

Internationally, the trend in the institutional asset management business is towards greater transparency and investor protection. These developments, driven by the regulatory environment, have also led to a steady decrease in the size of the non-regulated institutional asset management segment in Switzerland.

As of the end of 2013, there were 119 authorised asset managers of collective investment schemes, an increase of 20 year-on-year. FINMA authorised a total of 22 asset managers of collective investment schemes in 2013, with just two existing licence holders withdrawing from FINMA's supervision. Meanwhile, one fund management company was newly authorised in 2013.

Across the world, requirements on investor protection and transparency in the institutional asset management segment have been tightened in recent years. This has had a noticeable impact on Swiss asset management, with the non-regulated segment shrinking steadily as a result.

Preserving market access is the driving force

This trend began with the UCITS Directive in the EU, which from February 2007 made asset managers of standardised European undertakings for collective investment in transferable securities (UCITS) subject to supervision. The Swiss Collective Investment Schemes Act (CISA), which came into force on 1 January 2007, also brought asset managers of Swiss collective investment schemes under prudential supervision. With a view to preserving market access, asset managers of foreign collective investment schemes were also given the possibility of voluntarily subjecting themselves to CISA if required to do so under foreign law.

The EU's Alternative Investment Fund Managers Directive (AIFMD), which entered into force in July 2011, also requires managers of European alternative investment funds to be subject to prudential supervision. Managers of foreign funds in Switzerland faced the risk of being unable to continue with their cross-border asset management activities. To close this gap in the regulations and preserve market access, the Federal Council decided to conduct an urgent partial revision of CISA. All asset managers of collective investment schemes are in principle now subject to the revised CISA, which entered into force on 1 March 2013. When the notification period expired at the end of August 2013, 116 companies had reported to FINMA and now have until February 2015 to submit an application for authorisation as an asset manager of collective investment schemes.

National regulation

In addition to the more stringent international regulatory requirements, revisions to national laws have also had an impact on asset management in Switzerland. The revised Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2) entered into force on 1 January 2014, and states that external persons and institutions may only be entrusted with the investment and management of pension fund assets if they are subject to supervision by FINMA or an equivalent foreign financial market supervisory authority. With the decision taken by the Federal Council in May 2013, the Federal Occupational Pensions Regulatory Commission (OAK BV) can

now also declare other persons and institutions as being 'authorised' for the investment and management of pension plan assets. The OAK BV can also issue these asset managers with a provisional licence limited to three years, after which time they must subject themselves to recognised supervision.

Implications for supervision

As a result of the revisions to CISA and BVV 2, institutional asset managers who have previously chosen to operate in the non-regulated segment will have to decide whether they can or want to adjust their business model in line with the changed framework, and if so how to achieve this. In particular, this poses various challenges for institutions that focus predominantly on asset management for private clients in addition to the management of collective investment schemes, and which often offer many other services. FINMA identified organisational weaknesses in large and long-established institutions in particular. The companies in question have extended their area of activity over the course of time to include a wide range of services, but without adjusting their organisation to address the new challenges. In addition to conflicts of interest, this has led to shortcomings such as:

- inadequate corporate governance;
- a lack of separation between investment decisions and controlling functions;
- no appropriate training and insufficient experience in risk management functions.

Specifically and as part of its supervisory activities, this resulted in FINMA contacting the institutions concerned to point out those inadequacies, and imposing special conditions where necessary.

New developments

FINMA has identified an increasing trend towards cooperation between authorised asset managers subject to CISA and institutions that are not yet regulated. The latter are seeking to continue activities that now require authorisation such as managing foreign collective investment schemes or pension fund assets that are under the 'umbrella' of an authorised asset manager, without having to apply for authorisation themselves.

For example, unauthorised asset managers acquire a minority interest in an authorised asset manager, allow themselves to be hired by them on a part-time basis, and thus continue to manage their collective investment schemes or pension funds without being fully integrated in the investment and controlling process. Meanwhile, other services are still performed by the unauthorised institution, for instance, individual asset management for private clients.

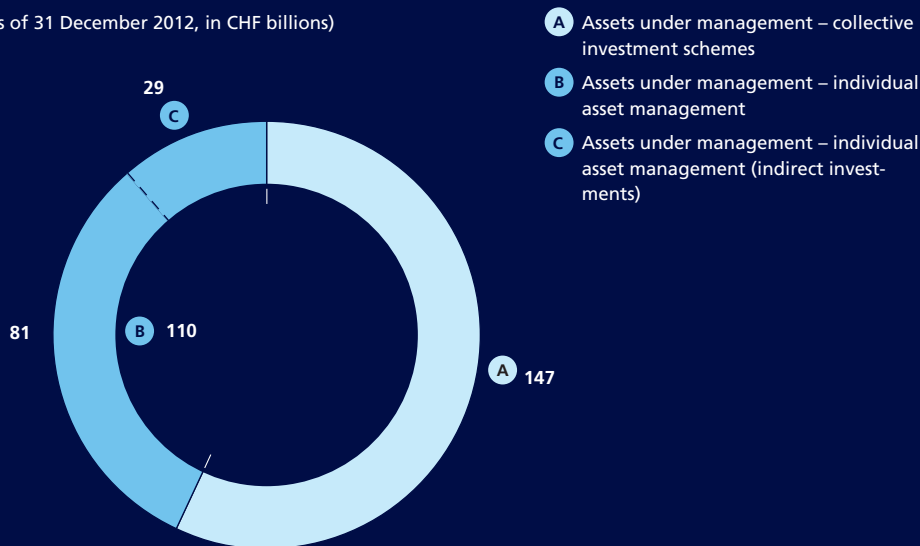
FINMA must ensure that individual asset managers in such cooperation models also have the appropriate organisation required by law, and that the risks are as a whole identified and controlled properly. Following the revision of CISA, consolidated supervision of asset managers is no longer possible, which makes FINMA's task more difficult.

Assets under management

Data collected in 2013 showed that, as of 31 December 2012, authorised CISA asset managers managed assets amounting to CHF 257 billion, of which CHF 147 billion are attributed to Swiss and foreign collective investment schemes, while CHF 110 billion are attributed to individual asset management managed for private and institutional investors. CHF 29 billion of those individually managed assets were reinvested in collective investment schemes managed by asset managers and have also been included in the assets for collective investment schemes (147 billion).

Assets of collective investment schemes and individually managed portfolios

(as of 31 December 2012, in CHF billions)



Assets of Swiss and foreign collective investment schemes managed in Switzerland

(as of 31 December 2012, in CHF billions)

