 884. The number of contracts for employees fell by 0.58% during the year under review (from 666 234 to 662 349 contracts), while it rose by 5.66% for the self-employed (from 685 699 to 724 535 contracts).
Assets under management by corporate provision funds in 2018 grew from € 10.61 billion to € 11.50 billion *(> Chart 9).* This equates to a year-on-year increase of € 0.89 billion or 8.35%.

Table 10: **Development of corporate provision funds 2014–2018** (source: platform of corp. prov. funds)

	2014	2015	2016	2017	2018
Number of corporate provision funds	*10*	*9*	*8*	*8*	*8*
Number of collective investment undertakings	*10*	*10*	*10*	*10*	*10*
Number of membership contracts	*1 152 870*	*1 224 952*	*1 292 940*	*1 351 933*	*1 386 884*
Provision for employees pursuant to Part 1 BMSVG	*573 631*	*604 393*	*637 715*	*666 234*	*662 349*
Provision for the self-employed pursuant to Part 4 BMSVG	*566 068*	*607 289*	*642 216*	*672 620*	*711 278*
Provision for the self-employed pursuant to Part 5 BMSVG	*13 171*	*13 270*	*13 009*	*13 079*	*13 257*

ASSET MANAGERS

As at 31 December 2018, a total of 16 investment fund management companies held a licence pursuant to the Investment Fund Act 2011 (InvFG 2011; *Investmentfondsgesetz*). Compared with last year, the number fell from 18 to 16 companies due to two mergers; 14 companies are additionally licensed as alternative investment fund man-

[1] *Source for the number of dependently employed persons (annual average): Statistics Austria.*

AUSTRIAN FINANCIAL COMPANIES IN CESEE

As at the end of 2018, the 50 fully consolidated subsidiaries of Austrian groups of banks in Central, Eastern and South-Eastern Europe (CESEE) reported aggregate total assets of € 206.6 billion. Over half of this figure (62.2%) was accounted for by the Member States that acceded to the EU in 2004 (NMS-2004), followed by the South-Eastern European countries (SEE) at 15.4%, the Member States that joined the EU in 2007 (NMS-2007) at 13.6%, and the countries in the Commonwealth of Independent States (CIS) including Ukraine at 8.9%. Growth among Austrian CESEE subsidiary banks in the 2018 financial year was once again positive, at 0.5%.

Table 11: **Assets of CESEE subsidiary banks** (in € millions)

	2014	*2015*	*2016*	*2017*	*2018*
Total assets of CESEE subsidiary banks	***257 728***	***265 736***	***184 966***	***205 532***	***206 582***
NMS-2004[1]	*130 538*	*141 626*	*114 565*	*132 757*	*128 476*
NMS-2007[2]	*40 135*	*39 894*	*25 684*	*26 747*	*27 992*
SEE[3]	*49 493*	*50 568*	*29 199*	*30 303*	*31 766*
CIS incl. Ukraine[4]	*37 562*	*33 649*	*15 519*	*15 724*	*18 348*

Data: OeNB (2014–2017 financial statement figures, 2018 asset, trading and risk statements).
[1] NMS-2004: Czech Republic, Hungary, Poland, Slovakia, Slovenia.
[2] NMS-2007: Bulgaria, Romania.
[3] SEE: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Serbia.
[4] CIS: Belarus, Republic of Moldova, Russia.

Five Austrian insurance groups are currently represented in 27 countries through nearly 100 subsidiaries. Most of these subsidiaries are based in the CESEE region. The share of CESEE business in total foreign business is correspondingly high: it amounted to 95.4% at the end of 2017[1]. The groups achieved a premium volume of € 5.5 billion in CESEE in 2017. At 39.8%, the share of CESEE business in relation to these groups' overall premium volume has fallen slightly year-on-year (2016: 43.33%).

Table 12: **Premium volume of insurance groups in CESEE 2016–2017** (in € millions and %)

	2016	*in %*	*2017*	*in %*
Premium volume in CESEE	***6 381***		***5 533***	
WE[1]	*1 458*	*22.85*	*250*	*4.52*
CE[2]	*3 359*	*52.64*	*3 641*	*65.8*
SEE[3]	*1 279*	*20.04*	*1 323*	*23.91*
EE[4]	*285*	*4.47*	*319*	*5.77*

Data: FMA.
[1] WE (Western Europe): Germany, Liechtenstein, Switzerland.
[2] CE (Central Europe): Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia.
[3] SEE (South-Eastern Europe): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Kosovo, Macedonia, Montenegro, Romania, Serbia, Slovenia.
[4] EE (Eastern Europe): Belarus, Georgia, Republic of Moldova, Russia, Turkey, Ukraine.

The strong foreign presence of Austrian insurance groups, primarily in the CESEE region, brings additional tasks for the FMA: as the authority responsible for group supervision it must ensure effective and risk-oriented supervision of insurance groups. To this end, the FMA regularly analyses the entire group and keeps a close watch on developments in the CESEE markets. One important pillar in group supervision is cooperation with the national supervisors in charge of subsidiaries. This is institutionalised and achieved via the colleges of supervisors *(> page 78)*. But the FMA also maintains regular personal contact at all levels, either through bilateral meetings or multilateral forums such as the Group of Banking Supervisors from Central and Eastern Europe, of which the FMA is a member, and the CESEE Insurance Supervision Initiative, which the FMA co-founded.

Austrian asset managers are also active in the CESEE region. Apart from selling its own funds, one Austrian asset management company is operating in the region via two branches and subsidiaries under the freedom of establishment pursuant to the UCITS[2] and AIFM[3] Directives. Another Austrian asset manager administers two UCITS and 17 AIFs in CESEE by way of a management company passport.

[1] Most recent data available.
[2] Undertakings for collective investment in transferable securities.
[3] Alternative investment fund manager.

agers (AIFMs) *(> Table 13)*. In the year under review four licence extension processes were conducted, one of which was completed in 2018.

As at the 2018 year-end, the total number of authorised AIFMs was 50, 23 of which were licensed (two fewer than in 2017). The number of registered AIFMs rose from 24 to 27 in 2018, seven of which also had a licence as a European venture capital fund (EuVECA) manager (one more than in 2017). An overview of the different forms of authorisation, which are complex, can be found in Figure 3.

As at the reporting date of 31 December 2018, there were 2 078 funds being managed by domestic investment fund management companies (KAG) and/or AIFMs in Austria (2017 year-end: 2 084). This figure includes 42 AIFs (three of which are EuVECA) which are managed by registered AIFMs in Austria. As at the same date, five real estate investment fund management companies (Immo-KAG) were managing a total of eight retail real estate funds and five special real estate funds, all of which were AIFs.

The changing number of domestic funds over the past five years, including both UCITS (undertakings for collective investment in transferable securities) and AIFs, is shown in Table 14.

The FMA is also in charge of supervising the custodian banks and depositaries of

Table 13: **Number of management companies 2014–2018**

	2014	2015	2016	2017	2018
Investment fund management companies pursuant to InvFG	*24*	*24*	*21*	*18*	*16*
Licensed AIFMs	*22*	*27*	*26*	*25*	*23*
Real estate investment fund management companies pursuant to ImmoInvFG	*5*	*5*	*5*	*5*	*5*
Registered AIFMs	*18*	*21*	*20*	*24*	*27*
EuVECA managers	*–*	*3*	*4*	*6*	*7*

Figure 3: **Authorisations by law 2018**

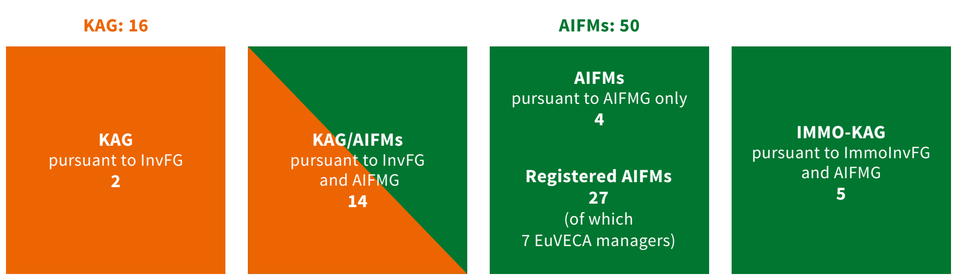


Table 14: **Key figures of the Austrian investment funds market 2014–2018**

	2014	2015	2016	2017	2018
Domestic UCITS of investment fund management companies					
Article 2 paras. 1 and 2 InvFG 2011	*1 096*	*1 071*	*1 038*	*995*	*977*
Article 75 InvFG	*4*	*2*	*2*	*2*	*2*
Total	***1 100***	***1 073***	***1 040***	***997***	***979***
Domestic AIFs of (real-estate) investment fund management companies as well as of licensed and registered AIFMs					
Article 166 InvFG	*181*	*165*	*154*	*152*	*143*
Article 166 InvFG	*20*	*16*	*12*	*9*	*7*
Real estate funds and special real estate funds	*8*	*9*	*11*	*13*	*13*
Special funds	*813*	*835*	*844*	*875*	*894*
AIFs of registered AIFMs	*30*	*29*	*24*	*32*	*34*
EuVECA	*–*	*3*	*3*	*6*	*8*
Other managed AIFs	*–*	*6*	*6*	*–*	*–*
Total	***1 052***	***1 063***	***1 054***	***1 087***	***1 099***

investment funds in relation to their compliance with the provisions relevant to them in the InvFG 2011 and the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*). As at the 2018 year-end, 16 credit institutions were acting as custodian banks or depositaries for investment funds.

INVESTMENT SERVICE PROVIDERS

LICENSED COMPANIES

As at the reporting date of 31 December 2018, there were 106 companies in possession of a valid licence from the FMA entitling them to provide services as investment firms (61) or investment service providers (45) *(> Table 15)*. Three alternative investment fund managers (AIFMs) held an additional licence pursuant to the Securities Supervision Act 2018 (WAG 2018; *Wertpapieraufsichtsgesetz*). The number of licences has fallen slightly when compared over several years since 2017, with the proportion of licences among the various types shifting towards investment firms.

All of the 106 licensed companies were entitled to provide investment advice relating to financial instruments, with 40 investment firms authorised to manage client portfolios. In all, 103 investment firms and investment service providers were authorised

Table 15: **Key figures of Austrian investment service providers 2014–2018**

	2014	2015	2016	2017	2018
ALL COMPANIES	*141*	*126*	*114*	*114*	*109*
LICENCES					
Investment firms	74	66	60	60	61
Investment service providers	65	57	51	51	45
AIFMs with additional licence	2	3	3	3	3
Investment advice	141	126	111	111	106
Portfolio management	50	45	41	41	40
Receipt and transmission of orders	136	123	107	108	103
Multilateral trading facility	0	0	0	0	0
European passport for services	46	45	43	44	43
European passport for branches	4	5	6	7	8
Cooperation with financial services assistants/securities brokers	82	73	64	62	58
LEGAL FORM					
Joint stock company (AG)	14	11	9	7	7
Limited liability company (GmbH)	103	93	88	90	86
Partnerships	3	3	2	3	3
Sole proprietorships	21	19	15	14	13
BUSINESS ACTIVITY					
Investment advice	79	63	57	57	57
Portfolio management	37	32	31	31	35
Receipt and transmission of orders	89	83	76	72	68
Investment funds advisory	-	-	-	-	-
UCITS advisory	20	23	23	23	24
AIF advisory	6	6	6	6	6
External management of investment funds	–	–	–	–	–
UCITS management	24	23	21	21	22
AIF management	14	11	11	12	14
Appointment of tied agents	27	26	37	34	36
Cooperation with securities brokers	38	37	30	29	26
Sale of own products	58	50	50	49	49
Key account customer services	33	41	33	34	34

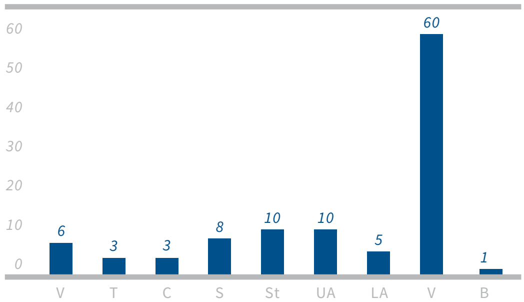


Chart 10: **Investment service providers by province 2018**

to receive and transmit orders to the extent that such activity involves one or more financial instruments. As at the end of the reporting year, 43 Austrian investment firms held a European passport for the provision of investment services in the European Economic Area (EEA), with eight of these companies maintaining branches in the EEA.

In terms of the geographical distribution of the licensed investment firms and investment service providers within Austria, a total of 60 companies or 56.60% of all licensed companies had their registered office in Vienna as at the reporting date of 31 December 2018 *(> Chart 10)*. Upper Austria and Styria were the next highest, with ten companies each, followed by Salzburg with eight licensed companies.

AGENTS

In 2018 there were 2 897 investment firms with their head office situated in another EEA Member State that were authorised to provide investment services in Austria under the freedom to provide services by way of a branch or notification through the passport regime, which corresponds to a year-on-year increase of 5%. As at the end of 2018, 23 branches of EEA investment firms were operating in Austria on the basis of such notification. Of those firms that had provided notification of their operations in Austria, 2 023 (70.4%) came from the UK, followed by 214 (7.4%) from Germany and 217 (7.6%) from Cyprus.

As at the reporting date of 31 December 2018, a total of 1 450 individuals were registered as tied agents with the FMA and working for 28 Austrian investment firms; 18 tied agents were registered at eight investment firms from the EEA based in Austria, and 413 natural and legal persons were registered as tied agents at six Austrian banks and at one bank originating from the EEA. Regarding companies, there were 235 companies in the form of a legal entity registered with the FMA as tied agents in 2018.

As at the year-end, 58 Austrian investment firms and investment service providers were entitled to provide services through securities brokers. Of these, only 26 actually exercised the right granted to them. As at the same date, 491 individuals acting as securities brokers for investment firms or investment service providers had been registered with the FMA.

BUSINESS DEVELOPMENT

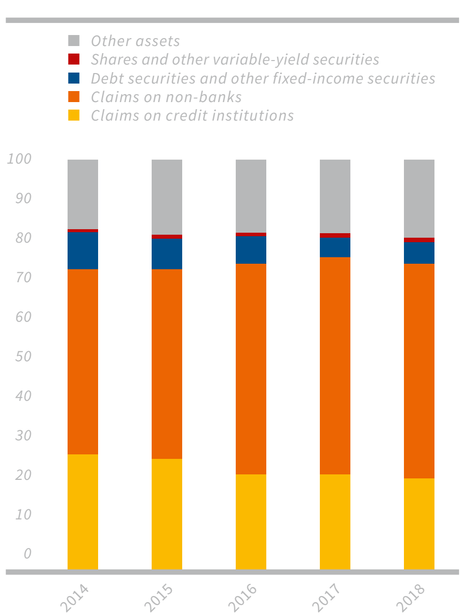
BANKS AND PAYMENT INSTITUTIONS

In 2018 claims on non-banks rose by 5.9%, accounting for the largest share on the asset side of the Austrian banking sector, at 54.1%. The share of this item thus increased by 0.2 percentage points compared with 2017. Liabilities to non-banks were up in terms of volume (+5.4%) but down in terms of share, and at 50.2% accounted for the largest item on the liability side. The second-largest entry on the asset side, accounting for 19.9%, was other assets, which were just slightly higher than claims on credit institutions (19.8%). The latter was down 0.5% on a year-on-year basis. On the liability side, the second-largest item was liabilities to credit institutions, accounting for 19.7%. This represents a year-on-year increase of 3.0%.

	2014	2015	2016	2017	2018
DEVELOPMENT OF ASSETS AND LIABILITIES *(non-consolidated, in € millions)*					
Total assets non-consolidated (sum total)[1]	*847 619*	*824 399*	*797 971*	*776 979*	*819 982*
Claims on credit institutions	*198 291*	*179 202*	*168 026*	*163 105*	*162 229*
Claims on non-banks	*421 707*	*425 228*	*422 923*	*418 645*	*443 517*
Debt securities and other fixed-income securities	*65 382*	*54 154*	*47 742*	*40 236*	*41 281*
Shares and other variable-yield securities	*10 021*	*9 948*	*11 283*	*10 095*	*9 418*
Other assets	*152 217*	*155 867*	*147 997*	*144 898*	*163 536*
Liabilities to credit institutions	*188 351*	*179 391*	*157 184*	*157 028*	*161 795*
Liabilities to non-banks	*361 926*	*371 869*	*387 940*	*390 409*	*411 483*
Securitised liabilities	*164 675*	*142 971*	*128 581*	*114 009*	*127 739*
Other liability items	*132 667*	*130 168*	*124 267*	*115 533*	*118 965*
SUSTAINABILITY OF BUSINESS ACTIVITY *(non-consolidated)*					
Loan-to-deposit ratio (non-banks, in %)	*116.5*	*114.3*	*109.0*	*107.2*	*107.8*
Foreign currency loans (as % of loans to households)	*18.3*	*16.9*	*14.5*	*10.9*	*9.6*
Non-performing and irrecoverable loans (as % of total loans)	*4.4*	*4.0*	*3.2*	*2.5*	*2.0*
NET INCOME IN TERMS OF SECTORS *(non-consolidated, in € millions)*					
Net income non-consolidated (sum total)[1]	*–8 014*	*3 257*	*4 219*	*5 136*	*5 501*
Joint stock banks	*–1 763*	*713*	*923*	*1 225*	*1 441*
Savings banks	*–5 462*	*1 321*	*1 462*	*1 374*	*1 349*
Mortgage banks	*–38*	*178*	*324*	*150*	*177*
Raiffeisen cooperatives	*–225*	*681*	*1 076*	*1 935*	*1 998*
Volksbank cooperatives	*–884*	*41*	*52*	*77*	*80*
Building societies	*112*	*69*	*58*	*64*	*88*
Special-purpose banks[2]	*246*	*254*	*325*	*311*	*369*
EARNINGS SITUATION *(non-consolidated*[1]*, in € millions)*					
Net interest income	*9 119*	*8 818*	*8 361*	*7 885*	*8 282*
Operating income	*19 449*	*20 352*	*18 567*	*18 828*	*18 646*
Operating expenses	*14 027*	*13 478*	*13 333*	*12 453*	*12 763*
Operating result	*5 422*	*6 874*	*5 234*	*6 375*	*5 883*
Cost-income ratio (in %)	*72.12*	*66.23*	*71.81*	*66.14*	*68.45*

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

Table 16: **Business development of the Austrian banking sector 2014–2018** (source: OeNB; 2014–2017 financial statement figures, 2018 asset, trading and risk statements)



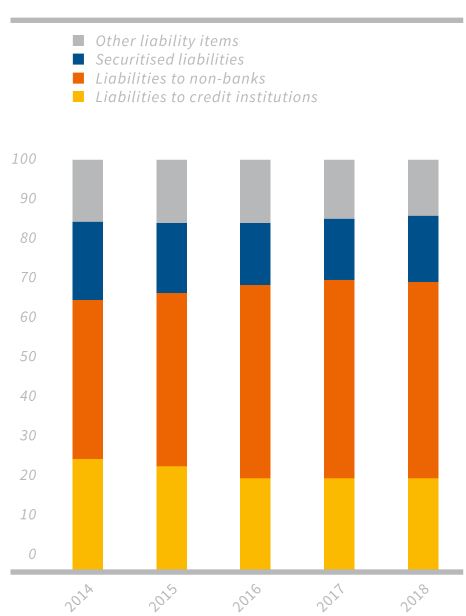
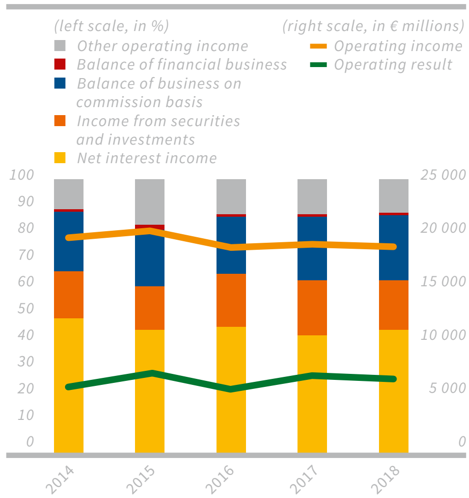


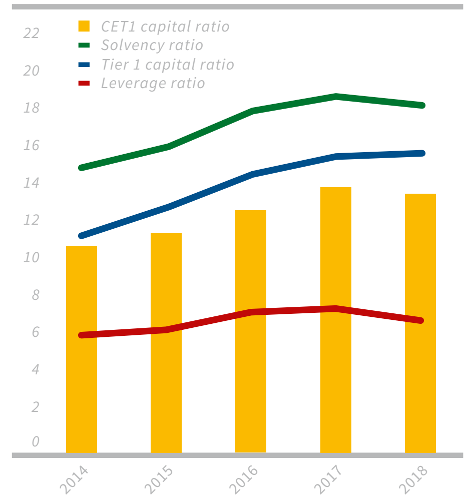
Chart 11 (left): **Development of the assets of the Austrian banking sector 2014–2018** (in %, non-consolidated)

Chart 12 (right): **Development of the liabilities of the Austrian banking sector 2014–2018** (in %, non-consolidated)

Chart 13 (left): **Earnings 2014–2018**

Chart 14 (right): **Capital base 2014–2018** (in % of RWA)





EARNINGS SITUATION

A non-consolidated operating result of € 5.9 billion is expected for Austrian banks by the end of 2018 *(> Chart 13)*. This represents a decline of 7.7% compared with the previous year, after a strong increase of more than 21% in 2017. Underlying this development is an increase in operating expenses (+2.5%), combined with a moderate decline in operating income (-1.0%). Following a 5.7% decrease in 2017, net interest income rose again in 2018, up by 5.0%. At 44.4%, net interest income continues to account for a significant share of operating income.

For the 2017 financial year as a whole, Austrian credit institutions posted net income of € 5.1 billion, which is likely to be followed by another positive figure for 2018. Although the final figures are not yet available, the credit institutions are forecasting net income of approximately € 5.5 billion for the 2018 financial year, with the individual sectors performing consistently positively. After recording net income of € 1.9 billion in 2017, the Raiffeisen cooperatives are expected to achieve the largest share of total net income, at € 2.0 billion, followed by joint stock banks and savings banks. With regard to provisions for risk (value adjustments), Austrian credit institutions expect the low level to continue for 2018, at € 0.2 billion.

In 2018 the Austrian banking sector held a CET1 capital ratio of 15.4%, which was slightly down compared with 2017. The reason for this is that while the volume of capital has risen slightly (2.5% compared with 2017), risk-weighted assets (RWA) have increased somewhat more strongly (3.6%). In contrast, liquid assets have increased further in 2018 and are now solid, at 150.6% of the minimum requirement *(> Table 17)*.

Table 17: **Liquidity coverage ratio 2016–2018** (in %)

	2014	2015	2016	2017	2018
Liquidity coverage ratio (LCR) (in %)	–	–	145.2	148.8	150.6

INSURANCE UNDERTAKINGS

The volume of domestic premiums written (direct gross amount) was up 1.19% in 2018 compared with the previous year (following an increase of 0.36% from 2016 to

PRIORITY FOR SUPERVISION: LONG-TERM STABILITY THROUGH SUSTAINABLE REAL ESTATE LENDING

DYNAMIC MARKET FOR REAL ESTATE FINANCING

For some years now demand for residential property in Austria has been clearly increasing. This trend is partly driven by demographic factors, such as strong population growth in the cities and conurbations. It is also being driven by persistently low interest rates and the resulting cheap financing opportunities. According to OeNB calculations, real estate is currently overvalued in Austria, and in Vienna in particular, owing to price rises caused by the high demand. In the third quarter of 2018, properties were overvalued by 25% in Vienna and by 14% in Austria overall.

The majority of real estate transactions are financed wholly or partly by bank loans. Developments over the last ten years have made real estate financing an increasingly important part of Austrian banks' business. The average proportion of housing loans in the total assets of Austrian banks has doubled from 8% in 2008 to 16% in 2018. If the aggregate total assets are adjusted to exclude those banks that do not offer housing finance on account of their business model, the share rises to as much as 20%. Smaller institutions and decentralised sectors are growing particularly strongly in this area. In conjunction with this growth, properties are becoming ever more important as collateral for credit risk mitigation since home loans are mostly mortgage-backed.

To prevent any systemic risks that would threaten the Austrian financial market's stability, the FMA has made it one of its 2018 priorities for supervision to look in depth at the risks relating to real estate financing. It has picked out two risk factors: first, the high demand for properties and the favourable economic situation overall can lead to laxer lending standards for residential property loans, which could stretch borrowers' risk-bearing capacity to the limits. Second, steadily rising property prices can lead to less conservative valuations of those properties serving as collateral, which poses the risk of higher than expected loan losses in the event of an economic downturn.

THE FMA'S STRATEGY

The FMA uses regular reporting data on real estate lending to monitor growth rates and loan volumes. Additionally, the FMA, OeNB and Financial Market Stability Board (FMSB) conduct targeted surveys to regularly assess lending standards in rela-

Chart 15: **Development of OeNB fundamentals indicator 2008–2018** (in %)

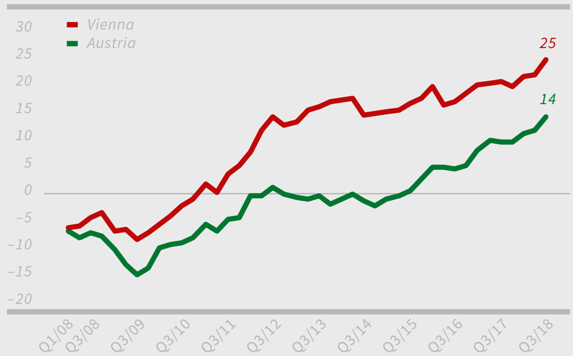


Chart 16: **Housing loans 2008–2018** (in € billions)

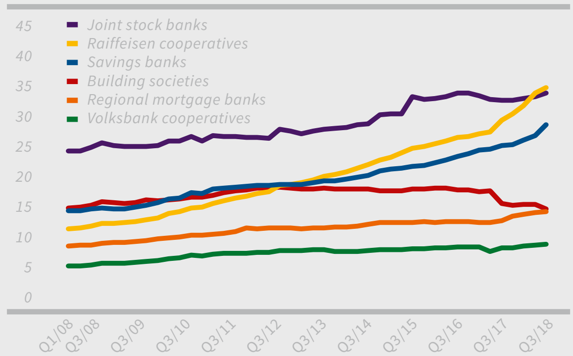
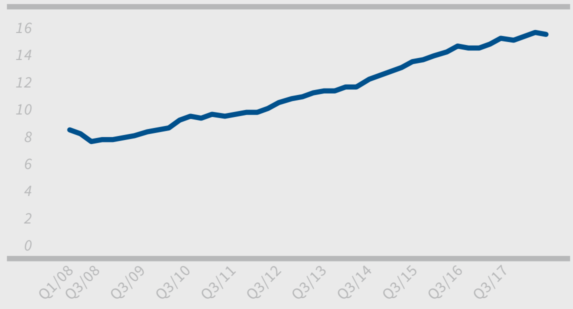


Chart 17: **Housing loans: share in aggregate total assets 2008–2018** (in %)



tion to new loans. To this end, regular reporting will also be adapted to include lending criteria such as loan-to-value ratios, debt service-to-income ratios, debt ratios and maturities of residential property loans in future. In 2018 the FMA clearly communicated its expectations to banks and the general public, stating that it would not accept lower lending standards, especially during periods when the economy is performing well.

The FMA's priority for supervision proved its worth later in the year. Several banks that had experienced a very dynamic development in new lending business have taken heed of those expectations and changed their internal risk management accordingly, tightening up their lending standards once again.

The FMA will continue to monitor developments in real estate financing. At its meeting on 21 September 2018, the FSMB asserted that there was currently no systemic risk associated with the financing of private residential property. Nevertheless the Board emphasised that any lending must be sustainable, ensuring appropriate amounts of own funds, an appropriate level of debt repayment in relation to net income, and appropriate loan terms.

Should these risks increase, however, and pose a threat to financial market stability, the FMA could – based on a recommendation by the FMSB – set upper limits for those lending criteria in the form of a regulation.

One of the FMA's priorities for supervision in 2019 will be sustainable real estate lending. The Authority will conduct targeted on-site inspections, and also keep up its direct dialogue with credit institutions, in the form of management talks, for example.

	2014	2015	2016	2017	2018
***PREMIUMS WRITTEN IN AUSTRIA** (direct gross amount, in € millions)*					
Life insurance	*6 662.63*	*6 694.70*	*6 037.91*	*5 731.96*	*5 516.34*
Unit-linked life insurance	*1 399.67*	*1 401.00*	*1 249.59*	*1 381.31*	*1 218.57*
Index-linked life insurance	*128.87*	*66.00*	*96.40*	*93.36*	*107.42*
Health insurance	*1 880.33*	*1 959.40*	*2 051.47*	*2 128.74*	*2 219.66*
Non-life and accident insurance	*8 533.97*	*8 687.80*	*8 825.78*	*9 114.64*	*9 441.72*
Total	***17 076.93***	***17 341.90***	***16 915.16***	***16 975.34***	***17 177.72***
***PAYMENTS FOR CLAIMS** (in € millions)*					
Life insurance	*7 081.49*	*8 463.31*	*7 749.43*	*7 165.14*	*6 619.07*
Health insurance	*1 254.43*	*1 296.90*	*1 339.95*	*1 453.70*	*1 455.80*
Non-life and accident insurance	*5 131.27*	*5 382.21*	*5 446.09*	*5 765.48*	*5 746.33*
Total	***13 467.19***	***15 142.43***	***14 535.47***	***14 384.32***	***13 821.21***
***EARNINGS AND PROFITABILITY** (in € millions)*					
Technical account balance	*477.28*	*475.15*	*559.94*	*580.96*	*506.54*
Financial result	*3 210.56*	*3 215.64*	*3 051.10*	*2 814.89*	*2 528.46*
Result from ordinary activities	*1 420.93*	*1 354.02*	*1 414.22*	*1 244.20*	*1 168.33*
***RETURN ON SALES** (in %)*					
Non-life/accident	*11.59*	*12.01*	*12.13*	*11.78*	*10.47*
Life	*4.35*	*2.62*	*3.26*	*0.83*	*1.87*
Health	*7.45*	*6.87*	*7.24*	*5.86*	*3.53*
Total	***8.30***	***7.82***	***8.36***	***7.33***	***6.80***

Table 18: **Market development of Austrian insurance undertakings 2014–2018**

2017) and totalled € 17.18 billion *(> Table 18)*.

With regard to the life insurance balance sheet group, premiums were down 3.76% from € 5.73 billion in 2017 to € 5.52 billion in 2018. The proportion of premiums from unit-linked and index-linked life insurance declined, amounting to 24.04% of all premiums written in life insurance (2017: 25.73%). Totalling € 6.62 billion, payments for claims incurred fell by 7.62% in 2018; the equivalent figure for 2017 was € 7.17 billion.

The balance sheet group of non-life and accident insurance showed an increase over the previous year, with premiums written rising by 3.59% to total € 9.44 billion. Claims payments dropped to € 5.75 billion, representing a decrease of 0.33%.

With premiums written of approximately € 2.22 billion, the health insurance balance sheet group achieved an increase of 4.27% on the previous year. Totalling € 1.46 billion, payments for claims incurred were up by some 0.14% in this group.

At 6.8%, the return on sales was slightly down in 2018 compared with the previous year (2017: 7.3%). Lower income from investments owing to persistently low interest rates had put a strain on the results. The result from ordinary activities was further down year-on-year, falling by 6% to € 1.17 billion. Expenses for IT and structural investments had also taken their toll. In the area of life insurance, the return on sales figure recovered somewhat due to lower amounts needing to be set aside for the additional interest provision.

As far as investments are concerned, they continued to be clearly focused on interest-bearing securities, while equity investments were still low *(> Chart 18)*. Approximately 18% of all investments were held via UCITS. Infrastructure investments picked up gradually, and there was also a greater level of investment in loans, albeit at a conservative level still.

Chart 18: **Structure of investments at market values** (other than assets held for index-linked and unit-linked contracts, in %)

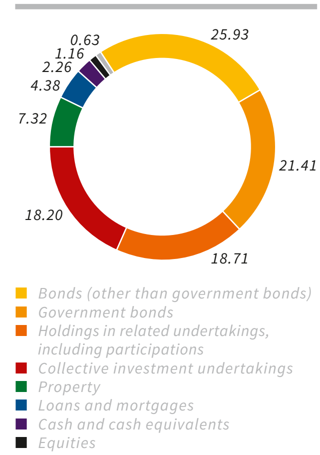
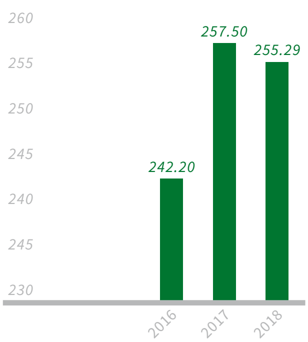


Chart 19: **SCR solvency ratio 2016–2018** (median, in %)



The SCR solvency ratio, depicting insurers' own funds situation, amounted to 255.29% (median) of minimum requirements in 2018 on a sector-wide basis *(> Chart 19)*. This figure is only marginally lower than in 2017, when it amounted to 257.5%.

PENSIONSKASSEN

The change in assets managed during the 2018 financial year can be attributed for the most part to contributions, pension benefits, inflows of funds from newly concluded pension company contracts and the investment result.

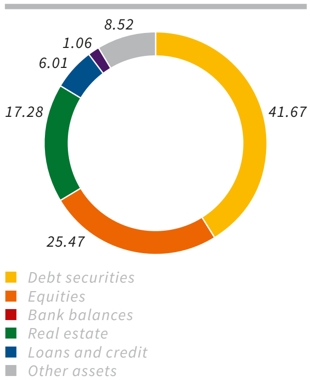
As at 31 December 2018, approximately € 21.4 billion was being managed within the Austrian pension company market. This figure represents a reduction of some 4.11% on the previous year.

While the average investment performance of *Pensionskassen* in 2017 was still as high as 6.1%, the equivalent figure for 2018 was minus 5.2%. This was due to the difficult capital market situation in 2018, with falling equity and bond markets in the USA and Europe, as well as in the emerging markets.

Table 19: **Investment performance of *Pensionskassen* 2014–2018**

	2014	2015	2016	2017	2018
Investment performance (total)	7.82	2.32	4.18	6.13	–5.14
Single-employer	8.27	2.53	5.13	4.07	–0.37
Multi-employer	7.77	2.30	4.08	6.34	–5.59

Chart 20: **Types of investment of *Pensionskassen* 2018** (in %)



Lower share prices led to a reduction of the share ratio, compared with the previous year, in the investments of nearly all *Pensionskassen* as at 31 December 2018. In the case of two *Pensionskassen* this reduction was more than 5%. Cash holdings rose by contrast: as at the end of the year levels were high across the entire sector. Three *Pensionskassen* reported cash holdings amounting to more than 10% of their entire investments. Moreover, the individual *Pensionskassen* reacted highly differently to falling prices on the equity markets. Four *Pensionskassen* increased their share of investments outside traditional capital markets, giving a stronger weighting to real estate, loans and other assets.

Another noticeable trend was a flight to quality: non-investment grade bonds were reduced and those of investment grade quality increased, with the government bond segment in particularly high demand. With regard to foreign currency exposure, the share of foreign currency derivatives was up across the entire sector for the purposes of more efficient portfolio management. Within the market overall, the aggregate asset allocation of Austrian *Pensionskassen* amounted to 42% bonds, 25% equities, 17% cash, 9% other assets, 6% real estate and 1% loans as at 31 December 2018.

CORPORATE PROVISION FUNDS

Measured in terms of current contributions, a total of € 1.61 billion (+8.79% year-on-year) was paid into corporate provision funds during the year under review, of which € 1.49 billion (+9.01%) was paid into the funds for employees and € 116.06 million (+6.03%) into self-employed provision. This compares with a total of € 1.48 bil-

	2014	2015	2016	2017	2018
Assets of corporate provision funds (in € millions)	*7 324*	*8 306*	*9 423*	*10 610*	*11 496*
Current contributions (in € millions)	*1 200*	*1 289*	*1 374*	*1 476*	*1 606*
Payouts (in € millions)	*351*	*388*	*445*	*488*	*526*
Performance of corporate provision funds (in %)	*3.94*	*1.22*	*2.23*	*2.18*	*–1.97*
***DISPOSAL OPTIONS** (in € millions)*					
Payout as capital sum	*351.27*	*387.88*	*444.7*	*488.12*	*526.44*
Transfer to another corporate provision fund	*14.59*	*20*	*21.55*	*34.92*	*65.86*
Remittance to supplementary pension or occupational group insurance scheme	*0.35*	*0.18*	*0.07*	*0.06*	*0.11*
Remittance to a Pensionskasse	*0.76*	*1.04*	*1.71*	*1.51*	*1.79*
Total	***366.97***	***409.1***	***468.03***	***524.61***	***594.2***

Table 20: **Market development of corporate provision funds 2014–2018** (source: Association of Occupational Provision Funds)

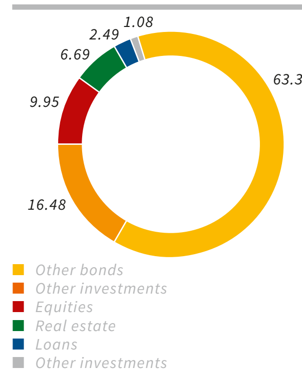
lion for 2017 (of which € 1.37 billion represented contributions for employees and € 109.46 million contributions for the self-employed).

A total of € 526.44 million was paid out as a capital sum to 467 932 beneficiaries (entitled) in 2018. Over the same period, 48 446 beneficiaries (entitled) transferred their pension expectancies to another corporate provision fund, moving a total of € 65.86 million. Additionally, 456 individuals paid in a total of € 1.90 million to a *Pensionskasse* or supplementary pension insurance scheme, or to an occupational group insurance scheme. Amounts drawn on the basis of entitlement to severance pay generally took the form of capital sums, as has been the case for the past five years *(> Table 20)*.

In the year under review corporate provision funds' average performance for their investments was down by 1.97% (2017: +2.18%).

Corporate provision funds are required to guarantee their beneficiaries (entitled) a minimum claim. This encompasses the total accrued severance pay contributions and any transferred existing severance pay entitlement, as well as any severance pay entitlements transferred from another corporate provision fund. It is also referred to as a capital guarantee. Corporate provision funds are free to offer a higher interest guarantee over and above this capital guarantee. Such an interest guarantee was offered by one fund in 2018.

Chart 21: **Types of investment of corporate provision funds 2018** (in %)



ASSET MANAGERS

The 16 investment fund management companies in Austria managed fund assets totalling € 164.56 billion as at 31 December 2018, excluding the fund assets managed by real estate investment fund management companies. This equates to a year-on-year decline of around € 10.87 billion or of 6.20% in percentage terms. By way of comparison, total fund assets were € 157.77 billion at the 2014 year-end. In the medium term, the fund volume has therefore increased by 4.3% *(> Chart 22)*.

Net outflows during 2018 amounted to € 809.17 million in total. Broken down by fund category, only mixed funds recorded an inflow, in the amount of € 2.19 billion. All other fund categories posted only outflows: bond funds topped the list (–€ 2.96 billion), followed by equity funds (–€ 19.12 million), derivative funds (–€ 13.65 million), hedge funds of funds (–€ 3.93 million) and money market funds (–€3.15 million) *(> Chart 23)*.

The dominant position of the mixed funds category is reflected, as in the previous

Chart 22: **Fund assets of investment funds 2014–2018** (in € billions)

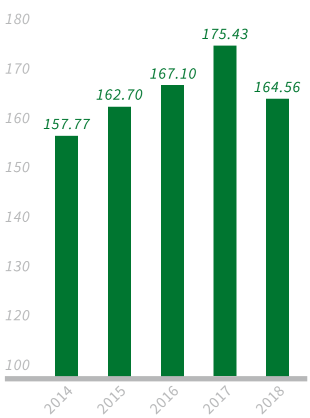


Chart 23: **Net growth/net outflows by investment category 2018** (in € millions)

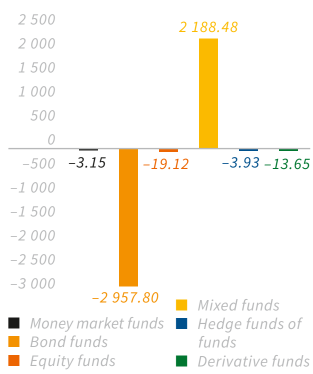


Chart 24: **Net assets by fund category 2018** (as at 31 December 2018, in %)

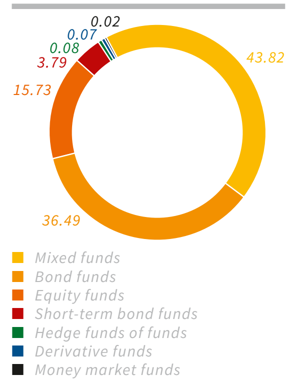
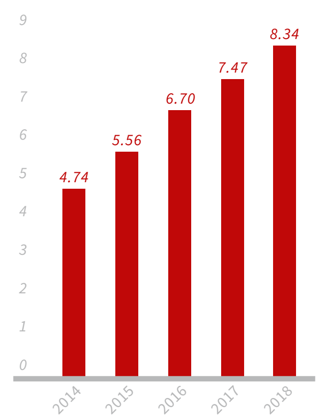


Chart 25: **Fund assets of real estate funds 2014–2018** (in € billions)



four years, not just in net inflows but also in the overall distribution of fund assets. As at 31 December 2018, € 72.11 billion or 43.82% of the total assets was invested in this category, with bond funds occupying second place with € 60.05 billion or 36.49%. Equity funds were in third place, at € 25.89 billion or 15.73%, followed by short-term bond funds (3.79%), hedge funds of funds (0.08%) and derivative funds (0.07%), with money market funds (0.02%) bringing up the rear *(> Chart 24)*.

Broken down by target group, 50.02% of shareholders were invested in special funds and 49.89% in retail funds at the 2018 year-end. These figures also include alternative investment funds (AIFs) as defined in the Investment Fund Act 2011 (InvFG 2011; *Investmentfondsgesetz*).

AIFMs who are only licensed or registered according to the Alternative Investment Fund Managers Act (AIFMG; *Alternatives Investmentfonds Manager-Gesetz*) managed fund assets of Austrian AIFs amounting to € 0.9 billion as at the end of 2018 (based on provisional figures at the time of this report being prepared).

As at the reporting date of 31 December 2018, the five Austrian real estate investment fund management companies were managing total fund assets of € 8.34 billion, which equates to a year-on-year increase of 11.64% in the assets under management. Fund assets had totalled € 7.47 billion at the 2017 year-end *(> Chart 25)*.

INVESTMENT SERVICE PROVIDERS

In 2018 the market for investment firms and investment service providers underwent its biggest reform in a decade, with the entry into force of the rules contained in MiFID II and the related MiFIR. The distribution of securities now falls under tightened rules, in the interests of consumer protection. Companies are required to record all conversations with their clients and document them as part of a review in which they appraise the suitability of the distributed securities for the individual client. Additionally, commissions paid by product manufacturers to investment service providers and investment firms distributing their financial products are now only admissible under certain circumstances.

Despite the challenges lying ahead and the high complexity of the new legal provisions, this regulatory makeover offers many opportunities too. The new rules will

improve the quality of the service provided and therefore indirectly push up customer satisfaction.
MiFID II prompted many investment firms to rethink the digitalisation of their work processes and to further improve their customer relationships, for instance in relation to product governance, to ensure they maintain an edge over other market participants in future too. 2018, like 2017, saw an increased number of new licences being granted and more pending licensing processes compared with the years in the immediate aftermath of the financial crisis. When considering this together with the number of enquiries and licensing applications submitted to the FMA, it becomes obvious that obtaining an FMA licence is important to market participants. It is also interesting to note the shift in new licences towards new business models (e.g. robo-advice) enabled by digitalisation.

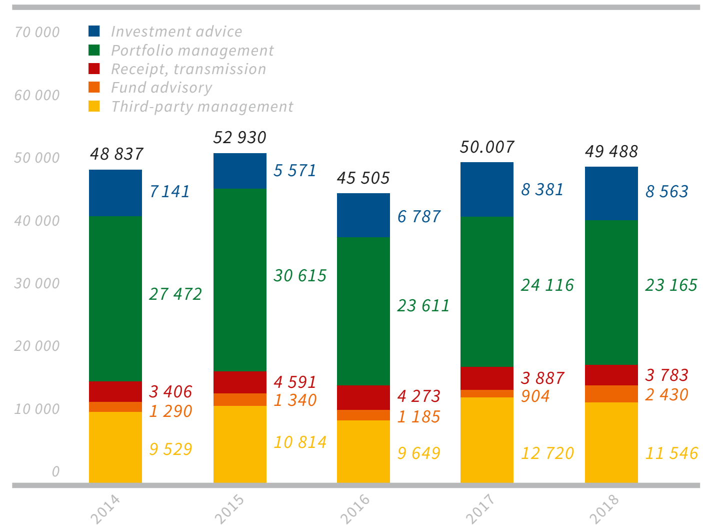


Chart 26: **Customer assets under management by type of service 2014–2018** (in € millions)

The trend towards more specialised and professional companies in the market continued during the year under review; a trend already observed during the market consolidation phase that had set in after the financial crisis. This development is particularly striking when looking at the proportion of total customer assets under management from professional investors in relation to those from retail customers: this ratio was 9:1 in the year under review. Institutional market participants primarily turn to investment firms because of the many and diverse services they offer. These range from an advisory mandate and strategic or tactical asset allocation through to outsourced fund management. Investment firms provide customised portfolios for their clients by combining customer-specific return expectations with their extensive market knowledge. Customer expectations regarding quality of service and skills have risen in the past few years, with a resulting shift in customer profiles. While the average figure for assets under management per customer rose by 5.26% in 2018, the number of customers in absolute terms dropped by 6.32%.
Total assets under management amounted to € 49.49 billion. Of this amount, 75% related to the services of portfolio management, fund advisory and third-party management (with regard to collective portfolio management activities outsourced by investment fund companies and alternative investment fund managers to investment firms). This percentage confirms the continuation of the trend in evidence in previous years.

THE AUSTRIAN FINANCIAL MARKET AND THE DIGITAL REVOLUTION

The digitalisation of financial services forms part of a process of fundamental societal and economic change which is impacting on consumer behaviour. Five years ago only 64% of the Austrian population said that they used the Internet on a daily basis. By 2018 this figure had risen to 76% . During this time, customer behaviour on the financial market has been transformed. A clear majority of the Austrian population are already using online banking services (58% compared with 48% in 2014, *> Chart 27*). This means that the level of online banking use in Austria is above average for Europe as a whole (EU: 54%). Given the age structure of online banking customers, this percentage can be expected to rise further.
Companies are taking advantage of this digital revolution to respond to their customers' changing behaviour with a new offering. The result is an ever expanding, ever improving range of customer interfaces such as apps for online banking, asset management and insurance. At the same time, new technologies are also helping to make internal workflows more efficient.
In 2018 the FMA surveyed 144 supervised companies from across all sectors on the subject of digitalisation[1]. The results of this survey give the Authority an overview of the current status of digitalisation on the Austrian financial market. The FMA can now respond more effectively to new trends and address new risks preventively *(> The FMA and digital innovation, page 65).* The survey revealed that companies used comparable strategies to master the digital transformation, albeit with marked sectoral differences *(> Chart 28).* By way of

Chart 27: **Users of online banking 2018 and 2014** (age structure as a % of the age groups; data: Eurostat)

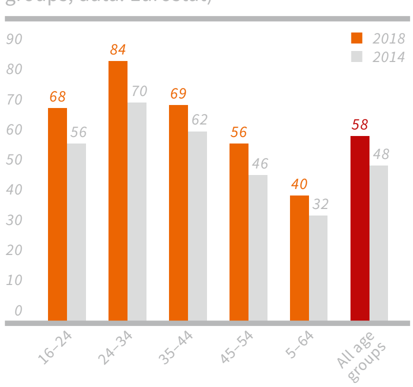
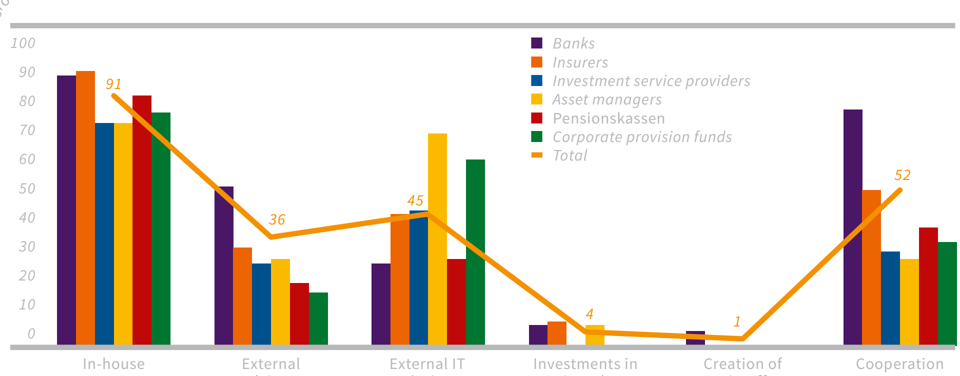


Chart 28: **Digital transformation strategies** (% of surveyed companies)



[1] *40 banks, 36 insurance undertakings, 23 asset management companies, 26 investment service providers, 10* Pensionskassen, *6 corporate provision funds and three market infrastructures.*

SUPERVISION PRIORITY: TRANSPARENT SUPERVISORY REQUIREMENTS FOR COMPREHENSIVE IT RISK MANAGEMENT

Both internal company processes and interfaces with customers and business partners are highly dependent on IT applications nowadays. This creates a growing risk of business operations being impeded or even brought to a complete standstill if IT systems go down or are attacked. It is even conceivable, in an extreme case, that IT incidents could impair or threaten the stability of the markets.

IT SECURITY GUIDES

In order to establish a uniform supervisory standard for IT security on the Austrian financial market, the FMA published a total of five guides over the course of 2018, aimed at banks, insurance and reinsurance undertakings, investment service providers, asset managers, corporate provision funds and *Pensionskassen*. According to a study conducted by an international management consultancy firm during the reporting year, 61% of all cyber attacks in the corporate sector in Austria are targeted at people as the weak point in an organisation[1], in other words aiming to exploit the fact that individual staff or entire organisations might not take the risks seriously. The primary aim of these guides, therefore, is to strengthen corporate governance and make companies more robust in the face of IT risks. The core message is that the subject of IT security must not simply be handed over to the experts in the company. Rather, it must be a top-level issue, with the corresponding level of importance, and with clear areas of responsibility being established.

The FMA informs:

The FMA published five guides aimed at banks, insurers and reinsurers, investment service providers, asset managers, corporate provision funds and *Pensionskassen* in 2018.

The guides also take account of the specific features of the Austrian market. For reasons of efficiency and cost, many IT services are outsourced to external service providers. On the Austrian financial market, with its small structures and decentralised sectors, this is particularly relevant. The guides therefore set out clear requirements regarding the outsourcing of IT.

CYBER SECURITY SYMPOSIUM

The FMA also particularly focused on cybersecurity during 2018, tackling the threats emanating from cyberspace and putting together a package of cybersecurity measures. This included an FMA Cyber Security Symposium for credit institutions in November, during which the dangers and the possibilities for protection against cyber risks were identified in industry-specific lectures and the different points of view were analysed and debated in panel discussions. The symposium also enabled the FMA to promote a link-up between the main Austrian stakeholders, namely security authorities, standard-setting bodies, researchers and the corporate sector.

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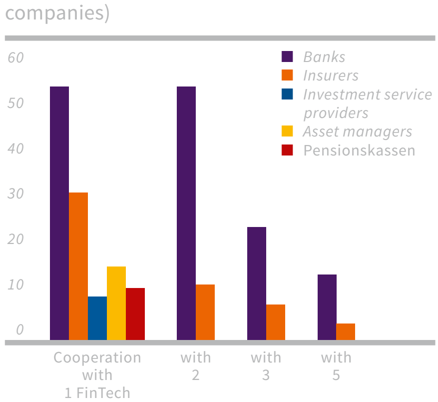
[1] *KPMG: Cybersecurity in Austria, May 2018.*

example, the vast majority of respondents stated that they were using in-house measures to drive forward the acquisition of expertise. A total of 36% were making use of external advisors. Many were also engaging in cooperation arrangements to help with digitalisation, with a total of 52% pursuing this approach, which also included the strategy of acquiring digital technologies by working with innovative FinTechs (see below). External IT solutions, such as cloud solutions, are used by 45% of companies, and by asset managers (76%) and corporate provision funds (67%) to a disproportionately high extent. Less well established, in contrast, are strategies in which innovation is promoted by means of companies' own investments in FinTechs or the creation of spin-offs. This is an area in which the scale of investment required can be a hurdle, with the necessary funds generally only available to large companies.

Alongside well-established companies, FinTechs, which generally take the form of young start-ups, are a key driver of digital change on the Austrian financial market. Their comparative advantage is that they have no existing IT systems, customer contracts or sales networks behind them and can focus unconditionally on new and innovative, digital business ideas. Whether a FinTech attempts to develop its own offering from this position or seeks to cooperate with an established partner in the financial sector is a commercial decision. The general trend in evidence for some time of FinTechs joining forces with established companies also applies in the case of Austria, although there are marked variations in approach between different sectors.

Chart 29: **Joint ventures with FinTechs** (% of surveyed companies)



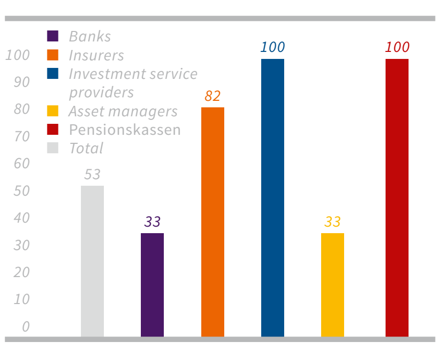


Chart 30: **Austrian FinTechs as cooperation partners** (as a % of companies that cooperate with FinTechs)

While 53% of banks and 31% of insurance undertakings stated that they were currently cooperating with a FinTech, the equivalent figure for investment service providers was only 8%, with a figure of 14% for asset managers and 10% for *Pensionskassen (> Chart 29).* Although these differences can also be explained by different company sizes, with the survey focused on larger banks, they nevertheless reveal that digitalisation is not advancing at the same rate across all sectors of the Austrian financial market. Drivers such as customers' preferences, increasing competition and cost pressure have different impacts in different sectors.

Banks and insurance undertakings frequently work with more than one FinTech, demonstrating how they use their working relationships with FinTechs to digitalise a broad range of business areas. In contrast, other financial service providers focus on cooperation with one single FinTech.

The fact that every second joint venture (53%) involved an Austrian FinTech shows that the domestic FinTech sector is sufficiently well developed to drive the digital revolution on the Austrian financial market. It is only banks and (to a lesser extent overall) asset managers that seek out international link-ups to a greater extent *(> Chart 30).*

A study conducted by Lucerne University of Applied Sciences and Arts underlines the fact that the Austrian financial market is an attractive environment for FinTechs. It ranks 15th out of 30 global FinTech hubs, and occupies eighth place in the equivalent European ranking.

[2] *Data: Eurostat.*

INTERNATIONAL COOPERATION

The FMA is a member of many different European, global and transnational organisations and associations that deal with the regulation and supervision of financial markets. FMA employees are also permanently involved in the work of various international organisations, committees and working groups. In 2018 the FMA was represented in approximately 280 (permanent and temporary) international working groups in total.

The FMA unites:

FMA employees are permanently involved in international organisations, committees and working groups; around 280 international working groups in 2018.

EUROPEAN COOPERATION

From the perspective of the institutional system as a whole, far-reaching preparations for the United Kingdom's departure from the European Union and the reform of European cooperation (ESAs' review) were key priorities in 2018.

BREXIT

At a European level, preparations for the UK leaving the EU featured heavily on the agenda in 2018. A no-deal Brexit would result in the UK having the legal status of a third state with effect from 29 March 2019. EU rules on the cross-border provision of financial services (passporting) would therefore no longer apply to the UK. Brexit is in the first instance a pan-European problem, with the European Commission leading the process to find regulatory answers at European level.

Based on comprehensive risk analysis, the European supervisory authorities have published various notifications urging market participants in particular to make the necessary preparations. Strengthening supervisory convergence has been a key topic for the supervisory authorities as they look to maintain and bolster the level playing field within the European Economic Area, particularly also when handling Brexit-related licence applications. The ESAs are also coordinating the preparation of co-operation agreements in the form of Memoranda of Understanding (MoU) with the UK supervisory authorities. This type of MoU is often a prerequisite for the application of rules on cross-border services between the EU and third countries.

The FMA is involved in the Brexit preparations through the ESAs, and is also observing and analysing the Austrian financial market and responding to questions from stakeholders.

REVIEW OF THE EUROPEAN SUPERVISORY AUTHORITIES

The work that began back in 2014 on the regular review of the European System of Financial Supervision (ESFS) was successfully completed in 2019. The European Commission had published a package of legislative proposals in 2017, some of which sparked very contentious debate. The Commission unveiled an amended proposal in September 2018 aiming to concentrate responsibility for preventing money laundering and terrorist financing at the EBA. Key aspects of the agreement reached with the Council and Parliament in a trialogue are:

- The ESAs' governance will not be changed significantly, contrary to the Commission's proposal, but supervisory convergence will be enhanced (EU infringement, mediation and peer-review procedures).
- To avoid conflicts of interest, independence rules will be tightened for the Board of Supervisors.
- In relation to its new mandate in the context of anti-money laundering, the EBA should create a data hub for data reported by the national authorities, and then analyse this data and, where necessary, call on those responsible at national level to take action.
- The principle of proportionality, which has already been included in the package of measures to mitigate risks at banks, is now also enshrined in the ESAs' work.
- The work of the ESAs, particularly in relation to guidelines, recommendations, statements, Q&As and draft RTS & ITS, will again be tied more closely to the relevant level-1 legal acts.
- Transparency will be increased by publishing uniform Q&As as well as supervision and resolution manuals on the websites of all ESAs.

EUROPEAN BANKING AUTHORITY – EBA

The main focus of the EBA's work lies in regulation. By developing technical standards, guidelines and recommendations, the EBA is making a key contribution to greater supervisory convergence. Particularly worthy of mention are its guidelines on the management of non-performing loans, and its guidelines and technical standards on securitisations and on security measures to be observed by payment service providers when performing their services. Further key areas of the Authority's work included risk assessment and the regulatory treatment of financial innovations, as well as consumer protection issues. The EBA has also been tackling cybersecurity issues and technology risks from a regulatory perspective. Meanwhile, it is increasingly focusing on work to tackle money laundering and to intensify cooperation in this area of supervision. Additionally, the EBA has being doing the groundwork for implementation of the Basel reform measures in the EU in order to be able to submit a legislative proposal to the European Commission in 2019.

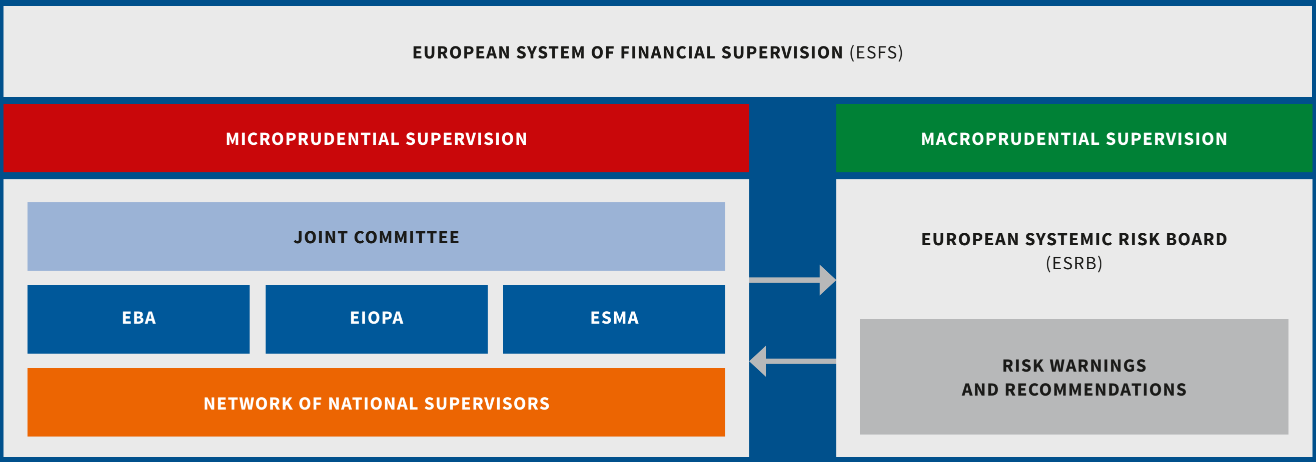
EUROPEAN SECURITIES AND MARKETS AUTHORITY – ESMA

One of ESMA's central aims is to improve convergence in the implementation and application of the body of rules. ESMA has been focusing on the MiFID II/MiFIR financial market package, which entered into force on 3 January 2018. In addition to numerous Q&As, ESMA published its MiFID II Supervisory Briefing on Suitability on 6 November 2018. For the first time, ESMA made use of the new product intervention tool established by MiFIR in order to prohibit the distribution, marketing and sale of

THE EUROPEAN SUPERVISORY SYSTEM

The national financial market supervisors in the EU have cooperated closely with one another through the European System of Financial Supervision (ESFS) since the start of 2011. The banking regulation agenda is set by the **European Banking Authority (EBA),** composed of the national authorities responsible for the SSM and also the ECB in the capacity of a non-voting member. As a result of Brexit, the EBA is set to relocate from London to Paris in 2019. The **European Securities and Markets Authority (ESMA)** has been based in Paris since its foundation, while the European **Insurance and Occupational Pensions Authority (EIOPA)** is located in Frankfurt. The role of these EU bodies is to prepare detailed regulations in the form of technical standards, guidelines and recommendations on the basis of EU regulations and directives. It is also becoming increasingly important for these authorities to work to ensure the convergent application of these rules by the national supervisors. The three bodies only supervise companies directly in a few selected areas. A Joint Committee is in place to deal with issues that straddle all three areas of supervision. Meanwhile, the three European authorities, with their microprudential focus, are supported by the **European Systemic Risk Board (ESBR),** based at the ECB in Frankfurt. Its remit is to identify systemic risks to the European financial system and to take early action.

Figure 4: **European supervisory architecture**



THE EUROPEAN BANKING UNION

Starting in 2014, a new supervision and resolution system for banks has been set up in the euro area, the European banking union. It is based on two pillars: the **Single Supervisory Mechanism (SSM)** and the **Single Resolution Mechanism (SRM)** *(> The FMA and the banking union, page 69)*. In the banking union, unlike in the ESFS, the European Central Bank (ECB) is responsible for the direct, operational supervision of the large banks in the euro area (around 120), and the Single Resolution Board (SRB) is in charge of resolution; the ECB is the central authority within the SSM while the SRB heads the SRM. The FMA forms an integral part of both pillars and is closely involved in their day-to-day operations.

binary options and to restrict the distribution, marketing and sale of contracts for difference (CFD). Having been extended twice, this measure is now effective until 1 July 2019 for binary options and until 31 July 2019 for CFD *(> Market supervision, page 82).* Supervisory convergence will remain a key focus, while another particularly relevant issue will be the improvement of the quality and analysis of market data.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY – EIOPA

The overarching subject of digitalisation (InsurTech) dominated EIOPA's work programme during the year under review, with a focus on the technology-independent promotion of innovation while guaranteeing convergent basic parameters. Consumer protection remains as important a strategic aim as ever, while other areas of activity include the PRIIPs Regulation, the Insurance Distribution Directive (IDD) and preparations for a pan-European Personal Pension Product (PEPP). As part of the goal to strengthen the internal market for insurance and pensions, EIOPA has been working on greater convergence of continued supervision in the context of Solvency II and on the review of the existing legal framework. Financial stability aspects are considered throughout all of these activities (e.g. writing of reports on the macroprudential aspects of supervision).

Table 21: **Bilateral Memoranda of Understanding concluded** (incl. year of conclusion)

Country	Banking	Insurance	Securities	AIFMD-MoU
Abu Dhabi				**2018**
Albania		2009		
Australia				2013
Bahamas				2015
Bermuda				2013
Bosnia and Herzegovina	2015			
Brazil	2017			
British Virgin Islands				2013
Bulgaria	2005			
Canada				2013
Cayman Islands				2013
China			2008	
Croatia	2005	2008	2000	
Cyprus	2007		2002	
Czech Republic	2001	2004	1999	
Dubai				2013
France	1995			
Germany	2000			
Guernsey				2013
Hongkong				2013
Hungary	2001	2002	1998	
Isle of Man				2013
Italy	1998			
Japan				2013
Jersey				2013
Kosovo		2016		2013
Liechtenstein	2009			
Macedonia		2010		
Malaysia				2013
Malta	2007			
Montenegro		2009		
Netherlands	1997			
Qatar				**2018**
Poland			1999	
Romania	2006	2005		
Russian Federation	2010			
Serbia		2009		
Singapore				2013
Slovakia	2003	2002		
Slovenia	2001		2001	
Switzerland	2012	2006		2013
Thailand				2014
United Kingdom	1994/1998			
USA				2013

BILATERAL AND MULTILATERAL COOPERATION

As well as working in multilateral bodies (the most important of which are mentioned here), the FMA also cooperates with foreign supervisory authorities. For this purpose it enters into bilateral and multilateral Memoranda of Understanding (MoU) with foreign supervisors. These provide for the proper exchange of information and thus simplify and speed up practical supervisory tasks in cross-border cases, while also, particularly in the case of non-EEA states, helping to build trust and supporting the FMA in its efforts to consistently strengthen its operational working relationship with its partner authorities, above all in Central, Eastern and South-Eastern Europe.

MEMORANDA OF UNDERSTANDING

Bilateral MoU on cooperation and the exchange of information in relation to the supervision of alternative investment fund managers were concluded with Abu Dhabi and Qatar in 2018. *(> Table 21).*

MULTILATERAL COOPERATION

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS – IOSCO

IOSCO published a statement on its concerns regarding investments in binary options in September 2018. Reference is also made in this statement to the ESMA product intervention.

In October 2018, IOSCO organised the second World Investor Week, a worldwide initiative comprising seminars, conferences, workshops and press mailings to highlight the importance of investor protection and investor education.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS – IAIS

The IAIS published its consultation document proposing a holistic framework to assess and mitigate systemic risk in the insurance sector. This framework is due to be adopted by the IAIS in 2019 before being implemented in early 2020. Two major public consultation documents were also published with regard to the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), with the aim of reaching an agreement in this area too before the end of 2019.

INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS – IOPS

In early 2018 the IOPS consultation document "Good Practices on the Role of Pension Supervisory Authorities in Consumer Protection Related to Private Pension Systems" was completed and published. This document shows how effective consumer protection can be guaranteed in relation to pensions, focusing on five of the G20 High Level Principles (HLPs) and related Effective Approaches which are considered most relevant from the pension supervisory perspective: role of oversight bodies, disclosure and transparency, financial education and awareness, responsible business conduct of financial services providers and authorised agents, and complaints handling and redress. The FMA was elected to the Executive Committee at the end of 2018 for the second time for a two-year term.

EUROPEAN AND INTERNATIONAL COOPERATION TO TACKLE MONEY LAUNDERING AND THE FINANCING OF TERRORISM ON THE FINANCIAL MARKET

The Fifth Anti-Money Laundering Directive, which is to be transposed into national law by January 2020, brings significant changes in relation to the prevention of money laundering and the financing of terrorism. In future, providers engaged in exchange services between virtual currencies and fiat currencies, as well as wallet providers, will be required to comply with due diligence measures in the area of money laundering and terrorist financing. This is a response to the dramatic rise in virtual assets, which manifested itself in the crypto boom of late 2016/early 2017. There were also concerns that virtual assets were not subject to any form of regulation or supervision. The regulation of virtual assets in the area of money laundering and the financing of terrorism is also being intensively debated at international level, with the scope and specific content of such regulation being discussed. This is an area in which the Financial Action Task Force (FATF) has a role to play, setting international standards. At its plenary meeting in October 2018, the FATF adopted a global definition of virtual assets and virtual asset service providers (VASPs), drawing heavily on the EU's definitions. Based on the FATF's approach, VASPs should also be subject to due diligence obligations in relation to money laundering and the financing of terrorism in future. The FATF plans to revise its recommendations by June 2019 and to publish new guidance on the risk-based regulation of VASPs (and on their future supervision in particular).

PUBLIC RELATIONS & INTERNAL COMMUNICATION

Annual report: 1

Facts and figures, trends and strategies: 2

Press releases: 54

Press events: 6

Tweets: 262

Followers: 793 (increase of +65%)

Participation in FMA Supervision Conference: approx. 900

FUNCTIONS OF PUBLIC RELATIONS WORK

TRANSPARENCY FOR THE MARKET AND FOR THE GENERAL PUBLIC

The FMA holds far-reaching official powers on the financial market. Inextricably linked to this level of authority is a responsibility to explain its activities clearly and comprehensibly, providing information on why and for what purpose the FMA is using these powers. For a modern-day authority transparency is key. Ultimately, it increases acceptance and understanding of the FMA's activity.

For the first time, the FMA published a compressive description of its priorities for supervision and inspections for the reporting year in its *Facts and figures, trends and strategies* publication at the beginning of 2018. This contained an assessment of current challenges and risks on the financial markets, and presented the resulting supervisory aims and planned supervision measures. A new edition of *Facts and figures, trends and strategies* was published in November 2018. As well as looking ahead and setting out the FMA's strategic direction for the coming years, this also contains the priorities for supervision and inspections for 2019.

PUBLIC COMMUNICATION AS AN INTEGRAL PART OF SUPERVISION

The FMA highlights negative developments to the market and consumers, communicating its views on how such developments should be remedied. In this way it can take control at an early stage, avoiding a situation in which tougher supervisory measures are needed further down the line.

Preventive communication during 2018 focused on the highly dynamic issuing of real estate and consumer loans. In some instances the FMA has observed a softening of the lending rules that banks apply to real estate loans. At the same time, there is a growing trend of aggressive online marketing and selling of consumer credits. Both of these are early indicators of a negative development that could end up jeopardising the stability of individual banks and borrowers' ability to pay. The FMA Executive Board used its media presence to make it clear that the FMA would have no option but to introduce far-reaching supervisory measures were the market to fail to react. In extreme circumstances, this could also extend beyond individual measures and encompass macroprudential measures *(> Priority, page 39)*.

Information for the general public about developments, trends, risks and negative occurrences on the market for consumer products is one of the key aspects of collective consumer protection. Here too, preventive communication can reduce the need for official intervention, and in any case definitely supplement it. In terms of consumer information, the crypto economy was the number-one topic in 2018. As the number of reports and consumer complaints in relation to investment fraud involving crypto-assets grew *(> Whistleblowing, page 98, and Consumer issues, page 100)*, the FMA consistently used its public and media appearances to highlight the dangers of such schemes, namely the highly speculative nature of investments in these assets, the possibility of investors suffering a total loss, and the fact that the market is currently neither regulated nor supervised, resulting in a complete lack of legal security for consumers.

The FMA informs:

Using a range of different channels, the FMA informs supervised companies and consumers of the latest developments on the market and in regulation.

The FMA acts as an information hub for the financial market. Using a range of different channels, it keeps supervised companies and consumers up to date with the latest developments on the market and in the field of regulation. This means that market participants have access to first-hand, high-quality information that they can use in their assessments of the market or in order to react to new developments in good time, thereby reducing friction and adjustment costs.

In 2018 the FMA published a total of 17 quarterly reports containing quantitative information on the market for insurance undertakings and *Pensionskassen*, on prospectus supervision and on the changing levels of foreign currency loans. These quarterly reports were extended at the end of the year to include a new format dedicated to the Austrian fund market. The first such report, covering the third quarter on the fund market, was published in December.

On 30 April 2018, the FMA Annual Report for 2017 was submitted to the Finance Committee of the National Council and the Federal Minister of Finance.

The FMA embodies its role as an information hub by maintaining contact with stakeholders through various different forums. These include events staged with supervised companies and the general public. FMA employees also attend numerous seminars, meetings and specialist conferences.

PUBLIC RELATIONS CHANNELS

PRESS RELATIONS

There were 54 press releases published in 2018 (2017: 50).

Austrian financial journalists were invited to five press events with the Executive Board:

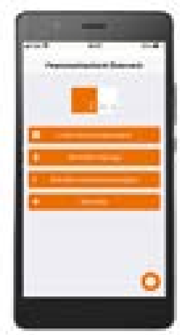
- Press meeting at the Economic Writers' Club on 23 January, covering progress report on the resolution of HETA, and the 2018 priorities for supervision and inspections
- Background talks on 4 April on non-performing loans and risks in relation to the granting of real estate loans, as well as consumer complaint management
- Financial Statement Press Conference on 16 May, presenting the 2017 Annual Report
- Background talks on 26 June focusing on a status report for the FMA's FinTech point of contact and on the risks relating to the granting of consumer credit
- Press conference on 28 November presenting *Facts and figures, trends and strategies* and the 2019 priorities for supervision and inspections.

DIGITAL COMMUNICATION

The FMA website provides a broad range of information aimed at supervised companies and consumers. Specifically targeted at innovative, digital companies, new content was added to the FinTech Navigator on the website in October 2018. The section on consumer issues covers every inch of the financial market along with in-depth articles on current issues. In 2018 these focus articles covered the following areas:

- The company Wienwert
- Improvement of investor protection through MiFID II
- Risk differences between savings accounts and bonds
- Information obligations under PRIIPs and KIID
- Fund fees
- Product intervention as a new supervisory tool
- Risks of real estate bonds
- Risks of consumer credits.

During the year under review the FMA published 61 warnings drawing attention to dubious providers on its website and in the official gazette "Amtsblatt zur Wiener Zeitung". Since the beginning of 2018 these warnings have also been available on the FMA security app, with users informed via push notifications. Consumers can also use the app to look up licensed companies and registered securities brokers. In this way, they can easily and quickly find out whether an individual or undertaking is entitled to offer financial services that require a licence. The FMA tweeted 262 times during 2018, growing its number of followers by 65% to 793.



EVENTS

FMA DIALOGUES ON PRACTICE

The FMA continued and extended its Dialogues on Practice series in 2018, an initiative with the supervised companies that has enjoyed many years' success. Supervisors and companies come together during these dialogue events to discuss regulatory and supervisory issues and developments. The following Dialogues on Practice were staged during 2018:

- Asset management, 14 April and 7 November
- Investment service providers, 2 May
- Securities trading, 14 November
- Insurance themes (suspicious transactions and order reports), 7 December
- *Pensionskassen*, 17 December.

DIGITAL CHALLENGES FOR FINANCIAL MARKETS

On 6 September 2018, the FMA welcomed the Vice-President of the European Commission, Valdis Dombrovskis, who also has responsibility for financial services, to a Digital Challenges for Financial Markets debate at the WeXelerate Hub in Vienna. Suggestions were made by the many guests on how to make the European financial market attractive to digital innovators. Everyone present agreed on the need for a European approach to the regulation of cryptoassets, and for greater consumer protection in this area in particular.

9TH FMA SUPERVISION CONFERENCE

The 9th FMA Supervision Conference was held on 4 October 2018 at Messe Wien with the theme “The financial market as a global village: integrated – innovative – international”. Around 900 delegates and 20 speakers and panellists from Austria and abroad tackled the changes that digitalisation and globalisation are creating for companies, customers and supervisors on the financial markets. The keynote speaker was Hans Wimmer, Managing Director of B&R Industrial Automation, who provided a fascinating insight into the digitalisation of manufacturing. Danièle Nouy, Chair of the SSM Supervisory Board at the ECB, presented the European perspective on financial market supervision in the age of globalisation and digitalisation.

Ewald Nowotny, Governor of Oesterreichische Nationalbank, provided an overview of the situation on the European and Austrian financial markets. Finance Minister Hartwig Löger, who voiced his express thanks to the employees of the supervisory institutions, discussed the political and regulatory challenges of the Austrian presidency of the EU Council.

As well as panel discussions, the event also featured expert debate on such subjects as MREL (minimum requirement for own funds and eligible liabilities) and the gap between aspiration and reality, market monitoring – the compatibility of investor protection and innovation, and money laundering prevention in the digital and global age. FMA employees took part in four expert corners, engaging in expert discussion with the delegates.

The FMA Supervision Conference was open to an even larger group of interested parties in 2018. For the first time the speeches and panel discussions were broadcast via a live stream. Both those present in the hall and those watching on screen were able to put their questions to the speakers using a virtual microphone.

INTERNAL COMMUNICATION

To provide FMA employees with the best possible communication tool, the intranet was given a complete facelift in 2018 using a state-of-the-art, flexible Sharepoint platform. Information covering the financial market and the FMA’s many activities can now be shared more easily. However, the main advantage of this new intranet is that it makes it significantly easier for divisions and individual employees to collaborate in the interests of integrated supervision.

OPERATIONAL SUPERVISION

Supervisory authority: **1**

Priorities for supervision and inspections: **6**

IT security guides published by the FMA: **5**

On-site measures: **250**

Enquiries and complaints made to the FMA: **4 300**

Sanctions imposed by the FMA: **136**

Securities transaction reports handled by the FMA: **64 036 140**

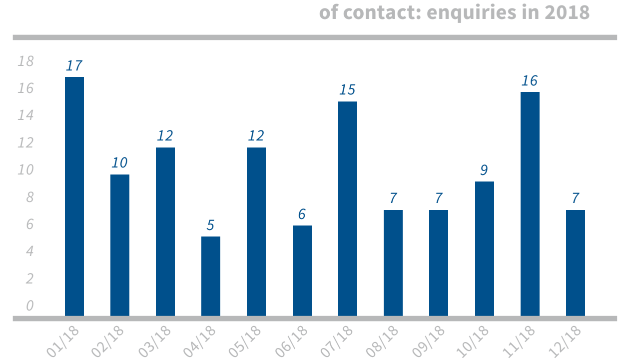
THE FMA AND DIGITAL INNOVATION

The digitalisation of Austria's financial market is changing the environment in which the FMA has to fulfil its statutory remit. The FMA is permanently facing new issues as supervised companies modify and digitise their business models, as the market is flooded with new companies and innovations, and also as new risks emerge.

Consequently, the FMA must be able to react quickly to new developments so that any related risks can be detected and addressed in good time without stifling innovation. Adopting a technology-neutral approach to supervision has proven its worth, in other words supervising risks and business models rather than technologies. The FMA imposes the same supervisory requirements on the same risks and business models, regardless of the technology used.

FINTECH POINT OF CONTACT – DIGITAL BUSINESS MODELS

Chart 31: **FMA FinTech point of contact: enquiries in 2018**



The FMA's FinTech point of contact remained a core aspect of its approach in 2018. Now in its second year, this entity was able to further establish itself as a one-stop shop for the clarification of complex regulatory issues with new digital innovators on the market. Its information services were widely used in 2018, with a total of 123 enquiries (2017: 97) being submitted to the FMA's FinTech point of contact *(> Chart 31).*

The main areas covered by the enquiries were business models in the area of payment services, bitcoin trading, initial coin offerings (ICOs), cryptomining, automated advice and trading systems, and alternative finance and crowdfunding. There was a particularly noticeable sharp increase in interest around the topic of payment services. This can be attributed to the European Payment Services Directive (PSD 2), which was transposed into Austrian law via the Payment Services Act 2018 (ZaDiG 2018; *Zahlungsdienstegesetz*). New digital business models have been established in the form of payment initiation and account information services. In 2018, two FinTechs successfully completed their licensing processes with the FMA: one in the area of payment services and the other in the area of digital asset management.

The FMA's FinTech point of contact has already achieved a considerable level of coverage in relation to Austria's FinTech scene. Of the 69 companies listed in the FinTech

Table 22: **Enquiries by business model 2016-2018**

	2016	2017	2018
ICOs	*0*	*8*	*10*
Payment services	*1*	*9*	*30*
Bitcoin trading/ATMs	*1*	*18*	*24*
Cryptomining	*0*	*5*	*7*
Automated advice and trading systems, trading robots, social trading	*0*	*9*	*6*
Crowdfunding and alternative online investments	*1*	*17*	*8*
Other	*2*	*31*	*38*
Total	*5*	*97*	*123*

Directory Austria in the category of operational and thus potentially regulated financial services at the time of this report being prepared, more than half had been in touch with the point of contact.
Since it was first established, the FinTech point of contact has positioned itself as a partner to young FinTechs but also to more established companies. It attended around two dozen seminars and discussion events in 2018, thereby further growing its reach. The presence of the FinTech point of contact at these events enables the FMA to maintain an overview of developments on the market. At the same time, it also helps to make FinTechs less inhibited about getting in touch with the FMA. In this way, the FinTech point of contact has developed into an acknowledged asset in the interests of an innovative financial market in Austria.

IT SECURITY

The FMA made IT security one of the main priorities for supervision and inspections during the year under review, developing a comprehensive package for the improvement of IT and cybersecurity on the financial market *(> page 47)*. From the FMA's perspective, IT security is about ensuring that companies have the technical infrastructure and governance to defend themselves against attacks on their IT systems and to avoid system outages, or at least minimise the resulting damage. These companies must also be able to effectively protect their clients' data from misuse.

RISKS ARISING OUT OF FINANCIAL INNOVATION

Digital financial innovation also brings risks. New business models are developing very quickly, often outside the regulatory framework, posing a particular risk when inexperienced retail investors are specifically targeted. In 2018 the FMA dealt with a huge number of cases in which investors had lost money after investing in business models in the crypto economy, based on cryptoassets like bitcoin *(> Whistleblowing, page 98)*. Although cryptoassets generally do not fall under the FMA's remit, investors may lose confidence in the financial market and financial services as a whole when things go wrong on the crypto market. The FMA was quick to recognise the importance of informing the public about the huge risks associated with cryptoassets and the related business models. Consumer information was launched back in 2016, followed by an in-depth thematic focus and far-reaching legal analysis in the FinTech Navigator on the FMA website.

The FMA informs:

The FMA quickly recognised the need to warn the public about the huge risks associated with cryptoassets and related business models.

SUPERVISION OF THE STABILITY OF COMPANIES

ANALYSIS WORK

STRESS TESTING

EUROPEAN BANKS – STRESS TESTING

The EBA carried out another EU-wide stress test in 2018, covering 48 major banks including two from Austria. Meanwhile, the ECB subjected a further 54 banks in the SSM, including four from Austria, to a similarly designed stress test. The FMA and OeNB were involved in preparing and implementing these tests. The underlying adverse scenario applied during the testing was tough, simulating a major collapse in economic growth, negative developments in house prices and very pessimistic assumptions about economic development in the majority of the countries of Central, Eastern and South-Eastern Europe, a region of particular relevance to Austrian banks.

The impact of the adverse scenario on Austrian banks' capital situation was more or less in line with the European average. However, the results for the Austrian banks were still below the EU average. While their levels of starting capital were much improved compared with the 2016 stress test, they were still low by international standards.

INSURANCE – STRESS TESTING

The main focus of EIOPA's 2018 stress test lay on the major European insurance groups. In all, 42 insurance groups from twelve EU member states were tested. The Vienna Insurance Group (VIG) was the only Austrian participant. Here too, the FMA was involved in EIOPA's stress test team.

Three very different scenarios were applied:

- a strong and sudden increase in interest rates, together with an elevated rate of cancellations for life insurance policies,
- a long period of extremely low interest rates and strong rise in policyholders' life expectancy and
- a series of severe natural disasters.

Generally speaking, the European insurance industry proved to be robust. For some companies, the scenarios of long-term low interest rates and a sudden interest rate hike would result in their capital base being slashed. As far as the Austrian insurers were concerned, all three scenarios were classed as manageable.

PENSIONSKASSEN – STRESS TESTING

The FMA's 2018 stress test of *Pensionskassen* targeted the methods and processes used by companies to detect and manage potential cyber attacks. This cyber stress test focused on the existing concepts used by companies to respond to cyber attacks with timely, targeted measures and looked at how normal business operations would be maintained in conjunction with business continuity management. The test looked at the extent to which cyber risks had been enshrined in companies' risk management systems. All of the Austrian *Pensionskassen* took part in the exercise.

The test revealed that company-wide measures to counter cyber attacks were sufficiently well developed in *Pensionskassen*, albeit to varying degrees, but that the costs of implementing new technical and organisational measures increase in cyclical intervals.

FURTHER ANALYSIS

BANKS

A central aspect of the analysis carried out in the field of banking supervision is the supervisory review and evaluation process (SREP), as part of which an institution's business model, internal governance and risk management, and capital and liquidity risks are all individually analysed. Over the past few years the FMA and OeNB have developed the SREP in Austria into an integrated analysis tool by also incorporating findings from efforts to prevent money laundering and terrorist financing and from conduct and sales supervision. The SREP provides in-depth analysis of a bank's overall risk situation.

For small and regional banks under direct national responsibility, the SREP was also carried out in close cooperation between the FMA and OeNB last year. The principle of proportionality is key. Depending on a bank's size, structure, type, scope and complexity, the full SREP procedures are carried out every year, every two years or every three years. Overall, a full SREP was carried out for 24 small and regional banks in 2018 on the basis of administrative decisions to that effect.

While it is the OeNB that carries out the quantitative analysis required for the SREP, the FMA focuses on the governance aspect. This involves a far-reaching review and assessment of governance and risk management, processes and workflows in the supervised institutions. Dedicated governance workshops were organised with small and regional banks in 2018. The detailed analysis of governance structures provides an in-depth understanding of the processes and workflows within the supervised institutions.

In the context of the SSM, the ECB is responsible for the SREP in relation to significant banking groups. For their part, the FMA and OeNB also play a critical part in the process led by the ECB. Once again in 2018 all seven significant institutions from Austria were subject to a full review, which also incorporated the findings from the 2017 market-wide sensitivity analysis focusing on interest rate risk.

INSURANCE

Sector-wide priorities for analysis were defined once again in insurance supervision in 2018. With regard to pillar 1, one of the focuses was the measurement of real estate in the market value balance sheet given that there have been some significant shifts

THE FMA AND THE BANKING UNION

The FMA forms an integral part of the European banking union and its operational mechanisms, of which there are currently two, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). It is intensively involved in these institutions at several different levels:

- In the capacity of FMA representative, Helmut Ettl attended 21 meetings and telephone conferences of the SSM Supervisory Board in 2018, while Klaus Kumpfmüller represented the FMA at 17 meetings and telephone conferences of the Brussels-based Single Resolution Board (SRB) of the SRM.
- Seven Austrian banking groups were classed as "significant" in 2018 and thus subject to direct supervision by the European Central Bank (ECB) within the SSM. Together with the OeNB, the FMA plays a key role in the Joint Supervisory Teams (JSTs) set up for these banks.
- There were 12 Austrian banking groups in total – the significant institutions and further groups with cross-border operations – for which the SRB, as the central SRM body, held direct responsibility in 2018. Similar to the JSTs, Internal Resolution Teams (IRTs) are in place for these banks in which the FMA plays a key role.
- Over the course of 2018 the FMA was represented on a total of 77 committees and working groups related to the SSM and SRM, and at which common policies and supervisory approaches were developed.
- Some 1 660 supervision cases were dealt with in writing by the decision-making bodies of the SSM and SRM.

SINGLE SUPERVISORY MECHANISM (SSM)

As far as the SSM was concerned, key decisions on its future course were made in 2018. In terms of banks' business models and income drivers, the focus lay on profit analysis and an assessment of the impact of interest rate risk. The findings from the sensitivity analysis of interest rate risk in the banking book (IRRBB) were taken into account during the supervisory review and evaluation process (SREP). Another key focus was a comprehensive supervisory package aimed at reducing non-performing loans (NPLs) in the balance sheets of banks that are under the direct supervision of the ECB. The latter published a guide on dealing with NPLs and reviewed both the NPL strategies being used by the banks and the timely recording of value adjustments and write-downs. The ECB also focused especially closely on the concentration of risks in certain asset classes, and reviewed exposure to real estate assets in particular. With regard to risk management, targeted reviews of internal models (TRIMs) were also carried out in 2018. The ECB Guides to the internal capital adequacy assessment process (ICAAP) and to the internal liquidity adequacy assessment process (ILAAP) in order to improve capital and liquidity management were the subject of public consultation before being published in November 2018. With regard to risk management as one of the priorities for supervision, reviews were also carried out into how banks are preparing for IFRS9 and other regulatory changes. The end of 2018 also marked the end of the period of office of the SSM Supervisory Board's first Chair, Danièle Nouy. Nouy is succeeded by Andrea Enria, previously Chair of the EBA.

SINGLE RESOLUTION MECHANISM (SRM)

The SRB's work, within the 2018/2019 resolution planning cycle, focused on the development and improvement of resolution plans and related policy work. By the 2019 year-end the majority of banks for which the SRB is responsible should be subject to a binding MREL requirement. The SRB will inform the national resolution authorities of its decisions in the form of "implementing orders", which the NRAs will then be required to implement. In Austria, this will be achieved through FMA implementation decisions.

PRIORITY FOR SUPERVISION: QUALITY AND CONSISTENCY OF INTERNAL MODELS

The own funds requirements applicable to insurance undertakings (Solvency Capital Requirement or SCR) can be calculated using a predefined standard formula or by means of an internal model.

Internal models must be reviewed and approved by the FMA. They must adhere to high statistical standards in relation to calibration, validation and documentation, and above all reflect a company's risk profile more accurately than the standard model. Models should enable companies to recognise and control risks more efficiently. If they are used wrongly, however, they can result in companies setting their own funds requirements too low in relation to the stipulated level of security.

In 2018 the FMA prioritised internal models and carried out eight related on-site inspections, accounting for more than one fourth of all on-site inspection activities related to insurance supervision. Although these reviews were triggered by applications for model changes and extensions, each on-site activity also included a check of the overall quality and consistency of the models. Specifically with regard to approvals for group internal models for local use, ensuring consistency with other models used in the Austrian insurance market is of the utmost importance. The reviews ensure that companies will not benefit unfairly, in terms of their own funds requirements, from selecting a certain model.

In 2018 the FMA also took part in an EU-wide comparative study on non-life underwriting risks, which the European Insurance and Occupational Pensions Authority (EIOPA) organised for the first time. Three Austrian insurance undertakings submitted data for the study. The overriding objectives of the study are to collect common modelling approaches for the non-life underwriting risks in the European Union and to understand the reasons for the differences in the outputs of these internal models. One specific objective was to understand the reasons for the development of internal models and to generate a list of modelling techniques. The report on the analysed data will be prepared in the first half of 2019 and provide crucial information about the Europe-wide consistency of internal models as well as internal model supervision.

towards this asset class during the current, long-term phase of low interest rates. The FMA also conducted an intensive analysis of the insurance undertakings' annual solvency and financial condition reports (SFCR). These reports, which the undertakings are required to publish on their websites, contain information on risk profile and governance, as well as quantitative disclosures in relation to capital resources. Overall, the FMA judged that these reports had been satisfactory in 2018 but provided the insurance undertakings with pointers on how to improve transparency and comparability in future publications.
With regard to pillar 2, the extent to which key functions had been embedded in the companies' decision-making processes was investigated on the basis of spot checks, i.e. using individually selected business incidents.

PENSIONSKASSEN

As far as *Pensionskassen* were concerned, the year was dominated by preparations for the new Pensionskassen Act (PKG; *Pensionskassengesetz*), which entered into force at the start of 2019. One significant change is the abolition of statutory (quantitative) investment limits. This means that *Pensionskassen* will be able to design their investment policy entirely as they wish in future. This also increases the requirements made of the companies concerned. Consequently, the FMA investigated the governance of these entities in 2018 in order to work with them to establish a high market standard, particularly in terms of risk management.

ASSET MANAGERS AND CORPORATE PROVISION FUNDS

In 2018, 35 annual financial statements prepared by licensed asset managers and corporate provision funds were analysed, along with five audit reports from branches of foreign asset management companies. Additionally, 2 350 reports on activities and half-yearly reports produced by funds were processed and analysed on a spot-check basis, covering such aspects as fulfilment of transparency requirements defined in the Securities Financing Transactions Regulation (SFTR).

INVESTMENT SERVICE PROVIDERS

During the year under review, 106 questionnaires submitted by investment service providers were evaluated and analysed. Taking the form of an annual electronic questionnaire for investment firms and investment service providers, this is a major supervisory tool. The evaluation of the questionnaires gives the FMA valuable insights into the activities of the supervised companies as well as into the market of investment service providers, and also provides every evaluated company with information and tips that can be used to review and optimise their internal processes.

INTEREST RATE BENCHMARKS

In 2018 the FMA analysed the use of EURIBOR and other benchmarks in loan agreements in Austria. A standardised questionnaire was sent out to a random sample of 75 Austrian banks and the responses evaluated. The analysis showed that EURIBOR was used as the benchmark interest rate in more than 75% of loan agreements with a variable rate of interest. The second most frequent rate used in Austria is the CHF LIBOR. Both of these rates are being replaced/reformed over the medium term in the wake of the manipulation scandals that were uncovered in 2011. The aim of the analysis, therefore, was to increase awareness of the issue of benchmark rates and to encourage companies to start preparing for their replacement.

ON-SITE MEASURES

On-site measures are an important supervisory tool for the FMA – and used both to glean information and to check whether supervisory measures imposed by the Authority have been implemented by the companies. The term covers comprehensive on-site inspections as well as brief, targeted examinations on site. On-site measures complement the FMA's ongoing analysis work, which draws on reporting data, annual reports and other regularly available data or information requested on a case-by-case basis.

The FMA approaches on-site measures in a risk-oriented manner: larger, more complex and therefore riskier companies are inspected more often than smaller companies that carry only limited risk for financial stability. In addition to the annual inspection plans, on-site measures are also carried out on an ad hoc basis in order to quickly gain a clear picture of a company that finds itself in a difficult situation.

On-site measures are performed in all areas of supervision. In the area of banking supervision and in some areas of securities supervision, the FMA commissions its supervision partner, the OeNB, to carry out the inspections. Inspections of significant banking groups, which – under the SSM – are directly supervised by the ECB, are commissioned under ECB responsibility *(> Table 23).*

IT SECURITY

The FMA launched the operational implementation of its IT security priority across all areas of supervision in 2018. Apart from preparing guides on IT security *(> Priority, page 47),* the past year was also used to lay the necessary foundations for this priority. Furthermore, knowledge in this field was extended and the related inspection modules were improved, thereby enhancing the overall quality of inspections. In the

Table 23: **On-site measures 2014–2018**

	2014	2015	2016	2017	2018
Banks					
– Small and regional banks	42[1]	32	26	30	30
– Significant banks[2]	–	27	21	22	20
– Conduct and sales	50	61	57	61	32[3]
Insurance undertakings	28	23	26	28	28
Asset managers					
– (Real-estate) investment fund management companies and AIFMs	11	14	14	14	12
– Custodian banks, depositaries	3	5	5	6	5
– Individual portfolio management at investment firms and banks	2	4	4	5	4
Investment service providers	28	43	43	37	48
Pensionskassen	5	5	4	2	2
Corporate provision funds	2	3	5	3	6
Market infrastructures	1	1	3	1	3
Prevention of money laundering and terrorist financing	54	58	62	67	62

[1] Includes regional banks and SIs, distinction between LSIs and SIs only from 2015 onwards.
[2] Carried out under ECB responsibility.
[3] The figure from 2018 onwards only accounts for measures taken at banks; the figures for earlier periods also include measures at other supervised companies.

inspections carried out in 2018, IT risks in the risk management process were the main focus. Specific attention was devoted to inspecting companies' IT incident management and their backup and restore strategies, as well as their implementation of authorisation schemes. The year 2018 therefore marked the beginning of prioritising IT security, which will be continued and expanded in 2019.
Besides IT security, a number of other subjects were also covered in the various areas:

BANKS

On-site inspections at banks are based on a risk-based inspection programme which the FMA and OeNB prepare jointly every year. The 30 inspection mandates given to the OeNB in 2018 concerned the priorities of the internal capital adequacy assessment process (ICAAP) and counterparty risk.
The FMA additionally inspected banks in 32 cases on site in order to verify compliance with the statutory provisions relating to conduct and sales *(> Priority, page 85).*

INSURANCE UNDERTAKINGS

Inspections at insurance undertakings focused on the consistency of internal models, one of the priorities for supervision and inspections in 2018 *(> Priority, page 70).* An additional focus was on best estimate calculations, a subject carried over from previous years. Another subject was management and governance, with particular attention paid to implementation of the governance functions required under the Solvency II regime. All in all, on-site inspections were carried out at 20 insurance undertakings.

PENSIONSKASSEN

Two *Pensionskassen* were inspected on site in 2018. Apart from the subject of IT security, the inspections focused on securing functioning internal control systems in implementation of the IORP[1] II Directive.

ASSET MANAGERS

With regard to asset managers (investment fund management companies, AIFMs, custodian banks and depositaries, individual portfolio management at investment firms and banks), the FMA's digitalisation priority for supervision not only covered IT security but also included the digital transformation of business areas. Naturally, most of the processes involved in asset management are IT-based. The main focus during inspections of the systems and processes employed was increasing operational security through a higher degree of automation while at the same time reducing the need for manual maintenance work.

INVESTMENT SERVICE PROVIDERS

On-site inspections at investment services providers in 2018 were primarily dedicated to complaints handling. Proper handling of complaints forms an integral part of collective consumer protection, ultimately helping to strengthen consumer confidence in the financial market.
In 2018 the FMA used its new power for the first time to directly inspect the sale of

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[1] *Institutions for occupational retirement provision.*

securities by tied agents and securities brokers, performing 23 related on-site inspections *(> Conduct and sales supervision, page 80).*

PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

The FMA carried out 62 on-site measures in 2018 that related to the prevention of money laundering and terrorist financing: 59 at banks and financial institutions, two at investment firms and one at a payment institution's agent. One specific priority was on group compliance to prevent money laundering in international companies *(> Priority, page 96)*. With regard to investment service providers, the prevention of money laundering forms an inspection module within general on-site measures, with this module being implemented twice in 2018.

MANAGEMENT TALKS

Regular structured talks with the management of supervised companies are an important source of information for continued supervision. Management talks are usually conducted annually *(> Table 24).* The purpose of these talks is to maintain contact with the management and to examine in greater detail the business model, strategy and risk assessment of the companies concerned. Management talks are also held to discuss current priorities as well as the priorities of supervision with the companies.

OFFICIAL PROCESSES

LICENCES AND REGISTRATIONS

Looking at the licensing processes conducted during the reporting year shows that the number of expired licences – either as a result of the licence being given up or due to a merger – clearly exceeded the number of new licences. This is in line with the long-term consolidation trend in evidence on the Austrian financial market. In the asset management sector the structure of asset managers is becoming more diverse: while consolidation continued among investment fund management companies, which also resulted in AIFM licences expiring, the number of registered AIFMs was up in 2018. Investment service providers encountered a new regulatory environment. Together with the opportunities associated with digitalisation, this led to the development of

Table 24: **Management talks 2014–2018**

	2014	2015	2016	2017	2018
Banks	54	50	68	107	95
– Conduct and sales	36	26	23	18	19*
Insurance undertakings	61	109	47	55	89
Asset managers					
– (Real-estate) investment fund management cos. and AIFMs	29	31	32	30	27
Investment service providers	92	67	74	74	61
Pensionskassen	22	9	14	12	13
Corporate provision funds	10	9	8	8	8
Market infrastructures	1	1	0	0	0
Prevention of money laundering and terrorist financing	–	–	–	–	10

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

new and differentiated business models and to new licences being granted. The new licensing of a market infrastructure is based on the requirements of the European Central Securities Depositories Regulation.

FIT AND PROPER ASSESSMENTS

The FMA conducted a total of 814 fit and proper assessments in 2018 in order to evaluate the professional and personal suitability of members of the management or supervisory board or of specific function holders in the supervised companies *(> Table 26)*. Most of these assessments related to members of executive bodies, i.e. managing directors or supervisory board members. In the area of banking supervision, the ECB is responsible for fit and proper tests at those significant institutions that it supervises directly.

In October 2018, the FMA published a comprehensive update of its fit and proper circular for banks. Adapted to take account of current European supervisory standards, the circular first and foremost includes stricter requirements for banks' supervisory boards.

OUTSOURCING

On 3 January 2018 an amendment to the Austrian Banking Act (BWG; *Bankwesen-*

Table 25: **Authorisation and registration procedures concluded in 2018**

	New	Change	Extension	Revocation/ Expiry	Withdrawal
Banks	0	0	0	3	0
Payment service providers	1	0	0	0	0
Insurance undertakings	0	1	0	1	0
Asset managers					
– Investment fund management companies	0	0	0	2	0
– Licensed AIFMs (incl. real estate investment fund management companies)	0	0	1	2	0
– Registered AIFMs	3	0	0	1	0
Investment service providers	3	0	0	6	0
Pensionskassen	0	0	0	1	0
Corporate provision funds	0	0	0	0	0
Market infrastructures	1	–	1	–	–
Total	***8***	***1***	***2***	***16***	***0***

Table 26: **Fit and proper tests concluded in 2018**

	Management	Supervisory board	Function holders
Less significant institutions	64	318	13
Significant institutions	33	112	7
– Conduct and sales supervision	3	0	0
Payment service providers	0	0	0
Insurance undertakings	36	99	45
Asset managers			
– Investment fund management companies	13	25	3
– AIFMs (incl. real estate investment fund management cos.)	7	4	2
– Custodian banks	2	–	–
Investment service providers	13	–	–
Pensionskassen	0	0	0
Corporate provision funds	4	7	4
Market infrastructures	–	–	–
Total	***175***	***565***	***74***

gesetz) entered into force, and with it a new Article 25 BWG, which creates more legal certainty in the context of outsourcing for banks too. The notification obligation for banks only extends to outsourcing agreements that were entered into after that date.

Table 27: **Outsourcing approved and notified in 2018**

	2018
Banks	*629*
Payment service providers	*7*
Insurance undertakings	*27*
Asset managers	
– Investment fund management companies	*136*
– AIFMs (incl. real estate investment fund management companies)	*219*
– Custodian banks	*0*
Investment service providers	*–*
Pensionskassen	*–*[1]
Corporate provision funds	*14*
Market infrastructures	*0*
Total	***1 032***

[1] Obligation to report applies from 2019.

In 2018 supervised companies, banks included, notified the FMA of 1 032 instances of material operational tasks being outsourced *(> Table 27)*. Outsourcing may be advantageous for companies in relation to all areas of the financial market, and in many respects too. It can lead to greater cost efficiency and higher flexibility. In the case of decentralised sectors, outsourcing to sector-wide institutions can help pool knowledge and implement uniform standards. Asset managers and corporate provisions funds may delegate tasks to third parties. Most outsourcing in the asset management sector involves asset managers delegating specific tasks for individual funds, such as all asset management, to third parties.

Outsourcing is becoming ever more important with the advance of digitalisation. Specific corporate processes can be taken over by specialised providers of IT services, for example online and video identification services in connection with know-your-customer or services in the field of data science where providers process and analyse customer data. Nowadays whole IT systems are also increasingly being outsourced to the cloud *(> The Austrian financial market and the digital revolution, page 46).*

FURTHER SELECTED SUPERVISION CASES

CAPITAL ADD-ONS AT BANKS

One material banking supervision tool available to the FMA is the option of imposing a capital buffer over and above the statutory minimum capital requirement if the bank in question cannot prove it has adequately limited its operational risk. Such a capital add-on measure is an effective tool to address risk situations that were detected during continued supervision or in the course of an on-site inspection. In 2018 the FMA imposed a capital add-on in relation to 20 banks (2017: 25).

Table 28: **Capital add-ons 2014–2018**

	2014	2015	2016	2017	2018
Capital add-ons, incl. Austrian SIs	*2*	*1*	*1*	*25*	*20*

APPROVAL OF INTERNAL MODELS IN INSURANCE SECTOR

In the area of insurance supervision, the FMA approved one application for the approval of a changed model submitted by an Austrian insurance group in 2018, and contributed to two additional model changes in the capacity of responsible super-

Table 29: **Approval of internal models in insurance sector 2015–2018**

	2015	2016	2017	2018
Approval of (partial) internal models of individual companies	*2*	*0*	*3*	*4*
Approval of (partial) internal models of insurance groups	*1*	*0*	*2*	*1*

visory authority. The FMA is the responsible supervisory authority because it supervises subsidiaries of groups that are authorised in another Member State and that use the internal group model also for calculating their individual own funds requirements. Internal group models are approved by way of common decisions adopted in supervisory colleges. As can be seen in the table, insurers now use models more and more frequently. This is why reviewing the consistency of these models formed part of one of the FMA's priorities for supervision and inspections in 2018 *(> page 70).*

SUPERVISION OF FOREIGN INVESTMENT FUNDS

The number of foreign investment funds that are notified for sale in Austria is steadily increasing, and with it the number of notification procedures for these funds. The number of foreign funds has risen by 8.9% since last year alone, with AIFs growing particularly strongly, at 38.2% (UCITS: + 5.5%). These funds mainly originate from Luxembourg, Ireland, the UK, Germany and France *(> Chart 32)*.

Continued supervision of foreign investment funds comprises not just the procedures for notification of the sale in Austria of UCITS and AIFs from the EEA – documents are submitted from the competent authority of the home country to the FMA – but also fund-specific, ongoing notification procedures relating to the submission of reports on activities and half-yearly reports, key investor information documents and prospectuses. The FMA also receives notifications relating to mergers, changes of names, liquidations and the deregistration of funds.

At 10 181, the number of procedures hit a record high in 2018. Compared with 9 588 in 2017, this figure has risen by 6.2%; in a four-year comparison, 38.6% more procedures were conducted in 2018 *(> Table 30)*.

One noticeable trend in the reporting year was that with a hard Brexit becoming a distinct possibility, several funds from the UK moved their head office to another Member State. In the second half of 2018 alone, the number of UCITS from the UK notified for sale in Austria was down by 75 funds.

Chart 32: **Number of foreign funds notified for sale in Austria 2015–2018**

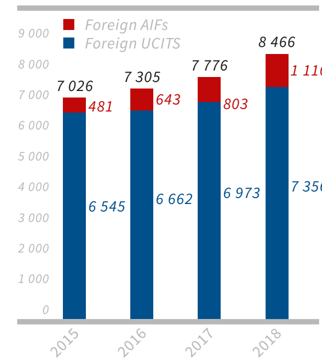


Table 30: **Continued supervision of foreign investment funds 2014–2018**

	2015	2016	2017	2018
Procedures with foreign UCITS	*6 949*	*6 993*	*8 901*	*9 367*
– Notifications	*988*	*680*	*881*	*902*
Procedures with foreign AIFs	*395*	*489*	*687*	*814*
– Notifications	*360*	*329*	*369*	*493*
Total procedures	***7 344***	***7 482***	***9 588***	***10 181***

COLLEGES: A TOOL FOR CROSS-BORDER COOPERATION ON SUPERVISION

The companies supervised by the FMA not only operate on the Austrian market. Some of them also offer their services internationally, either through branches under the freedom to provide services in the European Economic Area, or through subsidiaries elsewhere in the EU and in other foreign countries. What this means for the FMA is that a good working relationship with the host authorities responsible for such subsidiaries is essential. In its capacity as the home authority for Austrian groups with international operations, the FMA is responsible for coordinating overall group supervision through supervisory colleges. These colleges, at which key group-wide supervisory issues are discussed and decisions on group supervision made, meet at least once per year and are chaired by the FMA.

BANKING SUPERVISION

A supervisory college was set up for seven banking groups based in Austria in 2018. In accordance with the European rules governing these colleges, they make annual decisions on group-wide capital and liquidity adequacy and on group-wide recovery plans.

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

With regard to a further four banking groups with subsidiaries elsewhere in the EU and in non-EU countries – Addiko Bank, Wüstenrot Bausparkasse, Hypo Bank Burgenland and Porsche Bank – the FMA is the competent supervisor and thus also responsible for chairing the respective supervisory colleges.

INSURANCE SUPERVISION

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

FINANCIAL MARKET INFRASTRUCTURES

With regard to financial market infrastructures, the FMA chaired the annual supervisory college for the company Central Counterparty Austria GmbH (CCP.A) in 2018 for the fifth time.

In accordance with the European Market Infrastructure Regulation (EMIR), such supervisory colleges are to be chaired by the authority responsible for the central counterparty. As well as ESMA and the ECB, the college members also include those supervisory authorities responsible for supervision of the market infrastructures linked to the CCP and the major clearing members. On this basis, the FMA is also involved in the colleges dedicated to EuroCCP in Amsterdam.

BENCHMARKS

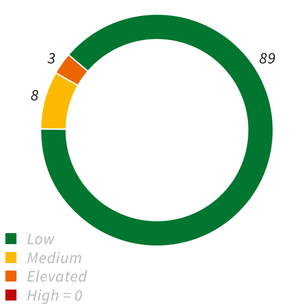
The EU Benchmarks Regulation (BMR) provides for the establishment of supervisory colleges for significant European benchmarks ("critical benchmarks"). The national authorities responsible for the administrator and contributors, as well as ESMA, are represented in these colleges. Also represented are those authorities in which the critical benchmark in question plays a key role in terms of financial stability, market integrity and the financing of households and companies. The supervisory colleges guarantee the exchange of information between the competent authorities and the harmonisation of their activities and supervision measures, in the interests of the harmonised application of the BMR and convergence in supervisory practice.

There are currently two supervisory colleges: the EURIBOR/EONIA College and the LIBOR College. These colleges, in which the FMA is also represented, are chaired by the national authority responsible for the administrator in each case (the Belgian FSMA chairs the EURIBOR/EONIA College, and the UK's FCA chairs the LIBOR College).

SUPERVISION OF FINANCIAL PRODUCTS AND DISTRIBUTION

CONDUCT AND SALES SUPERVISION

Chart 33: **Conduct risk of banks 2018** (in %)



Rules of conduct form one of the key pillars of the supervision of financial products and their sale, and must be observed by supervised companies when offering financial products. Good conduct is particularly essential when products are being offered to retail investors. Through its regulation and supervisory activity, the FMA ensures that companies offer their customers transparent and fair advice, so that decision-making is well informed.

The FMA also pursues a risk-oriented approach to conduct supervision. As far as banks are concerned, 89% were ranked in the lowest risk category in terms of good conduct in 2018. A further 8% were classed as representing a medium risk, while 3% were associated with an elevated level of risk *(> Chart 33).*

Various special studies were carried out in relation to conduct and sales supervision in 2018, supplementing and extending continued supervision.

CUSTOMER INFORMATION UNDER THE PRIIPS REGULATION

Packaged retail and insurance-based investment products should be easy for investors to understand and compare. Consequently, under the terms of the PRIIPS Regulation[1], standardised key information documents are required for such products. When reviewing such key information documents in 2018, the FMA focused on the coherence of the key information presented and, generally, on the availability of these information documents from providers and during distribution activities. With regard to banks, the FMA also checked the plausibility of the performance scenarios and presented costs, ensuring that the information provided to investors is clear, appropriate and not misleading.

All licensed life insurance undertakings in Austria were subject to an initial review in 2018 in respect of the new legal rules in force since the beginning of the year on the key information document for insurance-based investment products. In the first instance the FMA checked whether a key information document had been published on the provider's website for all available insurance-based investment products. Checks were also made to determine if the advertising materials made available contained the required references to the key information document and how to

[1] *Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products.*

acquire it. A further essential aspect was whether the key information document was also easy to find for existing or potential customers. Finally, the FMA also analysed the information provided in the document with regard to risk indicators, warnings, information about total costs and the effect on the annual return, as well as on one-off and recurring costs. In seven cases the FMA ordered measures to restore compliance with the statutory provisions due to the legal obligations not being adequately fulfilled.

TRANSPARENCY IN THE FUNDS SECTOR

The FMA informs:

The FMA carried out a special analysis of charges and customer information documents in relation to retail funds in 2018, publishing its findings for the first time in a market study on its website.

Also in 2018 the FMA carried out a special analysis of charges and customer information documents in relation to retail funds, publishing its findings for the first time in a market study on its website. The aim of this study, which is to be prepared annually from now on, is to make it easier for customers to compare different market offerings and thus to improve market transparency.

Compliance with investment rules and disclosure obligations was reviewed in relation to ten investment funds during 2018. The analysis focused on such issues as adherence to investment limits as stipulated in fund rules and the information provided in the prospectus as well as in the customer information document (UCITS KID). One area that was particularly focused on during the reporting year was closet indexing. This is a practice whereby an asset manager pretends to be actively investing but is actually maintaining a portfolio that its identical to or very similar to a benchmark. This means that the manager is more or less engaging in passive investment management. Investors are deceived as they think they are getting an actively managed investment product, which tends to involve higher management fees, but their investment is actually being managed on a passive basis. The FMA pays close attention to ensure that funds are actually complying with their investment strategy as described to consumers, in the fund documents for example. Misleading information is detrimental to consumers and also prohibited.

No instances of closet indexing were found on the Austrian market in 2018. The FMA will make the issue one of its priorities for supervision and inspections in 2019.

NEW SUPERVISORY POWERS IN RELATION TO THE SALE OF SECURITIES

In 2018 the FMA's supervisory powers in relation to the sale of securities were extended. For the first time, the legal option was created of exercising certain supervisory powers, such as the right to obtain information and carry out on-site inspections, in direct relation to tied agents and securities brokers. For the supervisor this means that it no longer has to approach a case via the licensed legal entity with liability for the agent or broker. There has been a visible trend over recent years of legal and natural persons giving up their licence as an investment firm or investment service provider only to remain on the market in the capacity of a tied agent or securities broker. These companies or individuals therefore represent an increasingly important distribution channel for securities services. The fact that supervisory powers can now be enforced against agents and brokers directly means that a supervisory gap has been remedied. Consequently, the FMA will be able to carry out its conduct and sales supervision even more effectively.

The FMA carried out 23 on-site inspections of tied agents and securities brokers in 2018 in order to check compliance with the supervisory rules governing the sale of securities.

MARKET SUPERVISION

The European Markets in Financial Instruments Regulation (MiFIR) established the legal framework for supervisors to monitor market developments within the European Union. The FMA reorganised its monitoring activities in 2018. The Authority monitors the markets for financial instruments, structured deposits and insurance-based investment products that are marketed, distributed or sold in or from Austria.

Different approaches are used:

- The FMA collates reporting data from all areas and analyses it to detect certain patterns. This analysis focuses on transaction data and volumes relating to various financial instruments.
- The FMA then merges all the financial product information it has obtained from the various supervisory areas to gain one integrated picture. In the final quarter of 2018 the issue of regulatory rules being pushed to the limits, with potential disadvantages for collective consumer protection, was of particular relevance, with the FMA mapping various practices.
- The FMA regularly receives information about problematic products and practices by way of consumer complaints and enquiries or reports from whistleblowers. These are then evaluated in greater detail.
- The FMA also tries to stay in direct contact with the companies it supervises, for instance to check the plausibility of data. In 2018 this was primarily done in relation to the products affected by ESMA's product intervention *(> page 83)*.
- The FMA is also regularly in touch with stakeholders, interest groups, associations and the Austrian consumer protection organisations to ensure that the market is constantly being monitored.

By pursuing all these approaches, the FMA maintains an overview of the Austrian market for financial products and instruments. Apart from deposit products, these comprise investment products and speculative financial products such as interest-bearing securities, investment funds, shares, structured products, derivatives and insurance-based investment products; as well as products designed to provide for the future and finance products such as property and consumer loans. In the reporting year of 2018, the Authority focused its analysis activities on property bonds and ESMA's production intervention.

The FMA looks ahead:

The FMA can use various tools to tackle problematic developments, e.g. publishing information and warning notices to enable consumers to make well-informed investment decisions.

Monitoring the market should help recognise and analyse any irregularities or trends that might negatively impact on consumers or the stability of financial markets as early as possible. The FMA has a variety of tools at its disposal to tackle problematic developments. One tool that can be used very early on in the process is the publication of information and warning notices to enable consumers to make well-informed investment decisions. With regard to supervised companies, the FMA may make use of the legally available supervision tools. As a final resort, and harshest instrument, the Authority may restrict or wholly prohibit certain practices or the marketing, distribution or sale of certain products.

Market monitoring activities additionally also cover unregulated and unsupervised areas of the financial markets such as crowd investing and cryptoassets. Experience has shown that negative developments in these markets may lead to consumers losing confidence in the regulated financial markets too. The FMA can inform consumers about market developments and proactively highlight risks.

ESMA'S PRODUCT INTERVENTION MEASURES

MiFIR not only allows for market monitoring but also created the supervisory tool of product intervention – the power to wholly or partially prohibit or restrict financial practices or the marketing, distribution or sale of financial products. Both the European supervisory authorities EBA, EIOPA and ESMA and the national competent authorities hold this intervention power. While the tool is only to be used as a last resort, the first product intervention was imposed as early as in 2018.

Taking effect on 2 July 2018, ESMA temporarily prohibited the marketing, distribution or sale of binary options to retail clients for three months. It subsequently extended the prohibition until 1 July 2019. Additionally, taking effect on 1 August 2018, ESMA temporarily restricted the marketing, distribution or sale of contracts for differences (CFDs) to retail investors for a period of three months. Such products can now only be offered to retail investors subject to certain conditions. In both cases, the offered products were structured such that the risks and rewards were spread in a way that was highly disadvantageous to consumers. ESMA has meanwhile also extended this restriction several times.

The FMA, working together with the other national competent authorities in the EU, regularly checks that these product intervention measures imposed by ESMA are being adhered to. In 2018 the FMA regularly questioned CFD providers in Austria on their compliance with the ESMA restrictions. The FMA also routinely checks whether the prescribed standardised risk warnings are prominently placed on the websites of CFD providers or online marketing companies as required.

An analysis of CFD trading volumes and the number of trades shows that these products have been traded far less in Austria since ESMA's product intervention. Total leverage trading by retail investors amounted to € 49.60 billion in 2018, representing a year-on-year decline of 30%.

Chart 34: **Total leverage CFD volumes retail Austria 2018**
(in € billions)

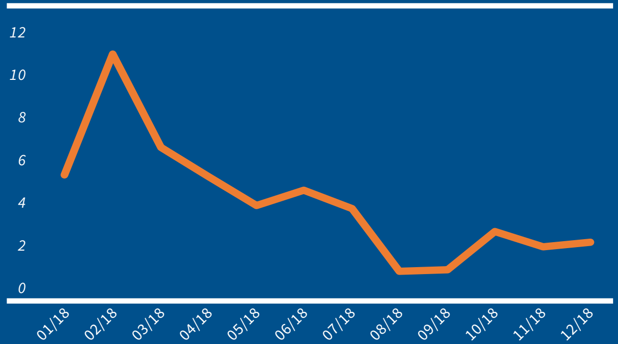
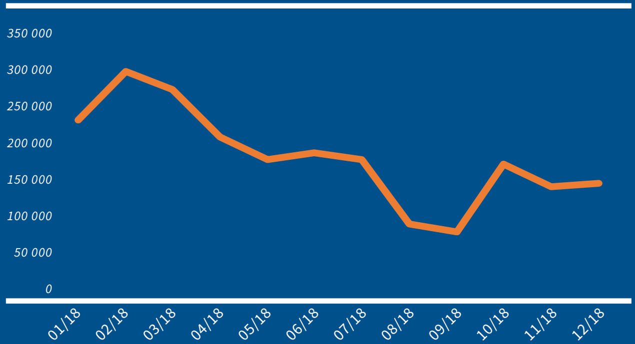


Chart 35: **Total number CFD trades retail Austria 2018**



Since services relating to financial instruments affected by product intervention measures are frequently provided across borders, the FMA works closely with ESMA and other partner authorities to achieve a level playing field for all. ESMA coordinates the data collection on CFDs and binary options, and the FMA also contributes.

In October 2018, leverage CFD volumes traded within the EU by retail investors made up € 338.81 billion, with the share in Austria only amounting to € 2.7 billion, or 0.8%. The percentage is similar for CFD trades, which numbered 23.60 million within the EU in the same month.

To provide information to retail investors and warn them of the high risk associated with such financial products, the FMA published two thematic focuses on product intervention as well as binary options and CFDs on its website in 2018.

FIGHTING UNAUTHORISED BUSINESS OPERATIONS

One of the tasks included in the FMA's remit is to grant licences for business activities within its area of supervision and thus to guarantee that companies entering the financial market meet all the necessary legal and economic conditions.
However, there are also providers on the Austrian market who avoid licensing and continued supervision by the FMA, and who offer services that require a licence without being authorised to do so. Such providers pose a serious threat to the integrity of the Austrian financial market and could damage investor confidence, causing investors to doubt that the market is functioning as it should. The performance of services that require a licence without having the necessary authorisation is referred to as unauthorised business.

PROCEDURES

In 2018 the FMA initiated a total of 208 investigations, 182 of which could be brought to a close *(> Table 31).* Furthermore, 11 cases were examined on site.
In the year under review, a total of 66 parties were called upon by means of a procedural order to restore compliance with the statutory provisions. In three cases an administrative decision prohibiting business operations, and simultaneously threatening a coercive penalty, had to be issued due to non-compliance with the procedural order.
Numerous procedures were conducted in relation to speculative trading in binary options/contracts for difference (CFD)/forex contracts. These are highly risky, speculative and complex products that are unsuitable for sustainable investment. The FMA consulted closely with criminal prosecution authorities to determine the actual risks for investors and to find ways to inform and protect them. To this end, the FMA contributed its knowledge about how such transactions work and proceed.
In 2018 there was also an upsurge in procedures relating to cryptoassets.

PUBLICATION OF WARNING NOTICES

In 2018 the FMA published 61 warning notices in total. This marks a clear increase of 30% on the previous year (2017: 47). The reporting year saw a huge influx of dubious providers in relation to cryptoassets, targeting retail investors aggressively with questionable and even fraudulent business models. Another trend involved an increase in dubious business models relating to binary options and CFDs.
Experience has shown that one very efficient way of tackling unauthorised business activities is the prompt publication of warning notices about dubious providers. Their actions are thus countered with strong and broad publicity, which is particularly effective where unauthorised offers are being made on the Internet.

Table 31: **Procedures against unauthorised business operations 2014–2018**

	2014	2015	2016	2017	2018
Investigations initiated	230	218	162	208	208
Investigations completed	239	254	204	194	182
Publications	19	40	33	47	61
Reported offences	52	49	49	67	90
Admin. penal proceedings concluded by penal decision	17	9	11	7	6
Total procedures	**557**	**570**	**459**	**523**	**547**

PRIORITY FOR SUPERVISION: INTEGRATED SALES SUPERVISION OF BANKS

A professional financial market offers consumers a broad range of products covering diverse financial needs – from classic banking products such as savings and current accounts, investment and insurance products to private pension schemes. In the aftermath of the global financial crisis, distribution rules for the various consumer products have been increasingly harmonised to achieve a uniform level of consumer protection across all product categories; the relevant rules have been included in the Insurance Distribution Directive (IDD), the PRIIPs Regulation (packaged retail and insurance-based investment products) and new conduct requirements added to the Austrian Banking Act (BWG; *Bankwesengesetz*) in recent years. The new rules are closely linked to the conduct requirements applicable to securities distribution of the revised Markets in Financial Instruments Directive (MiFID II), which is considered the gold standard in good business conduct.

The Austrian financial market is highly interwoven and banks have traditionally played an important role in distributing financial products to consumers: customers know banks as integrated providers of various product categories. To ensure, however, that they enjoy a uniform level of protection across all categories, harmonised rules alone are not enough. The rules must be accompanied by a supervisory approach that deals with all of the product types distributed by banks in the same way.

Regardless of the product or service consumers buy from a bank, they must enjoy the same level of protection. The crucial factors for consumers are that the product or service matches their individual financial needs and that transparent information and fair advice are provided. The FMA therefore decided to make integrated sales supervision one of its priorities for 2018.

INTEGRATED CONDUCT AND SALES SUPERVISION OF BANKS

The FMA reorganised its conduct supervision in 2018 to enable an even more integrated approach to the supervision of banks that act in the capacity of distributors. The “Integrated Conduct Supervision of Banks” Division combines the supervision of conduct requirements in relation to banking services, investment services and insurance mediation services provided by banks. This integrated approach of one division supervising all conduct issues creates the maximum level of synergies and means that banks can turn to one point of contact for all issues relating to conduct. It also ensures that consumers can expect a consistent level of protection, irrespective of which financial service they get from a bank or which financial product they buy from them.

COMPLAINTS MANAGEMENT AT BANKS

As part of its integrated conduct and sales supervision efforts, the FMA also focused on complaints handling by selected banks. Banks are obliged to set up a complaints management system that guarantees that any enquiries from customers are handled properly. The FMA found that banks’ approaches to complaints differed greatly. As a result, customer complaints were not always recorded and handled as required by law. It was also found that in most banks the main contact person for complaints was the customer's account manager. To ensure that complaints are handled effectively and independently, account managers must be given clear instructions and relevant training, while there must also be effective follow-up checks in place. Considering the results of this survey, the FMA worked to improve the situation. Specific weaknesses in some of the banks' complaints handling have been addressed and rectified. The findings including improvements and best practices were presented to companies during the Compliance and Prevention of Money Laundering practice workshop in November. By prioritising this issue, the FMA has managed to significantly increase the quality of banks' complaints handling across the sector in the interests of consumers.

ADMINISTRATIVE PENALTIES

Six new administrative penal proceedings were initiated in 2018, and six penal decisions issued.

ENFORCEMENT

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

REPORTED OFFENCES AND REPORTS FORWARDED TO OTHER ADMINISTRATIVE AUTHORITIES

In 2018 the FMA submitted a total of 90 statements of the facts to the public prosecutors or police authorities and made two reports to the administrative authorities.

SUPERVISION OF THE CAPITAL MARKET

PROSPECTUS SUPERVISION

PROSPECTUS APPROVALS

Owing to the increased volatility in the financial markets, the number of prospectus approvals in 2018 was around 10% lower than in 2017, dropping from 69 to 62 prospectuses. Three applications for prospectus approvals were withdrawn by the issuers in 2018.

Broken down according to categories of prospectuses, the picture revealed is as follows: the number of prospectuses for dividend-bearing shares declined by roughly 42%, while the number of base and stand-alone bond prospectuses was largely unchanged. Due to the difficult market environment, the number of final terms filed in connection with base prospectuses approved by the FMA dropped by some 24%, from 8 998 in 2017 to 6 832 in 2018 *(> Table 32)*.

In contrast, the number of approved supplements grew from 81 in 2017 to 92 in 2018, i.e. by around 13.6%.

The number of prospectuses and supplements notified by Austria to other EEA Member States in 2018 remained at the previous year's level. The majority of outgoing notifications were addressed to the competent authorities in Germany and Luxembourg. Some prospectuses and supplements were notified to partner authorities in Central and Eastern European countries.

Table 32: **Approved prospectuses 2014–2018**

	2014	2015	2016	2017	2018
Approved prospectuses	87	60	53	69	62
– Dividend-bearing shares	25	8	7	12	7
– Non-dividend-bearing shares (one-off issue)	11	8	6	9	9
– Non-dividend-bearing shares (base prospectus)	51	44	40	48	46
Approved supplements	204	124	71	81	92
Final terms	6 122	6 793	7 259	8 998	6 832
Outgoing notifications					
– Prospectuses	32	29	23	28	29
– Supplements	100	58	41	40	39
Incoming notifications					
– Prospectuses	340	347	346	311	289
– Supplements	1 083	1 138	1 198	1 009	834

At 289, the number of prospectuses notified in Austria in 2018 by other EEA Member States declined by some 7.1% compared with one year earlier when the figure was 311. The number of notified supplements also dropped accordingly, falling by some 17.3% from 1 009 in 2017 to 834 in 2018. The majority of incoming notifications were submitted to the FMA by the competent authorities in Germany and Luxembourg.

BREACHES OF ADVERTISING AND PROSPECTUS RULES

The FMA is responsible for monitoring the Austrian financial market to identify any breach of statutory provisions that occur in connection with the issuing and advertising of securities and investments. Investigations were completed in nine cases related to the Capital Market Act (KMG; *Kapitalmarktgesetz*) in 2018 (2017: 37), six of which (2017: 36) resulted in administrative penal proceedings being initiated. Three cases (2017: one) were referred to the public prosecutor's office for further proceedings. Furthermore, four sanctions (2017: five) relating to KMG breaches were published on the FMA's website in 2018 *(> Table 33)*.
Another important set of issues in 2018 related to cryptoassets, which the FMA handled in keeping with the concept of integrated supervision. These cases resulted in eleven reports being made to the public prosecutor.

AUDIT BENCHMARK APPLIED BY THE FMA IN APPROVAL PROCEDURES

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

COMPLETENESS
Within an approval procedure, completeness is verified on the basis of the minimum requirements as contained in the relevant provisions under European law. These provisions have been set forth in standardised form in the European Prospectus Regulation. They stipulate a broad range of compulsory information applicable to various different securities and issuer categories.

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

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

Table 33: **Administrative penalties KMG 2014–2018**

	2014	2015	2016	2017	2018
Administrative penalties KMG	4	18	19	36	6
Reports to public prosecutors	20	13	8	1	14
Publication of sanctions	0	1	3	5	4

With its experience in cryptoassets, the FMA has played a leading role in the ICO/token project group of the Finance Ministry's FinTech Advisory Board.

SUPERVISION OF THE STOCK EXCHANGE AND SECURITIES TRADING

Chart 36: **Transaction reports received by the FMA 2014–2018** (Article 26 MiFIR)

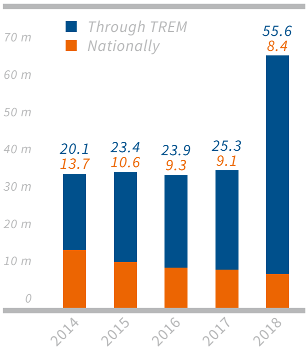
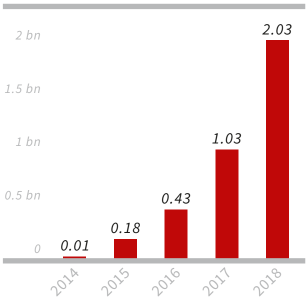


Chart 37: **Derivative trading reports received by the FMA 2014–2018** (Article 9 EMIR)



On 31 December 2018, the Vienna Stock Exchange had 13 077 securities listed, both on its official, regulated market and on its third market operated in the form of a multilateral trading facility.
545 companies were authorised to execute transactions in financial instruments and therefore obliged to report these transactions in accordance with Article 26 MiFIR to the FMA, irrespective of whether the financial instruments were traded on a trading venue or over the counter.
In 2018 these institutions under reporting obligations submitted 8 423 174 securities transaction reports to the FMA *(> Chart 36)*. Of this total number, 6 038 841 were forwarded to the competent EU partner authority via the Transaction Reporting Exchange Mechanism (TREM). In its capacity as competent authority for Austria, the FMA in turn received 55 612 966 transaction reports from other European supervisory authorities. The FMA therefore received 64 036 140 transaction reports in total, which represents an 86.66% increase on the previous year (34 306 558 reports).
Apart from transaction reporting pursuant to MiFIR, the FMA also receives reports of derivative transactions carried out by Austrian companies in compliance with the European Market Infrastructure Regulation (EMIR). In 2018 the FMA collected some 2.03 billion data sets pursuant to Article 9 EMIR. This represents a clear increase of 97%, compared with around one billion in 2017, and is due to a significantly improved reporting quality *(> Chart 37)*.

MARKET SUPERVISION

Using its internal Market Abuse Detector (MADe) analysis tool, the FMA carried out 1 654 routine analyses in the period under review *(> Table 34)*. MADe merges all securities transaction data reported to the FMA, with algorithms recognising any irregularities that point to suspicious transactions. Suspicions were substantiated in 105 cases and more in-depth analysis was performed. This subsequently led to the opening of investigations, in 14 of those cases on account of the suspected misuse of inside information and in 91 cases on suspicion of market manipulation or a breach of trading rules.
Compared with the previous year, there was a marked reduction in the number of investigations initiated due to the suspected misuse of inside information (2017: 30 investigations) while the number of investigations initiated on suspicion of market manipulation or breach of trading rules has risen considerably (2017: 54 investiga-

Table 34: **Market supervision 2014–2018**

	Routine analysis	Investigations into misuse of inside information, market manipulation and violation of trading rules			
	Warnings computed	Investigations initiated	Investigations forwarded for internal legal processing	Investigations dropped/ completed	Reports forwarded to Central Public Prosecutor for Economic Crime and Corruption
2014	1 380	61	10	31	3
2015	1 403	79	16	73	4
2016	1 192	92	21	86	4
2017	1 503	84	9	72	6
2018	1 654	105	14	88	0

Table 35: **Official assistance market supervision 2014–2018**

	Enquiries addressed to foreign supervisory authorities			Enquiries received from foreign supervisory authorities		
	BaFin	FCA	Other	BaFin	FCA	Other
2014	26	5	50	21	0	17
2015	13	2	18	22	0	16
2016	16	0	17	10	0	16
2017	7	1	23	21	0	11
2018	10	4	14	8	0	7

tions). The total number of investigations initiated in 2018 grew by one quarter compared with 2017 (84 investigations).

The FMA cooperates closely with its European and international counterparts in the supervision of the stock exchange and securities trading. During the period under review, a total of 28 requests for official assistance were addressed to authorities in other countries *(> Table 34).* This number has changed only marginally year-on-year (2017: 31 requests). As in previous years, most enquiries were directed to the German Federal Financial Supervisory Authority (BaFin): ten in 2018 compared with seven in 2017. Four enquiries were made to the UK's Financial Conduct Authority (FCA) (2017: one enquiry) and another 14 enquiries to other partner authorities (2017: 23 enquiries).

The number of requests received from foreign authorities was roughly halved compared with the previous year, down from 32 to 15. Eight of those came from BaFin, also considerably fewer than in 2017 (21 requests). The decline is due to MiFIR reporting having started.

MARKET MANIPULATION IN ALGORITHMIC TRADING

Algorithms are playing an increasingly important role on the Vienna Stock Exchange too. In 2018 the FMA succeeded in bringing a high-profile case of market manipulation by means of high-frequency algorithmic trading to a close. Following numerous instances of cross-trading as well as multilateral market manipulation in relation to three securities, the FMA imposed fines on the board members of a market participant that had carried out extensive trading activities using algorithmic trading techniques. By placing and stopping buy and sell orders at extremely short intervals of mere microseconds, the algorithm sent misleading signals to the market, thereby changing the price of the relevant instruments in its favour.

The FMA used innovative and new analysis tools to prove market manipulation in such cases; most of these tools had been developed in-house. In a highly technical

The FMA prosecutes:

The FMA drew a clear line between legal and illegal trading practices that use high-frequency algorithmic trading, and sanctioned abusive practices in the interest of all market participants.

market environment, the FMA thus managed to mark its territory, upholding the important cornerstone of market integrity. The line between legal and illegal trading practices using high-frequency algorithmic trading had become blurred, but through its action the FMA has now succeeded in drawing a distinct line and sanctioning abusive practices in the interest of all market participants. The Federal Administrative Court (BVwG) confirmed all of the FMA's penal decisions in 2018.

SUPERVISION OF ISSUERS

PERIODIC DISCLOSURE

While ad hoc disclosure is triggered in response to specific instances of inside information, regular financial reporting, with its extensive data, provides investors, analysts and the entire financial community with essential information. Investors, credit rating agencies, banks and even supervisory authorities must be able to rely on complete and timely financial reporting. The capital market should also be regularly informed about the business situation of issuers, and not just intermittently in specific cases. The Stock Exchange Act (BörseG; *Börsegesetz*) stipulates annual financial reports, half-yearly financial reports and quarterly reports as periodic disclosure requirements.

In the period under review, the FMA received 452 annual, half-yearly and quarterly reports (2017: 470) *(> Table 36)*.

DISCLOSURE OF MAJOR HOLDINGS

Requiring issuers to disclose any changes in major holdings allows investors to buy or sell shares of stock in full awareness of the modified voting rights, generally providing

Table 36: **Supervision of issuers 2014–2018**

	2014	2015	2016	2017	2018
Ad hoc reports received	444	419	435	439	360
Annual, half-yearly and quarterly reports received	645	518	464	470	452
Directors' dealings	374	363	555	538	469
Reports of voting rights received	293	261	494	451	472
Investigations:					
Initiated	27	33	12	22	37
Forwarded	6	14	4	16	24
Dropped/completed	31	29	18	11	24

Table 37: **Ad hoc reports by subject matter 2014–2018**

	2014	2015	2016	2017	2018
Share buyback/resale	27	11	18	10	9
Peculiarities/other items of ongoing business operations	112	87	125	144	120
Participations (acquisition, sale), partnerships	60	45	81	78	48
Financial reports/business figures	121	151	108	103	78
Large-scale orders	3	2	4	2	8
Capital measures	36	44	30	38	38
Staff details	43	46	36	39	36
Forecasts, profit warnings	13	3	4	2	0
Restructuring, recovery, insolvency	4	16	8	7	9
Strategic corporate decisions, investments	17	11	16	15	9
Management board meetings, resolutions	8	3	5	1	5
Total	***444***	***419***	***435***	***439***	***360***

for enhanced transparency of large capital flows within the market. In 2018 the FMA received 472 reports of major holdings, compared with 451 in 2017.

DIRECTORS' DEALINGS

The management and supervisory boards of listed companies and related persons reported a total of 469 securities transactions in 2018. This represents a slight decrease in the number of reports compared with 2017, when they amounted to 538.

FINANCIAL REPORTING

REVIEWS AND PUBLICATION OF ERRORS IN ENFORCEMENT

In addition to its actual review activity in the context of financial reporting enforcement, the FMA continued its comprehensive preventive work in 2018 with the aim of improving corporate reporting. Current error statistics confirm that Austrian companies have clearly raised the quality of their financial reporting; an improvement that had already become evident in 2017. The error rate dropped further to 23% of all financial statements reviewed in 2018 (2017: 28%) (> *Chart 38).* Compared with earlier error rates (2015: 41%), the downward trend now appears to be well established, at just below the EU average (29%).

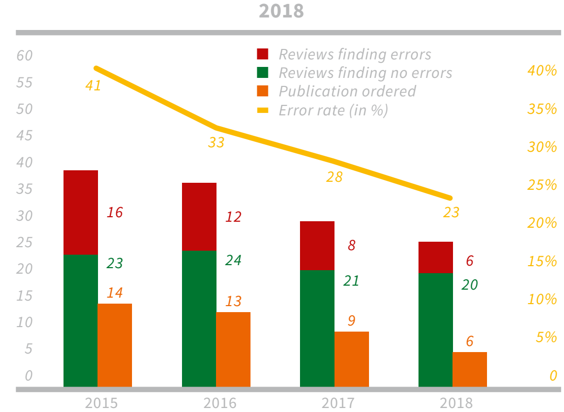
The error rate of financial institutions, the statements of which used to be particularly prone to error (with rates of 67%), stabilised further and were close to the overall rate at 25% (2017: 22%). The FMA's numerous preventive measures in this sector are bearing fruit.

All in all, 19 errors were detected at six companies. As in 2017, the total number was distorted by one outlier that accounted for a particularly high number of errors. In addition, in contrast to earlier periods in which each review frequently found a large number of errors, fewer individual errors were once again detected per report. With a generally declining number of individual errors but some instances of particularly erroneous reports, it seems that enforcement efforts have reached most but still not all companies.

The individual errors concerned a broad range of areas, particularly after eliminating the outlier. The areas of financial instruments and impairment testing, which used to be full of errors, included only a few errors.

The FMA and the other EU accounting enforcers publish European common enforcement priorities annually in order to draw companies' attention to known and foreseeable sources of reporting errors. With the priorities being published beforehand, the FMA detected fewer errors in these areas: in 2018 only one error related to these common priorities; all other errors resulted from review areas specific to the relevant company. Publicising such priorities therefore appears to help avoid reporting errors.

Chart 38: **Enforcement results 2018**



PREVENTION AND INTERNATIONAL COOPERATION

To avoid errors from the outset, the FMA not only takes measures in accordance with the Financial Reporting Enforcement

	2015	2016	2017	2018
Thematic review	*3*	*5*	*10*	*5*
Pre-clearance	*3*	*3*	*3*	*4*

Table 38: **FMA prevention tools**

Act (RL-KG; *Rechnungslegungs-Kontrollgesetz*) but also carries out special analysis in relation to particularly relevant topics (thematic reviews) and offers a pre-clearance service for accounting issues. New reporting issues are coordinated with all EEA accounting enforcers within the European Enforcer Coordination Sessions (EECS), a forum organised by the European Securities and Markets Authority (ESMA).

In 2017 and 2018 a particular focus was on the thematic reviews looking at the new accounting standard for financial instruments (IFRS 9), which were carried out together with the European Banking Authority (EBA) within the Single Supervisory Mechanism (SSM). Critical interpretation issues were discussed and coordinated within the EBA and ESMA. Banks were subsequently given competent and reliable feedback on how they should implement IFRS 9, also taking account of specific requirements related to banking supervision law. The FMA issued twelve related information notices.

The FMA informs:

With its 12 information notices, the FMA gave banks competent and reliable feedback on how they should implement IFRS 9 in compliance with banking supervision law.

Another thematic review by ESMA was dedicated to non-financial statements, which have needed to be published since 2017. In order to direct attention to this requirement, it was included in the European common enforcement priorities.

The amount of pre-clearance work depends on how many companies ask for it. In 2018, apart from income taxes, issues relating to financial instruments were of particular concern. Pre-clearance is effective when it ensures correct reporting even before the financial statements are drawn up. The relatively high number of enquiries compared with other European countries and the slightly increased number overall in 2018 reflects companies' interest in the service and their acceptance of the information provided.

PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

The FMA continued in 2018 to pursue its risk-based approach to the prevention of money laundering and the financing of terrorism. This approach is based on a risk classification of the supervised institutions. Supervision is then focused on those companies that are exposed to a higher risk because of their business model and that therefore require greater prevention efforts.

The number of on-site measures relating to the prevention of money laundering and terrorist financing increased to 60 (2017: 55). All of the 30 on-site inspections were conducted at banks. Furthermore, there were also 30 examinations in the reporting year: 29 carried out at banks and financial institutions and one at a payment institution's agent. The FMA also held ten management talks in 2018.

During 2018 there were 168 cases of supervisory procedures being initiated. The procedures included 141 investigations and 15 procedural orders requesting that compliance with statutory provisions be restored *(> Table 39)*.

Since the FATF published its mutual evaluation report (MER) of Austria in September 2016, the Federal Government has adopted a plan of action, and a number of measures have since been taken to address the deficiencies identified. With its first follow-up report detailing the progress made, Austria was able to gain re-ratings of a number of recommendations only one year after publication of the MER. The establishment of a register of beneficial owners described in Austria's second follow-up report was also valued favourably, with further recommendations subsequently being re-rated. The second progress report was published in November 2018.

In 2018 the FMA published two new circulars relating to the prevention of money laundering and terrorist financing. In March the Authority published a Circular regarding risk analysis in relation to the prevention of money laundering and terrorist financing. This Circular is intended to serve as a guide to obliged entities, helping them to recognise and assess potential risks of money laundering and terrorist financing. The recognition and assessment of those risks are essential for obliged entities to be able to implement the risk-based approach.

Chart 39: **Risk classification of supervised institutions 2018**

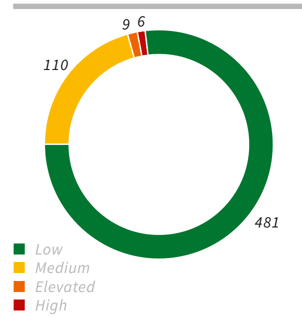


Table 39: **Supervisory procedures 2014–2018**

	2014	2015	2016	2017	2018
Investigations initiated	135	125	127	163	141
Procedures to apply measures initiated	29	42	20	17	15
Administrative penalties	6	13	7	7	8

PRIORITY FOR SUPERVISION: PREVENTION OF MONEY LAUNDERING IN INTERNATIONAL COMPANIES (GROUP COMPLIANCE)

Recent events have shown that criminal networks have frequently abused the highly integrated European and global financial markets in order to launder their illicit funds and to finance terrorist activities. There is often a contrast between high levels of capital mobility on the one hand and a lack of cross-border coordination and cooperation in anti-money laundering (AML) and combating the financing of terrorism (CFT) on the other. Austria has assumed a pioneering role for the last few years, working to overcome this vulnerability. Its Financial Markets Anti-Money Laundering Act (FM-GwG; *Finanzmarkt-Geldwäschegesetz*) expressly stipulates that international banking groups and groups of financial institutions must have uniform strategies and procedures in place, and roll these out across the whole group.

The FMA is keeping a watchful eye on Austrian banking groups and groups of financial institutions that have branches and subsidiaries abroad or are active in several countries, ensuring that they effectively evaluate the risk of money laundering and terrorist financing for their whole group and control this risk as prescribed in the FM-GwG. The Authority made this one of its priorities for supervision and inspections in 2018.

The FMA inspected both Austrian parent companies and their affiliated companies abroad. To this end, the Austrian Authority cooperated closely with the relevant national competent authorities, coordinating its inspections and supervisory measures with them. The focus was on seven on-site measures outside Austria, both in other EU Member States and in third countries, and often involving local partner authorities.

In the course of conducting these on-site measures, the FMA found that companies were well aware of the importance of the issue of group compliance. However, some problem areas were also detected: concerning the area of group compliance in general, the roll-out of due diligence obligations in individual cases, the delegation of certain anti-money laundering tasks and functions, as well as regarding the exchange of information within the group.

A specific challenge in this respect is the implementation of group strategies in third countries, particularly when rules have not been harmonised. Local rules on confidentiality, data protection and information exchange must be considered. In cases where those rules do not allow group-wide strategies and procedures to be implemented, the FMA requires groups – in accordance with legal provisions – to take additional measures to avert the related risks.

The formation of opaque black boxes within international groups will not be tolerated. In a coordinated effort, European supervisory authorities will try to work towards a joint solution with the third country concerned. In extreme cases, the FMA may also instruct groups to refrain from carrying out any further transactions in those third countries or to suspend their business there altogether.

In December the FMA published its Circular on due diligence procedures for the prevention of money laundering and terrorist financing. This Circular informs the obliged entities on how to comply in practice with the due diligence obligations laid down in the Financial Markets Anti-Money Laundering Act (FM-GwG; *Finanzmarkt-Geldwäschegesetz*). It provides detailed information on identification and verification of customers and beneficial owners, on obtaining information about the purpose and nature of a business relationship, on verification of the origin of funds, as well as on conducting ongoing monitoring of business relationships. One chapter also covers the possibility of video identification.
The FMA plans to publish two more circulars on this topic in 2019. One is to be dedicated to internal organisational structures from the perspective of AML/CTF, while the other will deal with the related reporting requirements.

The FMA informs:

The FMA published two new circulars dedicated to AML/CTF in 2018.

WHISTLEBLOWING

Chart 40: **Number of whistle-blowing reports 2014–2018**

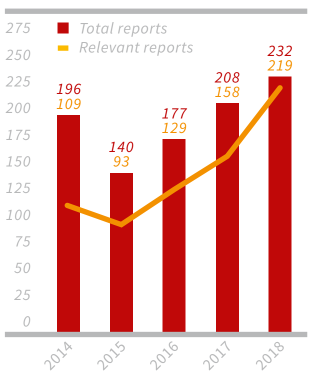
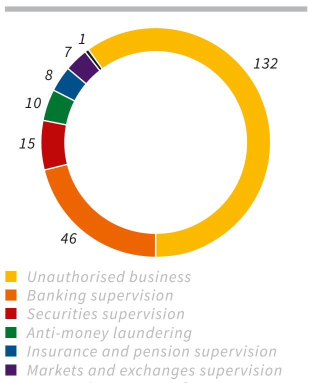


Chart 41: **Distribution of reports 2018**



The FMA has been operating a dedicated IT-based whistleblowing system since 1 February 2014. Informants used it several times in 2018 to 'blow the whistle' on alleged misconduct. Most of the reports are made anonymously and cannot be traced back to the whistleblower. The FMA's specially trained staff start the process by checking every report as to its relevance to the FMA's supervisory activity, in other words whether the information relates to companies and issues that fall within the FMA's supervisory remit.

In order to protect whistleblowers effectively, the FMA uses the latest certificate-based encryption system to secure its communication platform for anonymous whistleblowing reports. Whistleblowers can also set up their own secure mailbox in order to communicate anonymously with the FMA. In 2018, 60.77% of whistleblowers set up such a mailbox.

Provided that whistleblowers do not provide any data that results in their identity being revealed, the whistleblowing system also protects those individuals' anonymity throughout the entire communication process conducted via the secure mailbox, such that their identity cannot be found out. The FMA will make this clear to whistleblowers from the outset. All FMA employees and bodies are bound by a statutory obligation to maintain official secrecy. This means that the identity of both whistleblowers and those affected by whistleblowing reports are additionally protected. In some cases the FMA may, however, be obliged to disclose information that is known to it, for instance in the course of criminal proceedings.

STATISTICS ON REPORTS AND OUTCOMES IN 2018

In 2018 the FMA received 232 reports from whistleblowers, 94% of which fell within the FMA's supervisory remit *(> Chart 40)*.

Out of the 219 relevant reports, 46 related to banking supervision, 15 concerned securities supervision and ten were connected with money laundering and the financing of terrorism. A further eight reports were concerned with insurance and pension supervision and seven were submitted in relation to markets and exchanges supervision, while one report was about financial reporting enforcement *(> Chart 41)*.

More than half of the reports, 132 to be exact, were submitted in relation to unauthorised business activities, and all of those concerned investment fraud. This 60% share of all reports can be divided almost equally into conventional investment fraud and fraud in connection with cryptoassets. Cryptoassets are frequently advertised with the promise of exorbitant increases in value and a highly luxurious lifestyle, or even as a “conservative and safe investment” in cryptocurrencies for old-age provision. It is striking that reports about investment fraud as a whole have risen continuously over the last few years *(> Chart 42)*.

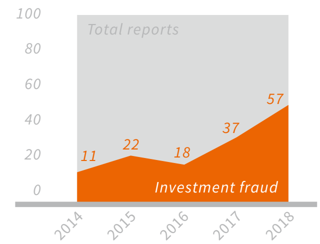
The whistleblowing reports received in 2018 resulted in a total of 87 further supervisory measures being introduced.

In 54 cases these measures included either on-site inspections, company visits, management talks or ‘fit and proper’ tests. Additionally, 23 reports were submitted to the public prosecutor’s office (including economic crime and corruption departments), and there were ten instances of investor warnings being published.

In 2018 some 40% of the reports falling within the FMA’s remit were handled by taking specific supervisory measures, with 29 investigations still to be completed by the end of the reporting period.

The FMA expects to receive further substantiated reports from the supervised markets, and will uncover and consistently prosecute any misconduct. This creates greater awareness of poor practice, combined with a heightened sense of justice, which ultimately promotes compliance with the law. It also has a preventive effect regarding adherence to supervisory standards and helps to strengthen confidence in the Austrian financial market.

Chart 42: **Increase of reports about investment fraud 2014–2018** (in %)



CONSUMER PROTECTION, CONSUMER INFORMATION AND COMPLAINTS SYSTEM

The FMA informs:

The FMA offers clear and unambiguous information on its website, particularly in the form of FAQs, providing answers and explanations to consumers as well as informative charts.

The FMA is obliged to protect consumers collectively, and protects the interests of various different groups of consumers. Reviewing supervised companies' compliance with their information obligations is one of the FMA's current priorities for supervision. Consumers should receive information that is fair, clear and not in any way misleading in order to be able to make sound decisions.

The FMA has a dedicated section on its website providing clear and unambiguous information, particularly in the form of FAQs, not only providing answers and explanations to consumers but also including informative charts.

The FMA has a dedicated section on its website providing clear and unambiguous information, particularly in the form of FAQs, not only providing answers and explanations to consumers but also including informative charts. For more than ten years now the FMA has also had its own central complaints system in place that complies with the same requirements that also apply to the companies it supervises.

The FMA handled and finally settled approximately 4 300 enquiries and complaints in total in 2018. The majority of those enquiries and complaints, around 2 800, were made by phone and around 1 500 were received by the FMA in writing. Out of the 1 700 complaints received in total, a good 1 250 concerned banks, with 300 relating to insurance undertakings. Enquiries were also mostly made in connection to banks.

All of these enquiries and complaints covered a wide range of issues:

- At around 30%, complaints relating to payment services topped the list in 2018 by far. The length of time taken for transfers was a particularly frequent complaint.
- Many enquiries and complaints were also received in relation to various issues surrounding cryptoassets. Here the number of enquiries and complaints relating to unauthorised business operations, specifically investment fraud, was particularly high; there were several cases of investment fraud in connection with cryptoassets. In this context, the FMA not only published investor warnings on its website but also provided information about the most common scams.
- Recurring issues this year once again were foreign currency loans and repayment vehicles, consumer and mortgage loans, questions regarding the anti-money laundering rules and the related obligations concerning identification and proof of identity, as well as the terms and conditions of deposit guarantee schemes.
- With regard to insurance supervision, enquiries and complaints frequently related to the incomprehensibility of the information provided by insurance undertakings in the life insurance sector. Enquires here mostly concerned the actual amount of

the capital guarantee, doubts as to the accuracy of calculations and the lack of clarity in policy summary reports, termination of the contract, and exemption from or discounts on premiums. In non-life insurance, complaints frequently concerned the slow settlement of claims, particularly in connection with an insurance undertaking that is operating in Austria through a branch.

- In the area of pension company supervision, complaints were received about the stipulated lump sum payment limit, which amounted to € 12 300 in 2018. Up to this amount, a *Pensionskasse* may settle all benefits by making one lump sum payment. Where the entitlement to a benefit exceeds this amount, it may not be settled through payment of a lump sum but must be paid out in the form of regular pension payments. It is also not possible to waive payment of any amount exceeding the amount mentioned above in order to allow a lump sum payment.
- In the area of securities supervision, complaints related to failure to observe rules of conduct, lack of proper advice, failure to protect investors' interests, investment of funds with an inappropriate level of risk, and once again information that was difficult to understand.
- Other issues that concerned investors were binary options and contracts for difference (CFDs), products often subject to aggressive advertising practices and sold to retail investors without advice. Following ESMA's product intervention, complaints in this area were noticeably down.

ENFORCEMENT AND LAW

ADMINISTRATIVE PENAL PROCEEDINGS

At the beginning of 2018, 85 administrative penal cases were pending at the FMA, with a further 131 being initiated later in the year. Proceedings were discontinued in 33 cases. At the end of 2018, 44 proceedings were still pending.

In 2018 the FMA continued its approach of primarily proceeding only against legal persons in its administrative penal proceedings. This means that it only imposes administrative penalties for administrative offences on the company that was ultimately responsible for the breach. The so-called 'small' supervisory reform has enabled the FMA since January 2018 to refrain from punishing the responsible natural person – such as managing directors or other responsible representatives – pursuant to Article 9 of the Administrative Penal Act (VStG; *Verwaltungsstrafgesetz*) when an administrative penalty is already being imposed on the legal person for the same breach and where no particular circumstances preclude the option of refraining from punishing the natural person.

The FMA refrained from initiating administrative proceedings after preliminary investigations in 179 cases *(> Figure 5)*. In 67 of those 179 cases, the FMA made use of its discretionary power (also available to it since 1 March 2018) to refrain from prosecuting altogether, including action against the legal person, if the breach is not significant.

These discretionary powers, which were extended in two regards in the course of the 2017 reform, allow the FMA to concentrate its resources on significant and complex proceedings that will require greater work. For instance, the number of penal orders – a more lenient form of administrative sanction – has been falling continuously for some years now. No penal orders were issued in 2018. Nevertheless it is important to the FMA to send out the correct preventive signals and show that it will not tolerate small offences either. Accordingly, it issued 68 admonitions or admonition orders in 2018 *(> Chart 43)*. In these cases, there is no penalty but the accused party's attention is drawn to the unlawful nature of their conduct.

In another 68 cases, the FMA had to issue penal decisions owing to significant breaches. These procedures and penalties related to 47 facts or cases in total *(> Chart 44)*. In other words, the FMA often imposes more than just one penalty, for instance when cases are highly complex or when they affect several natural persons. The num-

Chart 43: **Administrative penalties and admonitions 2014–2018**

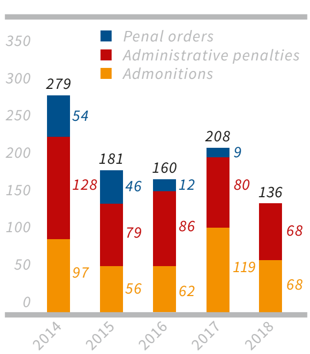
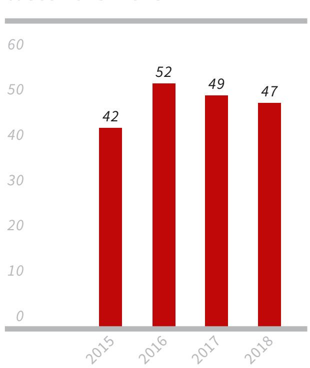


Chart 44: **Number of sanctioned cases 2015–2018**



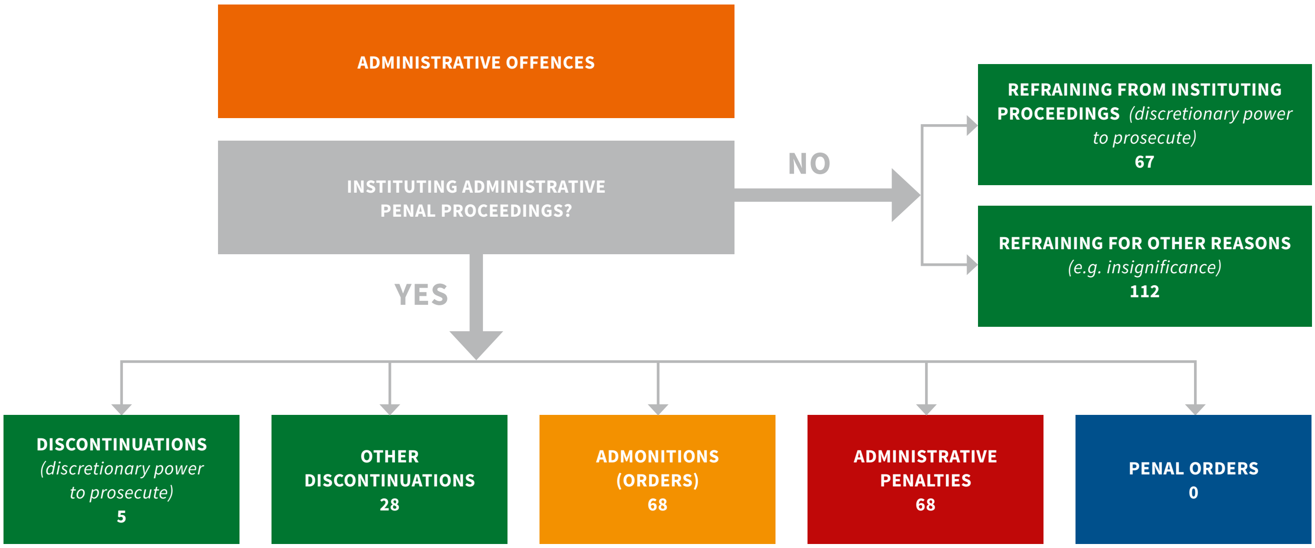


Figure 5: **Administrative penal proceedings 2018**

ber of handled cases remained about the same as in previous years, even though the focus was on significant and complex procedures in the reporting year.

Through the 68 administrative penalties it pronounced in 2018, the FMA imposed fines totalling € 4 839 200. The highest fine imposed by the FMA – not just in 2018 but ever since its inception – was € 2 748 000.

STATEMENTS OF FACTS AND REPORTS TO CRIMINAL PROSECUTION AUTHORITIES

Chart 45: **Facts reported to public prosecutors 2014–2018**

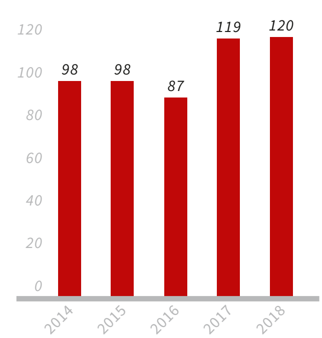
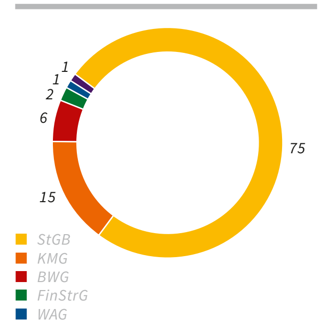


Chart 46: **Facts reported by subject in 2018** (in %)



Some of the laws included in the FMA's supervisory remit also cover criminal offences. Where the FMA has reasonable grounds to suspect that one of these laws has been breached it must file a report with the public prosecutor's office or the criminal investigation department. The courts of law are then responsible for imposing sanctions. Examples of such offences include insider dealing and market manipulation as prohibited by the Stock Exchange Act (BörseG; *Börsegesetz*) where amounts exceeding defined limits are involved, and the public offering of securities or investments without submitting a prospectus as required by the Capital Market Act (KMG; *Kapitalmarktgesetz*).

As part of its supervisory activity, the FMA also becomes aware time and time again of other circumstances that lead it to suspect that the law has been breached. The FMA is obliged to report such cases, most of which involve suspected breaches of trust and/or fraud.

In 2018 the FMA forwarded 120 statements of facts to the public prosecutor's office *(> Chart 45).* In 75% of these cases the statements of facts related to reports of suspected breaches of the Criminal Code (StGB; *Strafgesetzbuch*), 15% were based on suspected breaches of the KMG, 6% were due to suspected violations of the Austrian Banking Act (BWG; *Bankwesengesetz*), 2% were based on suspected breaches of the Fiscal Offences Act (FinStrG; *Finanzstrafgesetz*) and 1% each pertained to a suspected breach of the provisions of the Alternative Investment Fund Managers Act (AIFMG; *Alternative Investmentfonds Manager-Gesetz*) and of the Securities Supervision Act (WAG; *Wertpapieraufsichtsgesetz*) *(> Chart 46).*

SELECTED PROCEEDINGS

ADMINISTRATIVE PENAL PROCEEDINGS

AD HOC REPORTING OBLIGATIONS

Penal decisions were issued against two issuers in their capacities as legal persons for belated ad hoc reporting of a capital increase and a large-scale order respectively. Both cases were settled in accelerated proceedings pursuant to Article 22 para. 2b FMABG. The penalty was € 60 000 in each case. The fact that responsibility had been assumed through consensual conclusion of the proceedings was taken into account when setting the fine. The issued penal decisions were published. The need for publication is to be determined irrespective of any consensual conclusion of proceedings.

DUE DILIGENCE PROCEDURES FOR THE PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

The FMA sanctions:

In line with its strategy of competence, control and consistency, the FMA consistently sanctions infringements of the law, regarding this an essential part of supervision.

The FMA imposed fines of € 414 000 and € 2 748 000 on two credit institutions (legal persons) on account of their inappropriate AML/CFT policies. Both sanctions followed on-site inspections conducted by the FMA.
One credit institution had not properly verified the identity of the beneficial owner of high-risk customers. Activities had been systematically outsourced to third parties, which meant that equivalent compliance with the institution's obligations was doubtful. And a suspicious transaction report had not been submitted to the Financial Intelligence Unit as required by law. The other credit institution was sanctioned because it had not properly verified the identity of the beneficial owner of high-risk customers, and also because it had not regularly updated the documents, data and information necessary to understand the customer's ownership and control structures. The sanctions were published on the FMA's website before becoming final.
Both banks have appealed to the Federal Administrative Court (BVwG) against the penal decision. The cases are still pending.

PROSPECTUS LAW

The FMA imposed fines totalling € 69 000 on the managing director of a company on account of misleading advertising and missing information in the prospectus in relation to the public offering of a qualified subordinated loan. The party appealed to the BVwG against the FMA's penal decision. The BVwG confirmed the FMA's penal decision with regard to the question of guilt. The fine was lowered to € 60 000, given that, by the time of the BVwG's ruling, the absorption principle formerly used within the FMA's scope of enforcement had been replaced by the principle of accumulation. The Administrative Court (VwGH) rejected the appeals filed against this ruling. These cases were also published.

CRIMINAL LIABILITY OF LEGAL PERSONS

As a result of the EU-wide harmonisation of supervisory law, the penalties applicable to legal persons in administrative penal proceedings conducted by the FMA have been significantly increased. In a basic ruling the Constitutional Court (VfGH) found the FMA to be entitled to impose such high penalties in its capacity as administrative authority.

Following several appeals lodged by two banks against high penalties imposed by the FMA, the BVwG had applied to the VfGH to examine the constitutionality of the relevant supervisory provision, i.e. Article 99d BWG. The FMA had issued the penal decisions against the banks as legal persons on account of infringements of BWG provisions. The BVwG's concerns were essentially focused on the fact that penalties of up to 10% of a credit institution's total net turnover may only be imposed by ordinary courts in criminal proceedings.

However, the VfGH confirmed the constitutionality of Article 99d BWG, reasoning that the amount of the threatened sanction was not a useful means to differentiate between judicial criminal law and administrative penal law, thus departing from its former rulings.

Irrespective of this constitutional question having been settled, the BVwG's rulings on the criminal liability of legal persons have still been inconsistent. In some cases, the BVwG has so far assumed a "two-stage process": before a legal person can be sanctioned, a responsible natural person must first have been sanctioned or had their culpable conduct established with final effect. In these cases, the BVwG declared the ordinary high-court appeal admissible because of the unresolved legal issue, and the FMA submitted an official high-court appeal against the decisions of the BVwG to the VwGH.

In its ruling of 8 April 2019, the VwGH confirmed the FMA's legal interpretation according to which a responsible natural person need not be sanctioned first in order to allow punishment of a legal person.

VFGH – SUSPENSIVE EFFECT OF APPEALS IN ADMINISTRATIVE PROCEEDINGS BY THE FMA

In a significant ruling, the VfGH pronounced as unconstitutional the provision in the

ACCELERATED CONCLUSION OF PROCEEDINGS

To ensure faster and more efficient proceedings, the option of concluding administrative (penal) proceedings by common consent was introduced in Article 22 para. 2b of the FMABG with effect from the beginning of 2018; this is referred to as the accelerated conclusion of proceedings. One party may waive its right to appeal against an administrative decision even before that decision has been issued by the FMA. The decision is then issued without a statement of reasons. This way, proceedings are concluded swiftly and finally.

With administrative penal proceedings, a party's waiver of appeal is considered by the FMA to be an assumption of responsibility. For the purposes of setting the fine, the party is then treated as if it had made a confession. The amount of the fine will therefore be lower.

The consensual accelerated conclusion of proceedings requires the FMA and the party to communicate in depth. The party must also know the content of the anticipated administrative decision to be allowed to make use of this option. If the party decides not to waive its right of appeal pursuant to Article 22 para. 2b FMABG, the ordinary proceedings will continue.

There is no legal claim to consensual accelerated proceedings. However, one party can indicate that it would be amenable to it, thereby starting the process. In 2018 accelerated proceedings were applied to twelve cases, nine of which were administrative penal proceedings.

Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*) according to which appeals against administrative decisions issued by the FMA did not have suspensive effect.

In the case in question, the FMA had requested, under threat of a coercive penalty, that a company submit documents about its business model. Since the company did not comply with the request, the FMA imposed a coercive penalty and threatened to impose another one. The company in question appealed against both these decisions. The appeals included applications for recognition of the suspensive effect, which, however, the BVwG dismissed. The company subsequently filed appeals to the VfGH against these dismissals. The VfGH instituted proceedings ex officio to examine the constitutionality of Article 22 para. 2 FMABG, which sets forth that appeals against FMA administrative decisions and requests for submission do not have suspensive effect, except in relation to administrative penal matters. The VfGH finally ruled that the provision was unconstitutional because it did not make a sufficiently clear distinction.

A period for repairing the provision has been set, which was still running as at the time of this report being prepared.

ECJ – EUROPEAN COURT OF JUSTICE

Under the terms of the BWG, the FMA must prescribe penalty interest for certain breaches of supervisory standards – even those that result from directly applicable Union law – to absorb any economic advantage gained by a bank as a result of the breach. The question of whether this complies with European law was brought before the European Court of Justice.

In the initial case, the FMA ordered a bank to pay penalty interest pursuant to Article 97 para. 1 no. 4 BWG on the grounds that it had entered an exposure to a group of connected clients in its trading book that was higher than the value permitted under Article 395(1) CRR[1]. The bank filed an appeal with the BVwG, which suspended the proceedings and filed a request with the ECJ for a preliminary ruling. The ECJ ruled in preliminary ruling proceedings that:

[1] *Capital Requirements Regulation.*

ADMINISTRATIVE DECISIONS IN RESPONSE TO REQUESTS FOR INFORMATION: THE FIRST YEAR

On 3 January 2018, a new type of decision was introduced: the administrative decision in response to a request for information *(Auskunftsbescheid)*; it is issued against payment with binding effect after a corresponding request for information has been made. This new decision is part of the 2017 supervisory reform package. With it, supervised companies are given the opportunity to clarify supervisory issues relating to new business models in advance and in a legally binding way.

Enquiries may only be made in relation to subject matters that have not yet been realised or that might need to be reassessed in light of a foreseeable amendment of a law. Additionally, the subjects raised must be within the FMA's remit. The Authority must issue its reply in the form of an administrative decision.

Five requests for information were submitted in 2018, and no administrative decision issued. One request was still being processed. In the four other cases the informal provision of information proved sufficient.

- Where the upper limits defined in Article 395(1) CRR are exceeded, Member States should not act in accordance with their national law but must impose an administrative sanction or take another administrative measure as defined in the Fourth Capital Requirements Directive (CRD IV);
- Penalty interest as defined in the BWG constituted an administrative measure within the meaning of CRD IV; and
- Union law was in conflict with national regulations according to which penalty interest will be imposed on a credit institution that exceeds the upper limits for exposures defined in Article 395(1) CRR even where the exemption defined in Article 395(5) CRR (permitted excess in the institution's trading book) applies.

Against this background, the BVwG's decision on the legality of the FMA imposing penalty interest is still outstanding.

BANKING RESOLUTION

Number of resolution institutions: **3**

Number of banks for which the FMA draws up a resolution plan: **432**

Austria's contributions to the Single Resolution Fund since 2015: **€788.9 million**

Distributions to HETA's creditors until 2018: **€8.2 billion**

RESOLUTION PLANNING

RESOLUTION PLANS AND MREL

As at 31 December 2018, the FMA was directly responsible for 432 banks' resolution planning in its capacity as national resolution authority. It is also responsible for setting the minimum requirement for own funds and eligible liabilities (MREL) for these banks. The Single Resolution Board (SRB) is responsible for 12 Austrian groups of banks, working in cooperation with the FMA.
The intensity and extent of resolution planning are based on a bank's size, as was also the case in 2018.
During the first half of 2018 the FMA, in its capacity as national resolution authority, informed the largest banks for which it is preparing a specific resolution strategy of the results of the 2017 resolution planning. These plans were extensively expanded in the year under review, with the following issues being tackled in particular:

- Eligible and MREL-eligible liabilities
- Financial resolution strategy and preferred resolution approach (single point of entry vs multiple point of entry)
- Assessment of the banks' resolvability
- Critical functions and services
- Interrelationships
- Setting of MREL targets.

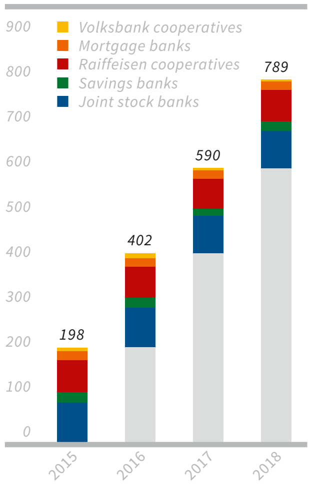
MREL targets are to be set by administrative decision for the first time by mid-2019, and every year thereafter. Intensive preparations during the reporting year preceded the issuing of these decisions. The FMA will be setting the first national MREL ratios within the banking union that exceed supervisory own funds requirements.
A resolution college will be established for two of Austria's largest banks. In December 2018 the final draft of the 2018 resolution plan was submitted to the members of the college as well as the SRB for comments, and a joint decision should be reached by April 2019.
Work on the resolution plans continued in the second half of 2018 for those banks that are not among the largest banks but that hold a relatively high volume of uncovered deposits, after additional data had been obtained.
Simplified resolution plans were drafted for 400 smaller banks in 2018. Most of these

banks were informed of the results of the 2018 resolution planning in the fourth quarter of 2018, with the remainder to be informed in February 2019. This letter also includes the MREL. However, for these banks this corresponds to the supervisory minimum capital requirements including a buffer. The FMA has thus informed most of the banks for which it is responsible of their MREL requirements.
The resolution plans prepared together with the SRB during the 2017 planning cycle were completed in the first half of 2018 for those 12 banking groups that fall under the European resolution authority's remit. The FMA has meanwhile also obtained the data for the 2018 resolution planning and forwarded it to the SRB. The 2018 resolution plans will be finalised for two of those banks in the second quarter of 2019, and are due to be finalised for the remaining ten in the second half of 2019. The SRB will for the first time determine the MREL for these banks in individual decisions in 2019, and the FMA in the capacity of national resolution authority will implement those decisions by issuing corresponding administrative decisions.
After completion of the 2018 planning cycle and setting of MREL targets in 2019, more than 90% of the banks in Austria will have been informed of their current MREL requirement.

INTERNATIONAL COOPERATION AND POLICY

At national and European level, numerous resolution projects are in progress, for example the SRB Expert Networks on Operational Continuity and on Separability Analysis, the SRB Task Force on MREL or the EBA Working Group on Valuation.
Two working groups were set up for the EBA Resolution Committee: the Sub-Group on Resolution Planning Preparedness (SGRPP) and the Sub-Group on Resolution Execution (SGRE), with the FMA chairing the latter.
In 2018 bilateral meetings to exchange knowledge were conducted with resolution authorities from Denmark, Germany, Liechtenstein and Romania.

Chart 47: **Austrian contributions to the Single Resolution Fund 2014–2018** (in € millions)



RESOLUTION FUND

The 2018 contributions to the Single Resolution Fund (SRF) were set for 531 institutions by the FMA as the national resolution authority in the form of emergency administrative decisions. Overall, the Austrian banking sector paid total contributions of € 199.0 million in 2018 *(> Chart 47)*. The FMA remitted these contributions to the SRF in full and on time on 28 June 2018, on the basis of an intergovernmental agreement. This means that Austrian banks have paid € 788.9 million to the SRF since its inception in 2016. Over the same period, the number of institutions required to pay contributions has fallen from 605 in 2015 to 531 in 2018. A further fall in the number of institutions liable to pay is expected for 2019.

RESOLUTION PROCESSES

HETA

The resolution of HETA pursuant to the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*) was successfully continued in 2018. Supervised by the resolution authority, HETA made substantial progress in realising its

assets. HETA's liquidity portfolio also continued to increase as a result of redemptions in the loan portfolio and the reduction in amounts owed to banks and customers and in the securities portfolio. The resolution results achieved so far exceed HETA's original targets.
The positive progress made in realising HETA's assets meant that further creditors' claims could be settled early in 2018. Due to the realisation revenues being higher than planned, the FMA approved another interim distribution of € 2.4 billion in July 2018. This amount equates to 29% of the eligible liabilities cut by way of the FMA's administrative decision in relation to the challenge procedure. Including the interim distribution in 2017, a total of € 8.2 billion has been distributed to HETA's creditors over a period of just over three years since the FMA's first resolution measure. Of this total, € 1.8 billion has been set aside for disputed liabilities. All in all, the interim distributions paid so far amount to 98% of the eligible liabilities of HETA which the FMA cut by means of the above administrative decision.
In 2018, HETA managed to reach out-of-court settlements with major creditors in relation to disputed eligible liabilities. Furthermore, targeted action was taken in Bosnia, Serbia, Montenegro and Croatia, and most of the assets and group companies still existing in those countries were wound down. HETA also sold its commercial property portfolio in Slovenia and its headquarters in Klagenfurt. These transactions have a highly positive financial impact on HETA and its creditors, which will be reflected in the 2018 financial statements.

KA FINANZ AG

KA Finanz AG (KF) emerged from a demerger as the legal successor of Kommunalkredit in 2009. Following the FMA's approval, KF has been operating as a wind-down entity as defined in the BaSAG since 6 September 2017.
KF's total assets amounted to € 8.8 billion at the end of the first half of 2018, having dropped by € 1.0 billion under the FMA's supervision compared with 31 December 2017 (€ 9.8 billion). The fall is mainly attributable to active wind-down measures, redemptions and the reclassification of an additional wind-down portfolio in March 2018 (causing a reduction of € 253.7 million).
KF winds down its portfolio according to the wind-down plan approved by the resolution authority. Its risk exposure should have been reduced to around € 6.5 billion by the end of 2018.

IMMIGON PORTFOLIOABBAU AG

immigon portfolioabbau ag (immigon), the wind-down entity of Österreichische Volksbanken AG, continued activities to wind down its remaining assets in 2018. Its equity in its individual financial statements consequently increased by 15% to € 775 million year-on-year, and is clearly well above the originally forecast values thanks to the high realisation revenues.
On the asset side, immigon focused on completing the few remaining transactions. On the liability side, higher spreads made the existing redemption programmes more attractive for security holders, and the last issue listed on a regulated market was also wound down. The number of holdings was decreased by means of various transactions. Additionally, the entity's technical infrastructure was simplified and its headcount reduced.

All of these steps were taken in order to be able to adopt the dissolution resolution and initiate liquidation under company law before the end of 2019. The resolution is to be adopted at the next annual general meeting, which is scheduled for May 2019. In preparation for the company's liquidation, to be started after this meeting, immigon advertised the position of liquidator under company law in the summer of 2018.
As soon as the resolution on immigon's dissolution has been adopted, the resolution authority will institute proceedings to terminate the wind-down entity's operations. It has therefore been closely involved in immigon's preparations throughout 2018.

INTERNAL MATTERS

BODIES

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

EXECUTIVE BOARD

In accordance with the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*), the Executive Board consists of two members with equal rights, one of whom is nominated by the Federal Minister of Finance and the other by the Oesterreichische Nationalbank. Both are to be appointed by the Federal President upon the proposal of the Federal Government for a five-year term of office, and may be reappointed for a second term. During the year under review, Helmut Ettl and Klaus Kumpfmüller made up the Executive Board of the FMA. Both Executive Directors were reappointed on 28 November 2017 for another term of office starting in February 2018.

SUPERVISORY BOARD

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

- The financial plan to be drawn up by the Executive Board including the investment and staff plan
- Investments, to the extent that they are not authorised in the investment plan, and the taking out of loans that exceed € 75 000 each
- The acquisition, disposal and encumbrance of real estate
- The financial statements to be drawn up by the Executive Board
- The Rules of Procedure pursuant to Article 6 para. 2 FMABG and changes thereto
- The Compliance Code pursuant to Article 6 para. 4 FMABG and changes thereto
- The appointment of employees of the FMA to leading functions directly subordinate to the Executive Board (second management level), as well as their dismissal and termination of employment
- The Annual Report to be drawn up pursuant to Article 16 para. 3 FMABG
- The conclusion of collective bargaining and works agreements.

In accordance with Article 9 para. 1 FMABG, the Supervisory Board is required to hold meetings at least once every calendar quarter. In 2018, the Supervisory Board convened on 12 March, 30 May, 19 September and 30 November.
At its meeting on 30 May 2018, the Supervisory Board unanimously discharged the Executive Board for the 2017 financial year pursuant to Article 18 para. 4 FMABG.

Figure 6: **Organisation chart of the FMA** (as at 31 December 2018)

EXECUTIVE BOARD
Executive Board Affairs and Public Relations
Helmut Ettl
Klaus Kumpfmüller

Enforcement and Law[1]
Peter Wanek

Internal Audit
Martin Schmöltzer

DEPARTMENT I
Banking Supervision
Michael Hysek

- **DIVISION I/1** Horizontal Banking Supervision – Eva-Désirée Lembeck-Kapfer
- **DIVISION I/2** Supervision of Sigificant Banks – Philipp Kaiser-Hiebinger
- **DIVISION I/3** Supervision of Joint Stock Banks, Payment Institutions and Deposit Guarantee Schemes – Christian Saukel
- **DIVISION I/4** Supervision of Decentralised Credit Institutions – Johann Palkovitsch
- **DIVISION I/5** Supervision of Large Regional Banks – Marion Göstl-Höllerer

DEPARTMENT II
Insurance and Pension Supervison
Peter Braumüller

- **DIVISION II/1** General Insurance and Pension Supervision Issues – Stanislava Saria
- **DIVISION II/2** Prudential Supervision of Insurance and Pension Companies – Stephan Korinek
- **DIVISION II/3** On-Site Inspection and Internal Models of Insurance and Pension Companies – Andreas Hell
- **DIVISION II/4** Analysis and Statistics of Insurance and Pension Companies – Karl Proschofsky-Spindler

DEPARTMENT III
Securities Supervision
Birgit Puck

- **DIVISION III/1** Markets and Exchanges Supervisions – Gabriele Klein-Gleissinger
- **DIVISION III/2** Investment Firms – Joachim Hacker
- **DIVISION III/3** Asset Management – On- and Off-Site Analysis – Robert Hellwagner
- **DIVISION III/4** Asset Management, Capital Market Prospectus and Consumer Information – Andrea Mörtl

DEPARTMENT IV
Integrated Supervision
Katharina Muther-Pradler

- **DIVISION IV/1** Integrated Financial Markets – Patrick Darlap
- **DIVISION IV/2** International and Legislative Affairs – Christoph Kapfer
- **DIVISION IV/3** Rules of Conduct and Compliance – Martina Andexlinger
- **DIVISION IV/4** Combat against Unauthorised Business – Markus Öhlinger
- **DIVISION IV/5** Prevention of Money Laundering and Terrorist Financing – Christoph Kodada

DEPARTMENT V
Services
Markus Pammer

- **DIVISION V/1** Human Resources and Strategic Organ-isation Development – Robert Peterka
- **DIVISION V/2** Finance and Controlling – Markus Pammer
- **DIVISION V/3** IT Systems – Karl Schwarzmayer
- **DIVISION V/4** Services and Documentation – Alfred Steininger

DEPARTMENT VI
Banking Resolution
Oliver Schütz

[1] Corporate Compliance Officer reports directly to the Executive Board

Figure 7: **Supervisory Board of the FMA** (as at 31 December 2018)

Chair
Alfred Lejsek (BMF)

Vice-Chair
Ewald Nowotny (OeNB)

Members
Gabriela De Raaij (OeNB)
Elisabeth Gruber (BMF)
Andreas Ittner (OeNB)
Bernhard Perner (BMF, from 3 January 2018)
Beate Schaffer (BMF)
Karin Turner-Hrdlicka (OeNB, from 3 January 2018)

Co-opted members
Walter Knirsch (WKO)
Franz Rudorfer (WKO)

STAFF

NUMBER OF STAFF

The Supervisory Board had approved a staffing target of 392 full-time equivalents (FTEs) for 2018, a number unchanged since 2016 *(> Table 40)*. The actual number of staff employed by the FMA as at 31 December 2018 was 379.34 FTEs, which corresponds to 415 employees (excluding those on leave).

The staff turnover rate increased to 6.79% in 2018 (2017: 5.22%). The figure does not include those employees whose fixed-term contracts expired during the year. This slight increase in the turnover rate can primarily be attributed to the favourable economic situation and consequently attractive job offers being made to highly qualified FMA employees, who find themselves in high demand in the labour market.

The number of civil servants assigned to duty at the FMA by the Federal Ministry of Finance fell to 13.25 FTEs as the result of one individual retiring. The proportion of civil servants thus dropped from 3.75% in 2017 to 3.49% at the 2018 year-end. The number of contractual employees remained unchanged at 5.15 FTEs, or 1.36% of all FMA staff. The total share of civil servants and contractual employees is therefore now just 4.85% of the workforce, compared with 16.2% back in 2008.

The average age of FMA employees increased compared with last year, from 41 to 42 years. The share of part-time employees was 24.58% in 2018; this percentage was almost unchanged year-on-year and mainly comprised parents taking part-time leave and, to a lesser extent, semi-retired employees.

The percentage of women in relation to total staff fell slightly in 2018, down from 54.70% to 54.46%. With regard to management positions, the proportion of women

Table 40: **Planned and actual staffing levels in FTEs in 2018***

	Planned staffing levels as at 31 December	Actual staffing levels as at 31 December	Difference in %
Executive Board Affairs, Enforcement and Law, Internal Audit	*28.00*	*27.25*	*–2.68*
Banking Supervision	*77.50*	*75.45*	*–2.65*
Insurance and Pension Supervision	*58.00*	*57.33*	*–1.16*
Securities Supervision	*83.15*	*80.15*	*–3.61*
Integrated Supervision	*71.25*	*68.45*	*–3.93*
Services	*50.10*	*48.39*	*–3.42*
Banking Resolution	*24.00*	*22.33*	*–6.98*
Total	***392.00***	***379.34***	***–3.23***

* *Differences arising from rounding to two decimal places are ignored.*

remained high, at 40%. The percentage of employees with university degrees rose from 82.89% to 84.82%. The proportion of employees with additional qualifications was 43.13% in 2018; examples of such qualifications include a second degree, post-graduate training, or certification as a lawyer or tax consultant. This share amounts to 56.87% when the 57 active employees who successfully completed the two-year post-graduate, vocational university programme in Financial Market Supervision are taken into account.

PERSONNEL DEVELOPMENT

As an organisation of experts, the FMA places high priority on the continued professional development of its employees. Its personnel development programme encompasses a range of measures for the various target groups and requirements:

- University programme in Financial Market Supervision (first students admitted in 2010), subsequently upgraded to an MBA course (first admissions in 2013)
- Feedback process for management staff
- New CPD programme for management staff: Leadership Circle
- FMA Academy (since 2005)
- International seminars organised by the European system of financial supervision
- Third-party seminars based on individual requirements.

MANAGEMENT FEEDBACK AND DEVELOPMENT

In the second quarter of 2018, the FMA introduced a new feedback process for managers. The Executive Directors and all heads of divisions and departments were given feedback on their leadership skills. The feedback was provided in each case by the individual's direct staff, line manager and five peers. The objective of this feedback process was to contrast managers' perception of themselves with how others perceive them, and to unlock development potential as a consequence.

The interviews were conducted between 8 May 2018 and 24 May 2018 and included 20 statements based on the FMA's executive mission statement, which could be rated on a scale of 1–10. The group receiving feedback comprised 33 managers. Feedback was given anonymously through an online questionnaire, which was completed by 86.5% of all those invited to provide feedback. Subsequently, all recipients of feedback were invited to an individual evaluation discussion with an external consultant to discuss the results and reach conclusions. The personal results stayed with the recipients of the feedback, while the overall results were distributed among the managers and all employees. All recipients of feedback have been asked to identify one or two development measures based on this feedback with their superiors during upcoming appraisal interviews.

The managers received positive, and in some cases even excellent, feedback. In its efforts to make the good even better, the FMA will use individual feedback and take specific steps to advance its management culture with a view to the future.

Apart from the feedback process, the Leadership Circle executive development programme, which had been successfully introduced in 2017, was continued in 2018. While drawing on the content of the Basic and Advanced Leadership programme, management staff are now being given the additional opportunity to share experiences in depth. This is intended to strengthen both awareness of the executive mission statement, drawn up in 2016, and communication among departments. Additional development measures were also offered to managers as required.

FMA ACADEMY

The FMA Academy offers seminars designed for certain target groups and areas of responsibility:

- New employees/basic seminars
- Assistants
- Officers
- Specialists
- Executives

- Specialist skills
- Self-management and social skills
- Skills in methods
- Language skills
- E-learning
- Decentralised measures
- International seminars
- Study visits and staff exchange
- University programme in Financial Market Supervision and upgrade to MBA programme

In 2018 the FMA Academy organised a total of 179 seminars, workshops and lectures in which 2 283 individuals participated. In addition to these centrally organised seminars, FMA staff attended more than 394 specialised training courses at third-party educational institutions targeted at individual career development in their specific fields.

INTERNATIONAL SEMINARS

A total of 32 FMA staff members attended seminars at the European institutions ECB, ESMA, EIOPA, SRB, EBA and the European Supervisor Education Initiative (ESE), as well as at partner authorities.

INTERNATIONAL NETWORKING

COOPERATION WITH THE EUROPEAN CENTRAL BANK

A solid footing has been established for professional cooperation with the ECB in relation to the personnel issues associated with the Single Supervisory Mechanism (SSM) during the past four operational years. By regularly attending the Human Resources Conference (HRC), the FMA has been included in ongoing processes and developments, actively helping to shape them.

The main task for human resources was to further update and evaluate the extensive training programme, as well as the benchmark of career paths and leadership programmes, and to upscale the SSM performance feedback process from testing to regular use.

The number of secondments to the ECB remained unchanged year-on-year, with the majority taking place under host-based contracts where the ECB pays the expenses of the seconded FMA staff members.

COOPERATION WITH THE SINGLE RESOLUTION BOARD

Contacts with the SRB were continued in 2018. There was one study visit and a long-term host-based secondment of one employee. The FMA also participated in SRB working groups in order to share information and actively help shape the SRB.

COOPERATION WITH INTERNATIONAL PARTNER AUTHORITIES

In 2018 the FMA focused on long-term secondments rather than on short-term study visits but in some cases still took advantage of short-term exchange programmes that proved useful to promote international cooperation.

OUTGOING STUDY VISITS

One FMA employee made a study visit to an international partner authority. This employee from the Insurance Supervision Department visited the European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt.

INCOMING STUDY VISITS

By way of reciprocity, the FMA hosted four trainees from the ECB and two employees from the Deutsche Bundesbank in its Banking Supervision Department. Another EIOPA staff member was invited to exchange experiences with the FMA's Insurance Supervision Department.

RECONCILIATION OF WORK AND FAMILY LIFE

berufundfamilie

In November 2017 the FMA was awarded the full "workandfamily" certificate following a strategy and audit workshop. In 2018, the first year after it was awarded the certificate, the Authority already implemented some of the agreed measures.
These included a revision of its existing teleworking policy, which was adapted as much as possible to accommodate employees' requirements and needs as identified through an anonymous online survey.
In November 2018 testimonial videos were posted online for the first time and regular campaigns launched, for example on Facebook and on the Intranet, addressing the issue of work/life balance.
Regarding the issue of health promotion and nursing care, the FMA's works council prepared an information leaflet on leave of absence and part-time arrangements for carers and distributed it among employees.

IT SYSTEMS

DIGITALISATION

The FMA has made the digitalisation of its processes a top priority for many years now in order to ensure it can perform its supervisory tasks efficiently. As a result of new legislation on supervision, the FMA is required to process and analyse ever larger quantities of data, and to incorporate this data into its supervisory decision-making. This can only be achieved if the FMA's processes are consistently being optimised and automated.

STRUCTURED DATA TRANSFER

Supervised companies have access to reporting platforms via which they can transfer large volumes of data simply and quickly to the FMA while also ensuring the maximum level of EU harmonisation.
All of the processes are automated, from the acceptance of the data, to a basic check of data quality and the internal processing of that data for analysis purposes. If errors are detected by the system, the data is sent back to the sender for correction and resending. Correct data are forwarded to external institutions in Austria and abroad in accordance with the statutory provisions. Dynamic reports are created internally. In this way, the individual departments receive high-quality data for analysis as quickly as possible.
Given that the supervised companies often operate in different areas of the financial market, data reports must also be interpreted across the individual supervision areas. By means of a centralised approach, the provision of consistent, integrated information is guaranteed, while taking confidentiality areas into account.
Examples of comprehensive data reports include:

- Solvency II reporting system – automated reporting system for the receipt of SII data, including forwarding to EIOPA and ECB, as well as processing of the data in a data cube.
  In 2018 the reporting system was brought into line with the EIOPA Taxonomy 2.3.0, with the first reports due in the first half of 2019.
- MiFIR securities transaction reporting system – automated reporting system for the receipt of securities transactions, including forwarding to other supervisory authorities (via ESMA), and processing of the data in the prescribed reports.

The new securities transaction reporting system based on MiFIR went live in January 2018. Further optimisation measures and improvements to guarantee high-quality data were introduced during the first half of the year in cooperation with the entities subject to reporting obligations, the other European supervisory authorities and ESMA.

ANALYSIS SYSTEMS IN INSURANCE SUPERVISION

There is little point in having a state-of-the-art reporting system if the data received is not processed and analysed on a timely basis. Using the quantitative reporting templates (QRTs) provided by EIOPA, the Solvency II reporting data are reported by the insurance undertakings to the FMA using an XBRL. In order to ensure that these data can be evaluated quickly and in a structured way, major improvements were made to the analysis cube for Solvency II data in 2018. This cube replicates all QRT content, such as the balance sheet or list of assets, in full so that it can be used to analyse individual undertakings, cross-sections of the entire insurance market or time series across all Solvency II data points.

UNSTRUCTURED EXCHANGE OF DATA

Supervised companies are provided with platforms for the unstructured exchange of data (e.g. pdf documents, Office files) so that subject-related data can be sent to the FMA efficiently. The focus is always on the secure and traceable transmission of data. The transferred data are automatically forwarded to the relevant departments in the downstream systems, e.g. the ELAK electronic filing system.

Examples include:

- Incoming platform: data provision via defined forms and file upload facility in accordance with certain statutory rules.
- Secure file transfer platform: platform for the secure, traceable exchange of documents.

Given the ever higher quantity of data needing to be exchanged with supervised entities, the system was created with a redundant structure in 2018. This guarantees a high level of availability.

INCOMING AND OUTGOING MAIL (ELECTRONIC DELIVERY)

To avoid media interruptions and to meet the statutory requirements in relation to electronic delivery options with effect from 1 January 2020, several measures have already been implemented. Since the end of 2018 the FMA has provided a dual delivery option based on its electronic filing system. Official documents can now also be delivered to the parties concerned electronically. Recipients who are registered with the delivery service receive a digitised delivery. Otherwise, the outgoing document is automatically printed out, placed in an envelope and forwarded for posting.

It has been possible to send mail to the FMA electronically since January 2015. This mail is treated in the same way as scanned (digitised) post received on paper and is forwarded to the electronic filing system for further processing. All applications that involve postal delivery will be switched to this dual delivery option in 2019.

CYBERSECURITY/BUSINESS CONTINUITY (BCM)

Appropriate measures are in place to protect sensitive data from unauthorised access and criminal activities, and these are continuously being optimised and extended. Given the FMA's statutory remit, ensuring a high level of service availability is a central component of the IT department's role.

Information security is guaranteed by a range of different protective measures in the form of:

- Appropriate hardware and software solutions as a basic level of protection
- Awareness training in the form of compulsory introductory seminars and more in-depth subject-specific workshops
- Bought-in security services to review the configuration of the FMA's systems.

State-of-the-art IT solutions are used to permanently monitor network traffic and to detect and analyse suspicious incidents in conjunction with the services being operated. Various measures are used to tackle current threat scenarios, and these are regularly tested. The aim, in the event of an incident, would be to restore normal operations as quickly as possible in the interests of compliance with the law.

FINANCE AND CONTROLLING

FINANCING

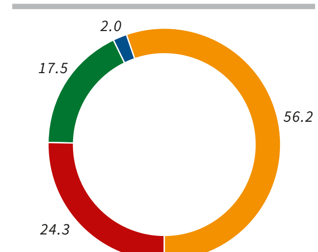
D The FMA's finances are based on three pillars, as stipulated in the Financial Market Authority Act (FMABG; *Finanzmarktaufsichtsbehördengesetz*): The FMA receives an annual lump sum of € 4 million from the federal budget as prescribed by law. In its capacity as an authority, the FMA may levy fees for particular services as defined by law. The remaining amount is contributed by the supervised entities according to the share of costs incurred in each case.

In addition, in its capacity as resolution authority pursuant to Article 74 para. 5 of the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*), the FMA may request that the institution under resolution reimburse the FMA for all reasonable expenses properly incurred in connection with the application of a resolution tool or exercise of its resolution power.

Pursuant to Article 19 FMABG, four accounting groups are to be set up for the apportionment of costs to the supervised entities according to the share incurred in each case: banking, insurance, securities and pension supervision; each of which are then further divided into subgroups. The FMA uses a time and performance tracking system (ZLES) to allocate personnel expenses to the legally stipulated (in the FMABG) accounting groups according to the share incurred.

After deducting the federal contribution, the fees and other income from the overall costs, the share of other costs accounted for by each accounting group can be calculated. In accordance with the statutory provisions, this share is to be allocated and charged to each individual supervised entity.

Chart 48: **Supervisory costs 2018, apportionment to accounting groups** (in %)



PAYMENT NOTICES

In accordance with Article 19 FMABG, the supervised companies are required to reimburse the FMA for the costs incurred. These costs are determined using the financial statements and statement of costs. The respective amount to be paid by each company is determined on the basis of the data reported by the supervised companies themselves or by the Vienna Stock Exchange.

The FMA Cost Regulation (FMA-KVO; *FMA-Kostenverordnung*) specifies the reimbursement of costs (calculation of actual costs), the implementation of advance payments per accounting group and the apportionment among the entities liable to pay costs, including deadlines for the payment notices and for payments.

The FMA sent out the payment notices for the actual costs incurred in 2017 in November 2018, together with those for the advance payments for 2019. Compared with one year earlier, when some 2 300 payment notices were issued, the number of notices remained unchanged. Additional payments of approximately € 2.0 million from the entities liable to pay costs were needed to cover the actual costs for 2017, based on the costs reported in the 2017 financial statements of the FMA minus the advance payments made that year.

FINANCIAL STATEMENTS

Applying Chapter III of the Corporate Code (UGB; *Unternehmensgesetzbuch*), the FMA is required to draw up financial statements for the previous financial year in the form of an annual balance sheet, an income statement and notes pursuant to Article 18 FMABG, as well as a balance sheet and an income statement for the resolution financing arrangement pursuant to Article 123d para. 2 BaSAG in conjunction with Article 18 FMABG.

BBW Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH carried out the statutory audit of the FMA's financial statements and statement of costs for 2018 as well as of the 2018 balance sheet and income statement for the resolution financing arrangement for the first time. Upon completion of the audit the auditor issued unqualified opinions in each case, confirming compliance with the statutory provisions.

Article 18 para. 3 FMABG stipulates a deadline of five months from the end of the particular financial year, by which time the FMA Executive Board must have submitted the financial statements including statement of costs as audited by an auditor or an auditing firm to the FMA Supervisory Board for approval. In accordance with Article 10 para. 2 no. 4 FMABG, the Supervisory Board approved the 2018 financial statements of the FMA and of the resolution financing arrangement on 23 April 2019.

The most important items of the 2018 financial statements can be summarised as follows:

- The share contributed by entities liable to pay costs increased in 2018, by some € 2.4 million compared with 2017 to approximately € 60.1 million. This increase is mainly attributable to personnel expenses rising by some € 2.3 million, primarily as a result of annual salary progressions and the adjustment of salary levels for inflation in accordance with the collective agreement for banks, as well as the allocation to provisions for personnel expenses.
- Other operating income was also up: while reimbursements pursuant to Article 74 para. 5 no. 2 BaSAG were down by around € 0.3 million, the reversal of provisions contributed to an increase of approximately € 0.2 million to € 5.3 million.
- Other operating expenses rose by some € 0.5 million, due to a year-on-year increase in OeNB reimbursements of around € 0.4 million and in membership fees of € 145k.

CHARTS

TABLES

FIGURES

AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMG	Alternatives Investmentfonds Manager-Gesetz (Alternative Investment Fund Managers Act)
APA	Approved Publication Arrangement
APP	Asset Purchase Programme
ATX	Austrian Trade Index
BaFin	Federal Financial Supervisory Authority (Germany)
BaSAG	Bankensanierungs- und Abwicklungsgesetz (Bank Recovery and Resolution Act
BMC	Business Continuity Management
BMF	Federal Ministry of Finance
BMSVG	Betriebliches Mitarbeiter- und Selbständigenvorsorgegesetz (Company Employee and Self-Employment Provisions Act, as amended)
BörseG	Börsegesetz (Stock Exchange Act)
BVwG	Federal Administrative Court
BWG	Bankwesengesetz (Austrian Banking Act)
CCP.A	Central Counterparty Austria GmbH
CESEE	Central, Eastern and South-Eastern Europe
CFD	Contract for Difference
CIS	Commonwealth of Independent States
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSDR	Central Securities Depositories Regulation
DAX	German stock index
EBA	European Banking Authority
ECB	European Central Bank
ECJ	European Court of Justice
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ELAK	Electronic filing system
EMIR	European Market Infrastructure Regulation
ESA	European Supervisory Authority
ESAEG	Einlagensicherungs- und Anlegerentschädigungsgesetz (Deposit Guarantee Schemes and Investor Compensation Act)
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EURIBOR	Euro Interbank Offered Rate; three-month interbank rate
EURO STOXX 50	Stock index of the 50 largest listed companies in the euro area
EuVECA	European Venture Capital Funds
FATF	Financial Action Task Force
FCA	Financial Conduct Authority (UK)
Fed	Federal Reserve (USA)
FinTech	Financial Technology
FMA	Financial Market Authority (Austria)
FMABG	Finanzmarktaufsichtsbehördengesetz (Financial Market Authority Act)
FM-GwG	Finanzmarkt-Geldwäschegesetz (Financial Markets Anti-Money Laundering Act)
FMSB	Financial Market Stability Board
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
HETA	HETA Asset Resolution AG
HTM valuation	To reach an investment income that is as stable as possible, a valuation deviating from the principle of current values can be used for certain securities with a high credit rating (e.g. debt securities issued by the Federal Government) held as direct investments (held-to-maturity or HTM)
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IHS	Institute for Advanced Studies
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IMMIGON	immigon portfolioabbau ag
ImmoInvFG	Immobilien-Investmentfondsgesetz (Real Estate Investment Fund Act)
Immo-KAG	Real estate investment fund management companies
InvFG	Investmentfondsgesetz (Investment Fund Act)
IOPS	International Organisation of Pension Supervisors
IORP	Institutions for Occupational Retirement Provision
IOSCO	International Organization of Securities Commissions
IPS	Institutional Protection Scheme
IRRBB	Interest Rate Risk in the Banking Book
IRTs	Internal Resolution Teams
JSTs	Joint Supervisory Teams
KAG	Investment fund management company
KIID	Key Investor Information Document
KMG	Kapitalmarktgesetz (Capital Market Act)
KVO	Kostenverordnung (Cost Regulation)
LSI	Less Significant Institution
MADe	Market Abuse Detector
MBA	Master of Business Administration
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MSCI	Emerging Markets Index
MTF	Multilateral Trading Facility
NMS	New Member States (EU)
NPLs	Non-Performing Loans
OeKB	Oesterreichische Kontrollbank AG
OeNB	Oesterreichische Nationalbank
PEPP	Pan-European Personal Pension Product
PK	Pensionskasse (pension company)
PKG	Pensionskassengesetz (Pensionskassen Act)
Q&As	Questions and Answers
QRTs	Quantitative Reporting Templates
S&P	Standard & Poor's
SCR	Solvency Capital Requirement
SEE	South-Eastern Europe
SFCR	Solvency and Financial Condition Report
SGRE	Sub-Group on Resolution Execution
SGRPP	Sub-Group on Resolution Planning Preparedness
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism

TREM	*Transaction Reporting Exchange Mechanism*
UCITS	*Undertakings for Collective Investment in Transferable Securities*
UGB	*Unternehmensgesetzbuch (Corporate Code)*
VfGH	*Constitutional Court*
VStG	*Verwaltungsstrafgesetz (Administrative Penal Act)*
VSTOXX	*EURO STOXX 50 volatility index*
VwGH	*Administrative Court*
WAG 2018	*Wertpapieraufsichtsgesetz (Securities Supervision Act 2018)*
WBAG	*Wiener Börse AG*
WiEReG	*Wirtschaftliches Eigentümer Registergesetz (Beneficial Owners Register Act)*
WIFO	*Austrian Institute of Economic Research*
WKO	*Austrian Federal Economic Chamber*
XBRL	*eXtensible Business Reporting Language*
ZaDiG	*Zahlungsdienstegesetz (Payment Services Act)*
ZLES	*Time and performance tracking system*