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FACTS AND FIGURES TRENDS AND STRATEGIES 2023

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STRATEGY

MEDIUM-TERM RISK ANALYSIS AND SUPERVISORY STRATEGY 2023-2027

"After the crisis is before the crisis!" Rarely has this mantra of risk-oriented supervision been borne out as quickly as in 2022. No sooner was there justified optimism that the worst of the COVID-19 pandemic was behind us and that the strong recovery in the economy was gaining speed, than Russia's war against Ukraine triggered dramatic economic turmoil: sanctions and counter-sanctions, energy and raw material shortages, extreme price turbulence across many markets and soaring inflation, as well as the fundamental reorganisation of many economic relations and an economic slump as a result. Central banks have had to tighten their monetary policy and initiate an abrupt turnaround in interest rates, which they are likely to stick with even as the economy moves into a downwards phase.
The parallelism of high inflation, an abrupt about-turn on interest rates, and an ailing economy make for a toxic mix.

THE ECONOMIC PICTURE IS DARKENING

In 2020, as a result of the pandemic, Austria's economy suffered its worst recession since the post-war period (gross domestic product down 6.5%). But then, in mid-2021, a strong recovery took hold, with the economy expanding by +4.6% for the year as a whole. In the first half of 2022, the economy grew even more strongly, at +7.5%. Yet Russia's war of aggression against Ukraine brought this upward movement to an abrupt halt. According to the forecast of the Austrian Institute of Economic Research (WIFO), the Austrian economy will end 2022 with GDP growth of 4.8% for the year as a whole, but economic growth is likely to average no more than 1% over the coming five years.

The strong recovery out of the worst of the COVID-19 turbulence led to shortages of commodities and materials in a fragile environment and already caused prices to soar in many European countries towards the end of 2021: in December 2021, inflation in Austria was already at +4.3%, which equates to +2.8% for the year as a whole. The estimated figure for November 2022 is +10.7%, with +8.5% forecast for the year as a whole. Inflation is threatening to remain significantly higher than the European Central Bank's (ECB) monetary policy target of "+2.0% or just under". Most economic researchers assume that the ECB will continue to tighten monetary policy, central banks will reduce their holdings of government bonds and interest rates will rise at least until 2024. WIFO expects interest rates to reach +4.8% for the three-month interest rate and +5.1% for the secondary market yield on ten-year German Bunds.

According to the OECD, what is unusual about the current development is that economic growth is declining significantly in almost all regions of the world at the same time, but especially in the three most important economic blocs: the USA, Europe and China. This constellation has rarely been seen before and represents a special challenge. The economic policy environment will therefore be very challenging in the medium term.

In addition, the current medium-term environment is characterised by a "striking risk asymmetry", which practically only knows additional downside risks, as analysed by the WIFO. The main such risks are: a further escalation of Russian aggression against Ukraine, the emergence of new, more dangerous and/or highly contagious SARS-CoV-2 variants, the fragile economic development in the USA as well as China's very restrictive COVID-19 policy, which is repeatedly paralysing important production centres or ports and thus blocking global supply chains. Just Russia turning off the gas supply would plunge Europe into a deep and prolonged recession in 2023/24. Austria's GDP, for example, would decline by -3% to -4% in 2023.

WATCHDOGS OF FINANCIAL MARKET STABILITY SOUND THE ALARM

Stability watchdogs around the globe have been sounding the alarm for some time. However, it is not a single risk that worries them, but rather the cocktail of many very different dangers that, in combination, are exacerbated and escalate. In addition to the economic challenges, the world faces economic wars and trade conflicts, cyber attacks and blackouts, a need for government aid packages and rising costs of financing government debt, deglobalisation of the economy and deindustrialisation of Europe, global refugee movements and shrinking, ageing societies in the developed industrialised countries, and much more besides.

The International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the Bank for International Settlements (BIS), the European Systemic Risk Board (ESRB) and the ECB, along with many national risk watchdogs, have all already published warnings. The ECB warns in its current Financial Stability Report: "Risks to financial stability have increased, while a technical recession in the euro area has become more likely." Its Composite Indicator of Systemic Stress (CISS), which is composed of 15 different stress indicators, is currently higher than at the peak of the pandemic and is already approaching the level reached at the time of the global financial crisis and the euro sovereign debt crisis.

The challenges that Austrian financial service providers will face in the coming years are correspondingly serious. However, they are relatively well prepared, with a stable position and strong capital base; at least much better than before the global financial crisis of 2007/2008. The domestic financial sector has also coped well so far with the massive economic consequences of the pandemic, thanks to the government's huge support for the real economy.

However, the emerging economic difficulties are already leaving their mark on the banks' loan portfolios, and a gradual deterioration in their quality can be observed. The number of non-performing loans (NPL ratio) is not yet rising significantly, but

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FMA Executive Directors Eduard Müller and Helmut Ettl

there are already reclassifications to higher risk classes within the outstanding loan portfolios. In view of the massive economic slowdown, however, a significant increase in actual loan defaults is to be expected. The capitalisation of domestic banks is still about twice as high as before the global financial crisis with an average of about 15,8% CET1 capital, but it is gently falling again for the first time.

The latest stress tests by the OeNB and the ECB attest to the Austrian banking sector’s solid risk-bearing capacity despite the increase in financial market stability risks. However, against the background of the worsening risk situation, they warn that the currently good earnings situation should be used to further strengthen the capital base.

The domestic insurance industry is also in a stable position. Two thirds of companies have a solvency ratio of over 200%. This means that they have twice as much equity to compensate for any negative developments as required by regulation. Even in the difficult past three years, there has not been an increase in insurance policy cancellations. In fact, uncertain times increase the need for security and thus the demand for insurance. Climate change, on the other hand, is proving to be both a blessing and a curse: although claims are becoming more difficult to predict and are significantly higher, demand for new insurance policies is increasing as customers seek protection against extreme weather events. In view of the demographic development and the resulting ageing of the population, demand for private health insurance is also increasing. Furthermore, rising interest rates are making traditional life insurance attractive again as an investment and pension product.

In the asset management sector, banks, insurance companies, investment funds and pension funds are facing major challenges. The collapse in share prices in the wake of the Russia-Ukraine conflict has left deep marks in their books, and rising interest rates have significantly cut the value of their bond portfolios from the long-lasting low-interest phase. Their investment performance has tipped into negative territory across the board. Rising interest rates are fundamentally positive for most financial service providers, pushing up interest margins and expanding the scope for business, but they must first adapt to the resulting risk environment. The geopolitical and economic environment, which is characterised by high uncertainty, has massively increased volatility in the markets. In addition, we can expect severe price corrections in asset classes that have raced away from developments in the real economy in recent years.

Developments in the real estate markets also need to be closely monitored in the context of financial market stability. Driven by the low interest rate environment, there has been an increasing flight from financial to real assets, with cheap credit fuelling this trend. Consequently, the development of real estate prices has decoupled from the fundamentals of the real economy and led to inflated valuations. At the same time, borrowers' level of debt has increased. Such developments have continuously and incisively increased the systemic risks associated with residential real estate financing in recent years.

While residential property prices in Europe have risen by an average of one third in the past ten years, they have doubled in Austria. The fundamentals indicator calculated by the OeNB shows the extent to which real estate prices have decoupled from real economic development: the overvaluation in Austria is now estimated at around 40% and as much as 45% in Vienna. The rise in demand in Austria was initially driven by equity, and the flight into "concrete gold". Now it has increasingly been supported and accelerated by credit financing – not least because more and more banks disregarded the recommended and internationally customary standards for sustainable mortgage lending amidst the fierce competition with one another. Moreover, despite interest rates in Austria already being low, a high share of financing (about 50%) was concluded at variable interest rates, which drastically increases the financial burden on borrowers when interest rates go up. With strong price rises pushing up their spending at the same time, this puts many households under financial pressure, and loan repayment difficulties inevitably increase.

The IMF, the ESRB, the Austrian Financial Market Stability Board (FMSG) as well as the banking supervisors have therefore been warning against this development for years. In spring 2022, the ESRB issued a formal warning to Austria regarding an imminent overheating of the residential real estate market and resulting risks to financial market stability. The FMSG therefore ordered the FMA to enforce the internationally customary criteria for sustainable real estate lending, which have been recommended in Austria for years, in a legally binding manner: maximum 90% loan-to-value ratio, maximum 40% of disposable income for debt servicing and maximum 35-year term. With a Regulation for sustainable lending standards for residential real estate financing (KIM-V; *Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung*), which entered into force on 1 August 2022, the FMA has fulfilled this mandate. This means that 25 out of 30 states in the European Economic Area (EEA) have already implemented such borrower-based measures for the sustainable granting of real estate loans. The aim is to ensure that affordability, and not mortgage collateral, is the primary consideration when granting loans, and such measures also tackle the risk of a credit-driven real estate price bubble.

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This promotes financial market stability by reducing the excessive aspects of real estate lending such as too high credit growth, excessively low collateralisation, too little own funds, too high debt repayments and excessively long maturities.

Many experts are similarly critical about the unregulated crypto asset market, which they class as overvalued. There have, however, already been massive corrections in 2022. In the first half of the year, the market value of traded crypto assets plummeted by 60%, and major players in the market also subsequently got into serious economic difficulties. Even if no contagion of the established financial markets has been observed so far, these developments are proof of the need for comprehensive regulation in this area.

Nervousness and uncertainty have grown in many markets across the world. The IMF is already warning that open-ended investment funds or shadow banks, for example, which have accumulated gigantic sums of capital and operate outside of regulation and supervision, could also spiral out of control overnight.

GEOPOLITICAL, TECHNOLOGICAL AND ENVIRONMENTAL CHALLENGES

The medium-term risk environment is very heterogeneous. Economic forecasts have darkened massively worldwide – as shown – and real and financial economic developments are overlaid by geopolitical, technological, ecological and social trends, adding to the major challenges confronting the financial sector and its markets:

- The path towards a new geopolitical order, exacerbated by the ongoing crisis of multilateralism
- The digital transformation, which is bringing about far-reaching changes in the economy and society
- The fight against global warming, which requires a realignment of the global economy but is making slow progress
- Changing consumer behaviour, which is increasingly rendering established protection mechanisms useless
- The flight from regulation and supervision, which is calling into question the fairness and proper functioning of the financial markets.

THE BUMPY ROAD TO A NEW GEOPOLITICAL ORDER AND REALIGNMENT OF GLOBAL ECONOMIC RELATIONS

Putin's war of aggression against Ukraine and the resulting open confrontation between Russia and the West have suddenly and dramatically brought the long-simmering dispute over a new geopolitical order to a head. While this has strengthened the transatlantic defence alliance, economic and political sanctions are pushing Russia to increasingly orient itself towards Asia. Large powers like China and India also fear Western interference in their spheres of influence. In the long run, a new world order will emerge as a result.

This geopolitical realignment, which is currently in flux, will be accompanied by a fundamental reorganisation of global economic relations, especially from Europe's perspective.

The pandemic and the escalating conflict with Russia have shown Europe its profound economic dependencies in the globalised world. Huge-scale national measures in the fight against COVID-19 – such as lockdowns or travel and transport restrictions – have ruptured supply chains and created raw material and material shortages that have paralysed production even in far-flung regions of the world. In addition, it has become apparent that Europe – in order to exploit cost advantages – has also outsourced critical production, sometimes almost entirely, to other countries and continents; for example respiratory masks, raw materials and intermediate products for medicines, disposable gloves or wiring harnesses for the automotive industry or standard computer chips that are used in many everyday products, to name just a few examples. Added to this was the extreme energy dependence of many European countries on Russia.

Europe must therefore, on the one hand, relocate at least a minimum capacity of critical production back to the Old Continent, and on the other hand, diversify and broaden its sources of supply multilaterally in order to minimise one-sided dependencies, in other words: deglobalisation.

Given that the financial markets and the financial economy are the mirror of the real economy, these geopolitical and global economic challenges will ultimately also impact on them too.

THE DIGITAL TRANSFORMATION IS HAVING A HUGE IMPACT ON THE ECONOMY AND SOCIETY

Digitalisation is transforming the economy and society rapidly and deeply. It is everywhere – and it is profoundly changing the way we live and work. Nearly every one of us now owns a smartphone, we can be reached online almost around the clock, and we are carrying out crucial tasks for work or leisure digitally, from cross-border video conferences and complex financial transactions to online orders and holiday bookings, to name just a few examples. Almost anything can be done digitally these days, even official formalities or medical consultations. The technological transformation has already come a long way.

The future of finance is digital too: both retail customers and businesses can now access all the basic functions of the financial system (payments, saving, investments, financing, old-age provision or insurance etc.) electronically whenever and wherever they wish. It takes just a couple of minutes to open a new bank account, take out an insurance contract or place a securities order, and all of this can be done entirely digitally to boot. Innovative providers are launching new technologies, financial products and services. Even established business models are being forced to adapt to these digital developments.

Financial service providers are expanding their online presence to multi-service platforms with diverse offers ranging from mobility, government digital services, healthcare and the like, in an effort to create a separate ecosystem with customers no longer looking elsewhere. In e-commerce, banks are implementing solutions tied to their own digital systems, which buyers can use to finance their online purchases straight away, including own marketplaces and comparison sites. Financial service providers are using automated tools to analyse their customers’ profiles and transactions, supporting them as comprehensive advisors in their daily financial management with a broad range of digital solutions, e.g. personal finance management tools, automated investment advice, individual portfolio management and tailored insurance products. The design, user-friendliness and user experience offered by these digital channels are the new yardsticks of customer satisfaction, along with the range of functions offered.

Digitalisation is being driven by new technologies such as big data, data analysis, artificial intelligence or cloud computing. These enable companies to quickly process large amounts of data and to offer their customers new, tailor-made services. Hyperautomation increases efficiency and saves costs.

A future-oriented digital economy needs start-ups that drive progress with their new technologies and innovative ideas. These start-ups need to be gently ushered under the regulatory umbrella. This is why the FMA is maintaining a FinTech point of contact to offer its expertise and experience, as well as a regulatory sandbox as an incubator for those start-ups, allowing them to take their new business models to regulatory maturity in a protected environment.

Thanks to the digital transformation, data is the 21st century's gold. According to recent studies, globally available data, including from alternative sources such as social media, will have quintupled by 2024 compared with 2018. The digital transformation evolves around data, it is the commodity for innovation in nearly all areas of life – from medicine to mobility and climate economy to the financial sector. These highly complex, continually growing and therefore sometimes barely manageable amounts of data, together with all the technological, legal and organisational barriers to using them, can make it difficult to develop new or improve existing applications. Innovative and responsible provision of data, as well as data networking and data usage are the biggest challenges for digital transformation. We should use its potential, but we must not neglect the fundamental values, rights and freedoms of our society.

Financial service providers in Europe are currently required to report around 400 000 data points to regulators and supervisors alone. It would seem to be in everyone's interest to reduce this amount of complexity. Reporting needs to become more efficient and more effective. We need to ask ourselves: which data is really necessary, which information can be gleaned from other, already available sources, and how can we prepare the data to ensure optimal use. Additionally, which SupTech tools do we need to process the ever growing amounts of data rapidly, efficiently and effectively? The road to data-driven supervision is clearly a very long one.

Digitalisation changes financial services themselves, and consumer behaviour too. Mobile payment systems are replacing traditional cash transactions. We can now make payments contactlessly via mobile phones, NFC cards or even our watches. Individual risk profiles of drivers can now be created using on-board computers in cars, GPS data and internet connectivity. These profiles are subsequently used for individual motor insurance cover, bringing to an end the very concept of risk-sharing among policyholders. Online sales with their short, catchy and pointed messages are eroding consumer protection as we know it. Pop-up windows containing complex legal information are all too easy for the online consumer to click away.

The digital revolution is not wholly positive, with security issues in particular increas-

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ingly becoming the focus of risk assessment. Criminals will never stop trying to steal passwords, get hold of credit card details or hack into customer information systems. The increasing level of digital interconnectivity is also exacerbating ICT (information and communication technology) risks, which make society as a whole and the financial system in particular vulnerable to cyber threats or ICT incidents. Cyber attacks going as far as hybrid warfare, as we have seen since Russia's invasion of Ukraine, data theft, malware and ransomware are becoming ever more serious operational risks. Then there is the risk of blackouts, triggered by cyber attacks or physical disruptions, along with dependencies on market-dominant ICT service providers (system providers, data centres and cloud providers).

Cyber incidents could not only compromise confidentiality, data protection, availability of data and the integrity of IT systems, they could even shatter financial market stability.

Many digital financial instruments – such as cryptos, which are mostly based on distributed ledger technology (DLT) – largely evade regulation and supervision. They are often highly speculative and vulnerable to market manipulation, and their extreme price volatility can be likened to price bubbles.

The enormous price slumps that many crypto assets experienced in 2022, along with the serious problems at leading (service) providers have massively undermined crypto fans' trust; Terra's stablecoin system, crypto lenders Celsius, Voyager and Blockfi, and the world's second-largest cryptocurrency platform (exchange) FTX have all been hit.

These events were a tremendous eye-opener for the immense risk associated with these products. However, it has also become evident that their impact on the stability of traditional financial markets was minimal. The world of cryptos is a world in itself, with hardly any overlaps to the established financial world, and therefore no channels of contagion at the current time. However, the time is more than ripe to develop the necessary regulatory framework conditions to prevent a crypto shock: to create a level playing field between digital and analogue financial service providers on the one hand, and to avert a potential erosion of consumer confidence on the other. However, bringing such products into the regulatory and supervisory fold might give the impression that dubious providers and their products are suddenly reputable. It is crucial that regulators keep this in mind.

The FMA, in its capacity as regulator and supervisor, intends to shape the digital transformation actively, embracing the opportunities but also tackling the challenges. Only then will digitalisation be able to boost growth, heighten Austria's attractiveness as a financial centre, improve people's quality of life and create prosperity for all.

The digital transformation facilitates not only social progress but also Austria's economic competitiveness. Nevertheless, those who cannot or do not want to take part in it should not be forgotten. An up-to-date survey published by the European Commission reveals that 42% of EU citizens lack the basic digital skills needed to take part. In Austria, only two thirds of all bank customers use internet banking. While 90% aged up to 35 use internet banking, the figure among the over-55s is less than half (49%), and less than a third among the over-65s (29%).

The digital divide, i.e. the gap between those who grew up with these technologies or who are at least IT-savvy enough to use them in their daily lives and those who are overwhelmed by digital technologies or simply refuse to acknowledge them, is adding to growing social tensions. Many older people, the poorly educated and socially disadvantaged, consumers who are hostile to technology and people who live in more remote areas are particularly at risk of being cut off from certain financial services. We need a minimum level of analogue, local services for these groups.

These new technologies and ideas need to be gently ushered under the regulatory umbrella. This is why the FMA is maintaining a FinTech point of contact to offer its expertise and experience, as well as a regulatory sandbox as an incubator for start-ups, allowing them to take their new business models to regulatory maturity in a protected environment.

THE FIGHT AGAINST CLIMATE CHANGE IS MAKING SLOW PROGRESS

In the Paris Agreement of 2015 the world set itself the ambitious goal of limiting global warming to a maximum of +2°C and committed to a subsequent reduction to +1.5°C. To reach this goal, the European Union resolved to reduce its greenhouse gas emissions by 40% by 2030 compared with 1990. In reality, global greenhouse gas emissions, half of which are caused by only three countries (China, USA and India), have continued to rise, and Europe is not doing much better. Austria's emissions are still as bad now as they were in 1990. Harmful fossil fuels such as coal, oil and gas still make up 84% of the world's energy use.

The European Union allocated the financial sector an important role in the transition to a sustainable, environmentally friendly and carbon-neutral economy in its 2018 Action Plan: Financing Sustainable Growth. The aims were to mainstream sustainability in risk management, foster transparency at all levels of a sustainable economic system and reorient capital flows towards more sustainable investments. To reach its environmental goals, the EU adopted the European Green Deal in 2019, initially with funding of € 250 billion. In 2021 it added the goal of advancing digitalisation in Europe to its investment package, topping up the funds to € 800 billion.

COVID-19, Russian aggression and the ensuing energy turbulence have shifted everyone's priorities overnight, pushing the fight against climate change down to the bottom of the agenda. The creation of a regulatory framework for the promised climate funding has also been delayed and is still behind schedule. The EU decided this year, for example, to label gas and nuclear energy as sustainable for the time being in the green transition. The Taxonomy, Disclosure and Benchmarks Regulations are starting to come to life, and need to be backed up by valid data, facts and figures.

To take just one example: the Sustainable Finance Disclosure Regulation (SFDR) has been in effect since March 2021. Fund providers are now required to classify their products, stating whether and how they take environmental protection, social justice and responsible corporate governance into account, known as the ESG (environmental, social and governance) factors. "Dark green" funds pursuant to Article 9 SFDR must adhere to the strictest criteria: they have to contribute to the fight against climate change and must not violate other criteria. "Light green" funds pursuant to Article 8 consider ESG factors but may also invest more conventionally. The remainder, "grey" funds pursuant to Article 6, are only invested in conventional vehicles. According to the Morningstar information service, the European fund market is worth € 11.3 trillion. When this volume was split up in a first round of classification, providers classed their products as follows: € 500 billion or 4.3% as "dark green", € 3.7 trillion or 33.6% as "light green", leaving the remaining 62.2% as "grey" funds. An international research project known as the Great Green Investment Investigation analysed 800 supposedly dark green funds and found that 48% of which were still making some investments that could not be described as sustainable. European supervisory authorities have only this year pointed out in their regulatory technical standards that "dark green" funds should exclusively invest in sustainable products. In addition, from 2023 onwards, funds will have to report on their ESG strategy over the past business year, with stricter requirements and the need to provide more data. Many companies in which they invest or wish to invest are not yet obliged to prepare their figures in a way that enables fund providers to underpin the ESG ratings. There have therefore been a number of instances of funds being downgraded to lower ratings to avoid any liability issues around incorrect classification, misselling or inaccurate prospectuses.

There is still a lot to be done. Supervisors and financial market participants are only just starting to make ESG ratings transparent, backing them up with valid data, facts and figures. Initial climate stress testing has also shown that banks are only beginning to process the data and integrate it into their risk management.

For supervisors of the financial market, their main task in relation to sustainability is to create transparency, providing market participants with the information they need to make informed decisions. Financial supervisors cannot and should not be deciding what is sustainable on the basis of ESG criteria. This is a political decision to be made by legislators. The role of financial market supervisors is to monitor financial risks.

SOCIAL CHANGES AFFECT CONSUMER BEHAVIOUR AND CALL INTO QUESTION ESTABLISHED PROTECTION MECHANISMS

In the past few years, consumer and investor behaviour has changed significantly. Two parallel developments are responsible for this:

- The persistently low interest rate environment has made riskier forms of investment more attractive as they promise higher returns. Additionally, there has been a

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shift from financial to real assets such as property, encouraged by extremely low lending rates. A whole generation who has already entered the financial market is unfamiliar with the challenges posed by soaring interest rates and high inflation.

- The digital transformation has made it easier, especially for the younger, IT-savvy generation, to access financial products, and not only in the regulated and supervised business areas but also in the unregulated and cross-border sphere. This has also changed the way people deal with money and financial products, with a more playful and riskier approach.

Historically, the Austrian financial market is characterised by a deep-rooted tradition of savings accounts. At the same time, Austrians have tended to be more reluctant to invest in the capital market. Around 40% of Austrian households' total financial assets are held in savings deposits, with only 20% in securities. Compared internationally, levels of savings deposits are 5 percentage points above the European average, while investments in securities are 5 percentage points below the average. This has shifted considerably in the past three years, however. Consumer spending has fallen as a result of coronavirus restrictions. Savings have generally gone up as a consequence, but people have also been investing in more liquid funds as well as in riskier financial products that promise higher returns.

With long-term fixed savings products yielding barely any additional income in this environment of extremely low interest rates, 70% of all deposits are due on demand. Five years ago this rate was only around 55%. Building society savings accounts have also lost serious ground. The turnaround in interest rates initiated in mid-2022 now seems to be leading to a greater differentiation in the savings market by lock-in period. The high rates of inflation in evidence since the autumn of 2021, at time exceeding the 10% mark, have exacerbated the negative real rates of return earned by savers in the low interest rate phase. In real terms, savings have fallen in value by as much as 8% or 9%.

At the same time, there has been a considerable influx of investors into the capital market since the first coronavirus lockdown, particularly from the younger generations: the number of 18-24 year-old investors has more than quadrupled, and the number of 25-39 year-olds is around two-and-a-half times higher than before the pandemic. Older generations have clearly been far more hesitant.

This rejuvenation of the capital market in Austria has also changed investment behaviour, not only in relation to the type of products but also how they are acquired:

- Younger investors are increasingly investing in investment funds, specifically exchange traded funds (ETFs). The volume of ETFs among retail investors in Austria has tripled in the last two years, with ETFs now accounting for about 6% of investments in investment funds. They are the entry point for many investors making the move into the capital market. “Green” investments are also very popular among younger and retail investors. They make up around one third of all managed fund assets and are the fastest growing asset class.
- Younger investors are also increasingly turning to online brokers, trading apps and neo-brokers. This has serious repercussions for investment and risk behaviour, since these generally exclusively offer or at least mainly focus on execution-only business. This means there is little advice, no recommendation, and no advisor checks to determine whether the security is the right or appropriate one for that customer’s specific needs. With transactions via trading apps or execution-only brokers, the customer therefore has a much higher degree of personal responsibility. Many trading apps are also designed to entice potential investors to make a game of it, to make as many trades as possible and to speculate rather than invest. This gamification sales strategy leads to rash buy or sell transactions, usually at the expense of investment performance.

In the glittery world of the internet, it is also much harder for consumers to distinguish reputable from rogue investment providers, or regulated and supervised service providers from those that operate outside the legal realm. Consumers often do not even check whether a provider is authorised to provide the financial service offered, or consider the place of jurisdiction for any legal claims that might need to be enforced, never mind which supervision or protection schemes apply, if any at all. Dubious and fraudulent providers frequently present their services on highly professional-looking websites. They make targeted use of social media channels and influencers, many of whom enjoy high levels of credibility and trust. Much still needs to be done to create more awareness of the associated risks.

In view of these major changes in investor and consumer behaviour, supervisors are facing huge challenges:

- We must make sure that the consumer protection instruments with a proven track record in the analogue world can also work efficiently and effectively in the digital world.
- We must make sure that regulatory loopholes are closed, not least to guarantee a level playing field for all.
- We must make sure that there is maximum transparency, allowing consumers and investors to actually make appropriate decisions according to their financial needs.

LOOPHOLES AND THE FLIGHT FROM REGULATION AND SUPERVISION CHALLENGE THE FAIRNESS AND PROPER FUNCTIONING OF THE FINANCIAL MARKETS

The global financial crisis and the ensuing sovereign debt crisis in Europe have led to many fundamental reforms and new regulatory and supervisory tools, which will help tackle the large challenges lying ahead. However, the rate of progress of some of these reform projects has slowed, for example the further development of the supervision and capital regime for banks (termed Basel III), the creation of a European deposit insurance scheme, appropriate risk-weighting of government bonds in bank balance sheets, or the advancement of the Capital Markets Union.

In some areas, regulation has not been able to keep pace with the rapid technological and social changes. For instance, tried-and-tested regulation originally developed for the analogue world often does not work in the digital world, or only to a very limited extent. The broad field of crypto assets has already been discussed here. In some cases, they have been, and are still being, designed in a way to evade regulation and supervision.

As an independent and integrated supervisory authority for the Austrian financial market, the FMA is tasked with the early detection of potential vulnerabilities in the financial market and its participants. The FMA must act in a risk-oriented manner and identify weak points before they reach breaking point.

The digital transformation also comes with new and growing risks, cyber risks and ICT security for example, which also need to be addressed by regulation. At the same time, regulators should not only view digital transformation as a risk or threat but also as a driver for innovation, opening up new opportunities for the economy and society, as well as for Austria as a base for business and as a financial centre.

The European Union has already launched some regulatory packages that now need to be implemented and brought to life. Three of these are: the Markets in Crypto-Assets Regulation (MiCAR), which will finally provide a regulatory framework for the market for digital financial products and assets; the Digital Operational Resilience Act (DORA), which should ensure that the financial sector in Europe is able to maintain resilient operations through a severe operational disruption; the DLT Pilot Regime, which is primarily aimed at investment firms, market infrastructures and central counterparties and should pave the way for decentralised capital market infrastructures. These new regulations will enter into force over the next few years, with big challenges ahead for regulators when it comes to implementing and applying them in practice.

The fight against the looming climate crisis will be another demanding task for regulators and supervisors, with the financial sector playing a decisive role in the transition of the economy towards more sustainability. The regulatory framework has essentially been put in place but still needs to be developed and backed up by valid data and information to ensure reliability and transparent guidance for action.

The fight against money laundering and the financing of terrorism is a fight against moving targets. While the regulatory framework in this case is tight and applied all over the world, with only very few exemptions, legal enforcement is still mostly a matter for national authorities despite the cross-border nature of business. This is highly problematic, not to mention inefficient and ineffective. The establishment of a dedicated EU Anti-Money Laundering Authority (AMLA), which relies on the network of national supervisory authorities, means that a regulatory and supervisory loophole will finally be closed. The AMLA will supervise particularly high-risk financial service providers engaged in cross-border business, support and coordinate the activities of national authorities and thus elevate the AML system to a cross-border and thus higher level. Preparations are needed at national and European level to enable this European cooperation to take off quickly and as smoothly as possible.

In its capacity as an independent and integrated supervisory authority for the Austrian financial market, the FMA is tasked with the early detection of potential vulnerabilities in the financial market and its participants. The FMA must act in a risk-oriented manner and identify weak points before they reach breaking point. And we do this, for example, by preparing an annual medium-term risk analysis. Our risk analysis for 2023–2027 shows that financial market participants in Austria have huge and difficult challenges ahead of them over the next few years – as does the FMA as regulator and supervisor. We will address these challenges boldly, rapidly, stringently, independently, holistically and in a risk-oriented and forward-looking manner, joining forces with our partners in supervision. Our priorities for supervision and inspections for 2023, derived from this medium-term risk analysis, are described in detail in the following chapter.

PRIORITIES FOR SUPERVISION AND INSPECTIONS IN 2023

The FMA is committed to the principle of transparency, engaging in open dialogue with all stakeholders, the market and the supervised companies. Setting its priorities for supervision and inspections in the year ahead is an important aspect of the FMA's work.

Based on its annual medium-term risk analysis, in which it identifies and analyses the particular challenges in the financial markets over the next five years, the FMA evaluates and revises its supervisory strategy and sets the supervisory and inspection priorities for the coming year. It publishes the results in its annual publication Facts and Figures, Trends and Strategies and on its website.

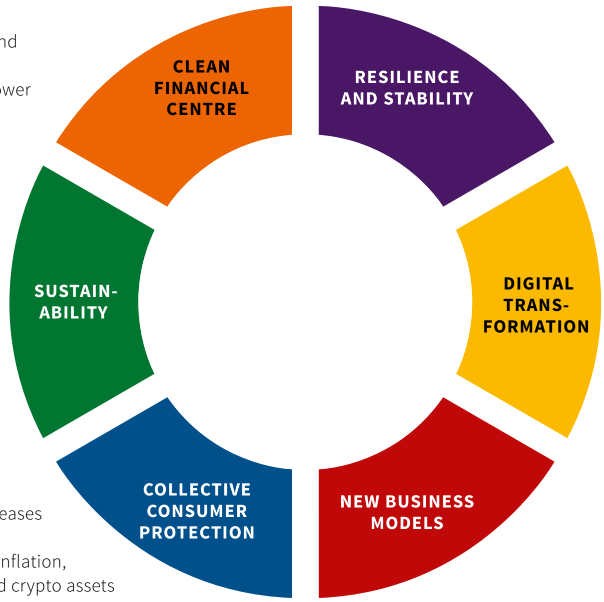
Using the medium-term risk analysis and supervisory strategy 2023–2027 outlined by the FMA Executive Directors Helmut Ettl and Eduard Müller in the introductory chapter of this publication, the FMA has defined and set the following supervisory and inspection priorities for 2023:

- **RESILIENCE AND STABILITY:** To strengthen the resilience of the supervised financial service providers and to preserve the stability of the Austrian financial market as a whole
- **DIGITAL TRANSFORMATION:** To exploit the opportunities of digitalisation while also consistently addressing the associated risks
- **NEW BUSINESS MODELS:** To provide regulatory and supervisory support for innovative business models as early as possible in order to promote the innovative strength of the Austrian financial market, to ensure fair competitive conditions and to guarantee appropriate consumer protection

Clean financial centre
- Monitoring and analysis of trends and business practices
- Automated evaluation of whistleblower reports
- National centre of excellence and information hub for AML

Sustainability
- Integration of sustainability risks into risk management, strategy and governance of supervised companies
- –Focus on disclosures and non-financial reporting
- Greenwashing

Collective consumer protection
- Risk-oriented market monitoring
- Transparency around premium increases
- Analysis of information on websites
- Focus of consumer information on inflation, old-age provision, sustainability and crypto assets



Resilience and stability
- Recognising risks and vulnerabilities
- Improving capital resources, addressing risks
- Safeguarding sustainable lending
- Improving the resolvability of banks

Digital transformation
- Promoting the stability of digital systems
- Expanding resilience to cyber risks

New business models
- Regulatory sandbox and new licences
- Implementation of IFR/IFD, “large” investment firms
- Preparation for upcoming European regulations on crypto assets and DLT technology

Figure 1: *FMA’s supervision priorities for 2023*

- **COLLECTIVE CONSUMER PROTECTION:** To further develop consumer protection in a rapidly changing environment focusing on: digital change, changing consumer behaviour, demographic development, interest rate turnaround
- **SUSTAINABILITY:** To provide regulatory and supervisory support and assistance to the financial market and all its participants during the transition to a sustainable economic model
- **CLEAN FINANCIAL CENTRE AUSTRIA:** To secure the clean character and reputation of the Austrian financial centre at all levels.

Publication of the current medium-term risk analysis and the resulting supervisory and inspection priorities for the coming year is intended to draw the attention of the supervised entities to risk areas in their business field while also giving them the opportunity to prepare in a targeted way for the risk-oriented priorities for supervision in 2023. This raises awareness of risk and creates transparency around the challenges that the supervisory authority has identified and wishes to focus on. In this way, the supervised entities are also given a clear indication of which areas they should be focusing on.

PRIORITY FOR SUPERVISION AND INSPECTIONS: RESILIENCE AND STABILITY

The Austrian financial market and its participants have so far demonstrated stability and resilience despite the major challenges of the past years – the COVID-19 pandemic, crisis of multilateralism, huge economic distortions caused by Russia's war against Ukraine and central banks' abrupt realignment of their monetary policies. This is partly down to resolute action and large-scale support from governments, but it is also due to the fact that the right regulatory and supervisory lessons have been learned from the global financial crisis of 2007/2008. Regulatory gaps have been closed, lawmakers have refined existing regulations on the basis of experiences so far and harmonised the rules applicable across the EU, new supervisory instruments have been created, and the capital base and liquidity of providers, and thus their resilience, have been strengthened.

Yet the geopolitical and real economic challenges continue to grow, technological and social change is advancing rapidly, and the impact on the financial markets are becoming ever greater. Consequently, risks in many areas are increasing, making the financial system more vulnerable.

Real economic challenges such as energy, raw material and material shortages, fragile supply chains, an ailing economy and even fears of recession, persistently strong inflationary pressure, the abrupt turnaround in interest rates and the extremely high volatility on the financial and capital markets will inevitably have direct and indirect effects on many financial market participants. There is a growing danger that risks will strike, and not just one but several at once.

These developments have prompted the International Monetary Fund (IMF) and the

European Systemic Risk Board (ESRB) to issue urgent warnings and a demand for a rapid response from everyone involved.

The Austrian financial centre and its participants must also prepare for uncertain times that lie ahead. As an integrated supervisory authority, the FMA is playing its part by looking to the future and taking timely and decisive action to counter potential adverse developments and guarantee the stability of the Austrian financial market. To this end, it has set the following specific priorities and scheduled the following projects for 2023:

- **Recognising vulnerabilities quickly:** In order to ensure rapid supervisory action, geopolitical and economic developments and their impact on the markets and the supervised undertakings will be closely monitored and analysed across all of the FMA's supervisory areas. Ongoing dialogue with the supervised undertakings will be a central element, with a similar focus on vulnerability analyses and stress testing.
- **Further improving capital resources, addressing risks:** In the case of banks, identified risks will be addressed through such measures as adequate capital resources, improving these in line with international standards. With regard to insurance undertakings, the focus will be on the practical application of internal models while continued supervision will be expanded in terms of risk-specific content.
- **Safeguarding sound and sustainable lending:** In order to contain the growing credit risk as a result of the difficult environment, the focus when granting new loans is on compliance with sustainable lending standards, in particular those defined in the KIM-V[1] for private financing of residential real estate.
- **Building up recovery and resolution planning for CCPs in the financial infrastructure:** As the newly competent authority for the preparation of resolution plans for central counterparties (CCPs) as well as for the review of their recovery plans, the Austrian-based CCP.A will be included in this regime. This will make a significant contribution to safeguarding critical market infrastructures.
- **Improving the resolvability of Austrian banks:** The gradual implementation of the European requirements on the resolvability of banks and the addressing of barriers to resolution will be accelerated, while consistently applying the principle of proportionality.
- **Cross-border resolution dry-run:** The case of Sberbank Europe has shown how challenging an existential crisis can be, especially for a banking group that operates across borders. In such a case, smooth cross-border cooperation forms the basis of a successful resolution in the interests of financial market stability. With this in mind, the FMA is carrying out a cross-border crisis exercise on a resolution case together with partner authorities and European institutions.

An important element will be our ongoing dialogue with the supervised undertakings, with a focus on vulnerability analyses and stress testing.

[1] *Regulation for sustainable lending standards for residential real estate financing (KIM-V;* Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung*), published in the Federal Law Gazette of the Republic of Austria of 17 June 2022.*

PROPORTIONATE APPLICATION OF THE EUROPEAN POLICY FRAMEWORK IN ASSESSING RESOLVABILITY

As part of its remit to update banks' resolution plans every year, the FMA is also required to assess their resolvability.

In cases where the FMA has defined a resolution strategy for a bank, this resolvability assessment is used to examine whether the selected strategy is credible and feasible were the bank to fail. The FMA assesses whether the resolution strategy for that bank threatens one or more of the resolution objectives, specifically whether critical functions are ensured and significant adverse effects on financial stability avoided. Furthermore, it establishes whether the bank fulfils all of the requirements for implementation of the resolution strategy in practice.

If the FMA finds the bank's resolution strategy credible and feasible, the institution will be deemed resolvable. If, however, the FMA identifies an impediment to resolvability, it will initiate proceedings to specify measures to reduce or remove the impediment in order to achieve the bank's resolvability.

REQUIREMENTS AND METHODS FOR RESOLVABILITY ASSESSMENTS

The requirements for a bank's resolvability can be found in the set of criteria included in the Bank Recovery and Resolution Act (BaSAG; *Bankensanierungs- und Abwicklungsgesetz*)[1]. These criteria specify a bank's required staff, infrastructures, finances, liquidity and capital to enable it to maintain its core business lines and critical operations in the event of resolution. They also define to what extent service agreements

[1] *See the appendix to Article 27 BaSAG.*

need to be enforceable in the event of resolution, and that access to payment and settlement systems must be guaranteed at all times. The resolvability requirements for banks were specified in detail in the expectation documents drawn up by the Single Resolution Board (SRB) and the European Banking Authority (EBA): the SRB published its Expectations for Banks in April 2020, and the EBA its Guidelines on resolvability in January 2022 and September 2022 (on transferability of parts of banks in resolution).

Methodologies for assessing resolvability have also been defined at European level. The SRB requires resolvability assessment to include a so-called heat map, a visualisation tool to present assessment results. In essence, a heat map is a diagram simplifying and visualising multi-dimensional data. It will help to establish the progress made and to identify any problems or obstacles to resolvability, also showing if there is a need for the bank and the FMA to take action. The EBA has launched a consultation to amend its resolvability guidelines to include provisions for an annual self-assessment report on the implementation of the resolvability objectives and for setting out a multi-annual testing programme assuring that implementation is properly monitored by the resolution authority.

The FMA assessed banks' resolvability on the basis of European requirements and methods for the first time during its 2022 resolution planning cycle. It plans to inform the banks of the results of these assessments in the first half of 2023.

APPLICATION OF THE PRINCIPLE OF PROPORTIONALITY

The FMA assessed banks' resolvability on the basis of these European requirements and methods for the first time during its 2022 resolution planning cycle. It communicated the requisite requirements to the banks in question, obtained self-assessment reports from the banks on their implementation of these requirements, and presented the results of its assessment in heat maps. In assessing adherence to the European expectations, the FMA applies the principle of proportionality. This means that particular expectations in relation to resolvability might be fully relevant to a bank, or only partially or even not at all, depending on bank-specific characteristics (business model, structure, cross-border activities etc.) and a bank's specific resolution strategy. Not all of the expectations for banks will need to be fully implemented right away, but will be subject to a gradual phase-in between 2022 and 2024, with banks being expected to build up their capabilities and this process being considered in the resolvability assessment.

The FMA plans to inform the banks of the results of the assessment of resolvability in accordance with these European expectations in the first half of 2023. At that time, the Authority will then also communicate its evaluation of additional requirements for resolvability, particularly in relation to the provision of additional data, for its 2023 resolution planning cycle. All of these steps will help ensure that Austrian banks become and remain fully resolvable.

PRIORITY FOR SUPERVISION AND INSPECTIONS: DIGITAL TRANSFORMATION

Digitalisation is advancing rapidly in practically all areas of the economy and society. The massive impact and major challenges of the COVID-19 pandemic have created added momentum over the past few years. The digital transformation brings new opportunities for the financial markets and all participants, but also poses new risks that should not be underestimated. The FMA's goal here is to provide a regulatory and supervisory framework that facilitates and promotes innovation while at the same time upholding fair competitive conditions and appropriate consumer protection.

In many areas digitalisation is not simply an evolutionary development of the analogue world, but is in fact a technological breakthrough that brings something fundamentally new. The previous "digitalisation" priority for supervision and inspections has therefore been replaced with "digital transformation".

The FMA closely monitors developments, analyses changes in detail, and consistently addresses identified risks. In order to maintain the high quality of supervision and the trust of clients and markets in the activities of the FMA, even under the new framework conditions, the FMA is continuously adapting its supervisory strategy and developing its tools to meet requirements, as well as inventing new approaches with targeted aims.

Only if the new risks are recognised, analysed and managed can the advantages of digitalisation be fully enjoyed by every market participant.

The FMA also considers accompanying the supervised companies through the change processes as an important task. In doing so, it uses the results of its digitalisation studies and its findings from continued supervision to discuss their strategies in dialogue with them and to highlight any weaknesses at an early stage.

Digitalisation is not only the driving force for many young, up-and-coming, innovative companies; the established players are also hugely impacted by the consequences of the digital revolution. For them, too, the environment is changing, in some cases fundamentally, not least through changed customer expectations in product design and sales, growing cyber threats and increased pressure on cost efficiency.

All of this dynamic upheaval poses great challenges for market participants and supervisors alike, prompting them to focus in particular on ICT infrastructure, ICT strategy and ICT security. Coping with the resulting tasks often requires cooperation with or outsourcing to third parties. From a systemic perspective, this in turn can lead to new dependencies, risk concentrations and contagion channels. Supervision must therefore look beyond the financial market, include other regulated but also non-regulated activities and companies in its analysis, and find ways and means to address localised risks in a targeted, efficient and effective way.

Despite all the euphoria about digitalisation, the digital transformation must not be allowed to jeopardise transparency or create discrimination; a door to the analogue world must always remain open so that population groups that are not digitally aware are not excluded from the new developments or even from the financial market and its essential services.

The FMA will therefore be addressing the digital transformation in 2023 through the following projects and measures:

- **Promoting the stability of digital systems:** The future EU Digital Operational Resilience Act (DORA) is intended to ensure that the European financial sector is able to stay resilient through a severe operational disruption. Political agreement[1] has already been reached on the main points of the new rules. In preparation for DORA, the FMA will therefore be focusing on ICT risks at the supervised entities, how these risks are managed and risk governance. In addition, the FMA will continue to closely analyse the ICT service provider landscape and evaluate the resulting risks, particularly in relation to potential systemic risks or contagion channels. Its findings will also be integrated into the risk assessment as part of continued supervision activity.

  In particular, the following specific measures are planned:
  - Evaluation of institution-specific ICT risk management in the banking sector as part of the supervisory review and evaluation process (SREP)[2]
  - On-site inspections focusing on the information and communication technology of the supervised entities, with a focus on ICT security, outsourcing and third-party providers
  - Further development of the FMA's cyber dashboard and the concept for measuring the level of maturity in terms of digitalisation (digital risk profile), for insurance undertakings in particular.

Digitalisation is not only the driving force for many young, up-and-coming, innovative companies; the established players are also hugely impacted by the consequences of the digital revolution. For them, too, the environment is changing, in some cases fundamentally, through changed customer expectations in product design and sales, growing cyber threats and increased pressure on cost efficiency.

1 *The text detailing the political agreement on DORA can be found here: [Digital finance: Provisional agreement reached on DORA – Consilium (europa.eu)](#).*

2 *The SREP focuses on the viability of the business model, governance and risk management, capital adequacy and liquidity.*

- **Expanding resilience to cyber risks:** As the number of cyber attacks soars, with serious consequences, the FMA will:
  - Push ahead with cyber maturity level assessments of the supervised entities
  - Focus on cyber risks in all sectors as part of the supervisory process and during on-site inspections
  - Participate in the implementation of an Austrian TIBER framework[3] for banks
  - Roll out cyber security exercises to further insurance undertakings
  - Conduct a market-wide assessment of risk mitigation measures using a specific cyber incident scenario.

[3] *TIBER-EU (Threat Intelligence-based Ethical Red Teaming) is a framework developed by the ECB for threat-led penetration testing for cyber risks. It sets out rules and minimum standards on the basis of which companies can have their cyber defence capabilities tested by contracted hackers.*

IDENTIFICATION OF CRITICAL ICT SERVICE PROVIDERS TO PREPARE FOR DORA

Use of modern technologies can make processes more efficient, improve customer contact and open up new lines of business. In order to tap into these technologies, companies in the Austrian financial market are increasingly relying on cooperation with innovative start-ups (FinTechs, InsurTechs) as well as buying in digital information and communication technology (ICT) services from specialist external providers. Today, the majority of players in the financial sector already operate their critical business processes in cooperation with this type of service provider.

However, as well as creating new possibilities and opportunities, this trend of networking financial market and technology specialists is also creating structural risks. Some of these ICT service providers work for several companies at the same time, in some cases from different market sectors. This poses the risk of contagion and concentrations. An incident at one of these central service providers could, under certain circumstances, affect the business operations of several supervised companies simultaneously. Furthermore, cyber attacks – be they politically, terrorist or criminally motivated – are increasingly originating in IT supply chains.

The European Union is addressing these challenges with a comprehensive set of rules to strengthen and improve ICT security, the Digital Operational Resilience Act (DORA). There is already a political consensus on the content of this planned EU regulation on the operational stability of digital systems in the financial sector, but the technical details are still being fleshed out. DORA is expected to result in specific requirements in such areas as the governance and supervision of critical ICT service providers with effect from 2024 at the earliest.

NEW RULES UNDER DORA

DORA will set governance requirements for the procurement of critical ICT services as well as minimum requirements for the content of contracts between financial companies and ICT service providers. One new concept is that of a European supervisory regime for critical ICT service providers.

As a first step, critical ICT service providers are to be identified at national level in order to then draw up a full European list. In addition, one of the European supervisory authorities (EBA[1], EIOPA[2], ESMA[3]) will be assigned to each critical ICT service provider as the competent supervisory body, depending on the provider's main area of activity. This body will coordinate and organise the corresponding supervisory activities, including on-site inspections.

THE FMA'S PREPARATIONS

The FMA is conducting an in-depth analysis of the ICT service provider landscape in Austria to enable it to effectively supervise the ICT security of the financial market at national level and be prepared for a supervisory regime for ICT service providers based on DORA.

The following objectives are the key priorities:

- Identification of critical ICT service providers
- Early detection of concentration risks at the level of sub-service providers
- Assessment of the impact of incidents at ICT service providers
- Early identification of regulatory trends in the ICT service provider sector, in relation to certification and cloud usage for example.

In order to gain an insight into the structure of the ICT service provider market, the FMA has already examined ICT interconnections as part of its 2021 Digitalisation Study. The resulting ICT service provider map illustrates the strong interconnected nature of the financial and technology sectors.

In order to gain an insight into the structure of the ICT service provider market, the FMA has already examined ICT interconnections as part of its 2021 Digitalisation Study. With a very high market coverage in all segments of the financial market, it has surveyed a total of 960 critical service provider and sub-service provider relationships between 189 supervised financial market participants and 496 companies engaged solely in ICT. The resulting ICT service provider map illustrates the strong interconnected nature of the financial and technology sectors *(> Figure 2)*.

This map is already actively used in the FMA's supervisory practice in order to assess possible contagion channels and impact cascades in the financial sector in the event of a problem occurring at a service provider. For example, potential links with Russian, Belarusian and Ukrainian ICT companies could be quickly identified and evaluated at the start of the war in Ukraine in February 2022.

The data basis behind this service provider map is also a valuable tool for identifying clusters and particularly critical actors in ICT services.

NEXT STEPS

With DORA due to enter into effect from 2024 at the earliest, it is important for the FMA to build up a broad pool of knowledge on relevant ICT service providers in the Austrian financial market, to expand this knowledge continuously and to ensure it is

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[1] *European Banking Authority.*
[2] *European Insurance and Occupational Pensions Authority.*
[3] *European Securities and Markets Authority.*

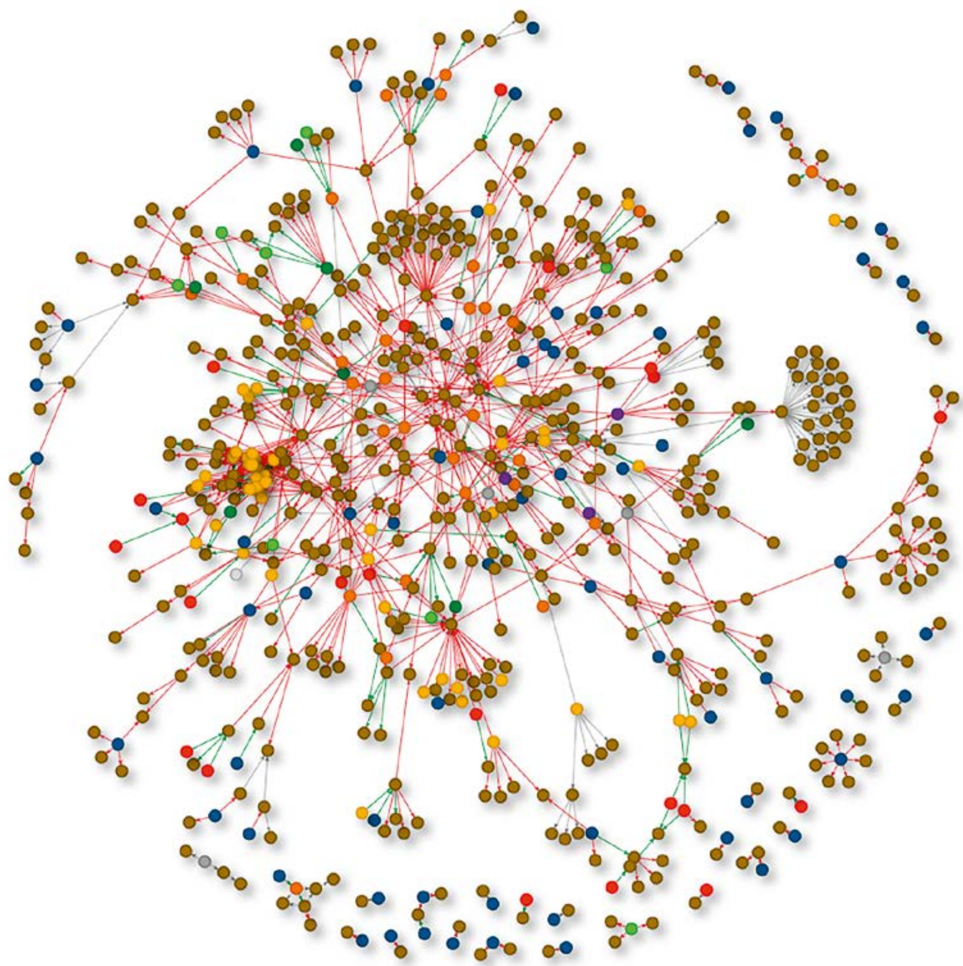

Figure 2: *ICT service provider map*

kept up to date. Against this background, the companies of the financial market are now being integrated within the framework of existing survey formats in order to periodically update the data.

On this basis, the FMA can use dashboard and analytical tools to integrate the information into its daily supervisory work. The proactive focus on surveying ICT interconnectedness should thus enable the most efficient supervision possible in this increasingly important area even before DORA enters into force.

PRIORITY FOR SUPERVISION AND INSPECTIONS: NEW BUSINESS MODELS

Innovation on the financial markets is currently dominated by the digital revolution. Consumers and entrepreneurs alike are turning to digital financial services. New digital technologies are constantly emerging, prompting a paradigm shift in many business models. The FMA reviews new financial instruments and business models to determine whether new technological developments are being applied, how they should be treated in regulatory and supervisory terms, and what impact they will have on the risk situation of the providers themselves and their clients. These developments are also reflected in European legislation. The European Commission has already launched several legislative proposals for regulatory packages to tackle the digital transformation.

For the first time, the Markets in Crypto-Assets Regulation (MiCAR)[1] subjects crypto assets, crypto issuers and crypto service providers to a comprehensive regulatory framework. It will enter into force at the beginning of 2024, as of which time it will become applicable in stages.

The aim of the DLT Pilot Regime[2] is to enable and regulate the trading and settlement of DLT-based[3] securities throughout the Union. It therefore closes a crucial regulatory

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[1] *The proposal for MiCAR, on which the European institutions have reached political agreement, can be found here: [Digital finance: Agreement reached on European crypto-assets regulation (MiCA) – Consilium (europa.eu)](#)*

[2] *Regulation (EU) 2022/858 of the European Parliament and of the Council of 30 May 2022 on a pilot regime for market infrastructures based on distributed ledger technology, and amending Regulations (EU) No 600/2014 and (EU) No 909/2014 and Directive 2014/65/EU.*

[3] *Distributed ledger technology (DLT) is a digital transaction recording system, using which transactions and their details can be recorded in multiple places simultaneously. There is no central data storage or management function. It can be used to record static data, for a register for example, as well as dynamic data, for such purposes as financial transactions.*

gap for the comprehensive application of blockchain technology in the European financial and capital markets. However, under the DLT Pilot Regime, certain DLT market infrastructure operators will be exempt from some provisions of the current regulatory regime so that they can provide trading and/or settlement services for financial instruments using DLT and blockchain technology in a test environment. The regime takes effect from 23 March 2023.

The European Crowdfunding Service Providers Regulation (ECSPR)[4] has already entered into force and aims to facilitate crowdfunding within the European Union and allow platforms to provide their services throughout the internal market. Austria's Crowdfunding Enforcement Act (*Schwarmfinanzierung-Vollzugsgesetz;* Federal Law Gazette of 30 December 2021) created the rules needed at national level to enforce the European regime.

These three legislative packages in particular form the regulatory basis for many new business models. They will therefore also be at the centre of specific supervisory and inspection measures in 2023:

The FMA's regulatory sandbox is a supervisory concept used to test out innovative business models in compliance with supervisory requirements. In it, companies can develop their innovative business model, accompanied by the supervisory authority, as far as regulatory maturity and thus licensing.

- **Regulatory sandbox and new licences:** The FMA's regulatory sandbox is a supervisory concept used to test out innovative business models in compliance with supervisory requirements. In this sandbox, companies can develop their innovative business model, accompanied by the supervisory authority, as far as regulatory maturity and thus licensing. Yet neither regulatory nor supervisory requirements are sacrificed as a result.

  There are currently six crowdfunding service providers in the sandbox striving for authorisation for their innovative business models under the ECSPR, with the aim of being able to offer and process their services across Europe in the future. One investment service provider has already completed the sandbox process and been awarded a licence, and is already offering its services on the open market. To continue expanding its sandbox in 2023 the FMA will:
  - Seek the entry of further suitable FinTech companies
  - Intensify the ongoing dialogue and close consultation with the Federal Ministry of Finance and its institutionalised Regulatory Sandbox Advisory Board in order to generate new momentum for innovative providers
  - Analyse, evaluate and optimise the procedures in the sandbox based on the experience gained from the first procedures in order to use resources as efficiently as possible and conclude procedures as quickly as possible
  - Following authorisation of the new crowdfunding service providers, supervise the development of crowdfunding platforms and the gradual expansion of authorisation in particular.
- **Implementation of IFR/IFD, "large" investment firms:** In order to implement the new European rules governing investment firms, IFR[5] and IFD[6], a comprehensive legislative package has been adopted in Austria, creating a new prudential supervisory regime for MiFID investment firms. Based on the 3-pillar model of banking

[4] *Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937.*

[5] *Investment Firms Regulation – Regulation (EU) 2019/2033.*

[6] *Investment Firms Directive – Directive (EU) 2019/2034.*

regulations, this provides for new and expanded minimum capital, own funds and liquidity requirements, alongside reporting, notification and disclosure obligations, and due diligence and monitoring obligations. Investment firms are divided into three classes, each with different regulatory requirements according to their business model and risk situation. In implementing the leeway provided by EU law, the legislator has granted the FMA regulatory powers that it can use to calibrate the regulatory requirements for small and unaffiliated investment firms in proportion to the relatively low level of risk. Furthermore, in a departure from the previous MiFID implementation practice in Austria, the concept of the "large investment firm" has now been introduced. Such firms are permitted to hold client funds and client financial instruments, and the list of permissible investment services and ancillary services has been expanded in their case. The FMA will therefore be taking the following specific steps in 2023:

- Creation of the organisational prerequisites for the licensing and risk-oriented supervision of "large investment firms"
- Development of the processes needed for enforcement practice
- Expansion of the corresponding body of knowledge.

■ **Preparation for upcoming European regulations on crypto assets and DLT technology:** The following steps are planned in 2023:

- Expansion of knowledge, and development and adaptation of the processes needed to apply the DLT Pilot Regime and the MiCAR quickly, efficiently and effectively in supervision
- Determining whether there is a need for new or additional tools to monitor market abuse using crypto assets
- Monitoring European and national legislative discourse on the new regulations from the perspective of supervisory practice
- Evaluation of the new technical and economic developments and business models on the financial market, identification of any need for adaptation in the European and national legal framework in order to promote implementation and application for financial innovations.

CROWDFUNDING SERVICES – DIGITALISED EUROPEAN FINANCING TRANSACTIONS

Crowdfunding is becoming an increasingly popular alternative form of financing start-ups, small and medium-sized enterprises, as well as new products or small-scale projects of all kinds, from creative works to residential property. Crowdfunding means addressing a large group of individuals, the "crowd", who all contribute to the financing of a project, generally with relatively small amounts, and thus help get that project off the ground.

Austria introduced the Alternative Financing Act (AltFG; *Alternativfinanzierungsgesetz*) in 2015, which set a regulatory framework for crowdfunding at a national level. The European Crowdfunding Service Providers Regulation (ECSPR)[1] and its transposition into Austrian law by way of the Crowdfunding Enforcement Act (*Schwarmfinanzierung-Vollzugsgesetz*)[2] followed in 2021, providing for a harmonised legal basis in Europe. Both regimes co-exist in their own right. Nationally, funds may de facto only be raised in Austria, and the total amount of finance may not exceed € 2 million per project owner per year. European crowdfunding, in turn, allows for a cross-border, EU-wide financing round, with a limit of € 5 million per project owner per year. While the AltFG stipulates that legal enforcement of the national crowdfunding regime is the remit of locally competent district administration authorities, it is the FMA that is responsible for enforcement and supervision of the ECSPR regime in Austria.

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[1] *Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937.*

[2] *Federal Law Gazette I No. 225/2021.*

THE NEW EUROPEAN CROWDFUNDING REGIME

Only authorised and supervised crowdfunding platforms are allowed to provide cross-border crowdfunding services pursuant to the ECSPR. Funding may only take the form of loans or transferable securities. Investments such as qualifying subordinated loans, participation rights, or silent or limited partnerships are not allowed. No capital market prospectus is required, a key investment information sheet pursuant to Article 23 ECSPR suffices. In Austria, crowdfunding service providers pursuant to the ECSPR are authorised and supervised by the FMA, in its capacity as national competent authority.

Since operating a Europe-wide crowdfunding platform poses many challenges, in both the technological and regulatory sense, and not a single platform has so far collected funds across borders in Europe, this type of business model should be categorised as innovative and thus be eligible for inclusion in the FMA's regulatory sandbox. Any provider already operating in Austria under the national regime may also be admitted to the sandbox if it intends to provide its services across Europe in accordance with the ECSPR in future.

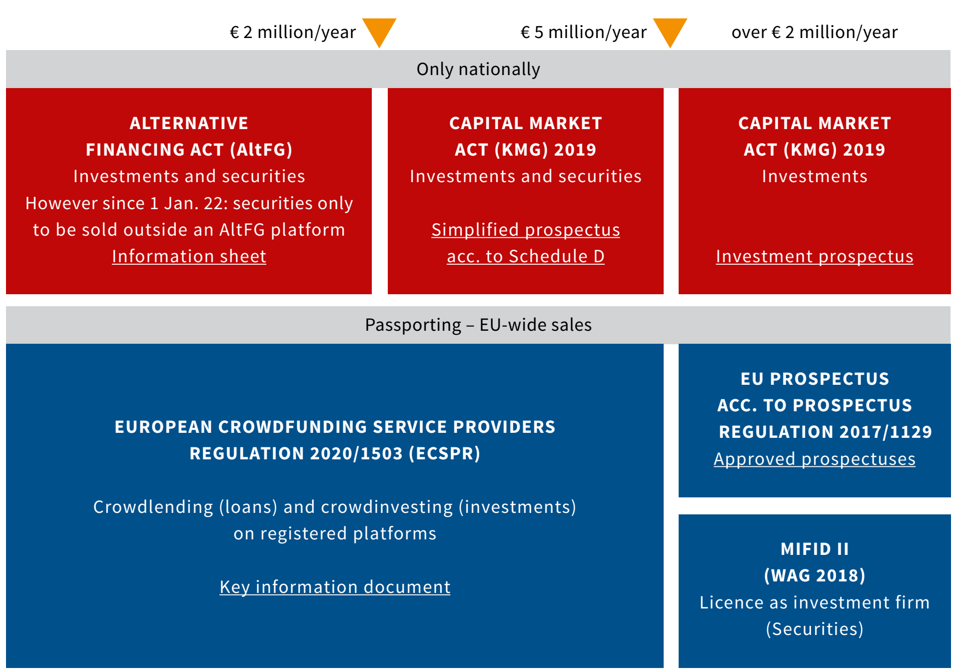
Six crowdfunding platforms took advantage of this offer in 2022.

A REGULATORY EXPERIMENTAL SPACE

A regulatory sandbox is a type of regulatory experimental space within which innovative solutions, technologies, products, services and business models can be developed, tested and taken as far as regulatory maturity with the support of the FMA in a controlled environment and for a defined period of time.

The companies are supported all along the way: from the first step of admission to final authorisation, with individual advice being given both from a regulatory and from a technological perspective. The regulator is therefore fully informed of all steps in the process as well as any developments; it can give feedback directly, which helps

Figure 3: *Legal overview Austria vs. EU thresholds*



to speed up the process enormously. This means that the company's business model will be ready for the market much more quickly than would normally be the case. Questions relating to the required scope of authorisation, as well as any possible limitations, restrictions and conditions are immediately clarified.

Companies also profit from the FMA's integrated approach to supervision with access to advice straddling sector, product and regulation boundaries. They can draw on the supervisor's entire regulatory knowledge and expertise, from all supervisory areas.

Participants also benefit from the fact that the cost for the whole sandbox process does not have to be borne by the companies themselves; the Federal Government appropriates an annual budget of € 500 000 to the FMA for that purpose. Companies are only required to pay the standard fees relating to the final authorisation process.

The sandbox has many advantages for the FMA too. By working so closely and directly with these innovative companies, the supervisor gains a direct insight into the latest market developments, allowing it to identify and close any related regulatory gaps early on.

The European crowdfunding regime, enshrined in the ECSPR, opens up the entire European market to crowdfunding platforms, in terms of both potential projects and investors. However, some national regulations at Member State level still apply, for instance rules about marketing communications. The goal should be to harmonise these nationally regulated areas as well. Overall harmonisation would make it much easier for all market participants, not least supervisory authorities, to observe the law.

PRIORITY FOR SUPERVISION AND INSPECTIONS: COLLECTIVE CONSUMER PROTECTION

Changes in the market environment over the past few years have altered how consumers behave in many areas and continue to do so. Lockdowns and restrictions during the COVID-19 pandemic, for example, resulted in a significant increase in the savings rate and pushed many – particularly young customers – towards digital financial services such as online banking and banking apps, and online and neo-brokers. The persistently low interest rate environment increasingly nudged potential investors, and younger generations in particular, towards riskier but also more promising forms of investment as they sought out higher returns. This trend has only strengthened in response to strong inflationary pressure since the end of 2021 and the abrupt turnaround in interest rates in the middle of the year. The latter did not keep pace with the inflation spurt, and real returns have been forced deep into negative territory. These serious changes in consumer and investor behaviour pose great challenges in terms of collective consumer protection, some aspects of which need to be realigned and demand new approaches. Meanwhile, however, the lever must remain the same: ensure that consumers receive easy-to-understand, targeted information so that they can make educated and appropriate decisions based on their financial needs.

Since the beginning of the pandemic, and especially in the first lockdown, there has also been a large influx into the capital market; especially on the part of younger investors. The number of 18–24 year-old investors has more than quadrupled compared with pre-pandemic levels, and the number of 25–39 year-olds is around 2.5 times higher than previously.

This rejuvenation of the capital market has also changed investment behaviour. Younger people are increasingly investing in funds, and exchange-traded funds (ETFs) in particular are opening the door for them. The volume of ETFs among retail investors in Austria has tripled in the last two years, with ETFs now accounting for about 6% of investments in investment funds compared with just 3% two years ago.

The fact that younger investors are increasingly turning to online brokers, trading apps and neo-brokers poses major challenges for investor protection. This is because these digital providers primarily offer execution-only business. With this form of brokerage, the customer has a much higher degree of personal responsibility, receiving neither advice nor recommendations, and with no advisor to check whether the investment service is the right one for that customer. In execution-only transactions, investors have to consider their own investment knowledge and experience, their financial circumstances, their investment objectives, their understanding of risk, their own ability to bear risk and losses, and whether the transaction is in line with their investment objectives. In addition, the statutory investor protection information often pops up in a window that many customers find annoying and simply click away in a fraction of a second.

Another factor is that low costs and new products such as fractional shares enable retail investors to invest in shares even if they only have small amounts to invest. The risk is often not clear to the investor, due to a lack of advice and knowledge. The rights and risks associated with these products, such as issuer and liquidity risks, are not understood. Many trading apps also use their design and process layout to entice investors to make as many trades as possible and to speculate instead of investing; in other words relying on gamification. Yet this is at the expense of investment performance.

In order to meet these collective consumer protection challenges, the FMA is planning the following projects and measures for 2023:

- **Expansion of risk-oriented market monitoring:** While identifying and monitoring financial market trends and risks, the FMA will focus on the potentially negative effects of high inflation and changes in investor behaviour. This will involve continuing and further intensifying market monitoring in accordance with MiFIR[1] and additional risk-oriented market monitoring.
- **European common supervisory actions:** Since young customers in particular tend to make their investments almost exclusively online, national borders and national laws cease to be relevant, as do the rules on fair customer information. With this in mind, the FMA will therefore review the fair presentation of opportunities and risks, rights and obligations of financial products within the framework of European common supervisory action, i.e. joint and coordinated actions with European supervisory institutions and national partner authorities. "Green" products as well as advertising in the context of business initiation will also be a main focus.
- **Information and marketing communications on websites:** Another focus for the FMA will be the provision of balanced information and marketing communications

The FMA will review the fair presentation of opportunities and risks, rights and obligations of financial products within the framework of European common supervisory action, i.e. joint and coordinated actions with European supervisory institutions and national partner authorities.

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

on providers' websites. The supervisory authority's expectations in this regard have already been clearly communicated to the market, and breaches will therefore also be punished accordingly.

- **Transparency around premium increases:** The impact of inflation on policyholders will be analysed and evaluated, especially with regard to information on and transparency around premium increases.
- **Focus of consumer information on inflation, old-age provision, sustainability and crypto assets:** The FMA provides information in clear and simple language on relevant and current topics on its website. Examples include the annual fee analysis on the costs of investment funds, the A-Z of Finance on the FMA's website, presented in a Q&A format based on the FMA's analysis of enquiries and complaints on the issues that matter most to consumers, and also the monthly information medium "Let's talk about money" dedicated to interesting aspects of topics currently in the news.

DIGITALISATION AND CONSUMER INFORMATION

Enquiries and complaints from consumers and other market participants are an important source of information for the supervisory authority. They can help to draw attention to irregularities in relation to specific supervised companies, products or services as well as in specific markets, enabling the supervisor to take quick, efficient and effective action. They are also an important source of information for collective consumer protection, as they can reveal problematic market practices, or product weaknesses and risks, and highlight any gaps in consumer and investor protection.

For this reason, the FMA has had a well-used central contact point for enquiries and complaints in place for some time now, the FMA consumer information service. The team of experts receives around 3 500 enquiries and complaints a year, via the website and by telephone, e-mail and post. However, it currently still has to record, process and evaluate these largely manually.

AN INNOVATIVE CONSUMER COMPLAINTS AND ENQUIRIES DATABASE

The FMA is therefore developing a new, modern and integrated consumer complaints and enquiries database, known as VERBA-DB for short and supported by artificial intelligence and machine learning tools. The aim is to make it as easy and effortless as possible for market participants to access FMA consumer information and to send information, and also to make the collection, processing and evaluation of information and data as efficient and effective as possible. Rather than through an electronic mailbox, it will be possible for enquiries and complaints to be entered directly and easily into this database in future via a user-friendly, digitally intuitive input channel on the FMA website. Information that reaches the FMA via other media and channels will be fed into the database using a semi-automated process. The data collected centrally in this way will be processed, analysed, clustered and assigned to the relevant expert as part of a fully-automated system, to be handled directly in a new integrated tool. Using the latest digital knowledge management, this tool will also automatically detect similar cases, significantly improving efficiency. As a result, individual enquiries should be answered even more quickly.

In addition to faster, more efficient and more effective processing of individual enquiries or complaints, VERBA-DB will open up new dimensions, not least with regard to how the aggregated data pool is evaluated and analysed.

The pool of enquiry data provides a diverse range of indicators of new trends and burgeoning risks in the market. In particular, the pool of complaint data is an essential and effective source of information for both prudential supervision and conduct supervision in relation to specific registered or licensed financial service providers.

Evaluated multidimensionally, the data collected therefore represents an important source of information for market supervision in accordance with the European Markets in Financial Instruments Regulation (MiFIR)[1]. It provides important information for the preparation of inspection plans and their thematic focus, for management talks with the managers of supervised entities and for regulatory measures. It can highlight the need for a European or national product intervention measure and provide important arguments justifying its introduction. The FMA also uses this data to monitor whether the supervised undertakings are managing complaints properly and to verify the data reported by the entities in this regard. In addition, the data provides important indications of where consumers have information deficits in their financial matters. The FMA can then address these shortcomings in a manner appropriate to the target group in its consumer information formats, such as the "A-Z of Finance" on its website, brochures or flyers, or the monthly two-pager "Let's talk about money".

The FMA's well-used, central contact point for enquiries and complaints, the FMA consumer information service, is now linked with the new and integrated consumer complaints and enquiries database VERBA-DB, which is supported by artificial intelligence and machine learning tools.

The consumer complaints and enquiries database VERBA-DB will not only simplify and speed up the evaluation of the data but will also open up new dimensions, improving the quality of the data and providing new perspectives, along with new and additional information as a result.

PART OF AN EU-FUNDED INNOVATION PROJECT

VERBA-DB is an independent FMA sub-project within the framework of a joint project with the Oesterreichische Nationalbank (OeNB). It is looking at whether and how new trends and potential risks can be recognised as early as possible using innovative technologies and methods.

- The FMA is focusing in particular on simpler and faster access to information for consumers, and the processing and answering of enquiries and complaints with the help of automated, up-to-date processing and recording methods. It is also looking at how to improve the quality of data for supervisory activities through

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

complete and partially automated collection and automated data evaluation and presentation using a management information tool.

- The OeNB is focusing on analysing whether there is any publicly accessible data that has not been taken into account to date but that could provide additional valid information.

Due to the innovative approach and the promising contribution to the digitalisation of supervision, the FMA and the OeNB were also able to jointly secure significant funding from the European Union as part of an EU-wide application procedure. This project to tap additional data sources and ensure data quality is co-financed by the European Commission's Directorate-General for Structural Reform Support (DG REFORM).

PRIORITY FOR SUPERVISION AND INSPECTIONS: SUSTAINABILITY

Extreme weather events are highlighting the pace of climate change and the associated negative impact. To take one example, global insured losses from natural disasters are estimated at $ 35 billion for the first half of 2022, 22% higher than the average figure for the past ten years.

The Paris Agreement entered into force in 2016 with the goal of limiting global warming to 1.5 degrees Celsius compared with the pre-industrial era. However, most countries, including Austria, are failing to introduce the measures needed to reach this goal and are still straying a long way from the path that will lead towards it. The upheavals caused by the pandemic and the massive economic turmoil in the wake of Russia's war against Ukraine have dealt a further blow to climate protection efforts, with backwards steps in some cases. Tackling climate change also means making huge investments. According to a recent study by Swiss Re, investment of $ 270 billion is still needed to achieve the Paris climate goals.

The financial markets could play a huge role in achieving the goals of the Paris Agreement, were they to redirect investments into climate-friendly measures and sanction behaviour that is harmful to the climate. This also requires further reform of the regulatory framework, with monitoring of compliance by the supervisory authorities. The transition to a climate-friendly, sustainable economic model can only be achieved if sustainability risks in the financial market are managed appropriately.

The FMA's climate stress tests in the insurance and pension company sector show that in the scenario of a disorderly transition, which is based on a sudden massive hike in carbon prices, asset portfolios could lose up to 10% of their value. The ECB's first climate stress test also shows that the major European banks generate more than 60% of their non-financial corporate income from carbon-intensive sectors.

At the same time, "green" (sustainable) investments, are very popular and the fastest growing market segment. More than one third (40% or € 78.2 billion) of the total assets held in Austrian funds are already managed in sustainability funds; a year ago this figure was still only around the 25% mark. Yet in view of the surge in demand for financial products with sustainability features as well as the rapidly developing regulatory framework on sustainable finance, there are also signs of greenwashing, in other words marketing products that are not sustainable as if they had green credentials. This poses a major challenge for supervisors.

Within this priority for supervision and inspections, the FMA will therefore be focusing on the following projects:

- **Integration of sustainability risks into risk management, strategy and governance of supervised companies:** The FMA will continuously monitor, analyse and evaluate the integration of sustainability risks. To this end, it will consider them as a fixed component of its supervisory assessment and review process, as well as in other regular or ad hoc analysis and in management discussions. The results of the implementation check of the FMA Guide for Managing Sustainability Risks will be analysed and action to eliminate deficits will be enforced. In addition, the results from the FMA's capacity-building project on the supervisory treatment of environmental and climate risks, which is being carried out in cooperation with the European Commission (DG REFORM) and the National Bank of Romania (NBR), will be made available for continued supervision activities.
- **Sustainability in disclosures and non-financial reporting:** As a result of the FMA being declared responsible in 2022 for the enforcement of the Sustainable Finance Disclosure Regulation (SFDR)[1] and the Taxonomy Regulation[2], analysis of the first-time disclosures under these regulations as well as the Non-Financial Reporting Directive (NFRD)[3] will be carried out. Outstanding questions and areas of legal uncertainty are to be addressed and resolved in ongoing dialogue.
- **Greenwashing:** The disclosures from the above-mentioned regulations are also intended to reduce the risk of greenwashing. The FMA will focus on monitoring their compliance and correct application, and particularly on compliance with the sustainability requirements, consistently pursuing any breaches of the rules. In collective consumer protection, the fight against greenwashing in funds will be a top priority. With regard to the supervision of funds, the FMA will further deepen its fund document analysis, previously conducted on a random basis, with a focus on funds that take sustainability criteria into account in their investments. The focus will be on the detailed and harmonised disclosures of sustainability-related information in accordance with the Taxonomy Regulation and the Disclosure Regulation. In terms of sales supervision, the consideration of customers' sustain-

In collective consumer protection, the fight against greenwashing in funds will be a top priority. The FMA will further deepen its fund document analysis, previously conducted on a random basis, with a focus on funds that take sustainability criteria into account.

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

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

3 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

ability preferences in the sale of financial instruments is monitored on an ongoing basis.

The European Securities and Markets Authority (ESMA) is planning two common supervisory actions on the issue of greenwashing in 2023. These will relate to greenwashing in funds and also the advertising of sustainable financial instruments. The FMA will participate in these and take the results into account in its supervisory activities and analysis.

ANALYSIS OF GREENWASHING IN THE AUSTRIAN FINANCIAL MARKET

The booming demand for financial products with sustainability features as well as the rapidly developing regulatory framework for sustainable finance make greenwashing risks one of the key priorities of supervision. Greenwashing has not (yet) been defined in European laws and regulations. Basically, it covers any misleading representation of "green" activities in order to boost sales. This includes sustainability-related statements, communication or disclosures in relation to a company, financial product or financial service directed to consumers, investors or the general public that are misleading because they do not sufficiently reflect or fulfil the sustainability characteristics. Greenwashing can therefore affect almost any kind of financial product, and can take different forms. It poses a risk for investors, insurance customers and savers, increasingly also turning into an issue for collective consumer protection as a result. This is why European lawmakers have already adopted several regulations aimed at prohibiting greenwashing such as the Sustainable Finance Disclosure Regulation (SFDR)[1], the Taxonomy Regulation[2] and the Non-Financial Reporting Directive (NFRD)[3]. These define legally binding sustainability-related features for financial products and set clear transparency rules for sustainability-related information.

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

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

[3] *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.*

In its capacity as supervisory authority for the Austrian financial market, the FMA is tasked with monitoring adherence to these regulatory requirements. As part of its priority for supervision and inspections on sustainability, it is focusing particularly strongly on the fight against greenwashing. The aim is to ensure a clean financial market and consistent compliance with sustainability criteria.

DISCLOSURE AND NON-FINANCIAL REPORTING

The Austrian lawmaker has tasked the FMA with enforcing the SFDR and Taxonomy Regulation with effect from 9 April 2022.[4]

The FMA immediately started analysing the first disclosures pursuant to these two Regulations and the NFRD in order to minimise the risk of greenwashing from the onset. The results of this analysis work are highly heterogeneous. Heterogeneity increases the risk of greenwashing and also makes comparing product information more difficult, which is another key objective of these regulations. Heterogeneity is, however, also due in part to the legal framework not yet being stable, resulting in a wide range of interpretation as to the actual legal provisions.

An initial analysis of sustainability-related disclosures by insurance undertakings and pension companies reveals some big differences as to the extent and meaningfulness of the information provided. While some of them, when presenting their strategy to include sustainability risks in investments, restrict themselves to future projects, others explain their strategy in great detail and also include illustrative practical examples.

With regard to issuers[5] at the Vienna Stock Exchange, the diverging quality of disclosures of economic activities that qualify as contributing substantially[6] to climate change mitigation might be due to the fact that the technical screening criteria only cover the sectors with the highest potential for avoiding, reducing or removing greenhouse gas emissions (i.e. some sectors are excluded). Further analysis of non-financial reporting by insurance undertakings pursuant to the NFRD yields a heterogeneous picture of what is considered “substantial contribution”: some insurers provide information about sustainability issues in their day-to-day operations, but most of them do not reflect on the impact of investment activity, limiting information to the internal implementation of sustainability factors.

An initial analysis of sustainability-related disclosures by insurance undertakings and *Pensionskassen* (pension companies) in accordance with the SFDR reveals some big differences as to the extent and meaningfulness of the information provided. While some companies, when presenting their strategy to include sustainability risks in investments, restrict themselves to future projects, others explain their strategy in great detail and also include illustrative practical examples.

SUSTAINABLE FUNDS

According to the SFDR, sustainable funds should be split into “light green”[7] (in simple terms: those that consider sustainability criteria) and “dark green”[8] (those that contribute to environmental or social goals) funds. To increase market transparency and foster sustainable financial products, the FMA incorporated the development of sustainability-related funds according to the SFDR into their quarterly reports in 2022.[9]

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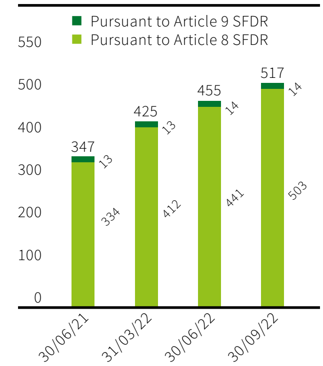
[4] *See Federal Law Gazette I No. 36/2022.*
[5] *Sample: issuers in the regulated market.*
[6] *Article 8 Taxonomy Regulation and Commission Delegated Regulation (EU) 2021/2139.*
[7] *Article 8 of the SFDR: funds promoting environmental or social characteristics in pre–contractual disclosures.*
[8] *Article 9 of the SFDR: funds having sustainable investment as their objective.*
[9] *See the FMA’s quarterly reports (in German) at https://www.fma.gv.at/investmentfonds-und-verwaltungs-gesellschaften/quartalsberichte/.*

As at 30 September 2022, Austrian funds pursuant to the Investment Fund Act 2011 (InvFG 2011; *Investmentfondsgesetz*) and Real Estate Investment Fund Act (ImmoInvFG; *Immobilien-Investmentfonds-Gesetz*) have been categorised in accordance with the SFDR as follows: 503 of these funds are light green funds with managed fund assets of € 73.3 billion and 14 dark green funds with managed fund assets of € 4.9 billion *(> Chart 1).*

The fight against greenwashing is top of the FMA's agenda, particularly where funds are concerned. The aim is to counter greenwashing by means of in-depth analysis of randomly selected fund documents, by integrating analysis work into formal management talks and regular surveys, and by conducting special surveys. Retail funds already need to prove compliance with sustainability requirements when they submit their fund document for approval, but also during regular checks.

Chart 1: *Number of Austrian funds pursuant to Articles 8 and 9 SFDR (Source: FMA, OeKB)*



REGULATORY DEVELOPMENTS

The planned European green bond standard (EUGBS), which is about to be adopted, will set a gold standard for sustainable investment. It will create uniform requirements for green bonds, thus preventing greenwashing. The European Commission has also asked the European Supervisory Authorities for advice and further input on greenwashing, as well as for their initial experience with sustainability regulation.

PRIORITY FOR SUPERVISION AND INSPECTIONS: CLEAN FINANCIAL CENTRE

To ensure confidence in a financial market's proper functioning, in its stability and ability to supply financial services to the real economy and consumers, it is essential for that very market to be "clean". The digital transformation, global economic upheaval caused by Russia's war against Ukraine, higher levels of inflation and the abrupt turnaround in interest rates, as well as changing consumer behaviour, are also creating new dubious business practices and product designs that are still unfamiliar. Periods of great uncertainty and profound upheaval are also periods during which fraudulent providers and those engaged in criminal activity tend to fare best.

The world of crypto assets, which has barely been regulated to date, is just as big a challenge for supervision as dubious advertising and sales practices via social media. Moreover, new technological approaches are very often quickly exploited for money laundering purposes, be it to develop new methods and techniques, or to take advantage of unsuspecting consumers (money mules).

The supervisory authority must therefore monitor the markets particularly closely in order to quickly identify dubious business practices, dodgy providers and fraudulent products, but also to efficiently address inappropriate sales and advertising practices. In order to maintain the clean status of the Austrian financial and capital markets even in uncertain times, the FMA is intensively addressing these developments and has therefore defined the following specific projects for 2023:

- **Monitoring and the analysis of trends, business practices and whistleblower reports:** As part of ongoing market monitoring, special attention will be paid to the economic impact of geopolitical developments on the financial markets. New trends will be identified at an early stage with timely, incident-related investigations in accordance with the Market Abuse Directive (MAD). Key focuses will be investment recommendations, suspicious transaction and order reports (STOR) and compliance audits, not least with regard to the handling of blocking periods and insider lists. With regard to the analysis of whistleblower reports and complaints, the focus will be on investment fraud.

- **Establishment of a national centre of excellence and information hub for the prevention of money laundering and terrorist financing**: In light of the fact that new, entirely digital business models can no longer be supervised at a solely national level, networking and cooperation will be expanded and intensified, particularly with international partners. The establishment of cross-border colleges for relevant players in the market will be a priority. To this end, a national centre of excellence and information hub will be established within the FMA in order to further promote networking with national and international players in the fight against money laundering and terrorist financing and to prepare for the introduction of the European Anti-Money Laundering Authority (AMLA), including the role of the FMA within this decentralised system. Data-based risk analysis and the utilisation of information and data relevant to money laundering will be strengthened in the context of the risk-based supervisory approach (colleges, Financial Intelligence Unit data, other NCAs and players).

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- **Greater transparency in the FMA's supervisory powers:** The many new regulations make it increasingly difficult to recognise where the supervisory activities of the FMA end or where unauthorised business operations begin. This is why there are plans for an information campaign to explain the different levels of supervisory protection for certain business models and players (e.g. crowdfunding providers, crypto assets etc.) The exchange of information and liaison/networking with law enforcement authorities should be strengthened for the targeted handling of proceedings relating to unauthorised operations.

The policies on administrative penalties, in particular with regard to appropriateness and penalty assessment, will be further developed from an integrated supervisory perspective, taking European input into account.

SUPERVISION – A BALANCING ACT BETWEEN CONDUCIVE CONDITIONS FOR INNOVATIVE BUSINESS MODELS AND EFFICIENT INVESTOR PROTECTION

Rapid technological progress is constantly creating new opportunities for meeting people's financial needs and offering them financial services and products. This brings with it new services, new products and new business models. But the changing environment also requires the constant development of supervisory law since innovative business models frequently exceed conventional legal definitions, or sector or product boundaries. The development of supervisory framework conditions often becomes a challenging balancing act between trying not to hamper players' innovative spirit and capabilities while nevertheless offering consumers a clean and safe financial market.

CROWDFUNDING

Crowdfunding models, for instance, have been very difficult to fit into the exacting set of supervisory requirements devised for the established financial markets. The need for alternative financing and investment models has been growing rapidly on the part of both investors and borrowers, with the law not properly reflecting this. Crowdfunding was in fact only possible in the past if the lender waived all of their rights and collateral in connection with the investment beforehand by way of qualified subordination. Alternatively, an arrangement under cooperative law had to be set up, which was often either inconvenient or too complex to organise. From the supervisor's perspective, crowdfunding models had therefore been highly challenging before the Alternative Financing Act (AltFG; *Alternativfinanzierungsgesetz*) was adopted. Meanwhile, business models in relation to crypto assets are a different matter. The challenge here is that regulation primarily geared to the analogue world usually does not work in the digital world, despite new digital offers satisfying the same or similar financial needs as stringently regulated established products and providers. In addition, the tried-and-tested consumer and investor protection standards and rights often seem to be forgotten about, which customers will only start to sorely miss when they want to make a claim.

Finally, innovative business models in the unregulated area of business are not only developed and used by the trailblazers and avant-garde of the financial market, they also attract tricksters and fraudsters – often (internationally) active players – who misuse them for their criminal activities. This also places a burden on the criminal prosecution authorities, in terms of technological, regulatory and investigative resources.

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INNOVATION VS. CONSUMER PROTECTION

As part of this balancing act between promoting innovation as a driver of economic growth and prosperity on the one hand and upholding the rule of law, consumer protection and fair competition on the other, both Austrian and European lawmakers are required to constantly react to new developments. With legislative acts such as the AltFG, the Fifth Anti-Money Laundering Directive (AMLD5), the European Crowdfunding Service Providers Regulation (ECSPR[1]) or the proposed Markets in Crypto-Assets Regulation (MiCAR[2]), they are permanently trying to ensure the law reflects reality. The ECSPR, which has been effective since 10 November 2021, is the first harmonised regulatory framework for the operation of Europe-wide crowdfunding platforms and is applicable across the whole of the European Union. Likewise, the MiCAR, for which political agreement has been reached at European level, should create a uniform EU-wide legal framework for crypto assets and related services, while also ensuring that other, not yet regulated digital assets are also subjected to official supervision.

Various institutions in Austria and abroad, individually and together, play an important role in implementing and applying the above standards. The FMA's remit does not cover prosecution or enforcement of civil claims but extends to the supervision of business models for which there is a legal requirement to obtain a licence, make a registration or publish prospectuses. Customers of companies will only enjoy full protection through the FMA's ongoing supervision if those companies are properly licensed.

Apart from its ongoing supervision of licensed providers, the FMA contributes significantly to fighting illegally operating companies. A company operates illegally if it engages in business activities that require a licence without first having obtained the requisite authorisation from the FMA (licence or registration), irrespective of whether it provides its services in or from Austria. The FMA will prohibit activities if it finds that a business is engaged in unauthorised operations. Those responsible for the business will face administrative penal proceedings, which might result in heavy fines being imposed. In addition, the FMA may publish a warning regarding any company that offers or provides unauthorised products or services. These investor warnings, easily found on the website of the FMA (as well as of other international partner authorities), are an effective investor

[1] *Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937.*

[2] *Regulation on Markets in Crypto-Assets (proposal).*

protection tool. However, such an investor warning may only be issued if a provider conducting business illegally has given cause for such action and if informing the general public is deemed necessary and reasonable in the light of possible disadvantages for those concerned.

The FMA also provides a wealth of further consumer information in simple and understandable language, including advice on how to spot financial fraudsters or unauthorised providers (A-Z of Finance, Let's talk about money). Consumers should be wary of contacts from social media channels such as Tinder or Instagram and should also be cautious with regard to multi-level marketing models. These regularly promise high profits at low cost and little risk, but if something seems too good to be true, it probably is. It is tricksters or fraudsters that are usually behind them.

In its capacity as national financial market authority for Austria, the FMA strives to promote innovation while also ensuring fair competition and appropriate consumer protection, working to strike this balance in cooperation with its national and international partners.

TRANSFERRING EXPERIENCE FROM VASP SUPERVISION TO CASP SUPERVISION

Since January 2020, some service providers in the field of virtual currencies (or crypto assets), known as virtual asset service providers (VASPs), have been subject to Austria's Financial Markets Anti-Money Laundering Act (FM-GwG; *Finanzmarkt-Geldwäschegesetz*). This covers the issuance and sale of virtual currencies, their transfer or exchange, trading platforms (regardless of whether virtual currencies are exchanged against other virtual currencies or against legal tender, or vice versa) as well as custodian wallet providers. In legal terms, Austria has gone further than the requirements of the relevant EU Directive and included all activities defined by the FATF[1], the international standard setter in the field of prevention of money laundering and terrorist financing (AML/CFT[2]), in its legislation. In order to operate legally on the Austrian market, VASPs must register with the FMA in advance. As at October 2022, 24 VASPs had registered. These are VASPs domiciled in Austria as well as some based in other EU countries that actively offer their services in Austria.

Virtual currencies are classified as high-risk in connection with money laundering and terrorist financing, and this is also the case for the purposes of Austria's national risk analysis[3]. The possibility of transferring virtual currencies across borders, and in some cases doing so anonymously, means they are open to abuse (money laundering and terrorist financing). The use of some types of crypto asset with privacy features, as well

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[1] *Financial Action Task Force: This international institution is based at the OECD in Paris and sets the global standards for combating money laundering, terrorist financing and the financing of weapons of mass destruction. It also monitors compliance by the member states.*

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

[3] *https://www.bmf.gv.at/themen/finanzmarkt/geldwaescherei-terrorismusfinanzierung.html.*

as the use of certain blockchain-based techniques (such as mixing, peel-chain or similar), make it possible to disguise the sender/recipient or the total amount of the transfer and to partially circumvent automated transaction monitoring. The use of crypto assets for payments in the dark net also makes them more attractive to those engaged in criminal or criminally relevant acts.

MONEY LAUNDERING SUPERVISION AS AN ENTRY POINT FOR THE REGULATION OF CRYPTO ASSETS

This background once again highlights the importance of regulating VASPs in the fight against money laundering and terrorist financing. Due to these high-risk business models, but also because VASPs represent a completely new group of entities obliged to comply with due diligence and reporting obligations, the FMA is making them one of its priorities for supervision and inspections.

The FMA's experiences from its first two years supervising VASPs' compliance with the due diligence obligations for the prevention of money laundering paint a mixed picture: the quality of the strategies, procedures and controls varies greatly among the individual service providers and different business models, and the same can be said for risk awareness and an understanding of the rules. Many providers still lack any experience of dealing with rules, as is often reflected in their corporate culture. Given that VASPs generally operate on a cross-border basis, it has also become apparent that the regulatory frameworks and supervisory standards, which are currently implemented very differently at national level, need a harmonised legal framework, at least on a Europe-wide basis.

In the fight against money laundering, the FMA generally pursues a zero-tolerance policy, including in the supervision of VASPs. Consistent action is taken against any breaches of regulatory provisions or non-compliance with due diligence obligations.

In the fight against money laundering, the FMA generally pursues a zero-tolerance policy, including in the supervision of VASPs. Consistent action is taken against any breaches of regulatory provisions or non-compliance with due diligence obligations. The FMA has, for example, withdrawn some registrations within a very short time due to supervisory findings, and a number of registrations have been quickly relinquished on the basis of the FMA's detailed and consistent supervisory activity. Many applications for registration have been rejected by the FMA, or the applicants have withdrawn them "voluntarily" given the unlikelihood of being successful due to their failure to comply with the legal requirements. This has already resulted in a certain degree of market consolidation.

FROM VASP TO CASP

In the course of 2022, the European Commission, the European Council and the European Parliament reached a political agreement on broader rules for crypto assets extending beyond the fight against money laundering. The Markets in Crypto-Assets Regulation (MiCAR) is set to be adopted in the European Parliament in the first quarter of 2023, although will probably not take effect until 2024 at the earliest. It does not contain any provisions on the fight against money laundering, as this will be covered in the EU's AML/CFT package, which fundamentally reorganises and Europeanises regulation in this area.

For the first time, MiCAR will create a comprehensive, EU-wide harmonised set of rules for crypto assets. It introduces a uniform – expanded – definition of crypto assets as well as of crypto asset service providers, or CASPs for short. As directly applicable EU law, the regulatory requirements and supervisory standards will be the same across the European Union. Until now, there have been very different national approaches, if any at all, in the Member States. This favours regulatory arbitrage, in other words the exploitation of regulatory gaps and different regulatory and supervisory approaches and levels. MiCAR aims to prevent this.

It will also mean the introduction of EU-wide (and EEA-wide) passporting. VASPs as defined under EU anti-money laundering rules have until now had to register or be licensed individually in each EU Member State before being allowed to operate there. CASPs as defined in MiCAR will only need to be licensed in one EU Member State before being permitted to operate anywhere in the European Union.

In addition, a so-called blacklist will be established at the European Banking Authority (EBA): a public register listing those providers of crypto asset services that do not comply with the European crypto asset or AML/CFT rules.

The FMA is looking closely at its experience to date in the registration and supervision of VASPs under the FM-GwG in order to learn the right lessons for the upcoming regulation and supervision of crypto assets and CASPs. There are already signs of an increasing number of international CASPs with complex business models applying for registration under the FM-GwG in Austria. This particularly applies to business models in the area of Decentralised Finance (DeFI) with services such as crypto lending and also business models with very specific crypto assets such as stablecoins.

This trend is expected to intensify further in light of MiCAR and the related introduction of passporting.

OUTLOOK

“FIT FOR FUTURE – FMA 2025”
TARGET VISIONS AND VALUES OF OUR TRANSFORMATION PROGRAMME

The FMA assumed its role as an integrated, independent and autonomous supervisory authority for Austria’s financial market in 2002. In the intervening period, the social, political, economic and technological context in which the FMA operates has been transformed, sometimes staggeringly quickly. The political reordering of Europe and the world, climate change, digitalisation and the reorientation of global economic relations are just some examples of this transformation. In our capacity as regulator and supervisor, we have had to respond to these challenges quickly and on an ad hoc basis, working in cooperation with our stakeholders. We had to learn the right lessons from the global financial crisis, we had to Europeanise regulation and supervision, and we had to create the parameters needed to take advantage of the opportunities presented by digitalisation and to contain its risks. And we also had to define the role of the financial markets in the fight against climate change and for greater sustainability. Then there are the challenges that seem to have come out of nowhere in recent years: the COVID-19 pandemic and its far-reaching consequences; the Russia-Ukraine conflict and the resulting global economic upheavals; the world of crypto assets and the associated extreme volatility, and a field of tension that extends from technological innovation to criminal activity. These are just a few examples of the huge changes.

We are living in an age of transition. Even issues that we might have barely noticed when they first emerged are capable of unleashing epochal changes with serious consequences within the blink of an eye. As regulators and supervisors, we need to identify these developments and challenges quickly and address them efficiently and effectively. This also means questioning ourselves from time to time, and considering our goals, our values, our organisation, our working methods and the tools that we use.

Against this background, in 2022 the FMA launched its transformation programme "Fit for Future – FMA 2025", in which the success factors of regulation and supervision in the future are defined on the the basis of an analysis of the status quo. The aim is not merely to react to new developments, but to be a transformative authority that always has its finger on the pulse and actively shapes new topics from the start.

The questions raised as part of this transformation programme include the following:

- How can supervisory action be improved? Through new forms of communication with the market and all stakeholders, through the development of a state-of-the-art data strategy, through simplification initiatives to tackle complex challenges more easily?
- How do we attract and retain the best talent for supervisory roles? How should we design the working conditions and how should the corporate culture be lived?
- How can we react quickly and flexibly to a constantly changing environment? What organisational forms are needed for this, and how can they be designed for flexibility and adaptability?
- What must a modern working environment look like, and what must future-oriented IT equipment be able to do?

In order to find answers to these questions, we first needed to develop target visions for a modern financial market supervisory authority in a strategy paper and to define the central values for future internal and external action.

TARGET VISIONS OF THE FMA 2025 STRATEGY

The core tasks of the FMA are to maintain the stability of the financial markets, to guarantee a functioning financial system, and to strengthen confidence in Austria as a financial centre. On this basis, the "Fit for Future" project group has derived two target visions for the FMA 2025 strategy: financial market stability and confidence.

FINANCIAL MARKET STABILITY

Maintaining the stability and integrity of the Austrian financial market is a central element and the overarching goal. In order to achieve this, the FMA tackles upcoming changes and innovations of an economic, social, political and environmental nature, reacting where necessary.

In particular, our strategies outlined below with regard to strengthening our adaptability and flexibility as well as digital development will ensure a consistent and effective supervisory approach in the future, making them an important lever for the FMA's major contribution to maintaining financial market stability.

Investors, consumers and all other market participants have confidence in a functioning financial centre in Austria and in the institution of the FMA. This demonstrates the social relevance of our work.

CONFIDENCE

Investors, consumers and all other market participants have confidence in a functioning financial centre in Austria and in the institution of the Financial Market Authority. This demonstrates the social relevance of our work. Through our supervisory activity, we make an important contribution to protecting the financial market as a whole. The mar-

ket and the Austrian public rely on the work carried out by FMA staff on a daily basis. With our plans presented below to increase transparency and the provision of information for consumers and to intensify dialogue with the market, we will increase confidence in the FMA among all stakeholders.
From these two target visions, the “Fit for Future” project group then developed four central values to guide the FMA’s actions internally and externally. These values are as follows: actions should be “transparent and binding”, “future-oriented and effective”, “adaptable and stable” and “human and consistent”. These values are set out as follows in the “FMA 2025. Our strategy” strategy paper *(> Figure 4).*

TRANSPARENT AND BINDING

The FMA acts and makes decisions in a transparent, understandable and traceable way, both internally and externally. Our statements and actions towards our employees and the market can be relied upon. We also demonstrate openness and a willingness to engage in dialogue with all of our stakeholders.

Our claim and its value added – transparency and reliability

The FMA communicates its priorities and expectations clearly. Responsibilities and contact persons are visible, decisions are comprehensible, binding, clearly communicated and consistent.
This ensures that the FMA’s supervisory activities are visible to all market participants and can be understood. At the same time, it means planning security for the supervised undertakings with regard to fulfilling the legal requirements.

Openness

The FMA is an organisation that is constantly developing on the basis of appreciative feedback and clear communication. Open dialogue and exchange between the supervisory authority and supervised entities result in faster recognition and addressing of

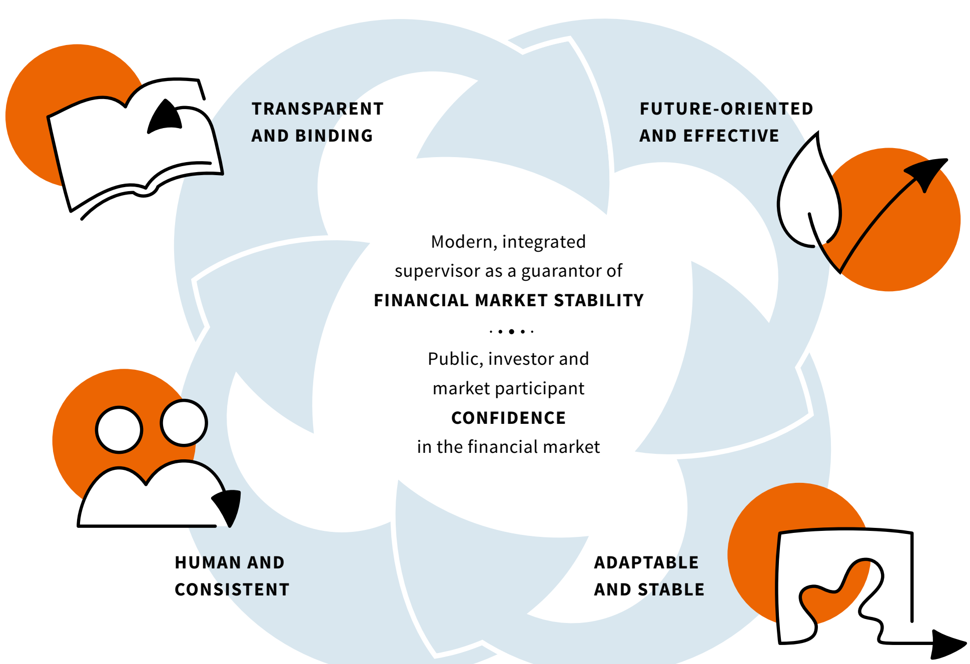

***Figure 4:** Values of the FMA 2025 strategy*

relevant developments, thereby ensuring the common goal of stability and confidence in the Austrian financial centre.

For us, successful implementation means:

- Our organisation is clearly structured and areas of responsibility are communicated transparently.
- Our expectations are articulated and available. Supervised companies benefit from more intensive dialogue and new forums for discussion.
- Consumers have better access to clear and simple information.

FUTURE-ORIENTED AND EFFECTIVE

The FMA is a forward-looking and modern supervisory authority. Our employees are all experts in their field. Everything we do is aimed at achieving the highest possible level of supervisory effectiveness and efficiency. To ensure integrated supervisory access, knowledge is built up in a targeted manner, shared within the organisation and made easily available.

Our claim and its value added – people-led, data-based supervision

Supervisory activity is always led by people – they are the ones who supervise, communicate and analyse. Their activities are based on digital tools and targeted data-based approaches and methods.
The more intensive use of data in our activities creates a more efficient and comprehensive supervisory approach. By analysing the data, our experts ensure that company-specific circumstances are always properly taken into account.
<u>Our employees' expertise and motivation.</u> Our employees are committed to ongoing continuing professional development, ensuring their expertise is always up to date. This ensures that even highly complex supervisory issues can be properly assessed and addressed and that our employees fulfil their important social mandate.
<u>Organisation-wide expertise and knowledge-building.</u> Knowledge is shared within the FMA, and our staff build up and pass on their expertise in a targeted manner, taking market developments into account. In this way, we ensure supervisory consistency across the different sectors while also fully exploiting the benefits of having an integrated supervisory authority.

For us, successful implementation means:

- We have established fit-for-purpose digital tools and evaluation procedures that make supervisory work and interaction with the supervised entities faster, more effective and more consistent.
- Our staff are experts in their field, continuously learning and developing in their specialist areas for high-quality supervision.
- Innovative knowledge management tools and databases are institutionalised.

ADAPTABLE AND STABLE

The FMA is aware of its strengths and adheres to tried-and-tested, successful approaches. We also promote innovative approaches and ways of working, in particular through an adaptable organisational structure and flexible cooperation models. Market developments are proactively monitored and taken into account in the supervisory work from a forward-looking perspective.

Our claim and its value added – continuation of tried-and-tested approaches and practices

The successes of the FMA provide a solid foundation that is the basis for the Authority's further development. We will continue to use and constantly develop appropriate resources. Successfully established supervisory approaches are maintained and thus provide the supervised undertakings with planning security.

Proactive approach and points of reference in supervisory activities. The FMA has comprehensive knowledge of market events, proactively observes developing trends and acts with foresight in response to emerging challenges and risks. We focus on selected thematically relevant areas. This enables us to react early and appropriately to new trends, especially those that affect the Austrian financial centre.

Constant readiness for change. We view change, emerging trends, internal and external changes, and new cooperation models as an opportunity to continuously improve the FMA's supervisory work and the associated supervisory impact and efficiency. The supervised entities benefit from an FMA that is capable of change. Flexibility and a willingness to change increase the speed of reaction and thus the impact of supervisory work.

Use of innovative, fit-for-purpose digital tools. Digital tools enable the organisation to track market developments proactively. This means that we can identify new trends and developments promptly and take them into account in our supervisory work. Using digital tools makes us faster, ensures a comprehensive and consistent view and, as a result, increases the efficiency of supervisory action.

Supervisory activity is always led by people – they are the ones who supervise, communicate and analyse. Their activities are based on digital tools and targeted data-based approaches and methods. The more intensive use of data creates a more efficient and comprehensive supervisory approach.

For us, successful implementation means:

- Our employees continuously integrate new findings and trends into their daily work, monitoring not just the individual risks facing our supervised entities but also systemic developments more generally.
- Our supervisory activities are embedded in the European system: through regular dialogue, our employees are leaders in selected topics of significance to the Austrian financial market. The relevance of European developments for the Austrian market is analysed on an ongoing basis.
- Our organisational structures support flexible and demand-oriented forms of cooperation. In this way, the supervised entities also benefit in the best possible way from the advantages of an integrated supervisory authority.

HUMAN AND CONSISTENT

The FMA is an independent and autonomous authority that consistently fulfils its statutory remit and responsibly uses its official powers for this purpose. The quality of our supervisory work is rooted in the people at the FMA: critical thinking, questioning, communicating and networking are the drivers of our success. We also promote proactive dialogue both internally and externally, with open communication con-

The quality of our supervisory work is rooted in the people at the FMA: critical thinking, questioning, communicating and networking are the drivers of our success. We also promote proactive dialogue both internally and externally, with open communication conducted at eye level.

ducted at eye level. All of this creates a positive work environment with a strong culture of innovation and respectful working relationships.

Our claim and its value added – fulfilment of our statutory remit and consistent prosecution of breaches of supervisory law

As an integrated supervisory authority, the FMA is fully committed to its statutory remit and to fulfilling the principle of the rule of law. Our supervisory work is geared around financial market stability and ensuring that the public, investors and market participants have confidence in the financial market. Through regular, clear communication and by monitoring the supervised entities, we promote the fulfilment of market requirements. We proactively address potential dangers and risks and consistently take action against breaches of supervision using the most appropriate means.

Market participants can rely on the fact that the only companies active in the Austrian market are those that comply with the law. Supervised companies benefit from a guaranteed level playing field.

<u>Innovation culture and respectful working relationships.</u> Innovation and respectful working relationships are the hallmarks and guarantors of the FMA's supervisory work, internally and externally. Our supervisory activity is constantly being developed: we are permanently monitoring systemic developments and engaging in active dialogue with all stakeholders. This creates a supervisory approach that has its finger on the pulse, ensuring that supervisory activities are aligned with current circumstances and challenges.

<u>Advantage of diversity – employee inclusion and diversity.</u> We value and actively promote an inclusive and respectful culture among our employees, with a diverse workforce. This forms an integral part of our corporate culture and creates genuine value added in our supervisory activity. Diversity in terms of origin, gender, education, professional background, and other factors, allows supervisory activities to be seen through a broader and more comprehensive lens.

For us, successful implementation means:

- We integrate different perspectives into our work, promoting the identification of new approaches as well as improving the quality of our results. Cooperation is respectful, dialogues are conducted openly and reflectively, and the benefits of diversity are promoted and utilised.
- We critically question our activity so that established approaches can be developed further.
- We take effective and targeted action against supervisory breaches, using the appropriate and tried-and-tested means of supervision in each case. Misconduct always results in supervisory action.

FURTHER STEPS IN THE TRANSFORMATION PROGRAMME

Based on this strategy paper, which defines the visions and values, the specific implementation steps will be developed in six specific transformation project (TP) groups in 2023: TP People, TP Culture, TP Organisation, TP Technology & Infrastructure, TP Market and TP Data Strategy.

Because the strategy is future-oriented, it takes account of developments beyond the 2025 time horizon. The central aim is to create an environment and culture in the organisation that will enable it to actively shape the future of the financial market, complete with its current and future challenges. The strategy is designed to be able to respond quickly to the changing environment by addressing both current and future-oriented priorities within the value of being "future-oriented and effective".

Some aspects of the strategy will require investment, resources and extensive change in order to achieve the defined goals. To manage the pace, sequencing and interdependencies within the strategy, processes will be implemented to secure such aspects as governance, planning, investment and resource provision, implementation and reporting. Where investments and resources are needed to achieve the strategic objectives, measures are in place to ensure that these are used with a responsible focus on appropriate impact – long-term efficiency, effectiveness and enhanced capability.

In order to promote transparency and credibility with regard to the strategy's results and/or impact, an internal framework for implementing and monitoring the strategy will be established. An important focus of the strategy is the development of indicators and measures that can be used for direct and effective monitoring of the progress made towards our targets.

At the end of the transformation process, the FMA, in its capacity as a transformative authority, should be well placed to address the following challenges in the best possible way:

- Digitalisation and optimal use of data
- Sustainability and climate protection
- Financial innovation
- Guaranteeing financial market stability, and strengthening the confidence of market participants and the public at large.

We aim to achieve this using a flexible organisational set-up and modern technical equipment and infrastructure with highly qualified staff who are motivated to take on board each challenge.