Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

FINMA's mandate

The Swiss Financial Market Supervisory Authority FINMA is an institution under public law with its own legal personality. As an independent supervisory authority, FINMA acts to protect the interests of creditors, investors and policyholders and ensure the proper functioning of financial markets.

FINMA aims to protect financial market clients against insolvent financial institutions, unfair business practices and unequal treatment in securities markets. By ensuring the proper functioning of the financial markets, it serves to maintain the stability of the financial system, which in turn indirectly enhances the competitiveness and reputation of Switzerland's financial centre.

FINMA acts as an oversight authority of banks, securities dealers, insurance companies, financial market infrastructures, products and institutions under the Collective Investment Schemes Act; it is also an oversight authority of distributors and insurance intermediaries. It licenses the operations of companies in the sectors it supervises and ensures that those institutions comply at all times with the licensing requirements set out in the requisite laws, ordinances and regulations. FINMA is responsible for combating money laundering. It also cooperates with foreign regulators, imposes sanctions and, where necessary, conducts restructuring and bankruptcy proceedings.

FINMA also supervises the disclosure of shareholdings, conducts enforcement proceedings, issues rulings and, where wrongdoing is suspected, files criminal complaints with the competent prosecuting authorities. Moreover, FINMA supervises public takeover bids and decides on appeals against decisions made by the Swiss Takeover Board (TOB). Finally, FINMA participates in legislative procedures, issues its own ordinances where authorised to do so, publishes circulars to facilitate the interpretation and application of financial market law and is responsible for the recognition of self-regulatory standards.

On-site supervisory reviews in figures

One of FINMA's key supervisory instruments is conducting on-site reviews. They provide in-depth insight into the workings of financial institutions and promote dialogue with licence holders. They also enable FINMA to identify potential risks at each institution. By comparing the results of individual reviews and assessing the quantitative and qualitative aspects, FINMA also obtains a broader overview of the market as a whole.

JAN.

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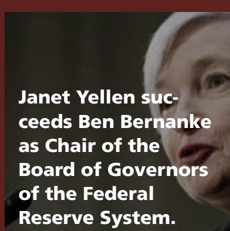
Patrick Raaflaub steps down after five years as FINMA CEO.

FEB.



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Interim FINMA CEO Mark Branson is confirmed as the new CEO.

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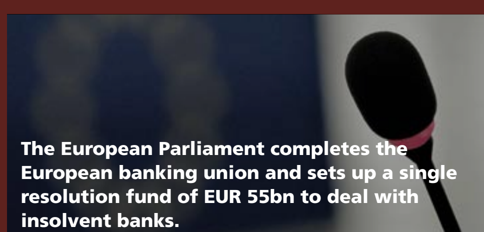
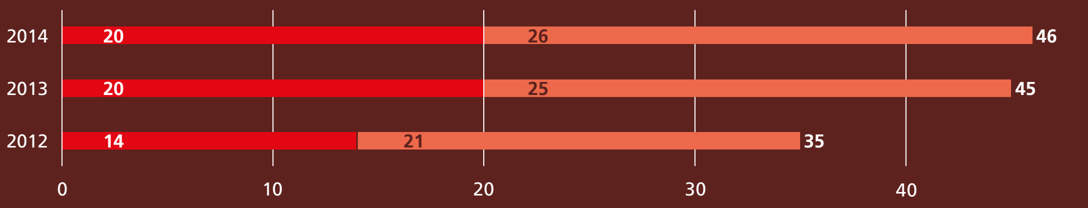


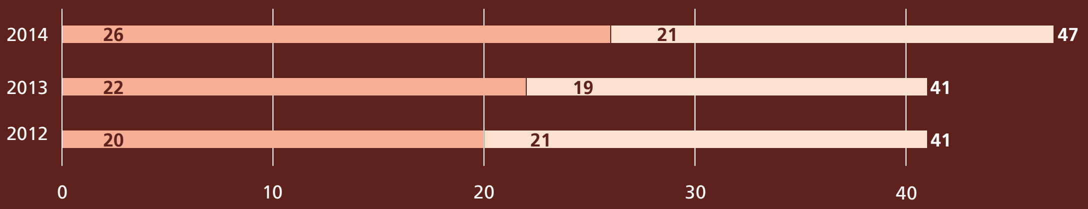
On-site supervisory reviews: banks and insurance companies



Banks

UBS / Credit Suisse (supervisory category 1)

Banks in supervisory categories 2, 3 and 4



Insurance companies

Insurance companies in supervisory categories 2 and 3

Insurance companies in supervisory categories 4 and 5

In 2014, the Banks division concentrated its on-site supervisory reviews on lending (including mortgages), asset management, investment banking, and organisation and processes. No on-site supervisory reviews were conducted on category 5 institutions.

As in previous years, the Insurance division's main focus in 2014 was on auditing technical provisions. With a few exceptions, the findings showed that the insurance companies have established solid reserves. FINMA also directed attention to ensuring that the prescribed level of tied assets was met.

MAY

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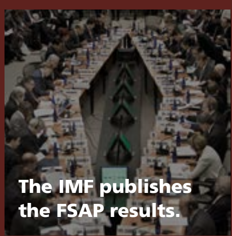
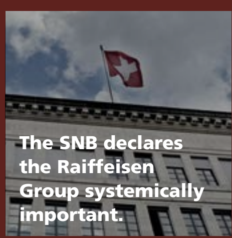
FINMA publishes a summary report of its enforcement proceedings against Credit Suisse regarding the bank's US cross-border activities.



JUNE



JULY

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FINMA concludes its proceedings against BNP Paribas (Suisse) SA regarding breaches of US sanctions.

SEPT.

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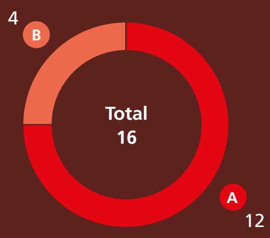
FINMA initiates bankruptcy proceedings against Banque Privée Espírito Santo SA.

On-site supervisory reviews: self-regulatory organisations and directly supervised financial intermediaries



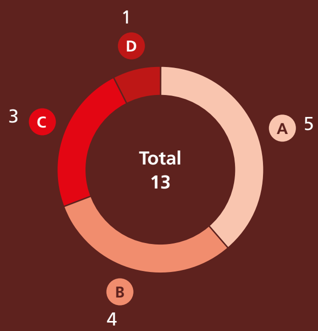
A Self-regulatory organisations

B Directly supervised financial intermediaries

Reviews conducted at self-regulatory organisations (SROs) in 2014 concentrated on their risk-based approach to supervision, implementation of AMLA due diligence obligations for new payment methods, and efforts to prevent circumvention of these obligations by affiliated financial intermediaries using settlement vehicles and de facto branches.

On-site supervisory reviews of directly subordinated financial intermediaries (DSFIs) focused on compliance with AMLA due diligence obligations and the provisions on the involvement of auxiliaries under the Ordinance on the Professional Practice of Financial Intermediation, implementation of organisational measures (risk management, independence of the AMLA unit) and fulfilment of the substantive requirements for acting as a financial intermediary.

On-site supervisory reviews: institutions under the Collective Investment Schemes Act



In late 2013, FINMA heightened its focus on asset management and began to conduct on-site supervisory reviews at CISA institutions. The reviews conducted in 2014 centred mainly on verifying delegation of responsibilities, safe keeping of assets and risk management.

A Fund management companies

B Asset managers of collective investment schemes

C Custodian banks

D Representatives of foreign collective investment schemes

OCT.

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FINMA reprimands Coop Bank for market manipulation.

NOV.

p. 82
FINMA finds foreign exchange manipulation at UBS.

DEC.

p. 13
FINMA orders a portfolio transfer and initiates bankruptcy proceedings against Zenith Vie SA.

A year of continuity and positive feedback

2014 was dominated by major investigations into unacceptable business conduct in certain sectors of the finance industry, and the corresponding lessons learned. FINMA received good reports from the Federal Council and the International Monetary Fund, following their in-depth assessments of Swiss financial market supervision.

Throughout another busy year, we at FINMA were focused on successfully delivering the high quality and intensity of supervision expected of us.

Growing concern over business conduct

One of our major concerns is the declining trust in the finance industry. This trust is the key to financial stability and therefore to a flourishing economy. Misconduct at many banks around the globe has eroded that trust.

We have seen many examples of unacceptable business conduct: manipulation of stock prices and foreign exchange markets, and aggressive conduct in cross-border wealth management, all of which absorbed much of our time in 2014.

Moving enforcement forward

In response, we have placed increasing emphasis on enforcement, our sanctions. We have expanded the division responsible for these activities to around 15% of our workforce.

We published a new enforcement policy clearly setting out in simple principles our strategy in this area. The policy makes clear that we will deal rigorously with misconduct and that we will act more forcefully against individuals who breach supervisory law.

Deterrent effect

Our enforcement activities aim to be corrective and to deter, especially where business conduct is concerned. We also intend to increase our focus on conduct supervision.

High marks at home and abroad

Our work was subjected to critical scrutiny in 2014, both within Switzerland and internationally. The Federal Council issued a report on the state of Swiss financial market supervision in response to a number of parliamentary initiatives. Its main findings were positive. The Federal Council does not see any need to change our remit nor to alter our organisation. It also views our regulatory powers and processes as appropriate.

In 2014, FINMA also received a favourable assessment from the International Monetary Fund's (IMF) Financial Sector Assessment Program (FSAP), acknowledging the progress made since the last FSAP more than five years ago. The IMF sees FINMA as providing high-quality supervision and its staff as well-qualified. However, the FSAP and the Federal Council reports both highlighted certain potential for improvement, which we will be addressing in 2015.

While such recommendations help us to develop, the positive feedback is encouraging, and we are happy to pass it on to our staff, management and Board of Directors, all of whom have played a major role in our progress.

A. Héritier Lachat

Prof. Anne Héritier Lachat
Chair

Mark Branson
CEO

December 2014

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FINMA: AN OVERVIEW

MAIN ACTIVITIES

SUPERVISION, ENFORCEMENT AND REGULATION

FINMA: An overview

One of FINMA's core tasks is licensing financial service providers to engage in specific activities in the Swiss financial market, subject to their compliance with legal requirements. Once a licence has been issued, FINMA acts as supervisor, ensuring that the licensing conditions continue to be met at all times and taking corrective measures where necessary.

FINMA licenses and supervises a wide range of providers in the financial market. Operating licences are generally issued in line with legal requirements; FINMA then continually monitors adherence to the licensing conditions. If supervisory law is violated, FINMA acts to restore compliance, initiating enforcement proceedings where necessary. It revokes licences as an ultimate sanction.

Licensing conditions for conducting activities in the Swiss financial market are set down in financial market legislation and the associated implementing provisions. Individuals complying with those requirements can apply for a licence. In the interest of equal treatment and transparency, FINMA sets out the conditions for licence holders in FINMA ordinances and circulars. Generally, it also provides guidelines and templates to assist with licence applications.

Licensing, authorisation and registration

Licences to engage in a financial market activity

FINMA mostly issues licences allowing the holders to engage in a specific financial market activity. Licensing conditions vary, depending on whether the holder is a bank, insurance company or other financial services provider.[1] Licence holders subject to prudential[2] supervision must satisfy requirements concerning their organisation, risk management and financial resources. These may also differ within a given group of licence holders. Systemically important banks, for example, must meet additional conditions for capital, liquidity and risk diversification, while insurance companies providing occupational pensions must hold special tied assets[3] to cover their obligations.

Licensing of financial intermediaries under the Anti-Money Laundering Act

Licences for financial intermediaries under the Anti-Money Laundering Act (AMLA) take a different form. For instance, independent asset managers requiring a licence must demonstrate their ability to comply with specific duties of due diligence: they must conduct clarifications, put in place the relevant organisational measures and report any suspicions of money laundering.

Institutions issued with a FINMA licence for their financial market activities do not need a separate licence to act as financial intermediaries under AMLA, but FINMA still monitors their compliance with the AMLA due diligence requirements.

Recognition of self-regulatory organisations under the Anti-Money Laundering Act

FINMA can also recognise self-regulatory organisations under AMLA. These ensure that their affiliated financial intermediaries – normally from the parabanking sector[4] – comply with their AMLA due diligence requirements.

Registration

Certain financial intermediaries such as insurance brokers are permitted or required to apply for registration. If they meet the requirements, which are purely formal in nature, they are entered in a register.

Product authorisation

FINMA authorises collective investment schemes and certain insurance products in the socially sensitive areas of supplementary health insurance and occupational pensions. Here the tariffs and the general terms and conditions are reviewed in a preventive product control process. Collective invest-

1 See "Types of licences and intensity of supervision" chart, p. 11.
2 See Glossary, p. 114.
3 See Glossary, p. 115.
4 See Glossary, p. 114.

ment schemes are authorised when the related documentation meets the requirements of the Collective Investment Schemes Act (CISA).

Authorisation of tariffs

The only area in which FINMA authorises tariffs is insurance.[5] As mentioned, FINMA reviews and authorises institutions' tariffs for supplementary health insurance and all occupational pension risks, as well as the standard tariff drawn up by the sector for natural hazard insurance.

Supervision[6]

Prudential supervision

Prudential supervision is a central task of the supervisory authority. FINMA adopts a risk-based approach under which it allocates each institution to a supervisory category[7] and assigns it an individual rating which then determines the intensity of supervision. FINMA applies this approach to the supervision of banks, insurance companies, securities dealers and licence holders managing collective investment schemes and financial market infrastructures.

Prudential supervision focuses on the soundness of both individual institutions and the system as a whole. The primary emphasis is on solvency (capital adequacy) and liquidity, but FINMA also monitors providers' risk management, business conduct and organisation. The aim is to protect creditors, investors and insured persons and secure the proper functioning of the financial markets. This is achieved by cross-institution monitoring and an associated risk warning function.

Supervision of distributors of collective investment schemes

Distributors require a licence issued by FINMA, but the law does not place them under FINMA's prudential supervision. Instead, they are supervised by fund providers under a self-regulatory regime recognised by FINMA which requires licensed distributors to undergo an annual audit by an audit firm to establish whether they adhere to the rules for distributors and the obligation to report changes of circumstances as required under Article 16 CISA. Fund providers ensure that the audit reports are received on time and subject them to a systematic evaluation.

Supervision of insurance intermediaries

Insurance intermediaries registered with FINMA are not subject to ongoing supervision, but FINMA carries out regular random sampling to ensure that they comply with supervisory requirements. Where there are indications of irregularities, FINMA takes the necessary supervisory measures.

Supervision of compliance with due diligence requirements under the Anti-Money Laundering Act

The due diligence obligations set out in AMLA are designed to prevent money laundering. FINMA's supervision of banks, securities dealers, insurance companies and collective investment schemes also extends to ensuring their compliance with these obligations. Self-regulation again plays a role here. The Agreement on the Swiss Banks' Code of Conduct with regard to the exercise of due diligence (CDB) contains provisions requiring banks, securities dealers and some CISA licence holders to verify the identity of the contracting partner and identify the beneficial owner. For insurance schemes, the corresponding document is the code of conduct issued by the Self-Regulatory Organisation of the Swiss Insurance Association (SRO-SIA).

[5] See also "Overview of insurance companies", p. 50.

[6] See "Types of licences and intensity of supervision" chart, p. 11.

[7] See "Supervisory categories", p. 102 f.

Financial intermediaries in the para-banking sector, such as asset managers, fiduciaries, bureaux de change and payment services, can opt for supervision either directly by FINMA or by a self-regulatory organisation.

General market supervision

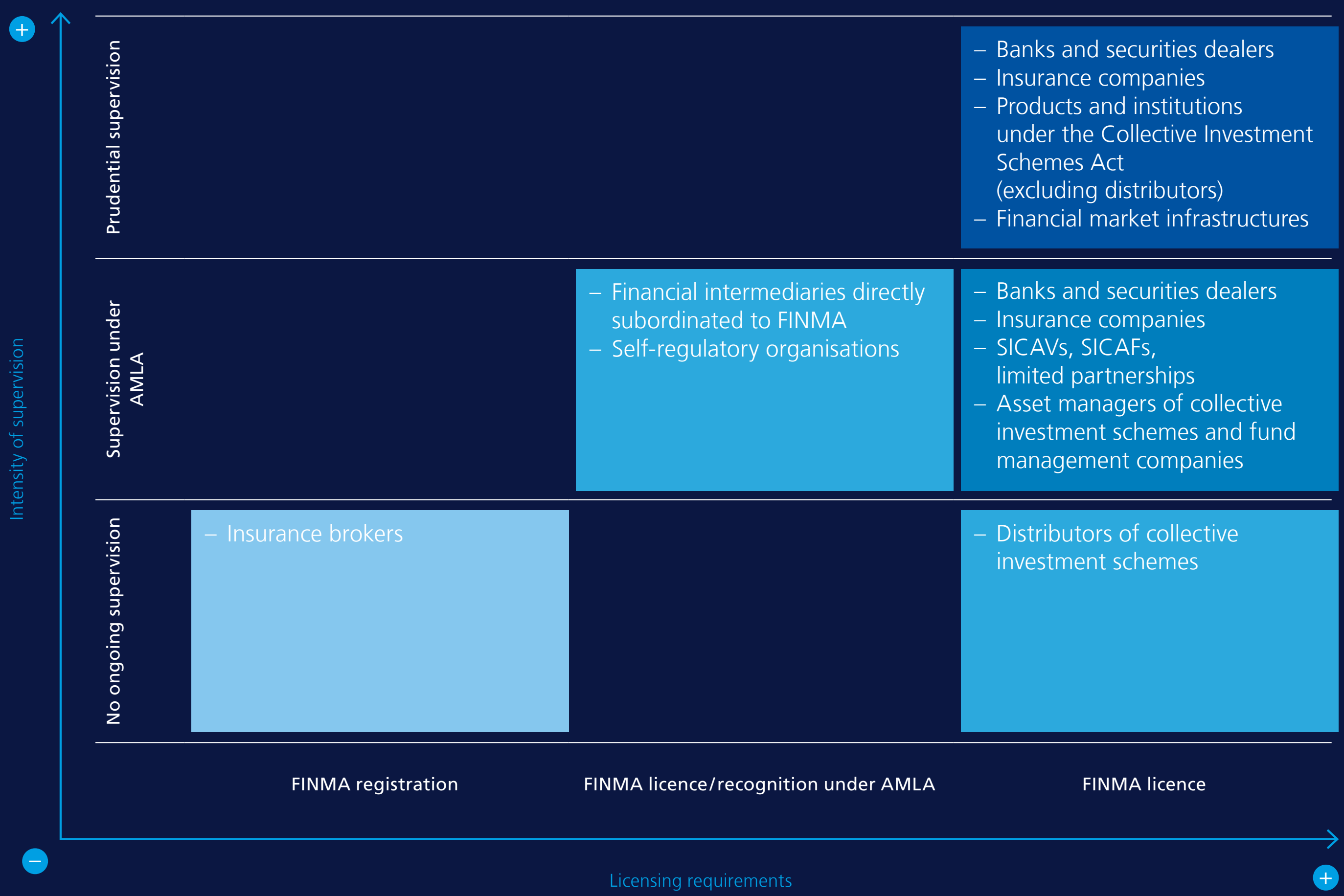
Unlike prudential supervision, which is primarily concerned with the soundness of institutions, market supervision focuses on integrity and propriety in business conduct. Under the Stock Exchange Act (SESTA), which prohibits insider trading and market manipulation and contains rules on the disclosure of shareholdings, FINMA can exercise powers relating to market conduct rules. As self-regulating institutions, exchanges must have their own front-line supervisory organisation covering operations, management and monitoring, whereas FINMA concentrates on determining where enforcement is needed and taking the appropriate measures. FINMA is responsible for ensuring compliance with market conduct rules designed to promote investors' trust in the functioning of the financial market. Since the revised Stock Exchange Act came into force on 1 May 2013, FINMA can enforce market conduct rules against individuals, not just licensed and supervised market participants.

Overview of licensing and supervision

As an ultimate measure, FINMA has the power to revoke licences, authorisation, recognition or registration from any provider that ceases to comply with licensing requirements or has seriously violated supervisory law. Even licence holders such as insurance intermediaries that are not subject to prudential supervision are supervised on a limited, though not ongoing, basis.

Intensity of supervision varies depending on the licence holder, risk category and type of licence. Prudential supervision is the most comprehensive form.

Types of licences and intensity of supervision[8]



[8] This chart is a simplified representation.

2014 in milestones

From A for asset management to Z for Zenith Vie, 2014 was a year of many and varied challenges for FINMA. The key milestones are summarised below by quarter.

First quarter

Mark Branson becomes new FINMA CEO

The FINMA Board of Directors appointed former Deputy CEO and Head of Banks division, Mark Branson, to succeed Patrick Raaflaub, FINMA's first CEO, who stepped down at the end of January after five successful years building the new authority. The Federal Council confirmed the appointment on 26 March and Mark Branson took up the post on 1 April. Léonard Bôle (Markets), Michael Loretan (Asset Management), Michael Schoch (Banks) and Peter Giger (Insurance) also joined the FINMA Executive Board during the year.

IAIS launches quantitative field trial of ComFrame

At the beginning of 2014, the International Association of Insurance Supervisors (IAIS) began a large-scale field test of quantitative capital requirements as part of a comprehensive programme to assess the Common Framework (ComFrame).[9] The first step is to draw up the basic capital requirements (BCR) which are to form the basis of the higher loss absorbency for global systemically important insurers (G-SIIs) and the Insurance Capital Standard (ICS) for internationally active insurance groups (IAIGs). Together with ComFrame, they are scheduled to enter into force in 2019.

Second quarter

Move to new headquarters in Bern

On 1 April, FINMA officially transferred its headquarters from Einsteinstrasse 2 to Laupenstrasse 27 and brought its three Bern offices together in one location. The move back to the city centre, which had been planned for some time, makes it easier for commuters and guests visiting FINMA to reach its headquarters by public transport.

New Asset Management and Markets divisions

The Markets division was split into two in the spring. The new Asset Management division is chiefly responsible for licensing, authorising and supervising institutions and products under the Collective Investment Schemes Act (CISA), while the new Markets division supervises financial market infrastructures, combats money laundering and coordinates regulatory audits.

Proceedings against Credit Suisse

On 20 May, Credit Suisse announced that it had reached an agreement with various US authorities. The same day, FINMA published a report on its enforcement proceedings against Credit Suisse in 2011–12 regarding the bank's cross-border business with US clients. It ruled that the bank had not applied adequate risk management in this area as required under Swiss supervisory law. Credit Suisse has implemented the measures ordered by FINMA.

International Monetary Fund publishes financial sector evaluation

On 28 May, the International Monetary Fund (IMF) published its main reports on the Financial Sector Assessment Program (FSAP), which offered a mostly positive verdict on the stability, regulation and supervision of the sector in Switzerland. Many of the improvements suggested by the IMF experts have already been incorporated into ongoing amendments to the Swiss regulatory framework.

Raiffeisen Group declared systemically important

On 16 June, the Swiss National Bank classified the Raiffeisen Group as systemically important. The crucial factor in the decision was the bank's strong market position in the deposit-taking and lending business. FINMA is currently deciding on "too big to fail" requirements for the Raiffeisen Group.

Proceedings against BNP Paribas (Suisse) SA concluded

FINMA conducted enforcement proceedings against BNP Paribas (Suisse) SA focusing on compliance with US sanctions. In a ruling dated 30 June, it stated that the bank had not applied adequate risk management in this area as required by Swiss supervisory law. FINMA ordered corrective measures against BNP Paribas (Suisse).

Third quarter

Groupe Mutuel ordered to reimburse premiums

FINMA had imposed a number of measures on Groupe Mutuel on 31 March, and on 24 July ordered it to reimburse premiums to numerous policyholders of supplementary health insurance. On 29 September, the insurance company announced the appointment of an entirely new Board of Directors.

"Too big to fail" ruling on systemically important Zürcher Kantonalbank

In a ruling dated 29 August, FINMA set out its special capital, liquidity and risk diversification requirements for the systemically important Zürcher Kantonalbank (solo and group), as required under Article 10 para. 1 BA.

Bankruptcy proceedings initiated against Banque Privée Espírito Santo SA

On 19 September, FINMA initiated bankruptcy proceedings against Banque Privée Espírito Santo SA domiciled in Pully and found that the bank, which had been in voluntary liquidation since July 2014, was over-indebted. The loss of confidence following the group's collapse had posed serious problems for the Swiss company. At the end of August, FINMA launched enforcement proceedings against the bank related to distribution of the group's financial products.

Fourth quarter

Proceedings against Coop Bank and its former CEO regarding market manipulation concluded
In a ruling dated 24 October, FINMA found that the Coop Bank had manipulated the market price of its own bearer shares between 2009 and 2013. This constituted a serious violation of supervisory provisions on market manipulation and an infringement of its organisational and business conduct requirements. FINMA imposed special conditions on the bank and banned the former CEO, who was held principally responsible, from holding a management position at a supervised institution for three years.

New enforcement and communication policies
On 30 October, FINMA published its new enforcement and communication policies. The enforcement policy replaces an earlier version from 2009 and outlines how FINMA takes enforcement action against regulatory violations and where its priorities lie. The communication policy explains the criteria governing FINMA's public information policy and the vehicles it uses.

Proceedings against UBS concluded, individual proceedings opened regarding foreign exchange manipulation
On 11 November, FINMA concluded enforcement proceedings against UBS related to the bank's foreign exchange dealings in Switzerland. It found that owing to the conduct of its staff and breach of organisational rules, the bank had severely violated proper business conduct requirements. FINMA ordered UBS to disgorge a total of CHF 134 million and imposed other measures. It also initiated enforcement proceedings against 11 members of the bank's staff and management involved in the case.

Portfolio transfer and bankruptcy proceedings at Zenith Vie SA
The life insurance company Zenith Vie SA no longer fulfilled the regulatory capital requirements. To protect its policyholders, on 5 December FINMA therefore ordered the transfer of all its policyholder portfolios to a newly founded company held by private insurance companies. On 15 December, FINMA also initiated bankruptcy proceedings against Zenith Vie, which was found to be over-indebted.

Rules on calculating the leverage ratio, disclosure of the leverage ratio and liquidity coverage ratio
FINMA Circular 2015/3 "Leverage ratio" sets out the rules for calculating the ratio, which is defined as Tier 1 capital divided by the total exposure. FINMA Circular 2008/22 "Disclosure – banks" now also contains disclosure requirements for the leverage ratio and liquidity coverage ratio. The two circulars came into force on 1 January 2015.

Self-assessment of risk situation and capital requirements for insurance groups
In 2014, FINMA drew up requirements for insurance groups and conglomerates to carry out the Own Risk and Solvency Assessment (ORSA). These will be applied for the first time in 2015 in the form of voluntary reporting to FINMA. ORSA is forward-looking and will provide an overall view of risks and capital adequacy as required for business management during the planning period.

Federal Council report on FINMA and its regulatory and supervisory activities
The report published by the Federal Council on 18 December in response to the Graber postulate and other parliamentary initiatives was a key milestone in assessing FINMA's fulfilment of its remit since its creation.

[9] See also "FINMA and international standard-setting bodies", p. 17.

FINMA in the political context

In the political world, the primary focus in 2014 was on supervisory issues from previous years. The Federal Council also published a report on FINMA's supervisory activities in response to the Graber request.

In 2014, FINMA again provided specialist information to the Committees for Economic Affairs and Taxation (CEAT) on a number of occasions. In January, when the CEAT were asked to rule on parliamentary initiatives to further develop the Swiss "too big to fail" legislation and the separation of retail and investment banking, FINMA representatives reported on their experience in implementing the "too big to fail" regime.

Hearings before supervisory committees

In May 2014, following its annual appearance before the Control Committees (CCs) in April, FINMA welcomed a subcommittee of the Finance Committees (FCs) to a briefing at its offices. The hearings served essentially to provide information on ongoing supervision, mainly the majority of FINMA's work that takes place away from the media spotlight.

There were fewer parliamentary initiatives related to FINMA's work than in previous years. Instead, focus was mostly on legacy issues and FINMA's enforcement practice, which repeatedly gave rise to questions by politicians.

Federal Council report in response to parliamentary initiatives

The report[10] published by the Federal Council on 18 December 2014 in response to the Graber request[11] and other parliamentary initiatives was a key milestone in assessing FINMA's fulfilment of its remit since its creation. It follows a comprehensive study of FINMA's regulatory and supervisory activities based on a number of external expert opinions, and offers a favourable overall verdict on the authority and its work. The Federal Council concludes that FINMA's legal form, management structure and organisation ensure efficient and effective supervision of the financial markets. It particularly emphasises the exploitation of cross-divisional synergies since the new authority was created in early 2009.

In its report, the Federal Council considers the current formulation of FINMA's mandate, with its focus on protection, to be appropriate. It believes that the proposal made by various parties to give FINMA the separate task of enhancing the reputation and competitiveness of the Swiss financial centre would inevitably lead to conflicts of interest and a loss of credibility, both nationally and internationally. The Federal Council also believes that FINMA's regulatory powers are appropriate, as are its internal rules designed to secure uniform and consistent regulatory action. However, it identified room for improvement in a number of areas, and has made corresponding recommendations to FINMA.

In anticipation of the report, FINMA drew up its new communication policy[12] and enforcement policy[13] containing improvements designed to enhance the transparency of its activities. It will also assess carefully the recommendations for further improvements set out by the Federal Council and address their implementation where necessary.

[10] See Federal Council report "Die FINMA und ihre Regulierungs- und Aufsichtstätigkeit" (FINMA and its supervisory and regulatory activities) dated 18 December 2014 in fulfilment of requests 12.4095 Graber, 12.4121 de Courten, 12.4122 Schneeberger and 13.3282 de Buman (http://www.news.admin.ch/NSBSubscriber/message/attachments/37800.pdf, in German).

[11] See request 12.4095 "External and independent assessment of FINMA", submitted by Council of States member Konrad Graber on 11 December 2012.

[12] See "FINMA and its national stakeholders", p. 15.

[13] See "Enforcement policy", p. 30.

FINMA and its national stakeholders

FINMA maintains contacts with a large number of national institutions and associations. To the extent permitted by law, it pursues a policy of open and transparent communication with supervised institutions, other stakeholders and the public at large.

FINMA maintains regular contact in various forms with almost 100 institutions and associations. They include supervisory authorities, prosecutors, other authorities and federal bodies, as well as the associations of supervised institutions. There are also important contacts with business, professional and staff associations, as well as consumer protection organisations and ombudsmen in the various supervisory areas. Through active dialogue with its stakeholder groups, FINMA aims to improve understanding of supervisory and regulatory matters and raise awareness of financial market issues.

Brunetti group of experts

FINMA devoted considerable resources to its work as a member of the Federal Council-appointed group of experts on further developing financial market strategy and three of its four topic-based sub-groups. FINMA contributed both its technical expertise and perspective as a supervisory authority. The Federal Council took note of the group's final report[14] on 5 December 2014.

Communication policy

The Financial Market Supervision Act (FINMASA) requires FINMA to report on its activity and practice at least once a year, limit communication on individual proceedings to exceptional cases, and respect the personal rights of those it supervises. The legislation therefore places restrictions on FINMA, but also grants the authority a degree of discretion with regard to its communication.

The communication policy[15] establishes a framework for FINMA's information strategy and explains how it interprets the discretion granted to it. It lays down the principles of its communication policy, such as creating legal certainty, enhancing the preventive effect of supervision and explaining FINMA's regulatory actions, and sets out the options and limits available to it. It explains the areas and extent of the information FINMA provides to supervised institutions and the public (individuals, parliamentarians and the media) and the vehicles used. Communication on general supervisory issues is continual and detailed, while regulatory matters are dealt with solely in FINMA ordinances and circulars. FINMA's ability to provide information on individual companies and persons is circumscribed by law. The policy is designed to help improve the structure of FINMA's communication activities. It was published on 1 November 2014.

FINMA debates with academic community members

A number of seminars once again took place at FINMA in 2014 at which university professors[16] presented the results of their latest research on financial market topics. FINMA's aim in staging these events is to foster debate with the academic community and engage in critical discussion of relevant issues. The seminars are also an opportunity for FINMA staff to learn more about the latest findings of academic research.

[14] See final report "Expertengruppe zur Weiterentwicklung der Finanzmarktstrategie" (Expert group on the further development of financial market strategy) dated 1 December 2014 (http://www.news.admin.ch/NSBSubscriber/message/attachments/37585.pdf, in German).

[15] See FINMA communication policy dated 25 September 2014 (http://www.finma.ch/e/aktuell/Documents/ll-FINMA-Kommunikationsleitlinien-20140925-e.pdf).

[16] Prof. Ernst Fehr, Prof. Steven Ongena and Prof. Franca Contratto (University of Zurich), Prof. Franco Lorandi and Dr Martin Eling (University of St. Gallen), Prof. Jörg Rocholl (European School of Management and Technology, Berlin), Prof. Anat Admati (Stanford University), Prof. Geoffrey Parsons Miller (New York University), Nicolas Véron (Brussels European and Global Economic Laboratory [Bruegel]).

Key topics discussed with important stakeholder groups

FINMA conducts institutionalised annual or semi-annual discussions with the most important associations and stakeholder groups of supervised institutions. The main topics covered in 2014 are indicated below.

BANKS

Swiss Bankers Association (SBA)

- Cross-border financial services (US)
- Self-regulation of the mortgage market
- Market access for Swiss financial services providers in the European Union
- FFSA, FinIA, FMIA

INSURANCE COMPANIES

Swiss Insurance Association (SIA)

- Regulatory projects, in particular the revision of the Insurance Supervision Ordinance (including the Swiss Solvency Test)
- International trends in supervision
- Equivalence recognition by the European Commission
- Financial centre strategy
- FFSA, FinIA

COLLECTIVE INVESTMENT SCHEMES

Swiss Funds & Asset Management Association (SFAMA)

- Full revision of the FINMA Collective Investment Schemes Ordinance
- SFAMA guidelines on distribution of collective investment schemes and transparency
- Adjustments to current model documents to reflect revisions of the Collective Investment Schemes Act and the Collective Investment Schemes Ordinance

AUDIT FIRMS

Swiss Institute of Certified Accountants and Tax Consultants (SICATC)

- Implementation of new instruments for regulatory audits
- Independence of audit firms
- Transfer of supervisory responsibilities for audit firms to the Federal Audit Oversight Authority
- Full revision of the Financial Market Auditing Ordinance
- Results measurement and quality controls in auditing

FINMA and international standard-setting bodies

Reform of financial market regulation continued at the international level in 2014. Through its participation in various bodies, FINMA actively influences the drafting of international standards.

FINMA is represented in various international organisations and, in particular, standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO). As well as providing a forum for exchanging experience and discussing current developments, these bodies are involved in drawing up internationally recognised minimum standards for financial market regulation and supervision. As a member, FINMA works to achieve solutions that are as appropriate and proportionate as possible and to leave sufficient scope for regulation and supervision in line with the needs of the Swiss financial sector, while also creating a level playing field for market participants.

Financial Stability Board

The Financial Stability Board (FSB) liaises between the G-20 and the BCBS, IAIS and IOSCO, representing the various sectors. Although Switzerland is not a member of the G-20, it is closely involved in formulating the main international regulatory reforms through its work on the FSB. FINMA's CEO represents Switzerland in the Standing Committee on Supervisory and Regulatory Cooperation, while FINMA represents Swiss interests in the Resolution Steering Group. It also continues to work closely with the Swiss National Bank (SNB) and the State Secretariat for International Financial Matters (SIF), which represent Switzerland on the FSB's Steering Committee and other committees.

The FSB again focused on resolving the "too big to fail" issue in 2014, revising the basic requirements for the orderly resolution of global systemically important financial institutions, discussing the required level of loss-absorbing capital in bankruptcies and addressing the cross-border recognition of resolution action. It also continued its work on shadow banks and OTC derivatives.

Basel Committee on Banking Supervision

Switzerland is represented at the highest level of the BCBS by FINMA and the SNB. In 2014, the Committee once again focused on completing central elements of the Basel III framework,[17] in particular the technical details of the leverage ratio and net stable funding ratio (NSFR), disclosure obligations related to the liquidity coverage ratio (LCR), and capital requirements for bank exposures to central counterparties. Framework regulation on measurement and limitation of risk concentrations was also finalised in 2014 and principles on the treatment of securitisations were adopted.

In addition to drafting new standards, the BCBS is devoting much effort to reviewing compliance with existing minimum standards. In 2014, FINMA headed the team assessing Basel III compliance in the US. The BCBS also examines the impact of the minimum standards on an ongoing basis in its Basel III monitoring exercise. FINMA and its supervised institutions regularly take part in the quantitative impact studies (QISs) carried out in this context.

[17] See "Implementation of Basel III in Switzerland", p. 45.

International Association of Insurance Supervisors

FINMA was re-elected to the Executive Committee of the IAIS in spring 2014. During the year, the IAIS again focused on identifying global systemically important insurers (G-SIIs) for the FSB and measures for limiting their risks. Acting on behalf of the G-20 and in coordination with the relevant national supervisory authorities, the FSB designated nine insurers as global systemically important financial institutions for the first time in July 2013. None of them were Swiss. The status of the same firms was confirmed in November 2014 on the basis of the latest evaluations.[18] The FSB and IAIS additionally announced a revision of the identification method, also to include reinsurers.

On 23 October 2014, the IAIS published the basic capital requirements (BCR).[19] This is the first milestone in the development of a global Insurance Capital Standard (ICS). The IAIS also published various guidelines on implementing the G-SII measures.

Good progress was also made on the Common Framework for the Supervision of Internationally Active Insurance Groups. Known as ComFrame, it forms the international basis for national supervisory authorities to record the qualitative and quantitative risks of insurance groups in their entirety. Various ComFrame field tests, including the ICS, were conducted in 2014, and more are planned ahead of scheduled implementation in 2018 and 2019. Selected Swiss insurance groups and FINMA are actively involved.

The IAIS is also continually revising some of the Insurance Core Principles (ICP), which contain minimum standards for appropriate insurance regulation and supervision and form the basis for evaluations under the IMF's Financial Sector Assessment Program (FSAP).

International Organization of Securities Commissions

FINMA's Chair was once again elected as Switzerland's representative to the IOSCO Presidents' Committee at the annual conference in October. IOSCO continued work on strengthening capital markets as the foundation for economic growth in 2014. Major issues included implementation of the principles on financial benchmarks and further groundwork on global systemically important financial institutions (G-SIFIs) outside the banking and insurance sector. IOSCO made further progress with the Multilateral Memorandum of Understanding, its international benchmark for cross-border cooperation, and the development of an effective enforcement mechanism for a credible deterrence framework. The work of the task force on cross-border regulation established in June 2013 is also at an advanced stage. Its goal is to identify and, as far as possible, remove unnecessary hindrances to cross-border financial market activities. FINMA supports this as vice-chair of the task force. Discussions also took place during the year on drawing up standards for simplified securitisation structures. Work began on an initiative related to capacity building, which includes providing technical assistance to emerging markets on developing international capital market standards.

[18] See FSB press release dated 6 November 2014 (http://www.financialstabilityboard.org/2014/11/fsb-announces-update-of-list-of-global-systemically-important-insurers-g-siis/).

[19] See IAIS documentation on the BCR standard dated 23 October 2014 (http://iaisweb.org/index.cfm?event=openFile&nodeId=34528).

FINMA's international cooperation in figures
FINMA was represented in a total of 88 working groups at the four central international standard-setting bodies in 2014.

Standard-setting body	Number of working groups
FSB	15
BCBS	29
IAIS	25
IOSCO	19
Total	88

Although the number of international working groups continues to increase overall, FINMA was able to maintain the workload for its international activities at a largely unchanged level, thanks to prioritisation and efficient management.

Main activities

Evaluation of the financial centre in Switzerland

In May and September 2014, the results of the Financial Sector Assessment Program were published by the International Monetary Fund.

As an IMF member and home to a major financial centre, Switzerland is obliged to participate regularly in the Financial Sector Assessment Program (FSAP). This is also a requirement for membership in the Financial Stability Board (FSB).

The FSAP is designed to assess the stability of a financial centre and issue any recommendations needed to strengthen it. The IMF also evaluates and rates compliance with the principles on financial market regulation and supervision prescribed by international standard-setting bodies (BCBS, IAIS and IOSCO). These three sets of principles, which are regularly revised, comprise between 26 and 37 requirements, with countries being graded on their level of compliance.

The IMF published a report on financial stability, an overview report and three detailed reports on compliance with international regulatory and supervisory standards for banks, insurance companies and markets. They were accompanied by four thematically focused technical notes on stress testing in the banking system, systemic risk and contagion analysis, macroprudential supervision and financial market infrastructures.[20]

IMF assessment of financial stability

In general, the assessment of Switzerland was positive. The IMF considers the Swiss financial sector to be essentially robust and stable, even in severe stress scenarios. Dangers were identified as a result of the low interest rate environment and the associated interest rate risk, imbalances in the real estate market, the US tax issue and possible hindrances to cross-border market access. Despite measures taken by the large banking groups to reduce risk and increase their capital base, the IMF recommended a further reduction in their leverage ratios, which are high compared with other international big banks.

IMF assessment of the regulatory framework

Switzerland's regulation and supervision of banks and insurance companies complies to a high degree with the relevant international principles. The IMF praised Switzerland's pioneering role in many areas of financial market regulation. It welcomed the introduction of the countercyclical capital buffer and other measures to limit risks in the real estate market, the introduction and ongoing implementation of the "too big to fail" regime, and the Swiss Solvency Test (SST) for insurance companies.

However, it identified room for improvements in client protection. It also recommended making independent asset managers and insurance intermediaries subject to supervision, stricter rules for issuers, and more stringent disclosure obligations for securities and structured products. The experts identified weaknesses in market regulation, but acknowledged that the legislative efforts to create a Financial Services Act and Financial Market Infrastructure Act contain many new rules that should improve compliance in these areas.

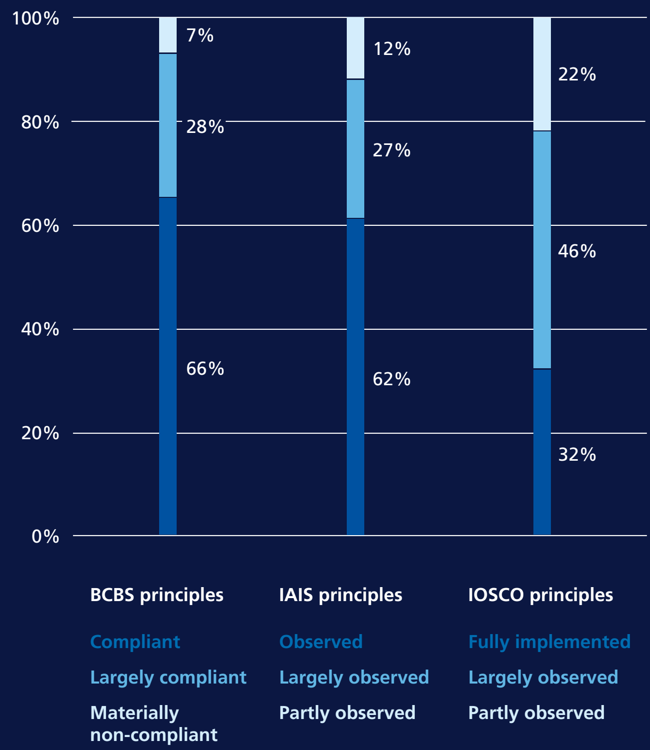
The IMF noted that Switzerland pursues a principles-based regulatory approach, which means that the density and level of detail in regulation are very low by international standards.

[20] See https://www.imf.org/external/np/fsap/fsap.aspx?CountryName=Switzerland.

IMF assessment of supervision

The IMF offered a positive assessment of the progress made by FINMA since its creation, as well as the level and quality of its supervision. According to the assessment, FINMA's staff have a high level of expertise and its off-site work is of high quality. The IMF acknowledges the advantages of the Swiss supervisory approach, under which key elements of supervision are outsourced to audit firms. It recommends greater use of on-site supervisory reviews, however, to reinforce the approach, as well as extra resources, especially for supervising medium-sized banks and insurance companies, and stronger leadership by FINMA of the audit firms involved in regulatory audits. FINMA greatly appreciated the professional exchange with the IMF specialists and is intensively addressing their proposed improvements.

IMF rating of compliance with international principles in Switzerland



BCBS assessment of Basel III implementation

Switzerland's implementation of Basel III was assessed in 2013 in the BCBS Regulatory Consistency Assessment Programme (RCAP). Further important jurisdictions, such as the EU and US, were assessed in 2014. The comparison below gives an overview of the assessment outcomes to date and shows that Switzerland is well placed in the midfield.

Country	RCAP report dated	Overall assessment	Scope of application	Transitional arrangements	Definition of capital	Capital buffers	Credit risk: standardised approach	Credit risk: IRB approach	Credit risk securitisation framework	Credit risk: counterparty risk	Market risk: standardised measurement method	Market risk: internal models approach	Operational risk: standardised approaches	Operational risk: advanced measurement approaches	Pillar 2 requirements	Pillar 3 disclosure requirements	Number of completed or approved adjustments to national Basel III implementation
Japan	Oct. 12	C	C	C	LC	NYA	C	C	LC	C	LC	C	C	C	C	C	5
Singapore	Mar. 13	C	C	C	C	C	LC	LC	C	C	C	C	C	C	C	C	15
Switzerland	June 13	C	C	C	LC	C	C	LC	C	C	C	C	C	C	C	LC	23
China	Sept. 13	C	C	C	C	C	LC	C	C	C	C	C	C	C	C	LC	90
Brazil	Dec. 13	C	C	C	C	LC	LC	C	C	C	C	C	C	C	LC	C	42
Australia	Mar. 14	C	C	C	LC	C	LC	C	C	C	C	C	C	C	C	C	14
Canada	June 14	C	C	C	LC	C	C	C	C	C	C	C	C	C	C	C	54
EU	Dec. 14	MNC	C	C	LC	C	LC	MNC	LC	NC	LC	C	C	C	C	C	1
US	Dec. 14	LC	C	C	LC	C	LC	LC	MNC	LC	MNC	C	NA	C	C	C	3

Assessment of components of the Basel III framework

- **C** Compliant
- **LC** Largely compliant
- **MNC** Materially non-compliant
- **NC** Non-compliant
- **NYA** Not yet assessed
- **NA** Not assessed

Progress on resolving the "too big to fail" issue

Further key measures to improve the resolvability of global systemically important banks were launched internationally in 2014. Credit Suisse Group and UBS are adjusting their group structures accordingly.

In addition to stricter prudential requirements, stronger supervision and an effective resolution mechanism for large and complex institutions, there have been calls from outside Switzerland for structural reforms. These led to regulatory initiatives in the US (Volcker Rule), the UK (Vickers Commission) and the EU (Liikanen group of experts). The proposals that emerged are currently at various stages of implementation. All of them aim to introduce legislation requiring banks to separate some of their activities. The European approach is primarily geared to improving resolvability by outsourcing deposit-taking to a subsidiary and thus keeping it apart from the more volatile and riskier forms of bank business.

The two Swiss big banks intend bundling their domestic business and systemically important functions within separate Swiss legal entities, as provided for in the Swiss emergency plan. This achieves the desired improvement in resolvability without structural measures mandated by the legislature, through the functional separation of commercial banking from riskier investment banking.

FINMA's preferred resolution strategy involves recapitalisation of the group by bailing in[21] existing liabilities. To support this strategy, the two Swiss big banks will begin issuing their medium- and long-term refinancing instruments through a non-operational holding company. This structure is the best way to ensure that the subsidiaries can maintain operations while the group is in resolution. UBS launched the transition to a holding structure in September 2014 with a share exchange offer. Credit Suisse Group already has a holding structure in place.

Total loss-absorbing capacity requirements for global systemically important banks
In November 2014, the Financial Stability Board (FSB) presented a proposal[22] to secure an appropriate level of loss-absorbing capacity for global systemically important banks in resolution, complementing the existing minimum requirements under Basel III Pillar 1.[23] A public consultation on the proposal was initiated.

Adequate loss-absorbing capacity is necessary in a going-concern scenario and in resolution for the following reasons:

– to secure a high probability that the home supervisory authority can resolve a global systemically important bank or, if this is impossible, wind it down in an orderly manner;
– to strengthen the confidence of the host supervisory authorities that a global systemically important bank can be successfully resolved or wound down in an orderly manner without adverse impact on the host countries; and
– to send a clear signal to all financial market players that a global systemically important institution is far more likely to be resolvable without taxpayer support if it meets the total loss-absorbing capacity requirements.

[21] See Glossary, p. 113.

[22] See "At a glance: the TLAC concept" chart, p. 28.

[23] For details on the three pillars of Basel III, see Glossary, p. 113.

The total loss-absorbing capacity (TLAC) concept is designed to allow for recapitalisation during resolution without government support. The TLAC requirement for global systemically important banks will apply in parallel to the existing Basel III capital requirements. The key elements of the FSB proposal are:

- the TLAC as a requirement that is to be met at all times and that corresponds conceptually to a Basel III Pillar 1 minimum requirement;
- the establishment of TLAC eligibility criteria for a financial institution's liabilities; and
- rules on the location of the TLAC within group structures.

The FSB proposals will be validated in 2015 as part of a comprehensive quantitative impact study. The TLAC standard is likely to be adopted at the end of 2015.

Recognition of cross-border resolution action

Resolution of a global systemically important bank can only be credible if resolution action in the home jurisdiction is recognised by the other jurisdictions in which the bank operates. Two elements are particularly important: cross-border recognition of legal "stays"[24] or other postponements of termination rights in financial contracts (such as derivatives); and the write-down or conversion of debt instruments issued under foreign law in accordance with the bail-in powers of the home resolution authority.

The FSB envisages the following measures in this area:

- an additional protocol[25] to the Master Agreement of the International Swaps and Derivatives Association (ISDA), under which global systemically important banks (G-SIBs) undertake to waive their termination and close-out rights in respect of cross-border transactions in a crisis and to recognise the counterparty's resolution regime;
- a commitment on the part of national authorities to make the additional protocol compulsory for market participants; and
- a requirement for national supervisory authorities to create the legal basis for cross-border recognition of resolution action.[26]

Both the TLAC concept and the removal of obstacles to successful resolution are key components of a solution to the "too big to fail" issue.

FSB Resolvability Assessment Process carried out for the first time

The Resolvability Assessment Process (RAP) for each G-SIB is carried out by senior policymakers from the authorities represented in the Crisis Management Group (CMG) concerned. The steps needed to improve resolvability are then agreed, and the results of the assessment formally communicated to the chair of the FSB. This gives the FSB an overview of the resolvability status of all 29 G-SIBs and enables it to monitor progress in resolving the "too big to fail" issue.

[24] Ordered by the authority, a stay is the postponement of an early termination right linked to the occurrence of a resolution event.

[25] In a bank initiative in October 2014, 18 G-SIBs agreed to sign the additional protocol; see ISDA media release dated 11 October 2014 (http://www2.isda.org/news/major-banks-agree-to-sign-isda-resolution-stay-protocol).

[26] See FSB press release dated 29 September 2014 (http://www.financialstabilityboard.org/press/pr_140929.htm) and the FSB consultation paper "Cross-border recognition of resolution action" (http://www.financialstabilityboard.org/publications/c_140929.pdf).

FINMA completed the RAP for UBS and Credit Suisse Group on 30 September 2014. The senior policymakers, consisting of representatives from the Board of Governors of the Federal Reserve System (the Fed), the Federal Reserve Bank of New York (New York Fed), the Federal Deposit Insurance Corporation (FDIC), the Bank of England and the Prudential Regulation Authority (PRA), confirmed the bail-in strategy set out in the FINMA position paper on resolution of G-SIBs[27] of 7 August 2013 as the preferred resolution strategy for UBS and the Credit Suisse Group. They also gave a positive overall assessment of the efforts already made by Switzerland's two big banks to improve their resolvability. The RAP will be carried out annually from now on.

Cooperation agreements for crisis situations

The RAP demonstrated that successful resolution crucially depends on clearly regulated cooperation with the members of the CMG and other relevant host supervisory authorities. This is to be achieved by means of international cooperation agreements chiefly covering information exchange and organisational matters. Rapid progress was made on drafting these agreements, as a result of the preparatory work carried out in the CMG. Conclusion of the agreements for UBS and Credit Suisse Group is planned for 2015.

[27] See FINMA position paper "Resolution of global systemically important banks" of 7 August 2013 (http://www.finma.ch/e/finma/publikationen/Documents/pos-sanierung-abwicklung-20130807-e.pdf).

At a glance: the TLAC concept

The FSB has been instructed by the G-20 to develop the total loss-absorbing capacity concept for global systemically important banks. A public consultation was launched in November 2014.

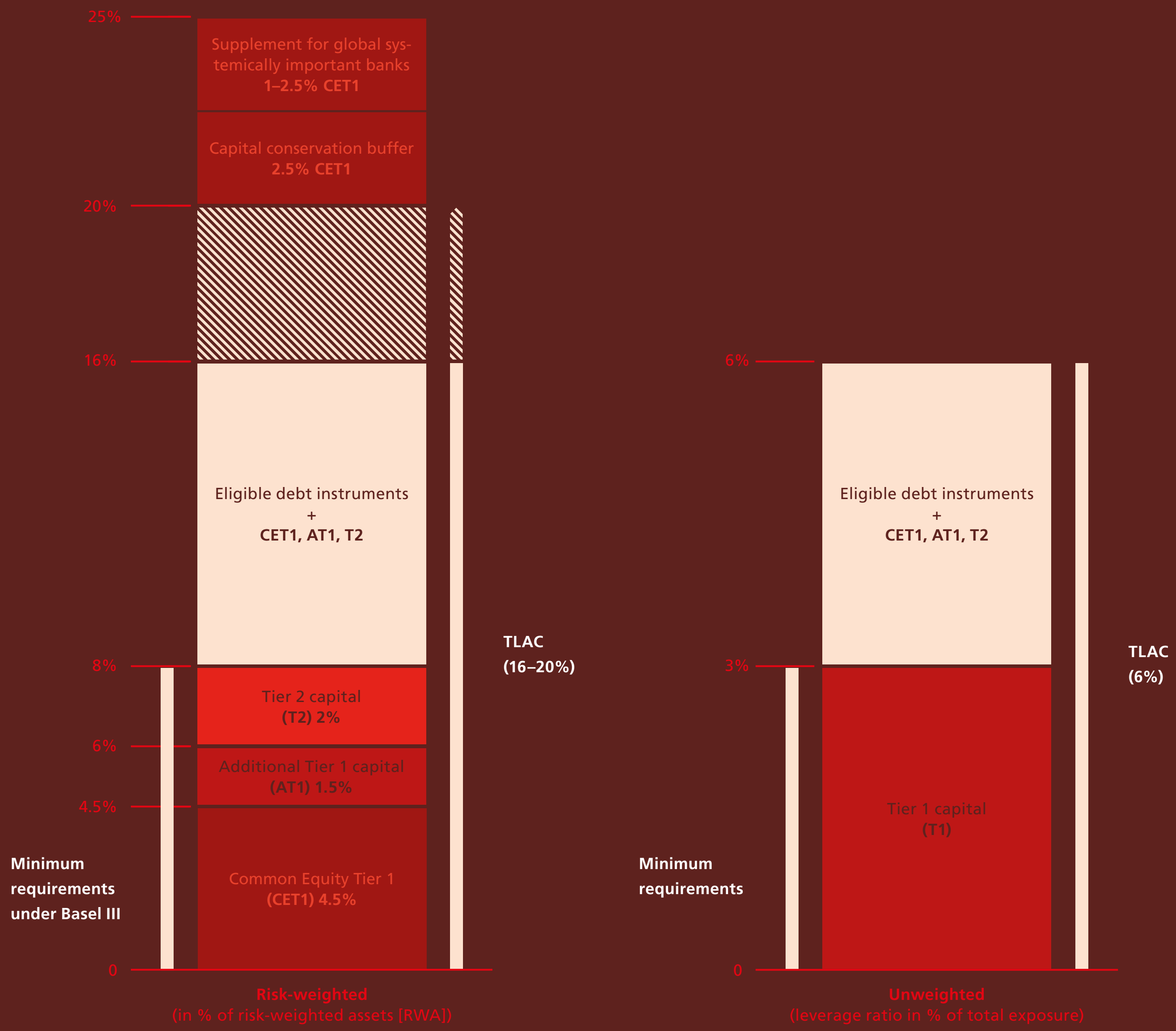
The total loss-absorbing capacity (TLAC) concept aims to facilitate the resolution of globally active banking groups without impairing financial stability or exposing taxpayers to loss. The FSB proposes that, in addition to the existing capital requirements for the going-concern scenario under the Basel III standard, G-SIBs be required to demonstrate sufficient loss-absorbing capacity at all times, corresponding to a Pillar 1 requirement. Subject to calibration once the impact assessment is complete, the TLAC is to be set at 16% to 20% of the capital requirement based on the risk-weighted assets and at 6% of the capital requirement based on the total exposure.

The chart shows the relationship between the TLAC and the capital requirements.

- The Basel III minimum of an 8% total capital ratio must be satisfied. Additional regulatory capital and debt instruments with a minimum remaining maturity of one year that are subordinated to all other creditor claims in insolvency (eligible debt instruments) can then be included in the TLAC.
- The various Basel III buffer requirements (capital preservation buffer, supplement for G-SIBs) must also be met.

The TLAC concept is scheduled for adoption by the FSB as a minimum standard at the end of 2015, with the new requirements coming into force no earlier than 2019.

Heightened requirements for the loss-bearing capacity of global systemically important banks



Enforcement policy

In 2014, FINMA published a strategic enforcement policy replacing the earlier version from 2009.

The term "enforcement" covers all the investigations, proceedings and measures undertaken by FINMA relating to violations of financial market law. It is mainly conducted in three areas: supporting supervision of authorised institutions; combating insider trading and manipulation in market supervision; and halting the activities of unauthorised financial intermediaries.

The 2009 enforcement policy

FINMA adopted its first enforcement policy in December 2009. It contained 13 principles governing FINMA's enforcement activity, including general statements on enforcement at FINMA and its internal organisation. It also contained principles for making information public and for deploying agents, as well as explanatory notes on proceedings against individuals and on cooperation with prosecutors, other administrative bodies and self-regulatory organisations.

The content of the policy was strongly influenced by the situation in 2009, when FINMA did not yet have a separate Enforcement division and enforcement functions were spread across various organisational units within the authority. Moreover, the Financial Market Supervision Act (FINMASA) had only just created new enforcement instruments such as industry bans and the power to order the disgorgement of profits. The primary aim of the policy was therefore to establish a uniform approach within FINMA and curb public expectations that the new instruments would be deployed across the board. It had little to say on the strategic orientation of enforcement.

The 2014 enforcement policy

The new enforcement policy[28] sets out how FINMA uses enforcement to achieve its supervisory objectives. To enhance the deterrent effect of enforcement, FINMA has stepped up its action against individuals for alleged serious violations of supervisory law. In particular, the policy highlights that FINMA gives high priority to combating market abuse and insider trading in the Swiss securities market, with particular emphasis on the market conduct of prudentially supervised institutions and their employees. It also stresses that FINMA takes resolute action against unlicensed financial intermediaries.

Unlike the earlier document, the enforcement policy is purely strategic in nature. Operational matters have been transferred to other vehicles. The principles governing communication are now set out in a communication policy.[29]

[28] Enforcement policy dated 25 September 2014, p. 31 (see also http://www.finma.ch/d/aktuell/Documents/ll-finanzmarktenforcement-20140925-d.pdf).

[29] See "FINMA and its national stakeholders", section on Communication policy, p. 15.

Enforcement policy

FINMA takes enforcement action as a visible means of achieving its supervisory objectives. Enforcement aims to remedy shortcomings, restore compliance with the law and exert a deterrent effect by imposing sanctions for violations of the law. Serious lapses are dealt with as a matter of priority.

- FINMA's enforcement activities support its supervision of licence holders. To promote compliance with regulatory requirements, FINMA takes targeted action to respond to serious violations of the law, specifically violations of business conduct rules.
- FINMA's enforcement activities are primarily directed against serious violations of market integrity and market manipulation performed by all participants in the Swiss securities market; where licensed market participants and their employees are concerned, FINMA also acts in response to serious market abuse in similar markets in and outside Switzerland.
- FINMA follows up indications of unauthorised business activities that do not comply with the requirements set out in financial market legislation.
- FINMA takes targeted action against individuals responsible for serious violations of supervisory law.
- FINMA initiates insolvency measures deemed necessary and appropriate in individual cases. Insolvency proceedings are mainly conducted by external liquidators appointed by FINMA.
- FINMA views the rapid provision of international cooperation as an important contribution to global efforts to ensure the proper functioning and integrity of the financial markets, particularly where market supervision and unauthorised activities are concerned.
- FINMA ensures that its dealings with prosecutors and other authorities are conducted in line with its supervisory objectives.

Business conduct of financial institutions

Proper business conduct by financial institutions is more important than ever. Corporate culture and risk management play a key role. FINMA takes action against specific instances of misconduct and holds individuals to account. Where necessary, it issues a warning as a preventive measure.

More than almost any other branch of the economy, the financial sector depends on trust. But that trust, so often taken for granted in the past, has been seriously eroded in recent years, and especially since the financial crisis of 2008. More recently, the repeatedly unacceptable business conduct of many financial institutions has contributed to the problem.

There have been numerous examples of misconduct, some directly involving Swiss banks. They include fraudulent speculation by a trader in London, interfering in the prices of securities, aiding and abetting tax offences abroad and manipulating key interest rate benchmarks and the foreign exchange market.

The causes of misconduct

The common element in all these cases is a corporate culture driven by misdirected incentives and excessively focused on profit generation and variable salary components, with client interests taking second place. Business conduct risks have been identified and managed inadequately or even ignored. Some arise through violations of codes of conduct; others may be unregulated but are still of importance to operational business.

Requirements for proper business conduct

A number of general measures are required to reduce the risk of misconduct. Senior management must lead by example. Companies must not put profits before the interests of their clients. Remuneration systems must not incentivise inappropriate conduct. Firms need to pinpoint where the dangers lie, and issue internal directives and regulations to limit them. Employees need to be trained in what is expected of them, and adherence to directives must be rigorously enforced. Compliance needs to be a strong and effective control function; misconduct must be strictly sanctioned internally.

Role of senior management

Senior management must set an example in all aspects of business conduct. Top executives have to make it absolutely clear that profiting from inappropriate or unethical conduct will not be tolerated, and especially not rewarded.

Remuneration systems must send a clear message

Incentive systems, including those for senior management, must be appropriate. They must recognise more than just performance indicators, net new money inflows or profits. Proper business conduct, identification and prudent management of risks, as well as professionally conducted internal controls must also be rewarded. Executive salaries must reflect the degree to which those who receive them have lived up to their responsibilities. They must send a clear message, not merely recognising good practice through higher salaries and variable compensation, but also curbing remuneration that is not earned.

Improved identification and sanctioning of misconduct

Technology is making misconduct increasingly risky. The greater transparency that comes with the digital age is making it easier than ever to expose misconduct and sanction it accordingly.

FINMA takes corrective action whenever it identifies specific instances of misconduct. Increasingly, it uses the freedom granted to it by law to hold individuals to account and does not hesitate to ban them from practising when they are found responsible for serious misconduct.

If FINMA establishes that a problem is not an isolated incident but a more widespread phenomenon, it issues a preventive warning to supervised institutions. Going forward, FINMA will place increasing emphasis on monitoring compliance with codes of conduct.

Responsibility lies with institutions

Ultimately, the key to avoiding over-regulation and repressive measures lies with financial institutions themselves. They must recognise that they are part of a larger system that only works if the fundamental social consensus to support it is preserved.

As expected, the number of licensed asset managers of collective investment schemes increased as the transitional periods under the revised Collective Investment Schemes Act neared their end. Changes to the licensing procedure and enhanced communication led to efficiency gains.

In 2014, the newly created Asset Management division focused primarily on improving the efficiency of the licensing procedure and stepping up communication with applicants.

Market trend: asset managers

The number of institutions supervised under the Collective Investment Schemes Act (CISA) rose again in 2014, as did the volume of assets under management.

With a few exceptions,[30] all Swiss-domiciled asset managers of collective investment schemes (CIS asset managers) are subject to FINMA supervision now that the partially revised CISA is fully in force. For the first time, asset managers of foreign collective investment schemes must also be licensed. Under the transitional periods set out in the revised CISA, they were required to report to FINMA by the end of August 2013 and then had until the end of February 2015 to apply for a licence. As a result, the number of licensed CIS asset managers had risen to 151 by the end of 2014 (2013: 119). Additional applications were received before the end of the transitional period and have since been approved by FINMA or are pending, so the number will increase further in 2015.

Assets managed by CIS asset managers also increased, to CHF 164 billion as of 31 December 2013 (previous year: CHF 147 billion). Adding in assets managed directly by fund management companies, supervised institutions managed assets totalling CHF 535 billion as of 31 December 2013.

These developments, coupled with the steady growth in asset management over recent years, have given rise to new challenges. FINMA has responded accordingly, and its newly created Asset Management division implemented a range of measures that have increased the efficiency of licensing and supervision.

Changes to the licensing procedure for CIS asset managers

In response to a number of frequently asked questions on the licensing procedure for CIS asset managers, FINMA briefed market participants on issues such as corporate governance, the expertise required of the board of directors and executive board, risk management, compliance, internal control systems and separation of functions. In addition, it communicated its expectations in those areas.

These briefings heightened understanding of the requirements, in particular compliance with the licensing conditions. Combined with the introduction of standardised application form templates, streamlined internal processes and greater communication with audit firms, lawyers and consultants, they improved the quality of applications and cut the average time taken to process new applications and amendments.

FINMA can also relax certain organisational requirements for “start-up” asset managers if it deems this appropriate given the scope and complexity of their business model. Since such asset managers need a licence before they can commence operations and thus rely on their applications being processed swiftly, they are normally dealt with within 90 days provided they meet the legal and other regulatory requirements.

Clarification of practice

One exception to the licensing requirement under CISA, adopted from the EU’s Alternative Investment Fund Managers Directive (AIFMD), applies to managers of assets that fall below the “de minimis” thresholds.[31] The wording of the relevant article in CISA has caused some uncertainty, in particular regarding whether Article 2 para. 2 let. h no. 2 CISA applies only if the collective investment schemes

[30] See Article 2 para. 2 let. h CISA.

[31] Asset managers of foreign CISs are not subject to CISA if the assets under management do not exceed the figures stated in Article 2 para. 2 let. h nos. 1 and 2 CISA and they are only open to qualified investors.

managed by the asset manager are invested solely in non-leveraged target funds or, alternatively, if the collective investment schemes managed do not in principle employ leverage. FINMA's interpretation of this provision is that it applies to all asset managers of non-leveraged collective investment schemes for qualified investors that are closed-ended for a minimum of five years where the assets under management amount to less than CHF 500 million, regardless of whether they are invested in target funds or other investments.

One of the most important licensing conditions for CISA asset managers is that they manage a collective investment scheme. When processing a number of applications, FINMA found that while the applicants managed a scheme authorised or registered under foreign law, only one investor or a group of investors that were not independent of each other had invested in it. In such cases, FINMA informed the applicants that this did not meet the definition of a collective investment scheme under CISA and instructed them either to comply with the conditions or withdraw their application.

Many of the newly licensed CIS asset managers manage foreign collective investment schemes established in offshore locations and not subject to equivalent supervision. To protect investors in such structures, FINMA ordered the applicant to provide up-to-date confirmations, verified by an audit firm, of the actual existence and scope of the assets managed in the collective investment schemes concerned.

Supervision, enforcement and regulation

Overview of banks and securities dealers

2014 saw a further narrowing of margins in interest and commission business and a modest slowdown in growth in the mortgage market. At the same time, cross-border wealth management remained beset with uncertainty because of increasing risks.

In 2014, the environment for banks and securities dealers in Switzerland remained challenging. With interest rates persistently low, interest income was practically unchanged. The debate over bank clients being tax-compliant continues unabated.

International pressure still high

International pressure on cross-border wealth management remained high in 2014, and will continue to preoccupy the financial sector and FINMA in the years to come. Germany, France, Belgium and Argentina have followed the US in launching high-profile criminal investigations, while Israel and India are threatening to do so. FINMA is keeping a close eye on these proceedings, deploying both supervision and, where necessary, enforcement[32] to ensure that banks adequately assess, manage and limit their legal and reputational risks in this area.

The programme launched in late August 2013 to resolve the tax dispute[33] between the US and Swiss banks has tied up considerable resources and generated high internal and external costs among banks that registered in category 2, even though no proceedings have yet been concluded. Banks had until the end of December 2014 to register in categories 3 and 4.

A number of institutions recorded asset outflows as they parted company with clients whose tax status was inappropriate or who had filed voluntary declarations in their countries of origin. This trend will intensify in the run-up to the planned automatic exchange of information scheduled to begin in 2017/2018.

Interest rate risks and mortgage growth

In the low interest rate environment, monitoring and managing interest rate risks remains extremely important. FINMA therefore carried out on-site supervisory reviews at various commercial banks in 2014 to gain in-depth insight into their risk management. The topic is also consistently addressed in regular discussions with bank representatives. If any issues of importance from a supervisory perspective are identified, the institutions concerned are ordered to make either organisational changes or strengthen their capital base as appropriate.

The mortgage market is currently dogged by uncertainty. The low interest rate environment that is principally driving the real estate market remains in place. However, FINMA noted a modest slowdown in mortgage growth in 2014. This is partly attributable to political factors such as the attitude towards immigration and to the implementation of regulatory measures. The Federal Council approved a further increase in the countercyclical capital buffer for residential property from 1% to 2% with effect from the end of June 2014. Following consultations with the authorities, the Swiss Bankers Association also made adjustments to its self-regulatory regime for mortgages, which essentially involved shortening the amortisation period for second tranche mortgages, increasing the amount of the initial down payment and the eligibility of second incomes to cases of joint and several liability, and introducing the lower of cost or market value for real estate evaluations.

FINMA conducted on-site supervisory reviews in 2014 focusing on investment properties, which revealed major differences in the valuations applied by banks. It also carried out mortgage stress tests of banks to highlight the potential losses in the event of a real estate crisis. These raised banks' awareness of the issue and required them to incorporate specific adverse scenarios for the property market in their risk management processes.

[32] See "Handling of US legal risks", p. 80.

[33] See FDF press release dated 30 August 2013 (http://www.efd.admin.ch/dokumentation/medieninformationen/00467/index.html?lang=en&msg-id=50049).

Decline in commission income, operating expenses stable

Despite the positive trend on the equity markets, commission income fell slightly compared with 2013. As in previous years, this was due to the high proportion of liquidity in most client portfolios. Operating expenses were stable. The number of institutions reporting losses remained high, with smaller institutions and those in the process of closing down their business particularly affected.

FINMA and structural adjustments in the banking sector

The tougher environment continues to drive the concentration process in the banking sector. FINMA oversees each market exit but does not engage in structural policy.

Consolidation continued in 2014, driven primarily by low interest rates and tighter margins, which present challenges for the banking sector. Competitive advantages based on taxation are falling away as international tax legislation becomes increasingly harmonised. Managing legal and reputational risks in cross-border financial services is also causing substantial compliance costs. In 2014, six more banks left the market, while another 16 are in the process of exiting voluntarily.

Only one new licence was granted to a banking institution, a UK-based online broker. Over the last decade, the number of banks in Switzerland has fallen by around a quarter. Nevertheless, the business prospects for those that have dealt with their legacy issues and repositioned themselves remain intact. Business volume remained constant overall in 2014 in the Swiss banking sector, which retained its leading position in global private banking.

FINMA oversees market exits

FINMA adopts a neutral approach to the ongoing shake-out in the banking sector and does not actively intervene. However, its protection mandate requires it to monitor each market exit by a bank closely. Once a decision to cease banking operations has been taken, FINMA facilitates the process of release from banking supervision. This can take place as soon as the bank no longer holds any positions requiring protection and any claims by creditors have been satisfied or secured in an equivalent manner. Early exit from supervision is also possible if the remaining clients have expressly agreed to leave their assets with the bank despite it no longer being subject to the Banking Act.

FINMA increasingly faces questions concerning individual client positions and the appropriate method of securing them. Dormant and blocked assets and expired, contested or illiquid claims require novel and practical solutions. FINMA strives to bring proceedings to a swift conclusion, exercising its supervisory powers only as long as is necessary.

Market exits since 2010

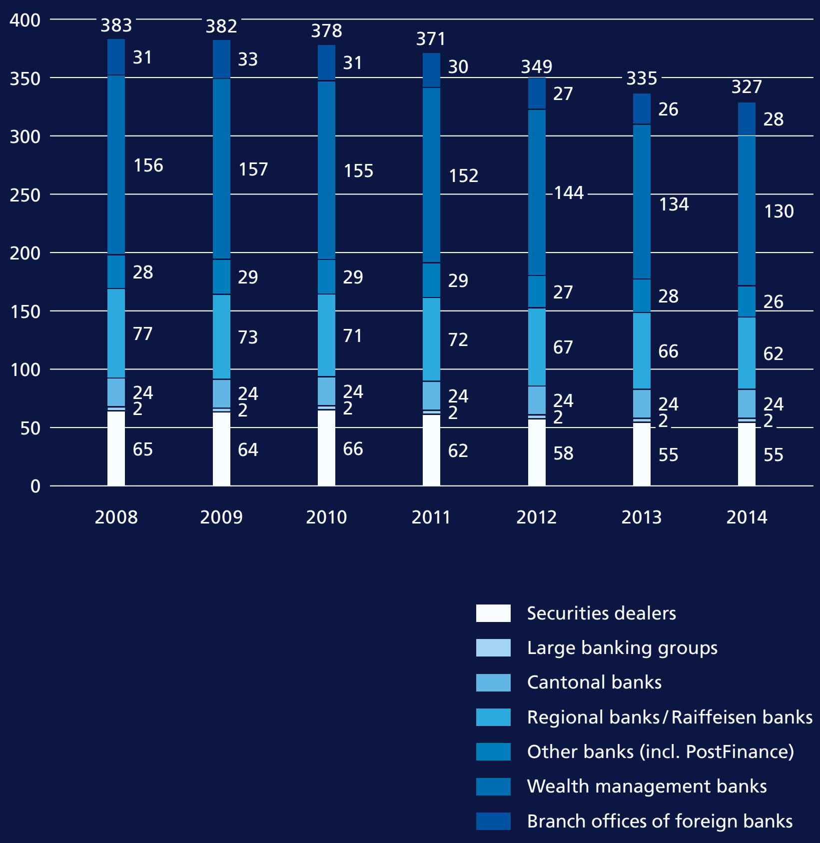
broken down by exit type, supervisory category and domestic/foreign banks

	2014		2013		2012		2011		2010	
Mergers*	**3**	**(0)**	**8**	**(6)**	**7**	**(5)**	**10**	**(3)**	**7**	**(6)**
Category 3 (of which foreign banks)	–		–		1	(0)	–		–	
Category 4 (of which foreign banks)	1	(0)	2	(2)	1	(1)	5	(1)	1	(1)
Category 5 (of which foreign banks)	2	(0)	6	(4)	5	(4)	5	(2)	6	(5)
Voluntary cessation of business requiring supervision	**5**	**(2)**	**7**	**(6)**	**9**	**(6)**	**9**	**(6)**	**3**	**(1)**
Category 3 (of which foreign banks)	–		–		–		1	(0)	–	
Category 4 (of which foreign banks)	–		1	(0)	–		–		1	(0)
Category 5 (of which foreign banks)	5	(2)	6	(6)	9	(6)	8	(6)	2	(1)
Voluntary liquidation	**3**	**(2)**	**1**	**(1)**	**3**	**(2)**	**3**	**(1)**	**2**	**(1)**
Category 3 (of which foreign banks)	–		–		–		–		–	
Category 4 (of which foreign banks)	–		–		–		–		–	
Category 5 (of which foreign banks)	3	(2)	1	(1)	3	(2)	3	(1)	2	(1)
Revocation of licences	**1**	**(0)**	**0**		**1**	**(1)**	**1**	**(0)**	**1**	**(1)**
Category 5 (of which foreign banks)	1	(0)	–		1	(1)	1	(0)	1	(1)
Total (of which foreign banks)	**12**	**(4)**	**16**	**(13)**	**20**	**(14)**	**23**	**(10)**	**13**	**(9)**

*Asset deals and mergers were included in the Annual Report 2013.

Consolidation in Swiss banking sector

Number of banks by banking group



Real estate price growth slows slightly after package of measures in 2014

Price growth slowed slightly following the increase in the countercyclical buffer and the somewhat stricter rules on amortisation and central parameters of self-regulation. However, imbalances and the factors driving them persist.

In its Annual Report 2013,[34] FINMA highlighted the accumulation of risks resulting from the particularly slow amortisation of Swiss mortgages. With the tax incentives still in place, the problem remains: many borrowers are still making too little use of their available funds to pay down their mortgages. This could lead to affordability problems and even defaults, for example if interest rates rise. An adjustment to the self-regulatory regime in July 2014 sought to better address these risks: second tranche mortgages, i.e. the part of the mortgage with a loan-to-value ratio of more than two thirds of the property's value, now have to be amortised over 15 years rather than 20. Additionally, amortisation must be at least linear: it cannot be left until the end of the 15 years.

Tighter definitions in self-regulation of the mortgage market

Some key definitions in the self-regulatory regime for the mortgage market were also tightened up. The use of interest-bearing loans as down payment by borrowers is now explicitly prohibited. Second incomes can only be factored into the assessment of financial sustainability if they are subject to joint and several liability. The lower of cost or market value of the property is used to calculate the lending ratio, with the most conservative of a number of estimates being applied.

Adequate regulation

Other countries where mortgage growth is strong have specifically tightened up their regulations, in some cases going even further than Switzerland, where there is still uncertainty over the precise effect of the measures introduced and the influence of other factors such as possible changes to immigration regulations. With this in mind, the Swiss measures therefore aim to curb the further accumulation of risks without having too abrupt an impact on property prices. Adopting a gradual approach, the Federal Council raised the countercyclical buffer in 2014 from 1% to 2% of the risk-weighted assets secured by residential properties in Switzerland. FINMA supported this move.

Slowdown in increase in property prices

The modest slowdown in the increase in property prices that began in 2013 continued in 2014, but averaged out across the country. Property prices are still higher than consumer prices and exceed the growth of the economy as a whole. Nevertheless, as the charts on pages 48 and 49 show, the trend has been more marked in the regions that in some cases recorded above-average growth rates in previous years. Mortgage growth has so far eased less than price rises, and still averages around 4% a year nationwide.

Drivers of the boom still in place

Only time will tell how sustainable this discernible slowdown in the increase in property prices is. In the past, temporary falls in real estate prices have always been followed a few quarters later by renewed accelerations. Moreover, key drivers of the boom continue to make their presence felt. In particular, the low interest rate environment is likely to remain in place in the eurozone – and therefore probably in Switzerland – for some time to come.

Risks persisting

The current easing in growth has not eliminated the historically high price levels shown in the charts on page 49 or the level of mortgage debt reported in the Annual Report 2013.[35] This is especially true of investment properties, which are more susceptible to economic developments and where interest and amortisation have to be paid for out of current rental income. If the vacancy rates in a segment or

[34] See FINMA Annual Report 2013, "Real estate market remains tight", p. 30 ff.

[35] See footnote 34.

region rise, for example due to reduced immigration or structural changes, the financial sustainability of the mortgage can be placed in jeopardy.

FINMA's room for manoeuvre

The slowdown suggests that the measures taken in 2014 are beginning to take hold. Given that risks still remain, FINMA will continue to carry out mortgage stress tests and on-site supervisory reviews of individual banks in 2015 to monitor how self-regulation is being implemented on a case-by-case basis. The results will determine whether further measures are needed. However, it is still too soon to sound the all-clear for Switzerland's real estate and mortgage market.

FINMA also carried out twice-yearly comprehensive loss potential analyses of the large banking groups to simulate the impact of a stress scenario on capital ratios. These were accompanied in 2014 by the European Central Bank stress tests, which revealed that FINMA's analysis is based on stricter assumptions and Switzerland's big banks would have passed the EU test.

Implementation of Basel III in Switzerland

FINMA's regulatory activities in 2014 were once again dominated by national implementation of the Basel III reform package, which introduces adjusted minimum international equity capital and liquidity standards for banks.

As regards equity capital, FINMA oversaw the calculation and disclosure of the leverage ratio in line with international minimum standards. This ratio adds a simple, non-risk-based correction to the risk-weighted equity capital ratios to prevent over-indebtedness in the banking sector and destabilising deleveraging processes. Meanwhile, short-term liquidity requirements were introduced in the form of the liquidity coverage ratio (LCR) which banks are also required to disclose. The revision of the Liquidity Ordinance will also enable FINMA to take short-term adjustment and remedial measures to deal with liquidity problems.

Implementation of the leverage ratio

The leverage ratio in Basel III defines unweighted capital requirements derived from a minimum ratio of a bank's Tier 1 capital to its total exposure, which comprises all of its on-balance-sheet and off-balance-sheet items. In 2014, Switzerland implemented the Basel III rules for calculating total exposure in FINMA Circular 2015/3.[36] This was drafted by a national working group, and a test reporting round involving some 40 institutions was undertaken to resolve interpretation issues at an early stage. From 2015, institutions will be required to disclose the leverage ratio in an international observation period. This also necessitated a partial revision of FINMA Circular 2008/22.[37] The leverage ratio does not become a mandatory requirement until 2018. The minimum leverage ratio will be set by the BCBS in 2017; during the observation period the requirement is 3%.

Implementation of the liquidity coverage ratio

The revision of the Liquidity Ordinance and the full revision of FINMA Circular 2013/6[38] (now FINMA Circular 2015/2[39]) incorporated the quantitative Basel III requirements on short-term liquidity into Swiss law in the form of the LCR. This ratio, which was definitively set internationally in January 2013, ensures that banks have a liquidity reserve sufficient to deal with sudden liquidity emergencies. Specifically, it requires them to hold a stock of certain high-quality liquid assets that exceeds substantial net cash outflows under a prescribed stress scenario over a 30-day period.

To allow the banking sector to adjust to the new regulation, banks began reporting to FINMA back in 2012. The LCR will be introduced in 2015 with a minimum requirement of 60%, rising progressively to 100% in 2019. Systemically important banks must satisfy the LCR in full from 2015. Disclosure becomes mandatory in the same year. In the next step, beginning in 2015, FINMA will initiate test reporting on the net stable funding ratio (NSFR), which is to be introduced as a quantitative minimum standard from 2018 in accordance with the international Basel III timetable and which will complement the LCR.

[36] See FINMA Circular 2015/3 "Leverage ratio" (http://www.finma.ch/d/regulierung/Documents/finma-rs-15-03-d.pdf, in German).

[37] See FINMA Circular 2008/22 "Disclosure – banks" (http://www.finma.ch/d/regulierung/Documents/finma-rs-08-22-d.pdf, in German).

[38] See FINMA Circular 2013/6 "Liquidity – banks" (http://www.finma.ch/d/regulierung/Documents/finma-rs-13-06-d.pdf), replaced by FINMA Circular 2015/2 "Liquidity risks – banks", see footnote 39.

[39] See FINMA Circular 2015/2 "Liquidity risks – banks" (http://www.finma.ch/d/regulierung/Documents/finma-rs-2015-02-d.pdf, in German).

Implementation based on proportionality

The principle of proportionality allows banks to decide how exactly they will implement the requirements, depending on their size and the nature, scope, complexity and risk content of their business activities. This reduction in complexity for small banks is explicitly set out in, for example, the new liquidity rules at both ordinance and FINMA circular level. FINMA Circular 2015/2 applies to qualitative and quantitative liquidity requirements. The revision incorporated specific details of how the principle is to be applied when allocating liquidity risks to business activities and a reduction in complexity for certain aspects of the LCR.

Changes in banking regulation

Major developments, particularly in international banking regulation, led to various amendments to FINMA circulars in 2014.

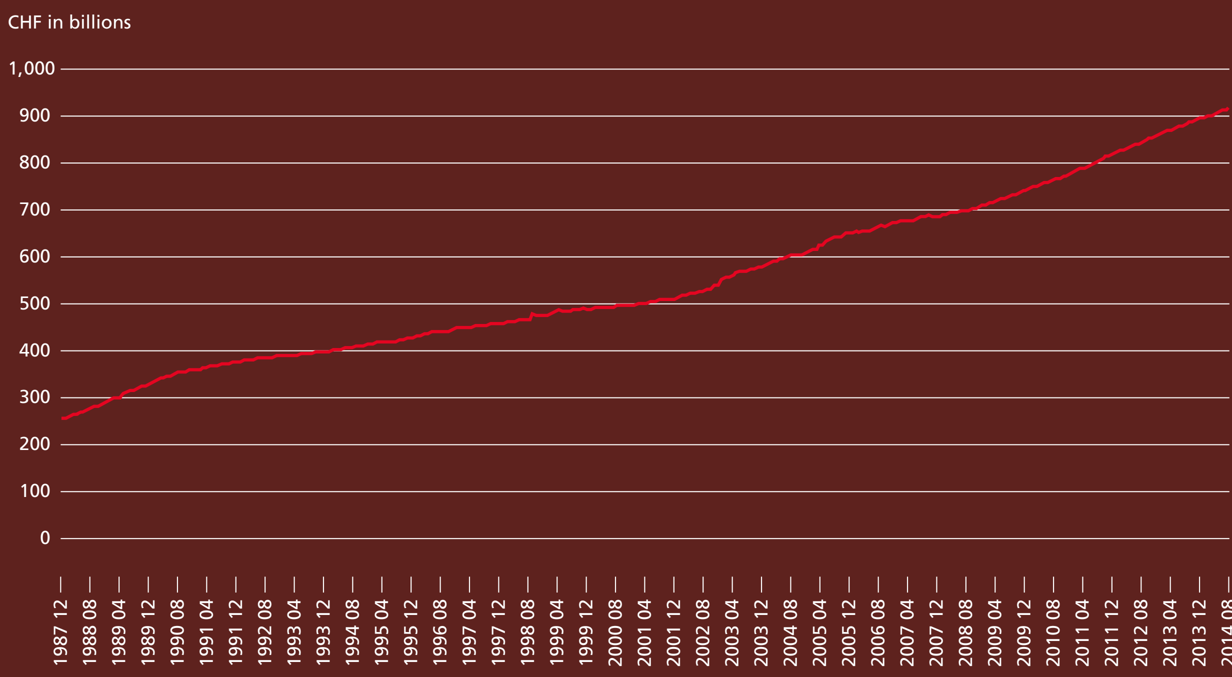
FINMA Circular	Regulatory project			Changes	In force from
	Form	Content / subject matter	Aims / reasons		
Accounting – banks (2015/1)	Full revision	Implementing provisions on accounting in accordance with the Banking Ordinance	Full revision of the Banking Ordinance based on the new accounting principles in the Swiss Code of Obligations that came into force on 1 January 2013	Fundamental overhaul of the implementing provisions	1 Jan. 2015
Liquidity risks – banks (2015/2)	Full revision	Liquidity coverage ratio (LCR) under Basel III	Partial revision of the liquidity ordinance concerning the LCR to implement the international Basel III standards	New implementing provisions on the LCR	1 Jan. 2015
Leverage ratio (2015/3)	New regulation	Calculation of the leverage ratio	Implementation of international Basel III standards	–	1 Jan. 2015
Disclosure – banks (2008/22)	Partial revision	Disclosure requirements for the leverage ratio and LCR	Implementation of international Basel III standards	New implementing provisions on disclosure of the leverage ratio and LCR	1 Jan. 2015

Further adjustments contained in the international Basel III standards are scheduled for implementation in national law over the years ahead and will enter into force between 2016 and 2019. They include revised disclosure requirements (2016), revised capital requirements related to derivatives, central counterparties and fund units (2017), and new Basel III standards on risk diversification (2019).

At a glance:
mortgage and real estate market

Real estate prices slowed in 2014 in the market regions and segments that had seen particularly high growth rates in previous years. This, however, has not been reflected in the mortgage volume. In the past, such slowdowns in price increases have often been short-lived, especially when drivers such as the current low interest rate environment have persisted. The imbalances built up due to historically high prices remain in place.

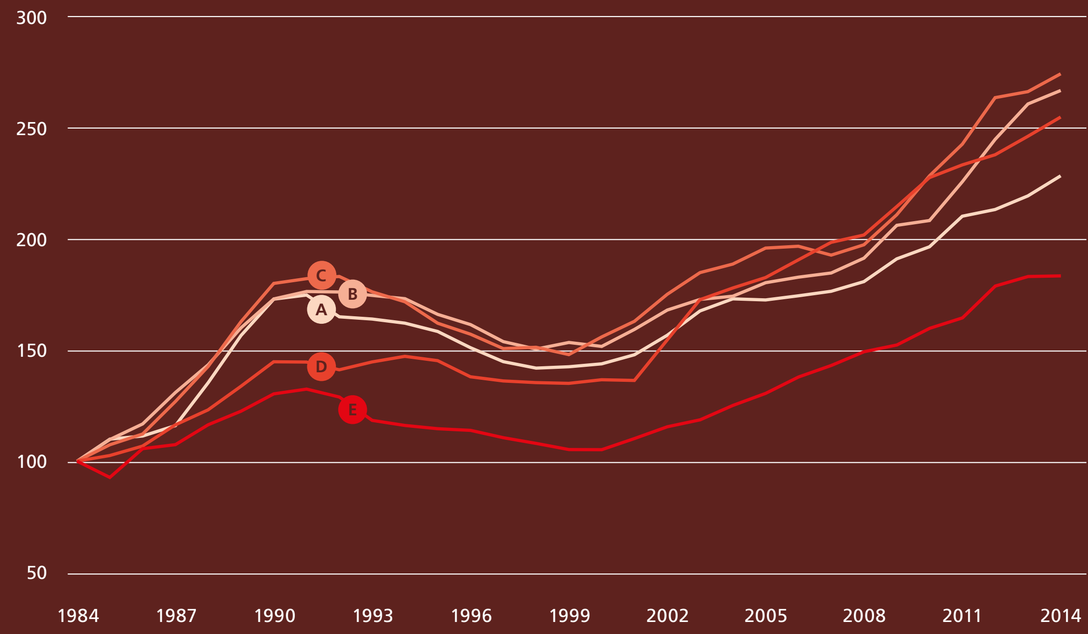
Trends in mortgage lending



Source: SNB comprehensive monthly balance sheet (at end of October 2014).

Five market regions reporting continued positive house price growth in 2014

Index: 1984 = 100

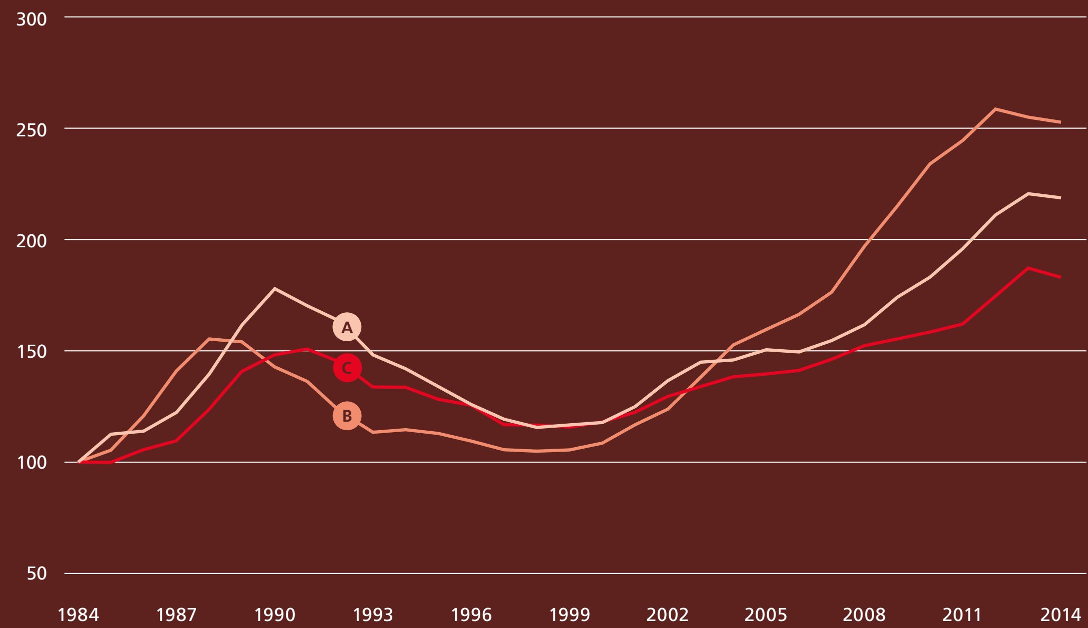


Source: FINMA, based on data from the SNB Monthly Statistical Bulletin (December 2014).

- A Northwest Switzerland
- B Eastern Switzerland
- C Central Switzerland
- D Southern Switzerland
- E Western Switzerland

Three market regions reporting negative house price growth in 2014

Index: 1984 = 100



Source: FINMA, based on data from the SNB Monthly Statistical Bulletin (December 2014).

- A Zurich
- B Lake Geneva
- C Bern

Overview of insurance companies

Insurance supervision in 2014 was largely determined by persistently low interest rates and international developments. Despite low interest rates, most insurers were adequately solvent without having to rely on temporary SST relief measures. At the international level, FINMA contributed to developing the new IAIS standards, while at the national level it concentrated on reviewing technical provisions and associated processes of the insurers.

The persistent phase of low interest rates continues to pose major challenges for the insurance sector. Life insurers, in particular, are increasingly investing in asset classes that offer higher ongoing returns. FINMA is observing this trend closely and paying special attention to the behaviour of insurers in the real estate and mortgage sectors.

Under the Financial Sector Assessment Program (FSAP)[40], the International Monetary Fund rated the stability of the Swiss insurance market, along with its regulations and supervision, as generally positive. The FSAP audit led to valuable recommendations which are being used to develop the regulatory and supervisory framework. Their implementation will meet some of the requirements placed on Swiss insurance supervision as regards achieving equivalence with EU Solvency II regulations.[41] This will lead to amendments to current supervisory instruments and the introduction of new instruments (e.g. Own Risk and Solvency Assessment [ORSA]), as well as new disclosure obligations.

In view of global developments and the planned introduction of the Insurance Capital Standard (ICS) for internationally active insurance groups (IAIG)[42], FINMA has intensified its activities across the board at international level. In particular, it has expanded its relationships with Supervisory Colleges[43] for international groups, which have developed into valuable platforms for information exchange among participating supervisory authorities.

Adequate technical provisions, which are essential when it comes to protecting policyholders in Switzerland and abroad, also form the basis for determining the total amount of tied assets that must be held. In view of the challenging market environment, FINMA has been monitoring that technical provisions are calculated correctly and that the total target amount of tied assets is covered at all times.

Life insurance: diverging trends among individual companies

Most life insurers managed to maintain a generally stable economic situation, despite further declines in interest rates in 2014. At the same time, a number of trends could be observed from one company to the next. The challenges facing management, in particular with regard to risk management, have heightened significantly in view of current market circumstances. Insurers must be able to meet their long-term obligations, some of which include high guarantees, even in very unfavourable market conditions. In such an environment, inadequate risk management processes may lead to serious balance sheet effects which could ultimately compromise the interests of policyholders. This poses particular challenges for very small life insurers who find it difficult to manage their risks adequately, not least because of their limited resources. FINMA is monitoring trends in this sector very closely.

Non-life insurance: good profitability

Four new branch offices of foreign insurance companies were approved in 2014.[44] Two small non-life insurance companies[45] were released from supervision, and the insurance portfolio of one of the companies was transferred to Swiss Re.

The results of non-life insurers were positive in 2014, with an average combined ratio[46] of 94%. Reviews of technical provisions revealed solid reserves among insurance companies across all insurance classes. With respect to solvency, non-life insurers also have a very good average SST ratio of 193%.

[40] See "Evaluation of the financial centre in Switzerland", p. 22.

[41] See Glossary, p. 115.

[42] See "FINMA and international standard-setting bodies", section on International Association of Insurance Supervisors, p. 18.

[43] See Glossary, p. 115.

[44] ERGO Insurance Group, Düsseldorf, Zurich branch office; Euler Hermes SA, Brussels, Wallisellen branch office; European Mutual Association for Nuclear Insurance, Evere (Brussels), Zug branch office; UNIQA Österreich Versicherungen AG, Vienna, Zurich branch office.

[45] NBM-Amstelland Insurance Company AG and Switzerland General Insurance Company Ltd (portfolio transfer).

[46] See Glossary, p. 113.

Supplementary health insurance: effects of new hospital financing confirmed

In 2013, FINMA reported on the consequences of the new hospital financing scheme,[47] which was introduced on 1 January 2012 and led to a fall in insurance premiums. Using current figures, FINMA reviewed the effects in detail in 2014. The cost savings announced in 2013 have been confirmed, especially the long-term effects on basic insurance plans (general ward) for all of Switzerland. In the case of semi-private and private hospital plans, some of the savings were cancelled out by inflation. FINMA required some insurers to reduce their rates again for general ward cover for all of Switzerland.

In its evaluation of technical provisions, FINMA's focus in the health insurance sector in 2014 was primarily on longevity risks and accident insurance. FINMA used on-site supervisory reviews and intensified supervision to look in depth at corporate insurance and business practices involving discounting.

Reinsurance: solid financial situation in an increasingly difficult market environment

In 2014, two new medium-size reinsurance companies were licensed.[48] One reinsurance captive[49] was released from supervision, and one reinsurer was acquired by a non-life insurer through a merger.[50]

The international market environment remains difficult. Few catastrophe claims, excess capacity in the reinsurance market and an increasing shift of capital to the securities market (for instance, catastrophe bonds) are having a generally negative effect on the reinsurance business. Nevertheless, the general financial situation of reinsurers in Switzerland can be considered solid.

The US-based National Association of Insurance Commissioners (NAIC) recognised Switzerland and six other countries as a qualified jurisdiction for reinsurance supervision. This can be seen as positive for Switzerland as a reinsurance centre because conditions are now in place whereby reinsurance companies from Switzerland can benefit from relaxed provisions and will no longer have to rely solely on their contracts with their US insurers as a means of securing their reserves.

Planned changes in reporting for insurance companies

Regulatory requirements for insurance companies have tightened in recent years. Since the financial crisis, FINMA has increased its emphasis on the information and disclosure obligations of market participants in order to assess risks more efficiently and take appropriate action at an early stage. In view of this, a project has been launched to examine the reports currently submitted to the supervisor. The goal of the project is to involve the insurance industry in revising the content and structure of supervisory reporting. The project will also address the issue of equivalence in the international environment.

[47] See FINMA Annual Report 2013, "Effects of the new hospital financing scheme", p. 56 f.

[48] Coface Re SA and Ikano Re Ltd.

[49] SRV REINSURANCE COMPANY SA.

[50] XL Insurance Switzerland Ltd acquired Vitodurum Reinsurance Company Ltd.

Review of internal models

FINMA has assessed most of the internal models used for determining solvency under the Swiss Solvency Test. In many cases, approvals were granted on a temporary basis. FINMA is working closely with insurance companies on modifications to their models.

Most insurance companies have requested permission to use an internal valuation and/or risk model. FINMA has audited and made provisional decisions on a majority of the models that have been submitted for review. However, it has identified only a few that qualify for unconditional approval. In many cases, approval[51] was granted on a temporary basis only. The companies in question have been instructed to bring their models into full compliance with supervisory requirements by the end of the set period. FINMA actively supports these companies and hosts regular meetings at which they report on their progress in addressing deficiencies.

On-site supervisory reviews

At the same time, FINMA conducts on-site supervisory reviews, during which a valuation or risk model is demonstrated, completely or in part. This enables FINMA to gather in-depth information about the model and its effectiveness, and helps to determine whether the results of the Swiss Solvency Test (SST) can be used in steering the company.

Managing modifications to the model

Under the Insurance Supervision Ordinance (ISO), important modifications to the model must be approved. FINMA has published guidelines[52] on how they must be handled. In particular, the guidelines define the concept of "materiality" and describe the process from the initial application phase to the final binding implementation.

Approval process under review

Experience has shown that auditing internal models is very time-consuming, and FINMA is therefore revising the approval process to ensure an efficient and risk-oriented use of resources.

Developing and applying an internal model is often a costly process for insurance companies because it produces only minor benefits in evaluating the risk situation when compared with an adjusted standard model. For efficiency reasons, FINMA is therefore considering whether it may be advisable to increasingly revert to a standard model.

Developments at European level

European insurance companies will also be able to use internal models in the context of Solvency II. The formal requirements for using an internal model are significantly more stringent in Europe than in Switzerland. For example, applications at European level must always include an expert opinion on a model's validity and a comparison of its calculations with those of the standard model. FINMA will continue to follow these developments closely.

[51] FINMA unconditionally approved 10% of cases, conditionally approved 50% and rejected 40%.

[52] Guidelines of 24 April 2014 on changes to the model for the SST (http://www.finma.ch/d/beaufsichtigte/versicherungen/schweizer-solvenztest/Documents/wl-modellaenderungen-sst-d.pdf, in German).

Technical provisions

Technical provisions reflect the liabilities an insurance company carries on its balance sheet as a result of its insurance contracts. They must be set in such a way that the company can meet its obligations at any time. FINMA takes a risk-based approach to managing technical provisions.

Technical provisions form the backbone of an insurance company's balance sheet. Insufficient provisions jeopardise the interests of insured persons. For this reason, the Insurance Supervision Act (ISA) states that all insurers must have adequate provisions to cover all of their business activities. The principles for determining technical provisions are laid out in the Insurance Supervision Ordinance (ISO); the details with respect to the type and scope of the technical provisions are defined in FINMA's circulars. Based on the level of required provisions, supervisory law defines how much capital (tied assets) a company must set aside to cover possible claims by policyholders. The insurance company's appointed actuary is responsible for ensuring that adequate technical provisions are in place. The appointed actuary therefore performs a key function and must be approved by FINMA.

FINMA's risk-based approach

To ensure that the 224 supervised insurance companies have adequate provisions, FINMA uses a systematic risk-based approach to supervision with various levels of audit depth and frequency, depending on the nature, size and complexity of the insurance portfolio (see also the charts on pages 54 and 55).

- The basic standardised quantitative audit is carried out by the audit companies. Here the focus is on auditing the technical provisions, which are broken down into need-based provisions (based on best estimates) and security and equalisation reserves.
- In individual cases audits mandated by FINMA examine institution-specific aspects, are significantly more intensive than the basic audit and are closely monitored by FINMA's actuaries.
- Actuarial reserve reviews involve the highest level of complexity and audit depth. They are led by FINMA's actuaries who, where necessary, use new methods to establish market-consistent valuations.

In 2014, 58 actuarial reserve reviews were carried out across all sectors (life, non-life and reinsurance). In its efforts to develop as an organisation, FINMA reviews the focus of its audits regularly and makes adjustments as required. This includes, for example, dealing with companies which are solvent but no longer writing new business, as well as auditing reserves at international level.

At a glance:
technical provisions

Technical provisions form the backbone of a company's balance sheet. Insufficient provisions can jeopardise the interests of insured persons. FINMA uses a variety of procedures to determine whether technical provisions are sufficient. It defines a range of audit depths and complexities, from standardised basic audits to actuarial reserve reviews.

FINMA's multi-level approach to auditing technical provisions

Actuarial reserve reviews

- Conducted by FINMA actuaries
- Independent estimates of selected complex portfolios
- Clarification of special questions on valuation; development of new methods where necessary

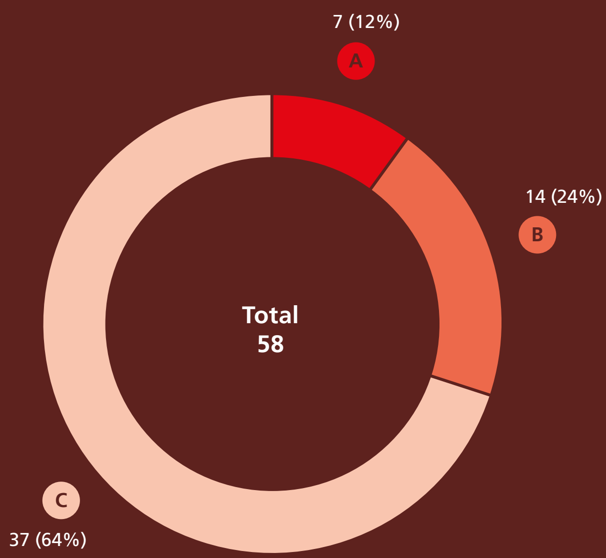
Case-related audits

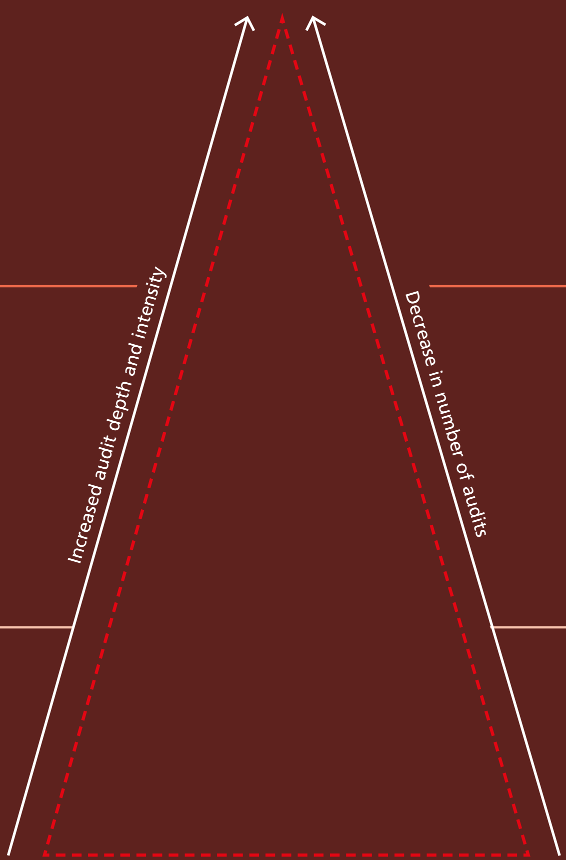
- Conducted by audit companies in collaboration with FINMA actuaries
- Independent estimates of selected multi-level portfolios
- Clarification of special questions on valuation

Quantitative basic audits

- Conducted by audit companies
- Independent estimates of selected portfolios
- Link to other supervisory topics (e.g. confirmation of total target amount of tied assets)

Number of technical provision audits in 2014





A Actuarial reserve reviews
Actuarial reserve reviews seek to access the methods, models and parameters for forming technical provisions that are largely close to the market. Interest rate models which forecast future interest rate trends are used to estimate a life insurer's obligations. FINMA ensures that insurance companies only use models that reflect the observed interest rate development. The aim is to avoid situations in which the best estimate of insurance liabilities is inadequate.

B Case-related audits
During its supervisory activities, FINMA can order that certain portfolios undergo technical provision audits. This may be triggered by irregularities identified in the quantitative basic audit. In such case-related audits, FINMA issues an audit mandate and informs the insurance company that an in-depth audit will be carried out. FINMA then informs the insurance company of the findings and, where necessary, proposes corrective measures. These may result in an increase in the company's technical provisions.

C Quantitative basic audits
The quantitative basic audit of technical provisions is conducted by the insurance company's audit firm which uses the standard audit programme for technical provisions developed by FINMA.

Overview of markets

In 2014, FINMA enhanced its risk-based supervision of the para-banking sector and financial market infrastructures, while also stepping up its contacts with audit firms. FINMA brings its expertise to bear in major regulatory projects such as the new Financial Market Infrastructure Act and the revision of the anti-money laundering legislation to implement the revised 2012 FATF recommendations.

The former Markets division was split in two in spring 2014. The new Asset Management division is chiefly responsible for licensing, authorising and supervising institutions and products under the Collective Investment Schemes Act (CISA), while the new Markets division supervises financial market infrastructures, combats money laundering and coordinates regulatory audits. Following the bundling of responsibility for supervising audit firms, FINMA's tasks in this area were transferred to the Federal Audit Oversight Authority (FAOA) on 1 January 2015.[53]

Further development of risk-based supervision in the para-banking sector

FINMA expanded its risk-based supervision of directly subordinated financial intermediaries (DSFIs) during 2014. The Markets division established a new supervisory approach designed to ensure that DSFIs satisfy the licensing conditions at all times, while also complying with and implementing their obligations under the anti-money laundering regulations.

FINMA conducted on-site supervisory reviews of self-regulatory organisations (SROs), examining the extent of their risk-based supervision of affiliated financial intermediaries. Although the fundamental elements were in place in most cases, FINMA concluded that there was still scope for all SROs to expand this approach, and issued appropriate recommendations and requirements.[54]

Financial Market Infrastructure Act

The project to create a Financial Market Infrastructure Act (FMIA), which was launched in 2012 and led by the Federal Department of Finance (FDF), reached an important milestone in September 2014 when the dispatch on the draft law was brought to Parliament. FINMA was actively involved in drawing up the proposed law, which covers both financial market infrastructures and OTC derivatives trading, contributing its expertise from a supervisory perspective.[55]

FATF recommendations

Between 2009 and 2012, the Financial Action Task Force on Money Laundering (FATF) partially revised its standards on combating money laundering and terrorist financing. Although Swiss anti-money laundering regulations are already largely in line with the new FATF standards, the revised recommendations require certain adjustments to be made. Parliament's deliberations are at an advanced stage. Work has begun on the necessary amendments to subordinate regulations, in particular revision of the FINMA Anti-Money Laundering Ordinance (AMLO-FINMA) and the Agreement on the Swiss Banks' Code of Conduct with regard to the exercise of due diligence (CDB).

[53] See "Implementation of the revised audit regime", p. 59.

[54] See "Risk-based supervision of the para-banking sector", p. 58.

[55] See "Supervision of financial market infrastructures", p. 57.

Supervision of financial market infrastructures

Financial market infrastructures were again the subject of regulatory projects and international equivalence requirements in 2014. In September, the Federal Council approved the dispatch on the Financial Market Infrastructure Act designed to bring regulation of both financial market infrastructures and derivatives trading in line with current market developments and international standards.

In its ongoing supervision of financial market infrastructures, FINMA launched measures to align the structures and organisation of central counterparties (CCPs) and central securities depositories (CSDs) with the revised international standards issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO). These represent a substantial evolution in the operating conditions for financial market infrastructures compared with the current provisions of the Banking Act and the National Bank Act, particularly when it comes to addressing the specific risks involved.

Management of liquidity and credit risks

Liquidity and credit risk management was also the subject of ongoing supervision in 2014, with special focus on effectively managing and reducing these risks with regard to interoperability of Swiss and foreign CCPs in both Switzerland and the EU.

Effectiveness of self-regulatory structures

FINMA investigated the effectiveness of self-regulation among exchange operators, focusing specifically on front-line market surveillance. As trading activities are spread over an increasing number of exchanges and are also being conducted over the counter, it is becoming increasingly difficult to obtain the data needed for market surveillance. Greater cooperation between authorities both nationally and, where appropriate, internationally will be required to maintain and enhance the effectiveness of market supervision.

Financial Market Infrastructure Act

The project launched in 2012 to create a Financial Market Infrastructure Act (FMIA) aims to regulate both infrastructures and OTC derivatives trading. One key aspect has involved comparisons with international regulatory efforts to establish what elements the new Swiss system must contain to ensure equivalence with its international counterparts, specifically parallel projects in the EU.[56] With a view to creating a uniform regulatory regime, the FMIA will cover not just OTC derivatives trading but also financial market infrastructures including exchanges, CCPs, CSDs and trade repositories. It will also set out recognition conditions for foreign financial market infrastructure providers and foreign trading participants (remote members).

FINMA played an active role in drafting the proposed law via the Federal Department of Finance's financial market infrastructures working group. A key milestone was reached on 3 September 2014, when the Federal Council submitted the dispatch on the draft law to Parliament, where it is scheduled for debate in 2015.

European Commission equivalence recognition processes

Financial market infrastructures face international equivalence requirements in their cross-border business, increasing the need for cooperation with foreign supervisory authorities. Before institutions can complete the European Securities and Markets Authority (ESMA) recognition process under the European Market Infrastructure Regulation (EMIR), the European Commission must recognise the equivalence of Swiss regulation and supervision of CCPs domiciled in Switzerland. Only then can financial market infrastructures continue to provide services in the European Union and to EU participants. ESMA submitted a positive assessment of the equivalence of Swiss regulation and supervision of CCPs to the European Commission in September 2013, but the Commission has yet to take a formal decision on the matter.

[56] European Market Infrastructure Regulation (EMIR), Central Securities Depositories Regulation (CSDR), Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments Regulation (MiFIR), see also Glossary, p. 113 f.

Risk-based supervision of the para-banking sector

International standards require supervisory authorities and self-regulatory organisations to adopt a risk-based approach to supervision.

The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental organisation whose core task is to develop international standards for combating money laundering and terrorist financing. Its revised recommendations, adopted in 2012, seek to establish risk-based supervision by the competent authorities of member states, requiring them to identify, assess and understand the risks of money laundering and terrorist financing and to develop specific and targeted measures to mitigate them. Supervisory authorities and bodies such as self-regulatory organisations must subject the financial intermediaries they oversee to a risk analysis, categorise them accordingly and, on that basis, define the supervisory instruments and intensity of supervision to be applied. The analysis may, for example, consider the activities, size and client structure of the financial intermediary or the range of products and services it offers.

Enhancing risk-based supervision of directly subordinated financial intermediaries

The Markets division has developed a new approach to implementing and enhancing the risk-based supervision of DSFIs. It is designed to ensure that they satisfy the licensing conditions at all times, while also complying with and implementing their obligations under the Anti-Money Laundering Act (AMLA) and the FINMA Anti-Money Laundering Ordinance (AMLO-FINMA). The approach consists of a two-stage risk analysis.

The first step is to categorise DSFIs on the basis of the risk inherent in their operations. The para-banking sector engages in activities that carry varying risks of money laundering. Some of these, such as money transmitting and providing services to domiciliary companies based in offshore jurisdictions or wealth management for clients in high-risk countries, involve greater levels of risk.

The second step is to review the controls put in place by the DSFI under AMLA. The annual AMLA audit plays an important role here. This supervisory instrument is implemented by external, authorised AMLA audit firms, thereby extending FINMA's reach. Using a traffic-light system, the results of the risk analysis feed into a rating process, which is run at least once a year and is used to define the degree to which supervisory action is required, specifically the need to use further instruments such as on-site supervisory reviews.

FINMA on-site supervisory reviews of self-regulatory organisations

In its on-site supervisory reviews in 2014, FINMA examined the extent to which self-regulatory organisations under AMLA are conducting risk-based supervision of affiliated financial intermediaries in accordance with the revised FATF recommendations. FINMA found that the fundamental elements of risk-based supervision were already in place at most SROs. In some cases, auditors conducted risk analyses or implemented multi-year audit cycles which allow for intermediaries at lower risk of money laundering to be audited only once every two or three years, thus freeing up resources for the SROs to supervise more intensely those where the risk is higher. However, FINMA identified potential for improving the risk-based approach at all SROs and initiated measures to address this, including more systematic risk analyses and a more graded array of supervisory instruments and intensities appropriate to the level of risk.

Implementation of the revised audit regime

On 1 January 2015, FINMA's powers of supervision over audit firms were transferred to the Federal Audit Oversight Authority. The new instruments introduced in the 2013 audit regime enabled the more efficient use of audit firms in all supervisory areas and improved the quality of information provided to the supervisory authority. Dialogue with audit firms was further intensified in 2014.

In its 2014 summer session, Parliament passed the draft law on the bundling of audit firm supervision,[57] required to transfer supervision from FINMA to the Federal Audit Oversight Authority (FAOA). FINMA retains responsibility for the content of regulatory audits. It defines their areas, depths and frequency, as well as the auditing principles and the implementing provisions regarding activities that are not compatible with an audit mandate. The transfer of responsibility took effect on 1 January 2015, with the FINMA supervisory team transferring to the FAOA. FINMA continues to enjoy a close and productive working relationship with the FAOA, and the two authorities still exchange information to coordinate their supervisory activities.

Changes to FINMA regulations

Changes to the law necessitated a full revision of the Financial Market Auditing Ordinance (FINMA-FMAO). Until 31 December 2014, this contained provisions on the licensing of audit firms and lead auditors that are now covered by the Auditor Oversight Ordinance (AOO). Wherever possible and expedient, provisions of the FINMA-FMAO were adopted into the AOO. As of 1 January 2015, key principles of auditing are now set out at ordinance level.

The full revision of the FINMA-FMAO also required minor amendments to FINMA Circular 2013/3[58] which came into effect on 1 January 2015. FINMA Circular 2013/4[59] was repealed and not replaced.

The move towards risk-based and standardised deployment of audit firms in financial market supervision adopted in 2013 is being maintained. Audit firms extend FINMA's reach, providing expertise and resources. The use of audit firms is similar in all sectors, but takes account of the differences in supervisory approach between the divisions.

The instruments (risk analysis, standard audit strategy, report template) implemented in auditing in 2013 led to greater efficiency in the use of audit firms in all supervisory areas, as well as improvements in the quality of the information provided to FINMA. Both the risk analysis that audit firms are required to compile for each supervised institution and the structured form of reporting have enhanced the efficiency and effectiveness of supervision.

Stronger direction from FINMA

FINMA remains committed to making the most efficient, effective and focused use of audit firms in its supervisory activities, while taking costs into consideration (CHF 115 million for audit year 2013). At the start of 2014, it decided to broaden the instructions, guidelines and reporting templates for audit firms and make them more consistent, while also enhancing its dialogue with firms, and in particular communicating its expectations to them more clearly. These include precise requirements for regulatory audits, which are broken down into individual audit areas and subdivided into audit fields and then audit items. In 2013, FINMA detailed the fields and items for some audit areas of insurance supervision. In 2014, this approach was extended to AMLA audits, with more precisely defined audit items related to compliance with due diligence and organisational requirements under AMLA and the FINMA Anti-Money Laundering Ordinance (AMLO-FINMA). FINMA will be setting out its expectations in other audit areas, harnessing the specific professional expertise of the private sector.

FINMA further intensified its dialogue with audit firms in 2014. It held regular exchanges with both audit firms and the Swiss Institute of Certified Accountants and Tax Consultants,[60] covering individual supervised institutions, as well as general matters.

[57] Amendments to the Auditor Oversight Act, the Financial Market Supervision Act and various financial market laws.

[58] See FINMA Circular 2013/3 "Auditing" (http://www.finma.ch/d/regulierung/Documents/finma-rs-13-03-d.pdf, in German).

[59] FINMA Circular 2013/4 "Audit firms and lead auditors" (repealed).

[60] See "FINMA and its national stakeholders", section "Key topics discussed with important stakeholder groups", p. 16.

There were annual discussions with the major audit firms on current issues in regulatory auditing, which also addressed individual challenges related to supervised institutions. Talks with the expert committees of the Swiss Institute of Certified Accountants and Tax Consultants on topics including banking audits, insurance companies and the Collective Investment Schemes Act (CISA) focused on the uniform implementation of individual audit instruments, issues of independence, and the interface between external and internal auditors.

Changes in market regulation

The Financial Market Audit Ordinance was revised to take account of changes in the law resulting from the bundling of audit firm supervision.

FINMA Ordinance / FINMA Circular	Regulatory projects and decisions on deregulation			Changes	In force from
	Form	Content / subject matter	Aims / reasons		
Financial Market Audit Ordinance (FMAO-FINMA)	Full revision	The revised FINMA-FMAO brings together definitions on the subject matter, structure and conduct of audits. It also contains rules on reporting, information requirements for supervised institutions, a ban on flat-rate compensation, and rules on the auditing of groups and conglomerates.	Following the transfer of supervision of audit firms to the Federal Audit Oversight Authority (FAOA), the FMAO-FINMA sets out the basic elements of the content, conduct and reporting of regulatory audits. The FAOA's Auditor Oversight Ordinance was also fully revised.	The FMAO-FINMA now covers only regulatory audits of institutions supervised by FINMA. Its scope has been extended to include DSFIs. The basic principles of regulatory auditing are set out in the FMAO-FINMA. Following the transfer of audit firm supervision from FINMA to the FAOA, licensing provisions are set out in the FAOA Auditor Oversight Ordinance.	1 Jan. 2015
FINMA Circular "Auditing" (2013/3)	Partial revision	The content of the circular was revised based on the provisions of the FMAO-FINMA.	The circular was amended to remove redundancies and add specific detail in some areas.	The circular sets out precise rules on issues such as incompatibility with an audit mandate. To avoid redundancies, certain margin numbers were deleted from Circular 2013/3.	1 Jan. 2015
FINMA Circular "Audit firms and lead auditors" (2013/4)	Repeal	–	–	FINMA Circular 2013/4 was repealed on 31 December 2014 and not replaced.	1 Jan. 2015

At a glance: financial market infrastructures in Switzerland

Following its 2014 technical assessment, the International Monetary Fund concluded that Switzerland's financial market infrastructures are appropriately and effectively supervised by FINMA and the Swiss National Bank.

In the Financial Sector Assessment Program (FSAP), the International Monetary Fund concluded in its "Technical Note: Oversight, Supervision, and Risk Management of Financial Market Infrastructures",[61] published in September 2014, that financial market infrastructures in Switzerland are well-developed and stable and that supervision by FINMA and the Swiss National Bank is appropriate and effective.

Processing securities transactions (economic representation)

[61] See https://www.imf.org/external/pubs/ft/scr/2014/cr14270.pdf.

Settlement systems
– SIX SIS AG

Central securities depositories (CSDs)
– SIX SIS AG

Payment systems
– SIX Interbank Clearing AG (SIC)

Settlement → Central custody → Payment

Settlement
– Delivery and booking of securities (transferring ownership)
– Normally against payment

Central custody
– Physical and electronic custody of securities/book-entry securities
– Other custody services

Payment
– Large value and retail payment system

Overview of asset management

The creation of FINMA's new Asset Management division in 2014 underscores the sector's central role in the Swiss market.

Since 1 March 2013, all asset managers of foreign as well as Swiss collective investment schemes (CISs) fall within the scope of the revised Collective Investment Schemes Act (CISA). This has heightened the focus on asset management of CISs within FINMA's supervisory activities and led to a sharp rise in the number of asset managers licensed by FINMA. FINMA also made appropriate organisational changes, with a new Asset Management division laying the foundations for even more targeted supervision of the management of CIS assets.

Implementation of the new approach to product authorisation

Since the revision of CISA and the associated Ordinance (CISO), FINMA's responsibility for Swiss open-ended CISs is limited to reviewing the elements of the fund contract that are relevant from a supervisory perspective. The issue of authorisation remains. At the end of 2013, FINMA therefore introduced a new approach designed to speed up the processing of applications by enabling applicants to submit product information in standardised form.

Cooperation agreements with foreign supervisory authorities

Under the revised CISO and CISA, from 1 March 2014 foreign CISs may only be distributed to non-qualified investors in Switzerland if a Memorandum of Understanding has been signed between FINMA and the foreign supervisory authority responsible. The aim of the new rules is to ensure that Swiss investors always receive the information they need and foreign CISs offer a level of transparency equivalent to that of Swiss providers. By 1 March 2014, agreements to this effect had been concluded with the supervisory authorities of all jurisdictions from which CISs are currently distributed in Switzerland.[62]

Developments in self-regulation

Industry associations also addressed the subject of CISs during 2014, submitting three self-regulatory documents to FINMA for recognition as a minimum standard. In May, FINMA recognised two sets of guidelines issued by the Swiss Funds & Asset Management Association SFAMA: the Distribution Guidelines covering all distributors that distribute CISs to non-qualified investors or foreign CISs to qualified investors, and the Transparency Guidelines on duties regarding the charging and use of fees and costs. Distributors' audit firms are also now required to examine compliance with the duty to report as specified in Article 16 CISA. Meanwhile, the Transparency Guidelines set out the fund providers' duties to provide information to investors and the conditions for granting retrocessions to distributors or rebates to investors.

In October 2014, FINMA recognised the SFAMA Code of Conduct, which combines the previous conduct rules for the Swiss funds industry and CIS asset managers into a single document. The primary aim here was to implement the substantially broader due diligence and disclosure obligations applying to licence holders and their agents following the changes to the legislation. The SFAMA Code of Conduct also requires CISA institutions to apply a salary and remuneration policy that is appropriate to the principle of proportionality, their size and their risk profile. The new Code of Conduct came into force on 1 January 2015, with a one-year transitional period for the necessary implementation work to be completed.

The Swiss Bankers Association (SBA) and the Swiss Structured Products Association (SSPA) also submitted their Guidelines on Informing Investors about Structured Products to FINMA for recognition. These set out minimum requirements for simplified pro-

[62] See also "Memorandums of understanding at national and international level", p. 110.

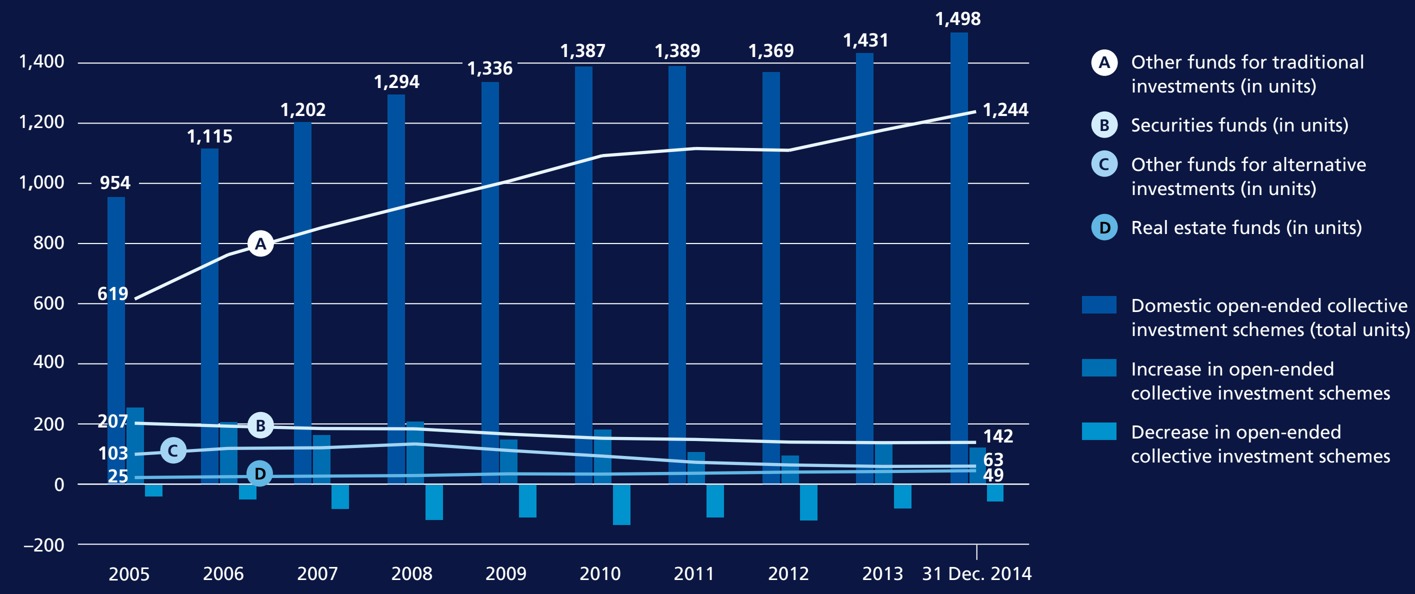
spectuses of structured products. One key change is that information is now divided into three main categories: product description, prospects for profits and losses, and significant risks for investors. The aim is to ensure standardisation of simplified prospectuses. The guidelines were recognised by FINMA in August 2014 and come into force on 1 March 2015. FINMA also amended its FAQs[63] on structured products to reflect the new self-regulatory regime.

[63] See FAQs "Structured products" (http://www.finma.ch/e/faq/beaufsichtigte/pages/faq-strukturierte-produkte.aspx).

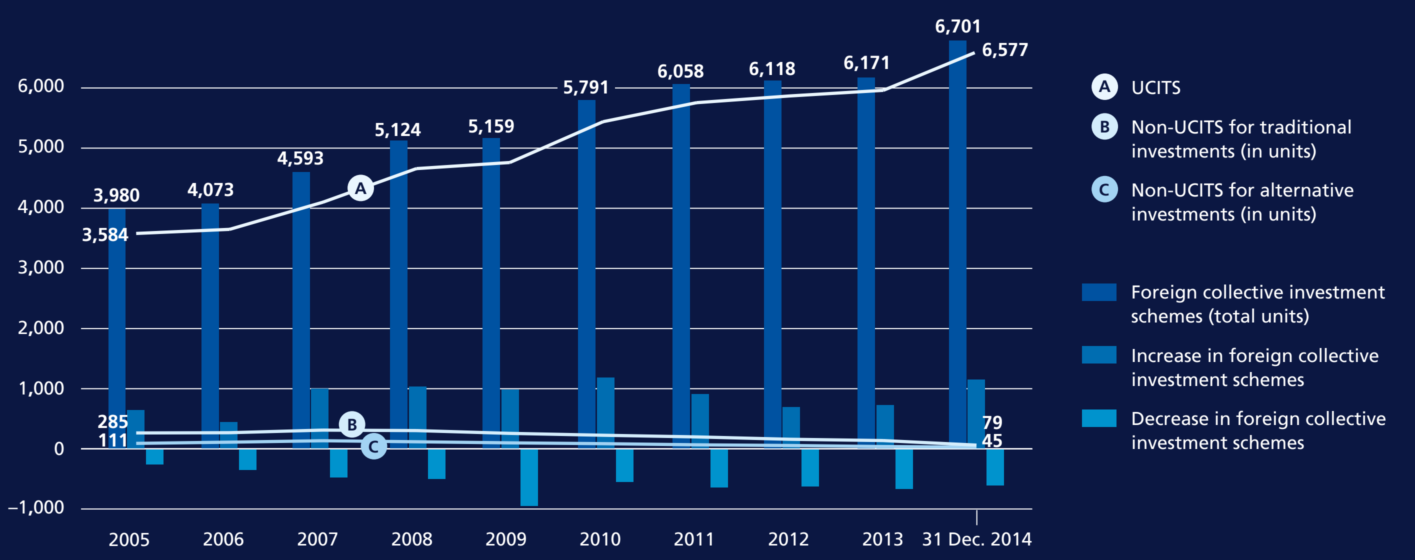
Product trends

The number of open-ended collective investment schemes authorised in Switzerland grew once again in 2014. Other funds for traditional investments remain the most popular category, but there was also a slight increase in securities funds and real estate funds. Among foreign funds authorised for distribution to non-qualified investors in or from Switzerland, UCITS[64] also gained ground in 2014.

Growth in the number of domestic open-ended collective investment schemes between 2005 and 2014 according to fund type



Growth in the number of foreign collective investment schemes between 2005 and 2014



[64] See Glossary, p. 115.

Practice in the authorisation of collective investment schemes

Exchange-traded funds no longer exclusively pursue passive investment strategies. FINMA therefore amended its practice during 2014 to permit authorisation of actively managed exchange-traded funds. It also removed a legal uncertainty relating to private investment structures.

FINMA first authorised exchange-traded funds (ETFs) in Switzerland in 2000, but amended its authorisation practice in 2014 to reflect new market structures. With ETFs, a market participant, known as the market maker, is responsible for setting the price daily within a defined spread between the bid and ask price. This ensures liquidity, and the indicative net asset value of the ETF is calculated continually. Conventionally, ETFs pursue a passive investment strategy that replicates an index, while actively managed investment funds seek to outperform a benchmark.

In 2014, FINMA received its first application for authorisation to distribute an actively managed investment fund as an ETF in or from Switzerland. One consequence of active management is that the ETF's asset manager must continually adjust the portfolio to achieve the desired outperformance relative to the index. From a supervisory perspective, transparency of the portfolio and monitoring of compliance with the spread by SIX Swiss Exchange are particularly important. FINMA worked with SIX Swiss Exchange to develop appropriate listing rules, paving the way for the first actively managed ETF to be authorised for distribution in or from Switzerland.

Private investment structures can be qualified investors

Since the partially revised CISA came into force, high-net-worth individuals (HNWIs) must provide their custodian bank with a written confirmation if they wish to be regarded as qualified investors. However, such HNWIs typically make their investments, for example in CISs, via private structures that normally take the form of trusts or companies. From the asset perspective, such structures and the HNWIs behind them can be regarded as a single entity.

The partial revision of the Act created a legal uncertainty as to whether this written declaration must be provided by the private investment structure or the beneficial owner. In consultation with the Federal Department of Finance, during the revision of the Financial Market Auditing Ordinance (FMAO-FINMA) and Auditor Oversight Ordinance (AOO), FINMA proposed that the CISO text be amended to reflect existing practice. From 1 January 2015, either the HNWI or a private investment structure created for them (and possibly additional HNWIs) can supply the written declaration. However, the HNWIs behind the investment structure must meet the requirements for qualified investors set out in Article 6 CISO.

Further development of supervisory instruments

FINMA extended its supervision of asset management in 2014. For the first time, it carried out on-site supervisory reviews of institutions subject to the Collective Investment Schemes Act and made greater use of case-related audits.

When supervising institutions and products under CISA, FINMA has a wide range of supervisory instruments at its disposal, such as annual regulatory audit reports, risk analyses, standard audit strategies, data gathering and on-site supervisory reviews. It can also carry out case-related audits, which use the same instruments but potentially for a different purpose and with a different intensity or depth, depending on the situation.

Regular supervision

In 2014, FINMA conducted on-site supervisory reviews at 13 CISA institutions, including fund management companies, CIS asset managers, custodian banks and representatives of foreign CISs, focusing on issues such as delegation of tasks, safe keeping of investments and risk management. The reviews took between one and five days, depending on their focus and the size of the institution concerned. Experience to date has been positive, with FINMA gaining in-depth insight into the given institution's organisation, processes and controls. On-site supervisory reviews are also an opportunity to discuss matters in detail with those responsible.

Case-related audits

FINMA further expanded its supervision of CISA institutions during 2014. Case-related audits assess important aspects of an audit, but unlike regular supervisory instruments they normally go into greater depth than on-site supervisory reviews. They are carried out when, for example:

- a supervised institution is affected by an exceptional event;
- specialists are used because expert knowledge is required; or
- the quality of the audit firm carrying out the ordinary audit is in doubt.

In addition to its own audits, FINMA can obtain an independent opinion from an appointed auditor, which may be either an audit firm or an expert in the area concerned.

Case-related audits were carried out at one CISA institution in 2014, centring on loyalty and due diligence obligations, instruction, monitoring and control obligations related to delegated tasks, and conflicts of interest.

Full revision of the FINMA Collective Investment Schemes Ordinance

The FINMA Collective Investment Schemes Ordinance was completely revised to simplify it, give it a clearer structure and bring it in line with changes to national and international regulation. The new version came into force on 1 January 2015.

The partially revised CISA and CISO came into force on 1 March 2013, introducing new requirements concerning the management, safe keeping and distribution of CISs. Meanwhile, the European Union's Alternative Investment Fund Managers Directive (AIFMD), which came into force at the start of July 2011, harmonises the regulation of asset managers of alternative investment funds and subjects them to prudential supervision. These regulatory developments in Switzerland and the EU necessitated amendments to the FINMA Collective Investment Schemes Ordinance (CISO-FINMA), which contains implementing provisions that flesh out the CISA and CISO requirements.

Aims of the full revision

CISO-FINMA was completely reworked in response to market developments, the objectives being to enhance investor protection in Switzerland through targeted implementing principles and meet the requirements for preserving access to EU markets for Swiss market participants.

Amendments related to derivative financial instruments

Some definitions and terms related to derivative financial instruments were removed from the updated version since they are already commonly known, and further regulatory simplifications were achieved by integrating FINMA Circular 2008/37[65] into the ordinance.

In addition to the formal changes, the revision also brought the risk assessment process for derivative financial instruments into line with European regulations, allowing for the standardised application of commitment approaches I and II[66] and the model approach[67] and making them easier to understand.

When certain investment techniques or OTC derivatives are used, collateral is normally provided to CISs to reduce the associated risks. However, it only offers the desired protection if it is of high quality, diversified, available in the quantity required and therefore capable of being realised. The revised CISO-FINMA ensures this by setting out principles similar to those in European law.[68]

Provisions on master-feeder structures

Master-feeder structures were introduced to the Swiss market on 1 March 2013 when the revised CISO came into force. Under certain conditions, a CIS (feeder fund) can depart from the generally applicable rules on risk diversification by investing at least 85% of its assets in one other CIS (master fund). CISO-FINMA now contains implementing provisions to Article 73a CISO, such as duties of disclosure within master-feeder structures and rules governing the dissolution and liquidation of such structures.

[65] FINMA Circular 2008/37 "Delegation by fund management companies / SICAVs" (repealed).

[66] See Glossary, p. 113.

[67] See Glossary, p. 114.

[68] See the "Guidelines on ETFs and other UCITS issues" published by ESMA on 18 December 2012 (http://www.esma.europa.eu/system/files/2012-832en_guidelines_on_etfs_and_other_ucits_issues.pdf).

Adjustments relating to institutions

As regards institutions, a significant change is that CISO-FINMA now sets out basic principles for delegation rather than providing a detailed list of eligible tasks. One of the principal aims is to allow individual institutions greater flexibility in designing their business models. The risk management principles for fund management companies, SICAVs and CIS asset managers are also defined more precisely, specifying the separation of tasks within a licence holder's operations and the minimum contents for internal guidelines. There are also new requirements for custodian banks concerning internal guidelines on the organisation of the control function with respect to fund management companies.

Changes in the regulation of asset management

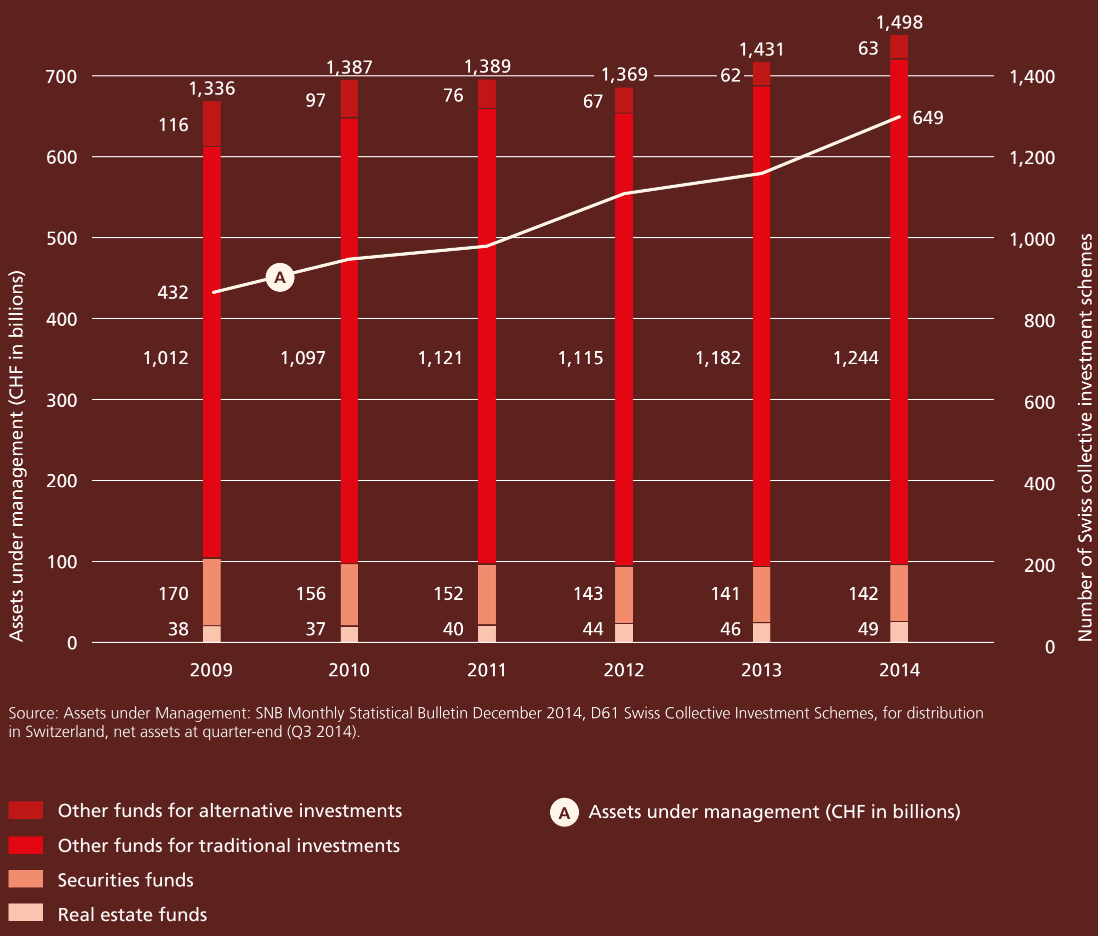
The partial revision of the Collective Investment Schemes Act and associated Ordinance necessitated adjustments to subordinate regulations. The FINMA Collective Investment Schemes Ordinance was amended to reflect national and international regulatory changes. FINMA Circular 2008/37 "Delegation by fund management companies / SICAVs" was repealed with effect from 31 December 2014.

FINMA Ordinance / FINMA Circular	Regulatory projects and decisions on deregulation			Changes	In force from
	Form	Content / subject matter	Aims / reasons		
FINMA Collective Investment Schemes Ordinance (CISO-FINMA)	Full revision	CISO-FINMA sets out specifics of the provisions in CISA and CISO and contains technical implementing provisions. In particular, it lays down requirements concerning the use of derivatives, management of collateral, master-feeder structures, the delegation of tasks, risk management, accounting and auditing.	The partial revisions of CISA and CISO came into force on 1 March 2013. They introduced new requirements concerning the management, safe keeping and distribution of CISs. CISO-FINMA was revised to take account of these revisions and changes to international standards. It is designed to enhance investor protection and preserve access to EU markets.	–	1 Jan. 2015
FINMA Circular "Delegation by fund management companies / SICAVs" (2008/37)	Repeal	The "Delegation by fund management companies / SICAVs" Circular sets out principles for the outsourcing of tasks by fund management companies and SICAVs.	The full revision of CISO-FINMA incorporated a principles-based approach to the delegation of tasks. Circular 2008/37 was therefore repealed when CISO-FINMA came into force.	Repealed	31 Dec. 2014

At a glance: the Swiss fund market

Switzerland's fund market grew once again in 2014, with a further increase in both assets under management and the number of licensed collective investment scheme asset managers.

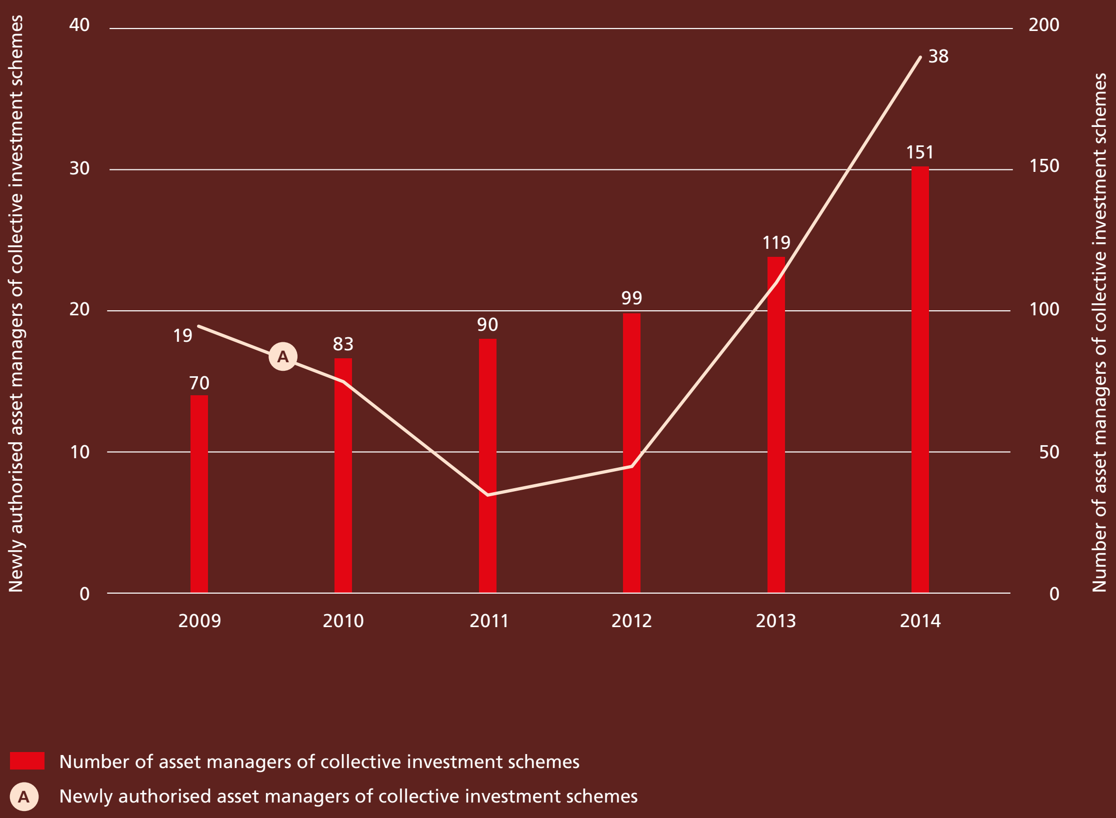
Number of Swiss open-ended collective investment schemes and assets under management



Source: Assets under Management: SNB Monthly Statistical Bulletin December 2014, D61 Swiss Collective Investment Schemes, for distribution in Switzerland, net assets at quarter-end (Q3 2014).

The trend of recent years continued in 2014. Assets under management in collective investment schemes rose once again, as did the number of authorised open-ended collective investment schemes. Other funds for traditional investments continued to enjoy the strongest growth.

Number and growth trend in Swiss-based asset managers of collective investment schemes



More licences were granted to CIS asset managers, partly due to changes in the legislation. The revised CISA that came into force on 1 March 2013 introduced a general licensing requirement for CIS asset managers. Existing asset managers have until the end of February 2015 to submit a licence application to FINMA.

Overview of enforcement

In 2014, the Enforcement division conducted several large-scale parallel investigations into cases with an international element. The number of proceedings against ultimate management and employees of licence holders, in particular those focusing on business conduct, also increased.

FINMA's enforcement activities involve sanctioning violations of supervisory law and restoring compliance under procedural law.[69] FINMA takes enforcement action against licence holders and their employees when the normal supervisory process does not suffice to deal with identified or suspected shortcomings. To protect investors, FINMA also acts against companies engaged in unauthorised activity in the Swiss financial market.

Organisational aspects
FINMA's enforcement activities are directed by the Enforcement Committee (ENA),[70] which comprises members of the FINMA Executive Board. ENA has delegated to the Enforcement division the tasks of initiating proceedings regarding suspected unauthorised activities, ordering precautionary measures, issuing certain rulings related to insolvency and international cooperation and, most recently, issuing final rulings on unauthorised activities.

Focus on business conduct
The main focus of attention in 2014 was the business conduct of licence holders, especially in relation to market conduct, combating money laundering and due diligence obligations in cross-border services. FINMA identified a number of violations of supervisory law, initiated corrective measures, ordered restrictions on business operations and imposed further measures such as disgorging of profits, ordering industry and activity bans and publishing rulings issued. The unauthorised activities identified mostly involved accepting deposits from the public without the requisite licence, illegal securities trading and illegal financial intermediation. FINMA ordered the liquidation or bankruptcy of the companies in question and the preventive publication of measures taken such as cease and desist orders. The insolvency of Banque Privée Espírito Santo SA domiciled in Pully proved especially challenging.[71]

Complex cases
The Enforcement division conducted a number of large-scale proceedings against institutions in 2014, increasingly with an international element. These included BNP Paribas (Suisse),[72] the Coop Bank because of market manipulation[73] and UBS because of manipulation of foreign exchange trading.[74] Some required extensive investigations of trading data to bring the abuse to light.

Cases of companies operating without a licence also have a growing international component, often involving global structures and holding companies abroad. The structures are increasingly diverse and multi-layered, sometimes including the legal activities of group companies. The division's work was, nonetheless, of uniformly high quality, despite having to conduct wide-ranging investigations into several major cases at the same time, sometimes with tight deadlines.

More proceedings against ultimate management and employees of licence holders
In 2014, FINMA conducted more separate proceedings against ultimate management and employees of licence holders owing to serious violations of supervisory law. Individuals were found responsible for misconduct either by engaging in manipulation themselves or by failing to comply with their due diligence and supervision obligations. Such proceedings are inevitably complex. For example, an industry ban may have a lasting adverse impact on the financial well-being of the individuals concerned, which makes them less likely to cooperate. FINMA's stricter approach is also reflected in its new enforcement policy, under which it takes targeted action against individuals responsible for serious violations of supervisory law.[75]

[69] See "Enforcement policy", p. 30.

[70] See "Board of Directors and Executive Board", section on Enforcement Committee, p. 92.

[71] See "Resolution proceedings at banks", section on Insolvency proceedings, p. 85.

[72] See "Handling of US legal risks", section on Investigations and proceedings related to US legal risks, p. 81.

[73] See "Manipulation of exchange rates", section on Examples taken from enforcement practice, p. 83.

[74] See "Manipulation of exchange rates", p. 82.

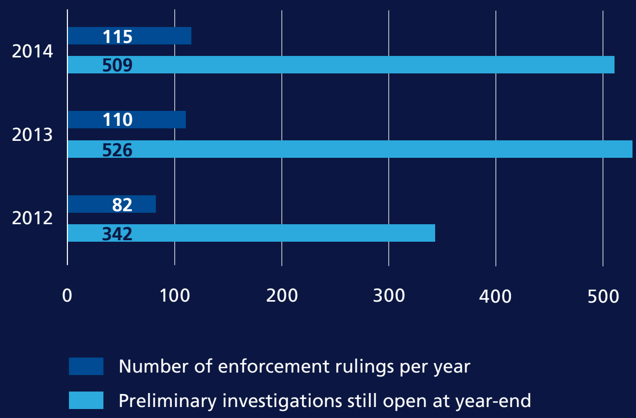
[75] See "Enforcement policy", p. 30.

Increasing importance of international cooperation

As cases involving both licence holders and unauthorised companies become more and more international, cooperation with authorities abroad plays a major role. FINMA also receives a steadily growing number of requests for assistance from foreign financial market supervisory authorities and Swiss prosecutors. In 2014, many of these again related to market supervision (insider trading, market manipulation, failure to comply with disclosure obligations) or individuals' compliance with business conduct requirements. The growing complexity of market supervision was reflected in the requests FINMA received.

Selected enforcement figures

Preliminary investigations and enforcement rulings[76]



Although the Enforcement division conducted some exceptionally wide-ranging and complex proceedings in 2014 and had to deal with numerous appeals and an increased number of individual proceedings against employees of licence holders, the overall number of enforcement rulings remained practically unchanged compared with the previous year.

[76] Discrepancies arising from the introduction of a new system were corrected retrospectively.

Enforcement statistics[77]

	Outstanding as of 1 Jan. 2014	Proceedings initiated	Proceedings concluded	Outstanding as of 31 Dec. 2014
Enforcement proceedings	**42**	**62**	**59**	**45**
– in supervision of institutions	15	20	21	14
– conducted separately against employees of licence holders	12	26	16	22
– due to unauthorised activity	15	16	22	9
Preliminary investigations	**526**	**765**	**782**	**509**
Liquidations	**28**	**16**	**6**	**38**
– of licence holders	3	3	1	5
– of companies engaged in unauthorised activities	25	13	5	33
Bankruptcies	**110**	**30**	**29**	**111**
– involving licence holders	10	3	1	12
– of companies engaged in unauthorised activities	100	27	28	99
Recognition of foreign insolvency measures	**12**	**7**	**1**	**18**
– insolvency measures	12	7	1	18
– involving unauthorised activities	0	0	0	0
Recognition of foreign resolution measures	**2**	**0**	**0**	**2**
– involving licence holders	2	0	0	2
– involving unauthorised activities	0	0	0	0
Appeal proceedings	**41**	**40**	**46**	**35**
– Federal Administrative Court	37	29	38	28
– Federal Supreme Court	4	11	8	7

[77] Discrepancies arising from the introduction of a new system were corrected retrospectively.

Cases involving unauthorised activities by companies and individuals

EXAMPLE

Do crowdfunding models need a licence?

Crowdfunding is a way of obtaining funding from a large number of donors. Project developers use a crowdfunding platform to publicise their projects and seek funding for it. If platform operators collect the funds for their projects in their own accounts in order to pass them on to the developer should the project come about, the operator may be subject to licensing requirements under the banking and anti-money laundering legislation. If project developers seek to obtain funding through third-party capital (in particular loans), this may also require a licence under the Banking Act. To clarify the legal situation in this area, FINMA published a fact sheet on crowdfunding at the end of 2014.[78]

EXAMPLE

Investing in trees

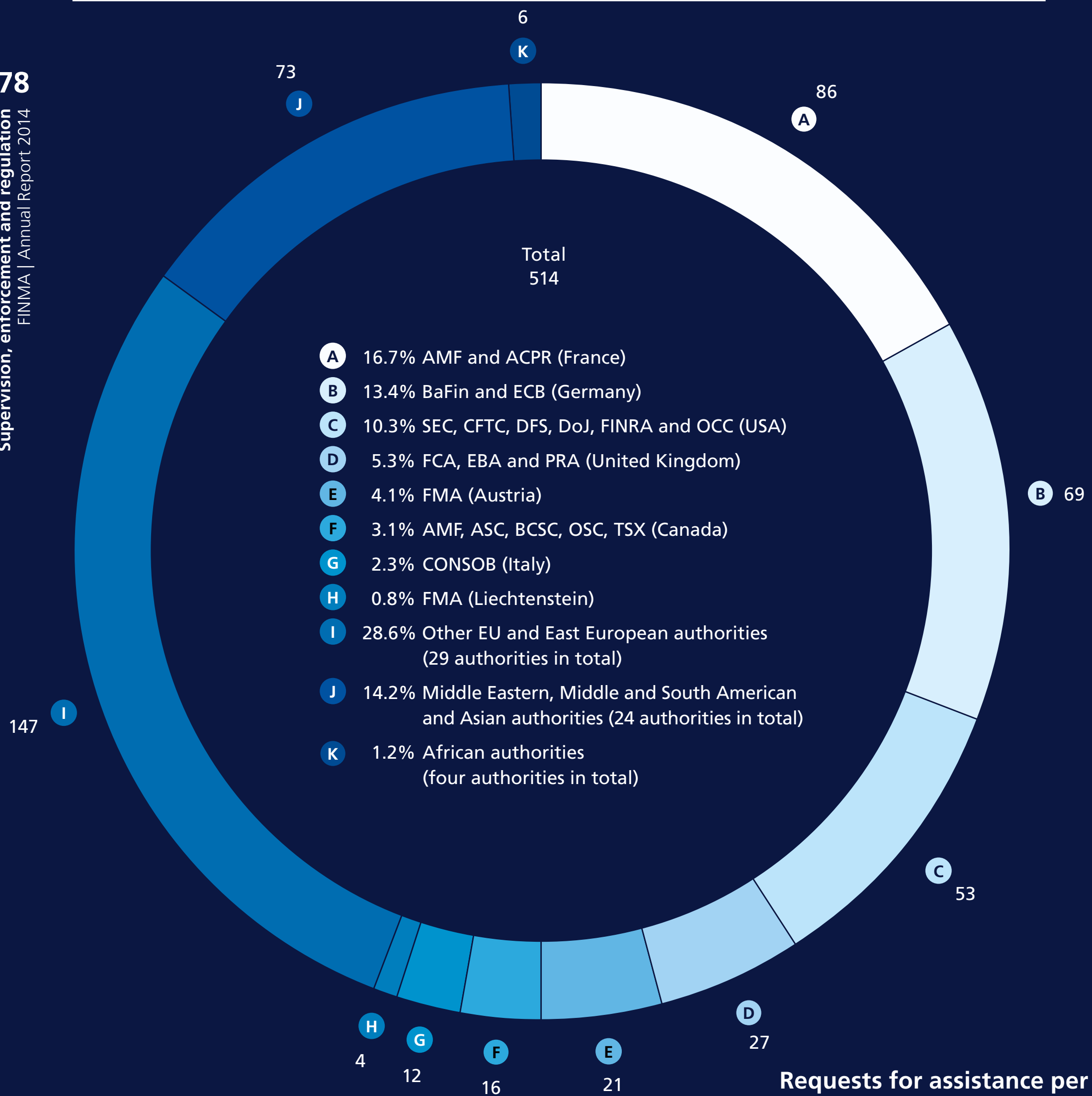
FINMA also conducted preliminary investigations into a number of companies offering the opportunity to invest in trees (such as tropical wood, olive trees or the like) and promising investors income from the sale of the timber or harvests. Depending on how they are structured, such business models may require a licence under the Banking Act. In two cases, FINMA had to initiate enforcement proceedings for illegal banking activity and appointed an investigating agent to examine one of the companies concerned. In other cases, the suspicion of unauthorised activity could not be substantiated, and proceedings were therefore discontinued.

[78] See FINMA fact sheet "Crowdfunding" dated 1 December 2014 (http://www.finma.ch/e/finma/publikationen/faktenblaetter/documents/fb-crowdfunding-e.pdf).

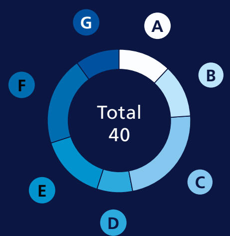
International cooperation

FINMA receives the third largest number of requests for international assistance of any authority worldwide. In the majority of cases it is able to comply with them, though the Swiss "client procedure", which leads to delays and requires those affected to be informed in advance, has prompted criticism.

Incoming requests by authority

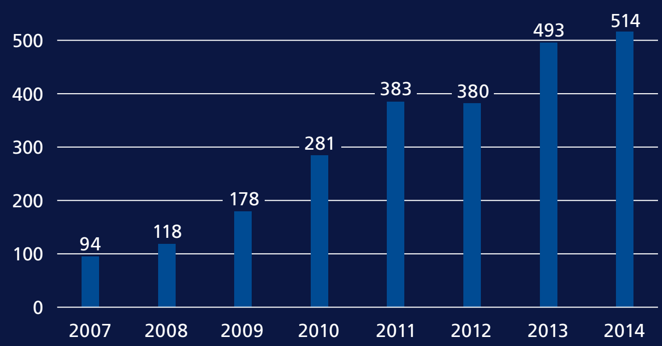


Outgoing requests by authority



- A 12% AMF and ACPR (France)
- B 12% BaFin (Germany)
- C 23% FCA (United Kingdom)
- D 8% FMA (Austria)
- E 15% FMA (Liechtenstein)
- F 20% Other EU and East European authorities (seven authorities in total)
- G 10% Middle Eastern, Middle and South American and Asian authorities (four authorities in total)

Requests for assistance per year (2007–2014)[79]



[79] The figures for 2009 and 2010 were updated since the previous annual reports.

International cooperation statistics

In its ongoing supervision, FINMA works closely with foreign supervisory authorities. Providing those authorities with adequate assistance is central to the fulfilment of FINMA's statutory mandate and is increasingly key to preserving access to foreign markets for Swiss market participants.

Incoming requests

In 2014, FINMA received 514 requests for assistance from 80 foreign supervisory authorities. Of these, 362 concerned financial intermediaries and 2,240 related to clients. A total of 352 client procedures have been initiated to date and 25 rulings issued. Eleven of those rulings were the subject of appeals to the Federal Administrative Court, which has so far ruled in FINMA's favour in eight cases, with three still outstanding at the end of 2014. FINMA is in third place worldwide in terms of the number of requests received, reflecting the importance of Switzerland as a private banking centre. The statistics compiled each year by IOSCO confirm that FINMA handles the majority of requests to the satisfaction of the foreign supervisory authorities, despite criticism that prior information is given to the parties involved.

Outgoing requests

FINMA submitted 40 requests for assistance to foreign supervisory authorities in 2014, including nine to the UK's FCA, six to Liechtenstein's FMA, five to Germany's BaFin, four to France's AMF, one to the French authority ACPR, and 15 to 12 supervisory authorities in other countries.

Handling of US legal risks

In recent years, FINMA conducted a number of enforcement proceedings on the handling of US legal risks by licence holders, individual members of ultimate management and employees. Where necessary, it ordered measures to restore compliance with the law.

The US tax dispute underscored how important it is for licence holders – whether they are global with offices in the US, or active and domiciled only in Switzerland – to handle their legal risks in the US correctly. US rules are complex and sometimes apply even when the activities involved take place outside US territory. The sanctions threatened by US authorities in response to violations of US law can cause serious problems for the institution or financial group concerned.

Important issue for FINMA

FINMA has closely monitored the sharp rise in legal risks in the US in recent years. It has actively assisted authorised institutions and drawn their attention to the risks. In October 2010, FINMA formulated specific expectations for licence holders' management of legal risks in the US, and emphasised that this would also be reflected in its future enforcement practice.

FINMA also ordered some 20 institutions to conduct an independent internal review of their US asset management business, mainly where there were indications that the institution had a greater risk exposure in the US.

Enforcement proceedings against 12 institutions

The investigations revealed a range of issues. Some banks were deliberately adopting a very risky approach to untaxed US client assets; others were failing to exercise the necessary caution. FINMA initiated enforcement proceedings in a total of 12 cases in which there were indications that management of US legal risks was inadequate under Swiss supervisory law. Nine of these were concluded with a ruling ordering corrective measures. Two were discontinued as the institution concerned surrendered its banking licence, while one was still open at the end of 2014.

Proceedings and business conduct letters against individuals

In line with its prudential approach to supervision, FINMA concentrates on addressing shortcomings identified at licence holders. Enforcement proceedings against individuals are initiated only where there are clear indications that they are personally responsible for violations. Additionally, industry bans do not apply to circumstances that occurred prior to 1 January 2009. FINMA initiated proceedings and ordered measures against ultimate management and employees of licence holders in a small number of cases related to violations of supervisory law in the US business. FINMA would also initiate proceedings against other individuals should they wish to assume a position at a licence holder that is subject to business conduct requirements.

Investigations and proceedings related to US legal risks

EXAMPLE

Cross-border business with private US clients

Between 2011 and 2012, FINMA conducted enforcement proceedings against Credit Suisse. It found that Credit Suisse had violated its duty to identify, limit and monitor the legal and reputational risks involved in the US business, exposing itself and the entire financial group, as well as its employees, to unduly high risks in the US. This also constituted a violation of the business conduct requirements for institutions under Swiss supervisory law. FINMA ordered a number of corrective measures that the bank has since implemented. On 20 May 2014, Credit Suisse announced that it had reached an agreement on the matter with various US authorities. The agreement with the US Department of Justice involved a guilty plea. The bank was required to pay a total of USD 2.8 billion to the US authorities.

EXAMPLE

Transactions with business partners subject to US sanctions

In 2014, FINMA conducted enforcement proceedings against BNP Paribas (Suisse) SA. It concluded that the bank had seriously violated its duty to identify, limit and monitor the risks associated with transactions involving business partners in countries subject to US sanctions, thereby exposing itself to unduly high legal and reputational risks and violating requirements for adequate organisation under Swiss supervisory law. FINMA therefore imposed various corrective measures on BNP Paribas (Suisse) SA. On 1 July 2014, the French parent company BNP Paribas (Group) announced an agreement on the matter with various US authorities. This involved a guilty plea by the group and payment of a fine totalling USD 8.9 billion to various US authorities.

Manipulation of exchange rates

FINMA conducted enforcement proceedings in which it identified foreign exchange manipulation at UBS. It imposed a number of measures, including ordering the bank to disgorge a total of CHF 134 million. FINMA also investigated misconduct in foreign exchange trading at three other Swiss banks.

In summer 2013, reports began to surface alleging market manipulation and secret agreements between banks related to foreign exchange trading. At the end of September 2013, UBS informed FINMA that a targeted internal inquiry had revealed possible indications of manipulation. One month later, FINMA launched an investigation into a number of Swiss financial institutions. This turned into a major operation, owing to the complexity of the material, the large quantities of data involved and the need for close coordination with authorities in Switzerland and abroad.

Proceedings against UBS

In October 2013, FINMA initiated enforcement proceedings against UBS on the grounds of suspected market abuse in foreign exchange trading. It appointed an investigating agent to examine market conduct at the Foreign Exchange division of the UBS Investment Bank in Zurich, as well as to scrutinise the internal management processes and internal organisation of controls. FINMA concluded its proceedings with a ruling on 11 November 2014.

FINMA found that over an extended period of time the bank's employees in Opfikon (Zurich) had repeatedly at least attempted to manipulate foreign exchange benchmarks. In addition, employees acted against the interests of their clients. Risk management, controls and compliance in foreign exchange trading were inadequate. FINMA therefore concluded that UBS had severely violated the requirements for proper business conduct by breaching internal control requirements and through the misconduct manifested by its employees.

FINMA ordered UBS to disgorge illegally generated profits and avoided losses amounting to CHF 134 million. It also imposed restrictions on variable compensation at the Investment Bank and measures to improve organisation and risk management in foreign exchange trading. In addition to the steps taken by UBS itself, FINMA ordered a first set of immediate actions in April 2014. Finally, FINMA appointed a third party to check the full implementation of the measures.

FINMA also initiated enforcement proceedings to establish the extent to which 11 members of staff and managers at UBS were responsible for the manipulation.

Supervisory measures against other banks

FINMA also investigated misconduct in foreign exchange trading at three other Swiss banks. In each case, it found that various traders had communicated with other institutions. However, the investigations did not find any evidence of market abuse, and no enforcement proceedings were initiated. The banks in question had already taken corrective measures themselves, whose implementation FINMA is monitoring.

Examples taken from enforcement practice

EXAMPLE

Supervisory law sanctions against market manipulation

Market manipulation was a focal point of FINMA's market supervision in 2014. It conducted a number of investigations into issuers trading in their own equity securities. FINMA Newsletter 52 (2013)[80] sets out FINMA's expectations on what it considers a good standard to maintain in trading own equity securities to make liquidity available under the new market manipulation provisions. In the case of the Coop Bank, FINMA issued a ruling that the bank had manipulated its share price by making selective, targeted support purchases over a number of years. The bank was ordered to take measures. Other significant investigations related to cases of order book manipulation involving entering large numbers of orders, thereby sending misleading signals and manipulating the market.

EXAMPLE

Industry and activity bans against ultimate management and employees of authorised institutions

FINMA issued an order banning the former CEO of the Coop Bank, who was principally responsible for market manipulation by the institution, from acting in a management capacity for three years. Industry and activity bans resulting from market manipulation were also ordered against a member of ultimate management and two client advisors at another bank. FINMA also intervened against ultimate management and employees of authorised institutions in other areas, imposing industry bans on two senior bank employees who had seriously violated their due diligence and supervision obligations owing to a business relationship with an external asset manager. A further ban was imposed on a former member of ultimate management who had been personally responsible for a bank's cross-border client business model that violated due diligence obligations.

[80] See FINMA Newsletter 52 (2013) "Trading own equity securities with the purpose of ensuring liquidity under the new provisions on market manipulation" (http://www.finma.ch/e/finma/publikationen/Lists/ListMitteilungen/Attachments/64/finma-mitteilung-52-2013-e.pdf).

Resolution proceedings at banks

FINMA intervenes when banks are at risk of insolvency, ordering resolution proceedings where there is a reasonable prospect of their success. This requires the bank to draw up a resolution plan.

Where the legal conditions are met, FINMA is responsible for ordering insolvency measures for banks. It can impose protective measures, carry out resolution or order bankruptcy.

Considerations when ordering resolution

FINMA is not obliged to wait for a formal declaration of insolvency, but can intervene when a bank is at risk. There is no clearly defined, objective point at which this occurs. FINMA has substantial discretion in assessing if or when the threat of insolvency exists and what measures it will impose. The issues it considers include whether, on the basis of specific and documented circumstances, grounds for insolvency are more likely than not to occur soon, and will lead to major problems that the bank will not be able to remediate itself. Finally, the benefits of FINMA intervention must outweigh any disadvantages for the bank's position that may result from an insolvency measure.

Resolution proceedings can also only be initiated if resolution is practicable within the necessary time frame and, once completed, the bank will be able to comply with the licensing and other legal conditions. There must be the prospect that creditors will be better positioned as a result of resolution than they would be in bankruptcy. Another consideration is that resolution proceedings under the Banking Act can normally be carried out rather quickly.

Consequences of resolution measures

When resolution proceedings are initiated, FINMA immediately makes this public and appoints a resolution agent, or assumes this function itself. The resolution agent's primary task is to draw up a resolution plan setting out the basic elements of the resolution, the future capital structure and the business model of the bank. The minimum requirements for the plan's content are set out in detail in the law, and are high overall. If action needs to be taken that affects the rights of those involved, in particular conversion of debt into equity or reductions of claims, the rights of equity investors and creditors of contingent convertible capital are considered first. Only if those measures do not suffice may other creditors' rights be curtailed.

Once FINMA has approved the resolution plan, the measures take effect immediately. If the information required for the plan is available in advance, resolution proceedings can also be initiated.

Insolvency proceedings

EXAMPLE

Progress in major bankruptcy proceedings

The most important settlement in the Lehman Brothers Finance AG bankruptcy proceedings took effect on 21 March 2014. Further settlements substantially reduced the number of outstanding appeals against the schedule of claims. The second instalment payment for the claims admitted was made in June and the third in December. In the bankruptcy of Aston Bank SA, the Ticino public prosecutor's office released a large sum of money to the bankrupt estate in April 2014. In a ruling dated 30 April 2014, FINMA again appointed an external bankruptcy liquidator. The protected deposits were paid out by September 2014, and finalisation of the schedule of claims also began.

EXAMPLE

Bankruptcy proceedings against Banque Privée Espírito Santo SA

In July 2014, in response to increasing financial problems at the Portuguese Espírito Santo Group, the Swiss-domiciled Banque Privée Espírito Santo SA sold off significant parts of its client portfolios to CBH Compagnie Bancaire Helvétique SA and entered voluntary liquidation. These measures substantially reduced its total assets and number of clients. FINMA subsequently found that the bank was over-indebted and initiated bankruptcy proceedings against it on 19 September 2014. One of the first steps taken by the appointed bankruptcy liquidator was to repay the privileged deposits. It was not necessary to involve the depositor protection scheme. Enforcement proceedings initiated by FINMA against the bank at the end of August 2014 relating to distribution of the group's financial products were still under way at the end of 2014.

At a glance: enforcement measures

The Financial Market Supervision Act has granted FINMA greater enforcement powers than its predecessor authorities. The charts below show how FINMA uses these powers.

Licence holders

Measures against licence holders

- A Appointment of an investigating agent (I)
- B Declaratory ruling / reprimand
- C Special conditions and restrictions (II)
- D Implementation overseen by third parties (III)
- E Suspension and removal of members of ultimate management (IV)
- F Disgorgement of profits
- G Licence withdrawals
- H Liquidation / bankruptcy proceedings
- I Publication of rulings

Measures imposed against ultimate management, owners and employees

- A Declaratory ruling / reprimand
- B Suspension and removal (V)
- C Industry and activity bans (VI)
- D Disgorgement of profits

Unauthorised activities

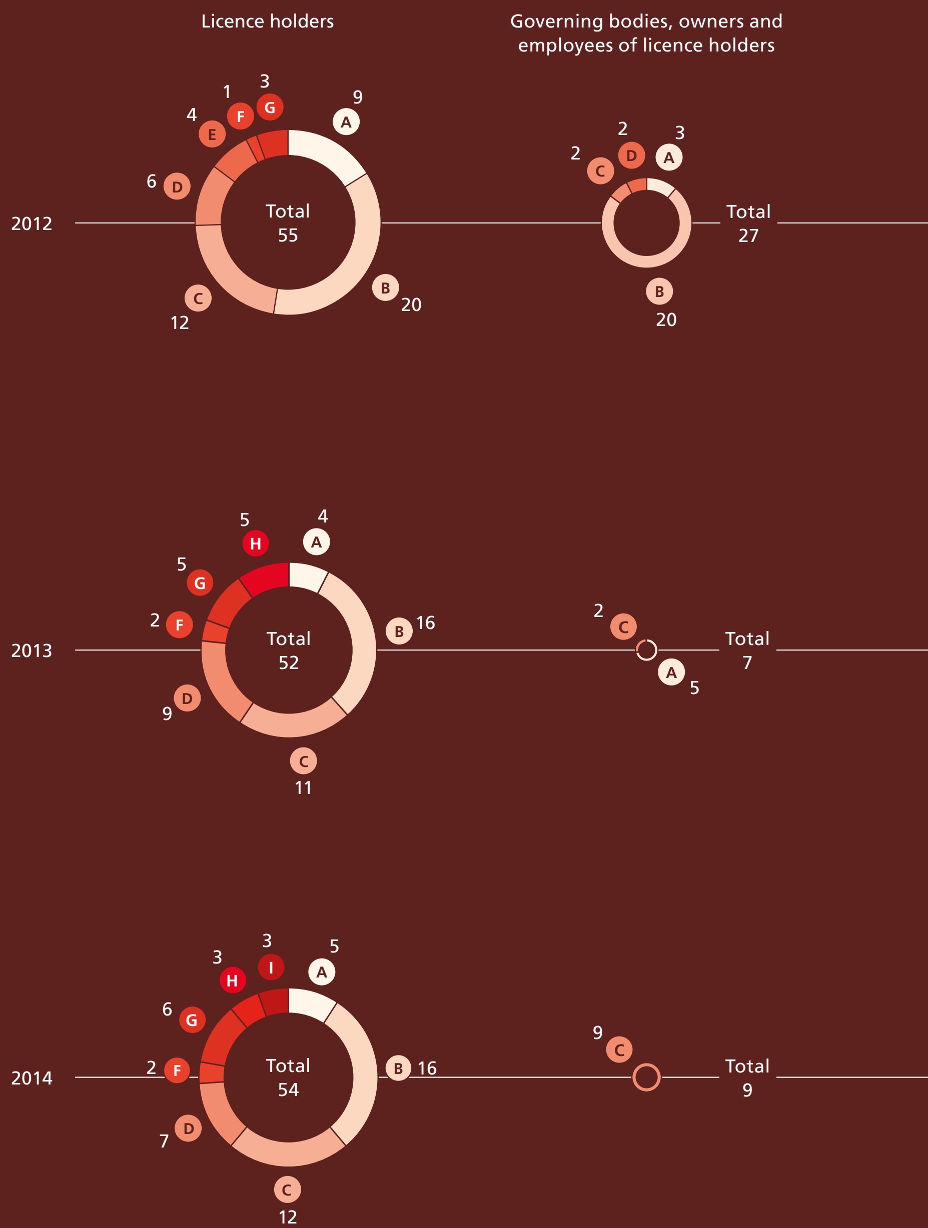
Measures against companies

- A Appointment of an investigating agent (I)
- B Declaration of unauthorised activities
- C Liquidation
- D Bankruptcy proceedings (VII)

Measures against individuals

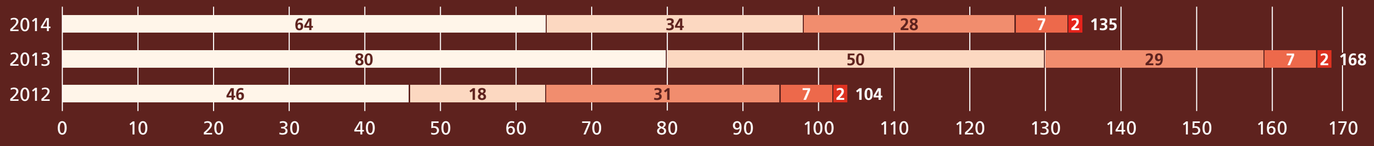
- A Declaration of involvement in unauthorised activities
- B Cease and desist orders
- C Publication of rulings (VIII)

Type and number of measures: licence holders



Number of addressees of rulings according to sector and parties affected

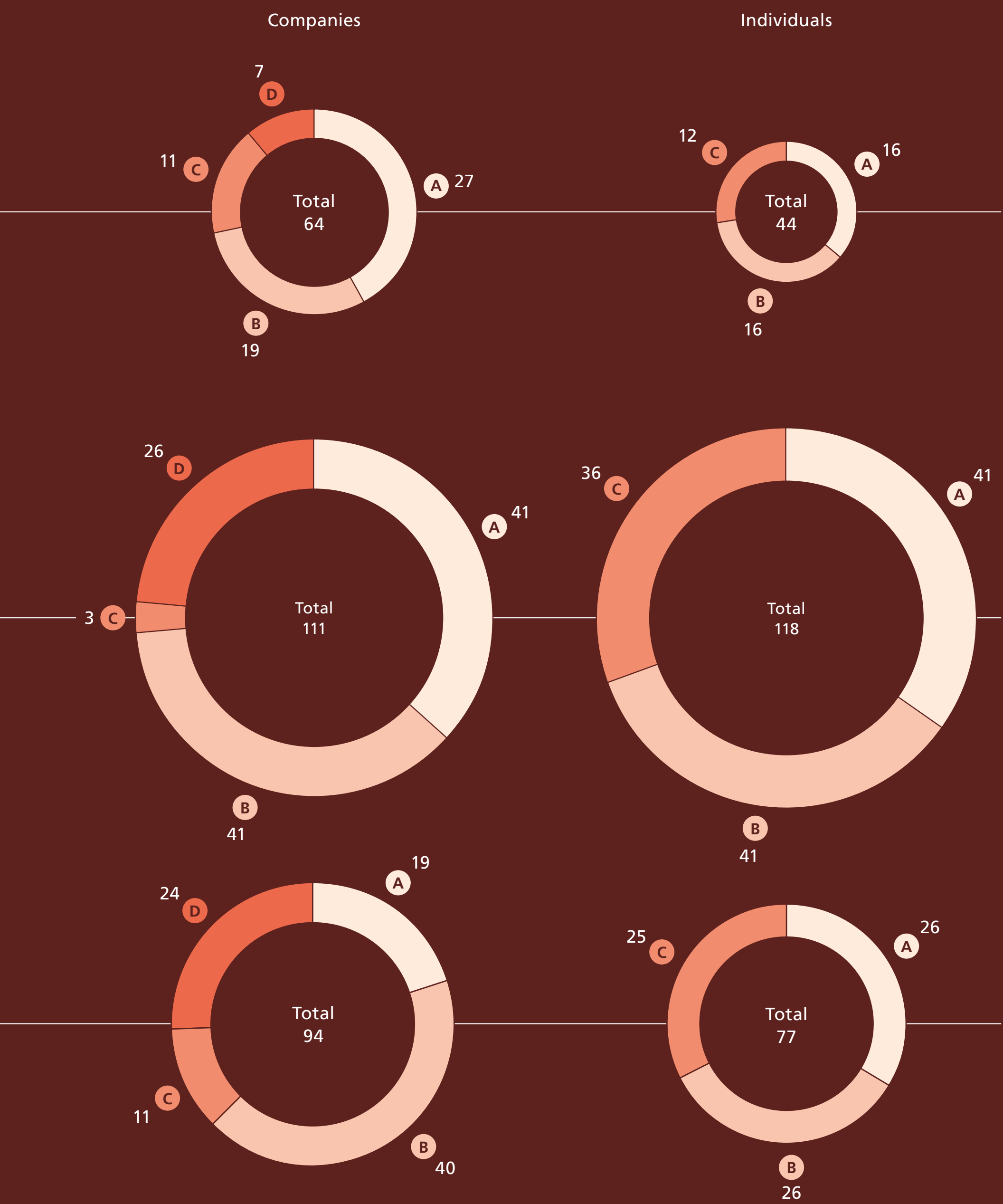
In terms of authorised and unauthorised activities, FINMA issues enforcement rulings against companies and individuals that are subject to financial market supervision. This chart shows the category and number of enforcement proceedings between 2012 and 2014.



Companies engaged in unauthorised activities
Governing body members engaged in unauthorised activities
Licence holders
Governing bodies, owners and employees of licence holders
Legal entities subject to market supervision
Individuals subject to market supervision

Although the number of rulings was almost the same as in 2013,[81] the number of addressees issued with rulings involving authorised and unauthorised activities was lower in 2014. On average, there were fewer rulings directed at a number of parties (legal entities and individuals) simultaneously.

Type and number of measures: unauthorised activities



Method of counting

The number of parties affected is counted (and not the number of rulings). Where different types of measures were applied cumulatively against an individual/entity, e.g. an organisational measure to restore compliance with the law under Article 31 FINMASA, as well as an order to disgorge profits, these have been counted separately. However, when a number of measures of the same type were applied to a single individual/entity, e.g. a number of measures to restore compliance with the law, these have been counted only once.

Individual categories

- I Ordered as a precautionary measure during an investigation
- II Rulings based on Article 31 FINMASA
- III In a final ruling on adopting controls to implement special conditions
- IV Number of licence holders affected
- V Number of ultimate management members affected, 17 of which were involved in the same proceedings in 2012
- VI Under Article 33 FINMASA and Article 35*a* SESTA
- VII If initiation of bankruptcy proceedings followed a liquidation already ordered by FINMA, this was not counted again in this chart
- VIII Generally cease and desist orders; see Federal Administrative Court decision 2C.30_2011/2C.543_2011 of 12 January 2012 consid. 5.2.2.

[81] See "Statistics", section on Enforcement rulings, p. 109.

Organisation and staff

Board of Directors and Executive Board

To secure FINMA's institutional independence, it has been structured by legislators as a public-law institution with its own legal personality. Its ultimate management consists of the Board of Directors and the Executive Board.

The Board of Directors
The Board of Directors is FINMA's strategic management body. It directs, supervises and controls FINMA's executive management. It decides on matters of substantial importance, issues ordinances and circulars and is responsible for FINMA's budget. The Board of Directors bears this responsibility as a collective body. Its decisions are taken by a majority of the votes of the members present.

Members of the Board of Directors (31 December 2014)

Prof. Anne Héritier Lachat	Chair
Paul Müller	Vice-Chair
Philippe Egger	Member
Bruno Frick	Member
Prof. Yvan Lengwiler	Member
Günter Pleines	Member
Franz Wipfli	Member

On 16 April 2014, the Federal Council appointed Philippe Egger to FINMA's Board of Directors; he has been in post since 1 May 2014. Prof. Jean-Baptiste Zufferey and Joseph L. Rickenbacher resigned from FINMA's Board of Directors in August 2014 and October 2014, respectively.

Committees of the Board of Directors

The Board of Directors forms an Audit and Risk Committee, a Nomination Committee and a Takeover Committee from among its members.

The Takeover Committee is the body to which appeals against decisions of the Swiss Takeover Board may be filed. The other committees, unless otherwise stipulated, act in an advisory capacity and submit proposals to the Board of Directors. Each committee has a chair who liaises with the Board of Directors and the Executive Board. In addition to its standing committees, the Board of Directors may form ad hoc committees to prepare business or commission individual members to undertake special tasks.

The standing committees of the Board of Directors and their members (31 December 2014)

	Audit and Risk Committee	Nomination Committee	Takeover Committee
Prof. Anne Héritier Lachat		Chair	
Paul Müller	X		
Philippe Egger			
Bruno Frick			Chair
Prof. Yvan Lengwiler			X
Günter Pleines		X	
Franz Wipfli	Chair		X

From left to right: Paul Müller, Franz Wipfli, Philippe Egger, Prof. Anne Héritier Lachat, Prof. Yvan Lengwiler, Günter Pleines, Bruno Frick

The Executive Board

The Executive Board is FINMA's operational management body. It is responsible for supervising banks, insurance companies, exchanges, securities dealers and other financial intermediaries in accordance with the law and the strategy applied. It prepares the necessary files and materials for decisions on matters dealt with by the Board of Directors and is responsible for implementing the resolutions of the Board and its committees.

Members of the Executive Board (31 December 2014)

Mark Branson	CEO
Dr Peter Giger	Deputy CEO and Head of Insurance division
Dr Nina Arquint	Head of Strategic Services division
Léonard Bôle	Head of Markets division
Dr Michael Loretan	Head of Asset Management division
Michael Schoch	Head of Banks division
Dr David Wyss	Head of Enforcement division
Andreas Zdrenyk	Head of Operations division

New Executive Board

Patrick Raaflaub resigned as CEO of FINMA at the end of January 2014. Mark Branson, who had taken over as acting CEO on 1 February, was confirmed by the Federal Council as the new CEO on 26 March. Prior to this appointment, he had been Head of Banks division.

Michael Schoch was appointed by the Board of Directors as the new Head of Banks division. He had previously been Head of the Risk Management section in the Banks division and had been in charge of the division on an interim basis since 1 February 2014.

Yann Wermeille, previously Head of Markets division, resigned his post on 1 April 2014. The Board of Directors appointed Léonard Bôle and Michael Loretan to succeed Yann Wermeille on the Executive Board.

The Markets division has been split in two. Responsibility for licensing and supervising asset managers and collective investment schemes was assigned to the Asset Management division under Michael Loretan, who had previously been in charge of FINMA's Credit Suisse supervision team.

The new Markets division under Léonard Bôle is responsible for supervising financial market infrastructures and combating money laundering. It also supervises self-regulatory organisations, directly subordinated financial intermediaries and audit firms. In 2004, Léonard Bôle joined the Federal Banking Commission, which then became FINMA. Prior to his appointment to the Executive Board, he had been Head of the Anti-Money Laundering section since 2009.

René Schnieper retired from his position as Head of Insurance division, leaving FINMA at the end of July 2014.

Peter Giger, who was appointed by the Board of Directors as the new Head of Insurance division and Deputy CEO, took up his post with FINMA on 1 October 2014. He had previously worked for more than 20 years in the insurance sector. Most recently, he was Chief Financial Officer General Insurance at the Zurich Insurance Group.

Enforcement Committee

The Enforcement Committee (ENA) is a standing committee of the Executive Board responsible for making decisions on enforcement. Except for matters of substantial importance reserved for the Board of Directors, it decides on enforcement rulings, as well as initiating and discontinuing important proceedings, in particular against supervised institutions and individuals.

Permanent members of the Enforcement Committee (31 December 2014)

Dr Nina Arquint	Chair
Mark Branson	
Dr David Wyss	

Where a supervised institution is the subject of enforcement proceedings, the Executive Board member responsible for its supervision joins the Enforcement Committee for that specific case.

From left to right: Léonard Bôle, Dr Nina Arquint, Dr David Wyss, Dr Peter Giger, Mark Branson, Andreas Zdrenyk, Michael Schoch, Dr Michael Loretan

Staff

In 2014, FINMA introduced a competency model which assesses FINMA employees in four competency areas and identifies fields in which they have potential for development. In 2014, in addition to its established employee development strategy, FINMA introduced a programme for identifying and fostering the potential of certain employees.

The new competency model applies across most of the HR value chain. It is used, for instance, in recruitment, in the Management by Objectives (MbO) process and in staff development. In the 2013 MbO process, line managers for the first time defined objectives for their staff in terms of key behavioural competencies. Evaluation of the individual competency targets adds a new dimension to the overall assessment process and helps ensure that personal targets and development goals are identified.

Introduction of a development programme
In 2014, in addition to its established employee development strategy, FINMA introduced a programme for identifying and fostering employee potential. Its aim is to enable long-term resource planning for internal management and specialist functions by preparing employees to take on higher-level functions and/or increased responsibilities. Every year the divisions agree on who should remain in or be admitted to the programme.

Key personnel figures
The maximum headcount approved by the Board of Directors for 2014 for permanent employment was 481 full-time equivalent positions, of which an average of 462 were filled in the same year. FINMA employed an average of 509 employees (2013: 504) across 483 full-time equivalent positions (2013: 468) in permanent and temporary employment. Approximately 24% of staff work part-time (2013: 20%). The headcount approved by the Board of Directors for 2015 has remained unchanged.

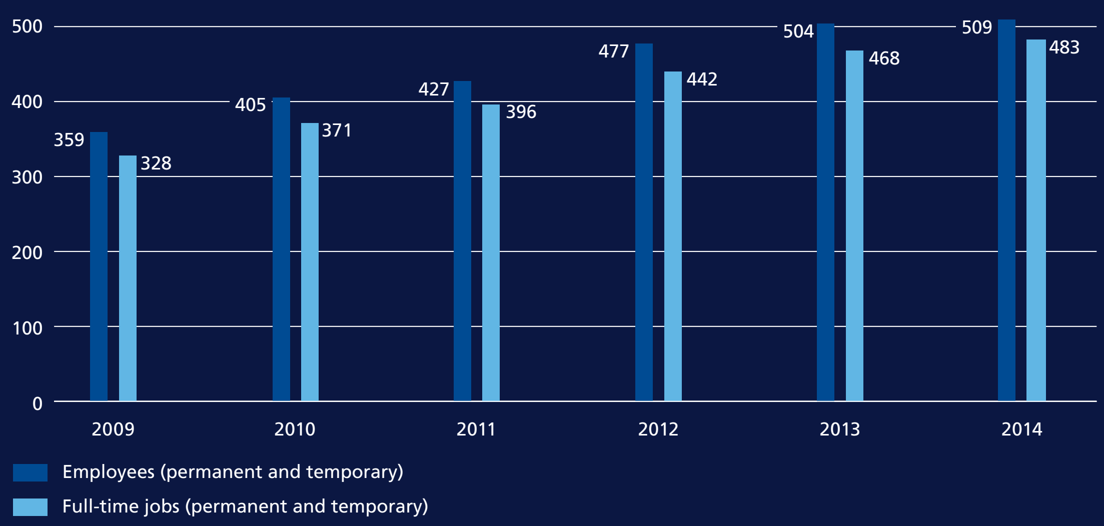
The average age of employees in 2014 remained unchanged at 41. Approximately 74% of staff (2013: 69%) are aged between 30 and 49. 20% (2013: 21%) are aged 50 and over, while 6% are young talents (2013: 11%). Senior management positions are held by 234 employees (2013: 214) or 47% (2013: 42%). Senior management at FINMA covers all line management and specialist functions in salary bands 1 to 3. Of senior management, 89 employees (38%) have a line management function (2013: 35%), with women accounting for around 20% of line managers (2013: 19%). In 2014, women accounted for 37% of the organisation as a whole (2013: 37%). At the end of 2014, the number of non-Swiss employees was 76 (2013: 75).

At the end of December 2014, staff turnover (excluding retirement) was 10% (2013: 11%), dropping slightly. It is encouraging to see that 20% of FINMA's staff have worked for the authority and its predecessors for over ten years.[82] FINMA's attractiveness for well-qualified specialists was further enhanced through the introduction of new staff development initiatives. In 2014, an increased number of various positions were filled by internal candidates.

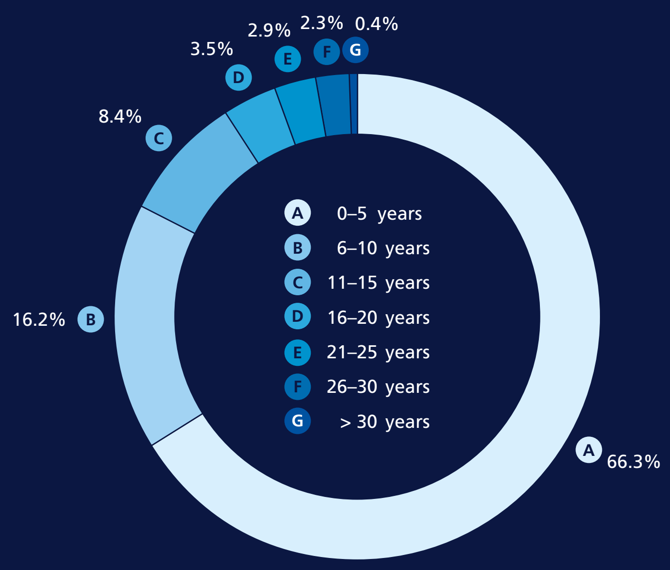
[82] See "FINMA staff: years of service" chart, p. 95.

Selected FINMA staff statistics

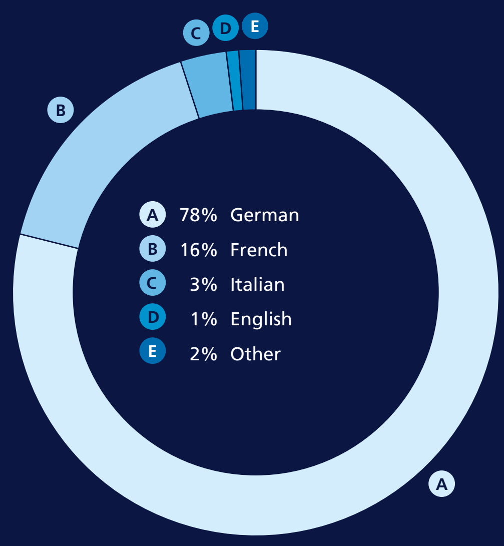
Average headcount



Years of service



Breakdown by language



FINMA moves to new premises in Bern

FINMA has put its original plan into practice and moved to a new central location in Bern. This will lead to streamlined processes and provide easier access for both visitors and staff.

All of FINMA's 420 employees working in Bern have now moved from the three original buildings to the new FINMA headquarters at Laupenstrasse 27. The move back to the city centre, which is easier for commuters and guests of FINMA to reach by public transport, had been planned for some time.

The first relocation phase involved renovation and conversion work, the installation of IT infrastructures, and invitations to tender for cleaning services, electricity, the staff restaurant and other externally sourced services. The go-ahead for the second phase, in which staff were relocated to the new premises, was given at the start of February 2014, with IT staff moving into Laupenstrasse ahead of schedule in mid-March. The main relocation phase began at the end of March with staff from Schwanengasse and was completed on 7 April when the last few employees moved across from Einsteinstrasse.

The third phase ended when the premises in Einsteinstrasse were handed over to the Federal Office for Buildings and Logistics and the offices in Schwanengasse to the new tenant.

Relocation makes good sense

All the objectives for the relocation to the new headquarters, including the financial targets, were met. Combining the three previous FINMA offices in Bern at one central location will result in recurring annual rental savings of more than CHF 850,000.

FINMA can now offer its employees good working conditions in a central location, with an ideal combination of individual offices and open-plan areas. Laupenstrasse also offers a meeting room zone for external visitors, a staff restaurant and parking facilities. Processes will be streamlined as all FINMA staff will now be working together under the same roof. With its two locations, in Bern and Zurich, FINMA is well placed to fulfil its current mandate.

FINMA's new headquarters at Laupenstrasse in Bern

Corporate governance

FINMA's Code of Conduct was updated in 2014. The code, which is binding on the Board of Directors and all FINMA employees, was tightened to improve the handling of conflicts of interest when dealing with banks in crisis. The changes came into force on 1 September 2014.

The issue of personal conflicts of interest is a sensitive one, particularly when a bank finds itself in a crisis. Crises of this kind can often develop very rapidly and have significant financial consequences. In order to avoid conflicts of interest among those working for it, FINMA has made some changes to its Code of Conduct. It now requires FINMA executives to deposit their savings with the Federal Employees' Savings Bank in order to minimise potential conflicts of interest. This rule applies to the Chair of the Board of Directors and all members of the Executive Board who have decision-making powers in a banking crisis. The new Code of Conduct also sets out disclosure obligations for the entire Board of Directors, the Executive Board and other functions so that an overview of potential conflicts of interest already exists before any banking crisis arises.

Mandataries acting on FINMA's behalf

To fulfil its remit, FINMA can appoint mandataries to act on its behalf. FINMA makes use of this cost-efficient supervisory instrument on a case-by-case basis and maintains a list of candidates to whom these mandates may be given. FINMA invited new tenders for its standard mandates in 2014.

FINMA mandates place different requirements on mandataries and demand specific specialised skills. FINMA has therefore respecified its standard mandates on the basis of requirements profiles. The standard mandate types are:

- investigations into or audits of licensed financial intermediaries;
- investigations into activities carried on without the required licence;
- resolution and crisis management of licensed financial intermediaries;
- bankruptcy liquidation proceedings and liquidations of supervised institutions.

The announcement of these mandates has met with significant interest, and FINMA now has a list of candidates which is tailored to the specific requirements profiles. Providers with the necessary qualifications and experience can apply to be added to the list at any time.

Appendix

Supervisory categories

Financial institutions supervised by FINMA are assigned to one of six categories depending on their potential risk impact on creditors, investors, policyholders and the Swiss financial centre. Each institution is also given a rating which indicates FINMA's assessment of its current state.

On the basis of these two parameters – categorisation and institution rating – the supervisory approaches stipulate the extent of supervision, the use of supervisory instruments, and the interplay between direct supervision by FINMA and the degree to which external firms are used to audit individual institutions. These measures ensure that supervisory activities are more systematic in terms of their risk orientation and that risk-relevant institutions receive closer scrutiny.

Supervisory categories[83] for banks

The categories for banks are defined in FINMA Circular 2011/2.[84]

Category	Criteria (CHF in billions)			Number of institutions 2014	2013
1	Total assets Assets under management Privileged deposits Required equity capital	≥ ≥ ≥ ≥	250 1,000 30 20	2	2
2	Total assets Assets under management Privileged deposits Required equity capital	≥ ≥ ≥ ≥	100 500 20 2	3	3
3	Total assets Assets under management Privileged deposits Required equity capital	≥ ≥ ≥ ≥	15 20 0.5 0.25	26	27
4	Total assets Assets under management Privileged deposits Required equity capital	≥ ≥ ≥ ≥	1 2 0.1 0.05	65	66
5	Total assets Assets under management Privileged deposits Required equity capital	< < < <	1 2 0.1 0.05	211	223

[83] The sixth category comprises market participants that are not prudentially supervised by FINMA.

[84] See FINMA Circular 2011/2 "Capital buffer and capital planning – banks" (http://www.finma.ch/e/regulierung/Documents/finma-rs-2011-02-e.pdf).

Supervisory categories[85] for insurance companies

Category	Criteria (CHF in billions)	Number of institutions 2014	2013
1	–	–	–
2	Total assets > 50bn or complexity	5	5
3	Total assets > 1bn or complexity	39	41
4	Total assets > 0.1bn or complexity	60	52
5	Total assets < 0.1bn or complexity	115	125

[85] The sixth category comprises market participants that are not prudentially supervised by FINMA.

Financial market regulation: pending projects

(Status and outlook as of 31 December 2014)

Project	Regulatory level	Status and next steps		
		Hearing / consult-ation	Adopted / to be adopted	Planned entry into force
Cross-sector				
Financial services and financial institutions*				
The new Federal Financial Services Act (FFSA) should govern the requirements for providing financial services and offering financial instruments (rules of business conduct at points of sale, prospectus requirements, strengthening of private law enforcement), as well as improving client protection in the financial market. The new Financial Institutions Act (FinIA), on the other hand, will set out supervisory requirements for financial service providers (banks, securities dealers, fund management companies, asset managers).	law	Q3/14	open	17/18
Financial market infrastructures*				
The Financial Market Infrastructure Act (FMIA) focuses on the organisation and operation of financial market infrastructures (stock exchanges, central counterparties, central depositaries, trade repositories) and over-the-counter (OTC) trading with derivatives. It will thus implement the G-20 and the Financial Stability Board (FSB) regulations on derivatives trading, aligning the provisions on financial market infrastructures with international standards. In addition, market rules of conduct set out in the Stock Exchange Act will be incorporated into FMIA.	law	Q1/14	open	Q1/16
Implementing provisions for the FMIA will be set out in a federal ordinance and a FINMA ordinance.	ordinance	open	open	Q1/16
Combating money laundering*				
In February 2012, the Financial Action Task Force (FATF) adopted a partial revision of the standards for combating money laundering, terrorist financing and, most recently, financing weapons of mass destruction. Amendments to the Anti-Money Laundering Act (AMLA) include shareholder transparency, tax fraud as predicate offences to money laundering, the definition of politically exposed persons (PEPs), and cash payments for the purchase of personal property and real estate.	law	Q1/13	Q4/14	Q2/15
The FINMA Anti-Money Laundering Ordinance will undergo major revision to incorporate the revised FATF recommendations, the changes made to the Anti-Money Laundering Act and other adjustments.	ordinance	Q1/15	open	open
Supervision of audit firms*				
Audit firm supervision (regulatory and financial audits) was bundled and transferred to the Federal Audit Oversight Authority (FAOA) following adjustments to the Auditor Oversight Act (AOA) and the Financial Market Supervision (FINMASA).	law	Q3/13	Q2/14	Q1/15
Transfer of audit firm supervision to the FAOA also involved making amendments to the Financial Market Audit Ordinance (FMAO-FINMA).	ordinance	Q3/14	Q4/14	Q1/15

* See SIF web page (https://www.sif.admin.ch/sif/en/home/dokumentation/finweb.html) for the content and status of significant financial sector regulatory projects in which FINMA does not take the lead.

Project	Regulatory level	Status and next steps		
		Hearing / consultation	Adopted / to be adopted	Planned entry into force
Banks				
Dormant assets* Banks are to be allowed to liquidate dormant assets following prior publication, with the proceeds going to the Confederation. Claims of beneficiaries who do not respond to the publication would lapse. The Banking Ordinance (BO) has been fully revised to incorporate these adjustments.	ordinance	Q4/13	Q2/14	Q1/15
Accounting* Legislation on accounting standards was amended by revising the Stock Corporation law (Code of Obligations) and the Banking Act (BA), which subsequently involved a full revision of the Banking Ordinance (BO).	ordinance	Q4/13	Q1/14	Q1/15
FINMA Circular "Accounting – banks" was revised appropriately to include those changes.	circular	Q4/13	Q1/14	Q1/15
Leverage ratio Leverage ratio must be disclosed starting in 2015. Calculation and disclosure of leverage ratio will be clearly defined in a new circular.	circular	Q3/14	Q4/14	Q1/15
Liquidity risks The Liquidity Ordinance (LiqO) had to be aligned with the Basel III liquidity requirements (short-term liquidity ratio [LCR]). FINMA Circular "Liquidity risks – banks" thus also required adjustment.	circular	Q4/13	Q2/14	Q1/15
Adjustments: Basel III The Basel Committee on Banking Supervision (BCBS) introduced a series of changes to its Basel III regime. In line with the international schedule for implementation, revised disclosure standards will be introduced as of 31 December 2016. Further, starting on 1 January 2017, a new standard approach to determining credit equivalents for derivatives, as well as changes made to underpinning securities (fund shares in the banking book) and credit risk exposures against central counterparties will be introduced. On 1 January 2018, new securitisation rules will come into force. The Basel Committee also issued for the first time detailed standards on risk diversification to be introduced as of 1 January 2019. Owing to these changes, the Capital Adequacy Ordinance (CAO) must subsequently be amended.	ordinance	open	open	16–19
The changes to the CAO must be incorporated into the following circulars: "Credit risks – banks", "Disclosure – banks" and "Risk diversification – banks".	circular	open	open	16–19
Insurance companies				
Insurance supervision Practical application of the fully revised Insurance Supervision Act (ISA, in force since 1 January 2006), together with current market developments and international trends, has revealed a need for change at the regulatory level. Revision of the Insurance Supervision Ordinance (ISO) aims to eliminate contradictions related to the supervision of private insurance companies, while enhancing the protection of insured persons and international compatibility.	ordinance	Q4/14	Q1/15	Q2/15
Changes to the ISO necessitate amendments being made to a number of FINMA circulars dealing with insurance.	circular	Q3/15	open	16–17
Markets				
Collective investment schemes Following the partial revision of the Collective Investment Schemes Act (CISA), the FINMA Collective Investment Schemes Ordinance (CISO-FINMA) has subsequently been amended.	ordinance	Q2/14	Q3/14	Q1/15

Statistics
(31 December 2014)

Supervised[86] financial market participants

Supervised banks[87]

	2014	2013
Banks, of which	292	301
– under foreign control	99	101
– branches of foreign banks	29	31
Raiffeisen banks	312	316
Representative offices of foreign banks	55	53

Supervised securities dealers[88]

	2014	2013
Securities dealers, of which	58	62
– under foreign control	16	15
– branches of foreign securities dealers	12	14
Representative offices of foreign securities dealers	42	45
Recognised foreign market participants	121	124

Supervised stock exchanges

	2014	2013
Swiss stock exchanges	3	3
Swiss organisations similar to stock exchanges	2	2
Recognised foreign stock exchanges	56	54
Recognised foreign organisations similar to stock exchanges	3	4

Supervised collective investment schemes

	2014	2013
Swiss collective investment schemes		
Total Swiss collective investment schemes, of which	1,515	1,447
– open-ended collective investment schemes (under Art. 8 CISA)		
– contractual investment funds and SICAVs	1,498	1,431
– of which intended for qualified investors only	716	694
– closed-ended collective investment schemes (under Art. 9 CISA)		
– limited partnerships and SICAFs	17	16
Foreign collective investment schemes		
Total foreign collective investment schemes, of which	6,701	6,171
– EU-compatible (UCITS)	6,577	5,959
– non-EU-compatible (non-UCITS)	124	212

[86] Does not necessarily mean prudential supervision.

[87] All institutions supervised individually by FINMA included in these statistics are counted once, whereas in the chart "Number of banks by banking group" in the section on FINMA and structural adjustments in the banking sector, p. 42, a financial group and all its related institutions supervised individually by FINMA count as one unit.

[88] See footnote 87.

Supervised fund management companies, asset managers, representatives and distributors under the Collective Investment Schemes Act

	2014	2013
Fund management companies	44	44
Asset managers	151	119
Representatives of foreign collective investment schemes	88	99
Distributors under CISA	285	293

Supervised insurance companies and general health insurance companies

	2014	2013
Life insurance companies, of which	21	23
– insurance companies domiciled in Switzerland	18	19
– branches of foreign insurance companies	3	4
Non-life insurers, of which	127	124
– insurance companies domiciled in Switzerland (incl. 22 supplementary health insurance providers [2013: 20])	79	80
– branches of foreign insurance companies (incl. 1 supplementary health insurance provider [2013: 1])	48	44
Reinsurers (total)	62	62
– Reinsurers	29	28
– Reinsurance captives	33	34
General health insurance companies offering supplementary health insurance	14	14
Supervised insurance and general health insurance companies	224	223
Insurance groups (groups and conglomerates)	7	8

Supervised financial intermediaries

	2014	2013
Total supervised SROs	12	12
Total directly subordinated financial intermediaries (DSFIs)	259	310
Total group companies subject to FINMA money laundering supervision	141	141
Total registered insurance intermediaries	14,900	14,248

Authorised audit firms and recognised credit rating agencies

	2014	2013
Total authorised audit firms	20	23
Total recognised credit rating agencies	5	5

Licences

Banks

	2014	2013
Bank licences (Art. 3 BA)	3	1
Branches (Art. 4 FBO-FINMA)	0	1
Representative offices (Art. 14 FBO-FINMA)	5	8
Additional licences (Art. 3^{ter} BA)	2	7
Removed from supervision	6	6

Securities dealers

	2014	2013
Securities dealer licences (Art. 10 SESTA)	0	2
Branches (Art. 41 SESTO)	0	2
Representative offices (Art. 49 SESTO)	1	6
Additional licences (Art. 10 para. 6 SESTA and Art. 56 para. 3 SESTO)	0	3
Removed from supervision	0	1
Recognition of foreign market participants	3	5

Exchanges

	2014	2013
Recognition of foreign exchanges (incl. organisations similar to stock exchanges)	7	4

Collective investment schemes

	2014	2013
Swiss collective investment schemes	125	139
Foreign collective investment schemes	1,140	721

Supervised fund management companies, asset managers, representatives and distributors under the Collective Investment Schemes Act

	2014	2013
Fund managers	2	1
Asset managers	38	22
Representatives of foreign collective investment schemes	17	4
Distributors under CISA	34	13

Insurance companies and general health insurance companies

	2014	2013
Life insurance companies, of which	1	0
– insurance companies domiciled in Switzerland	1	0
– branches of foreign insurance companies	0	0
Non-life insurers, of which	4	3
– insurance companies domiciled in Switzerland	0	0
– branches of foreign insurance companies	4	3
Reinsurers	2	2
Reinsurance captives	0	0
General health insurance companies offering supplementary health insurance	0	0
Total	7	5
Insurance groups (groups and conglomerates)	0	0

Financial intermediaries

	2014	2013
Directly subordinated financial intermediaries	12	5
Group companies subject to FINMA money laundering supervision	9	7
Insurance intermediaries	920	696

Audit firms and credit rating agencies

	2014	2013
Total rulings on changing audit firms	98	198
Authorisation of audit firms	0	2
Deregistration of audit firms	3	81
Recognition of credit rating agencies	0	0

Enforcement rulings

	2014	2013
Enforcement rulings (final and interim rulings)	115	110
Swiss Takeover Board rulings	2	1

Appeals and criminal complaints filed

	2014	2013
Appeals filed against enforcement rulings	29	24
Appeals settled	35	19
Complaints filed with criminal prosecution authorities	117	79

Memorandums of understanding at national and international level

FINMA cooperates with numerous authorities both in and outside Switzerland. A number of new agreements were signed in 2014.

Memorandums of understanding at national level

Memorandum of understanding between esisuisse and FINMA

Based on Article 37*k* BA, the Swiss Banks' and Securities Dealers' Depositor Protection Association (esisuisse) and FINMA have agreed to share information required to meet their respective responsibilities. International standards for depositor protection require that institutions involved in ensuring financial security should coordinate their activities and share essential information promptly. The basis for this cooperation is set out and implemented in a memorandum of understanding. The 2014 agreement between esisuisse and FINMA defines the general principles on which the two institutions will work together.

Memorandums of understanding at international level

General

International agreements are non-binding administrative conventions relating to supervisory cooperation. The term "memorandum of understanding" (MoU) is widely used for such agreements, as are the terms "cooperation agreement" and "coordination arrangement". With due consideration for national legislation, the participating supervisory authorities agree to cooperate and define the arrangements for this cooperation. Since these agreements are not legally binding, they cannot be used by FINMA or the foreign partner authorities and/or third parties to establish any rights or obligations.

Agreements under Article 120 para. 2 let. e CISA

A FINMA licence is required before foreign collective investment schemes can be distributed to non-qualified investors in Switzerland. Article 120 para. 2 let. e CISA states that no licence will be issued unless the foreign supervisory authorities responsible for the funds have signed a cooperation agreement with FINMA. This provision is intended to offer additional cross-border protection to small investors in Switzerland.

In 2014,[89] FINMA concluded bilateral agreements with the following supervisory authorities in accordance with Article 120 para. 2 let. e CISA:

Country	Foreign authority	Type	Area of application
Belgium	Financial Services and Markets Authority (FSMA)	bilateral	Cooperation agreement under Art. 120 CISA
Denmark	Finanstilsynet (FSA)		
Estonia	Finantsinspektsioon (EFSA)		
Guernsey	Guernsey Financial Services Commission (GFSC)		
Jersey	Jersey Financial Services Commission (JFSC)		
Liechtenstein	Financial Market Authority Liechtenstein (FMA)		
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)		
Malta	Malta Financial Services Authority (MFSA)		
Netherlands	Netherlands Authority for the Financial Markets (AFM)		
Norway	Finanstilsynet (FSA)		
Sweden	Finansinspektionen (FI)		
United Kingdom	Financial Conduct Authority (FCA)		

Other agreements concluded in 2014

Country	Foreign authority	Type	Area of application
Gibraltar	Financial Services Commission (FSC)	bilateral	Cooperation agreement on the supervision of alternative investment fund managers (AIFMs)

[89] FINMA had already concluded agreements in accordance with Article 120 para. 2 let. e CISA with the following countries / supervisory authorities prior to 2014: Germany (German Federal Financial Supervisory Authority [BaFin]), France (Autorité des marchés financiers [AMF]), Ireland (Central Bank of Ireland [CBI]) and Austria (Austrian Financial Market Authority [FMA]).

FINMA's representation in international working groups

International organisations and committees[90]

Financial Stability Board (FSB)
- Standing Committee on Supervisory and Regulatory Cooperation

Basel Committee on Banking Supervision (BCBS)
- Governors and Heads of Supervision
- International Conference of Banking Supervisors
- Basel Committee on Banking Supervision

International Association of Insurance Supervisors (IAIS)
- Executive Committee

International Organization of Securities Commissions (IOSCO)
- IOSCO Board
- Presidents Committee
- IOSCO Task Force on Cross-Border Regulation

Other international forums
- Meeting of four German-speaking nations (banking and insurance)
- Integrated Financial Supervisors Conference
- OTC Derivatives Regulators Group (ODRG)
- Wilton Park Securities Supervision Conference/ International Cooperation and Enforcement

[90] This list is confined to bodies of which representatives of the Board of Directors and/or Executive Board of FINMA are members. Numerous FINMA employees also play an active role in working groups.

Glossary

Alternative Investment Fund Managers Directive
The EU's Alternative Investment Fund Managers Directive (2011/61/EU) governs the authorisation, ongoing activities and transparency requirements applicable to alternative investment managers who manage and/or distribute alternative investment funds (non-UCITS) in the EU.

Bail-in
Officially ordered conversion of debt into equity or waiver of claims.

Basel III
At the end of 2010, the Basel Committee on Banking Supervision (BCBS) adopted stricter, across-the-board rules on equity capital and liquidity which represent Pillar 1 of Basel III. Pillar 2 covers the supervisory process, while Pillar 3 focuses on banks having to disclose key risk information and indicators designed to enhance transparency and market discipline. The key changes under Basel III are:

- improvements to the quality, consistency and transparency of the capital base;
- higher capital adequacy requirements for the default risk of derivatives, repurchase agreements and securities financing transactions;
- a new capital requirement for the risk of market value losses on over-the-counter (OTC) derivatives;
- supplementing the risk-based capital requirement with an unweighted leverage ratio;
- measures to reduce procyclicality and promote countercyclical buffers;
- measures to combat systemic risk, with particular emphasis on systemically important banks; and
- the introduction of global liquidity standards.

Business conduct letter
FINMA uses a letter of this kind to inform individuals about reservations it may have regarding their fulfilment of the proper business conduct requirements. It states that the authority will conduct enforcement proceedings to examine the addressee's fitness if they intend to take up a position subject to the business conduct requirements in future. The outcome of the proceedings is fully open.

Central counterparty
An institution that acts as a contractual party between buyer and seller in transactions involving financial instruments.

Central Securities Depositories Regulation
The Central Securities Depositories Regulation (CSDR; Ordinance [EU] No. 909/2014) enhances securities settlement processing in the European Union and therefore also contains provisions on central depositories.

Client procedure (international cooperation)
If a foreign authority asks FINMA to provide data on Swiss and foreign clients of Swiss financial intermediaries, these clients may seek to prevent the handover of their data in a "client procedure". Rulings issued by FINMA in such cases can be appealed to the Federal Administrative Court.

Combined ratio
The ratio of claims expenditures (insurance benefits and administrative costs) to premium income, expressed as a percentage.

Commitment approaches I and II
The commitment approach is a way of measuring the risk impact of derivatives on a fund's assets based on the value of the underlying assets. Commitment approach I prohibits the use of leverage, while commitment approach II permits it within the statutory limits.

Common Equity Tier 1 capital
Common equity is loss-absorbing equity capital of the highest quality. CET1 consists of paid-in capital, disclosed reserves and retained earnings.

Countercyclical capital buffer
This term refers to temporarily increased capital requirements for banks. It is an instrument introduced in Basel III to curtail excessive lending and has a countercyclical effect. It also aims to improve the resilience of banks to the risks of loss. The buffer amounts to a maximum of 2.5% of a bank's risk-weighted assets.

Enforcement proceedings
If prudential supervision and preliminary investigations require FINMA to enforce compliance with supervisory law, it intervenes by initiating proceedings under the Administrative Proceedings Act. Enforcement proceedings allow FINMA to impose and enforce measures to restore compliance with the law.

Equivalence
A country's financial market regulator may exempt foreign market participants from the requirements under local law if they are subject to equivalent regulation and supervision in their home market. Equivalence is generally assessed through an equivalence recognition process. EU financial market regulation in particular requires recognition of equivalence in many sectors for cross-border activities conducted in non-EU/non-EEA countries.

European Market Infrastructure Regulation
The European Market Infrastructure Regulation (EMIR; Ordinance [EU] No. 648 / 2012) creates harmonised regulation of derivatives transactions conducted over the counter. In particular, it requires market participants to conduct clearing via a central counterparty (CCP) and report all derivatives transactions to a trade repository. It also lays down standard conditions for the licensing and supervision of CCPs and trade repositories as financial market infrastructures.

Financial Institutions Act
The aim of the Financial Institutions Act (FinIA) is to combine the supervisory regulations for financial service providers (banks, securities dealers, fund management companies and asset managers) in one piece of legislation.

Financial Market Infrastructure Act
The Financial Market Infrastructure Act (FMIA) regulates the organisation and operation of financial market infrastructures (exchanges, central counterparties, central securities depositories and trade repositories) and over-the-counter (OTC) trading in derivatives. The Act implements the derivatives trading requirements defined by the G-20 and the Financial Stability Board (FSB) and also brings the provisions on financial market infrastructures in line with international standards. In addition, the market conduct rules from the Stock Exchange Act (SESTA) are carried across into the FMIA.

Financial market infrastructures
Financial market infrastructures include stock exchanges and similar trading institutions, central counterparties (CCPs) with their clearing systems, and securities settlement and payment systems. Accordingly, CCPs and securities settlement and payment systems are referred to as post-trading infrastructures. Trade repositories for the reporting of derivative transactions are now also included. The proposed Financial Market Infrastructure Act (FMIA) will recognise financial market infrastructures for trading, clearing, settlement and reporting.

Financial Services Act
The new Financial Services Act (FFSA) will define the rules governing the provision of financial services and the offering of financial instruments (e.g. requirements at point of sale, prospectus requirements and increased scope for private legal action) and improve client protection in the financial services sector.

FINMA circular
FINMA circulars codify and standardise its supervisory practice. They do not have the force of law and are not legally binding. The parties concerned are provided with an explanatory report and their responses are published in consultation reports. FINMA can issue circulars if supervisory practice has become established or if there is a clear need on the part of supervised institutions for it to be codified.

Higher loss absorbency
Enhanced ability to absorb a higher level of (unexpected) losses using equity capital. Higher loss absorbency requirements for global systemically important insurance companies (G-SIIs) are currently under development.

Internal model (insurance companies)
System used by an insurance company to quantify solvency risks under the Swiss Solvency Test (SST), based on a company-specific risk profile. Insurance companies may wholly or partly use internal models provided these have been approved by FINMA.

Leverage ratio
Ratio of equity capital to debt capital. As a regulatory provision, the leverage ratio also refers to the minimum requirement for equity capital in relation to the total exposure. A leverage ratio is not a risk-weighted indicator.

Liquidity coverage ratio
This short-term liquidity ratio is a new quantitative liquidity parameter under Basel III. In a predefined stress scenario, it measures highly liquid assets (such as high-quality government bonds) against a net payment outflow. The ratio must be at least 100%.

Markets in Financial Instruments Directive II
The MiFID II legislative package consists of a directive (Markets in Financial Instruments Directive; MiFID; No. 014/65/EU) and an ordinance (Markets in Financial Instruments Regulation; MiFIR; No. 600/2014/EU) and contains rules on the organisation and operation of securities exchanges and their participants, as well as business conduct rules to protect investors when financial services are provided.

Model approach (asset management)
A risk measurement procedure for complex derivatives or investment strategies for which the commitment approach does not provide an adequate measure of market risk. The model calculates the maximum possible loss (the "value-at-risk") for a defined probability.

Net stable funding ratio
Part of the Basel III framework, the NSFR has a one-year time frame and has been developed to provide a sustainable maturity structure of assets and liabilities. The aim is to promote resilience over a longer time frame by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The ratio must be at least 100%.

Non-UCITS
Collective investment schemes not subject to the EU's UCITS Directive. See also UCITS (Directive).

OTC derivative
OTC ("over the counter") derivatives are derivative financial instruments that are traded bilaterally outside an exchange or other regulated market.

Parabanking
The term "parabanking" refers to financial intermediaries such as asset managers, fiduciaries and payment service providers referred to in Article 2 para. 3 AMLA.

Private equity fund
Private equity funds are collective investment schemes which invest in unlisted companies. Typical private equity strategies include leveraged buyouts, management buyouts and venture capital. A private equity manager will attempt to boost the value of a company in which it holds a stake by exerting influence on the company's management. The eventual aim is to sell the company on at a profit. Private equity funds are generally closed-ended funds with a maturity of seven to ten years.

Prudential supervision
Prudential supervision aims first and foremost to ensure that solvency is guaranteed, adequate risk control is in place and proper business conduct is assured. It thus also contributes indirectly to the financial markets' ability to function and to the competitiveness of Switzerland's financial sector. Prudential supervision of banks, insurance companies and other financial intermediaries is based on the licensing requirement for a specific type of activity, ongoing monitoring of compliance with the licence conditions, and other factors that are subject to regulation.

Qualified investor
Under Article 10 para. 3 CISA, qualified investors are supervised financial intermediaries and companies with professional treasury services. Wealthy private individuals can also state in writing that they want to be considered as qualified investors; however, they must meet the requirements set out in Article 6 CISO. Investors who have concluded a written asset management contract under Article 3 para. 2 lets. b and c CISA are also considered as qualified investors unless they have specified in writing that they do not want to be considered as such.

Reinsurance captive
Own insurance entity whose objective is to insure risks emanating from the group through primary insurers. This alternative form of risk transfer aims at allowing companies to enhance their risk and capital management within the group.

Solvency II
Solvency II primarily refers to EU Directive 2009/138/EC of 25 November 2009 on the taking up and pursuit of the business of insurance and reinsurance. It is also often used to refer to the economic and risk-based method of assessing the capital adequacy of an insurance company contained in the Directive. In quantitative terms, the EU's Solvency II pursues aims comparable to those of the Swiss Solvency Test (SST).

Standard model (insurance companies)
Risk model prescribed by FINMA to determine solvency under the SST. There are standard models for life, non-life and health insurance. Reinsurers and insurance groups are required to use internal models.

Supervisory colleges
Meeting of representatives of national supervisory authorities to discuss the supervisory issues affecting institutions with international operations.

Swiss Solvency Test
The SST is a supervisory instrument that uses economic and risk-based principles to measure the solvency of insurers. It was introduced in 2006 when the Insurance Supervision Act (ISA) and the Insurance Supervision Ordinance (ISO) were fully revised, with a transitional period of five years. It assesses the financial situation of an insurance company on the basis of the ratio of eligible equity (risk-bearing capital) to regulatory capital (target capital). The latter is determined in view of the risks incurred.

Systemic importance
Systemic risks are risks emanating from individual market participants that jeopardise the stability of the entire economy ("system"). Companies carrying out functions which are indispensable to the economic system, or which cannot be replaced by other companies, are termed "systemically important". One example of a systemically important function is the processing of payment transactions by banks.

Tied assets
Tied assets are designed to secure claims arising from insurance contracts. If an insurance company goes bankrupt, the proceeds of the tied assets are used first to satisfy such claims. Only then is any remaining surplus transferred to the bankrupt estate. The value of the capital investments of tied assets must cover the claims arising from insurance contracts at all times. The Insurance Supervision Ordinance (ISO) therefore contains specific provisions on the capital investments of tied assets.

"Too big to fail"
A company is categorised as "too big to fail" if its collapse would endanger the stability of the entire economy, thereby compelling the state to rescue it. Discussion of the "too big to fail" issue focuses on the systemic risks emanating from such companies.

UCITS (Directive)
UCITS are Undertakings for Collective Investment in Transferable Securities. The EU's UCITS Directive (2009/65/EU) sets out Europe-wide standard requirements for collective investment schemes open to public investors.

Abbreviations

ACPR Autorité de contrôle prudentiel et de résolution (France)

AFM Netherlands Authority for the Financial Markets

AIFM Alternative Investment Fund Manager

AIFMD Alternative Investment Fund Managers Directive (EU)

AMF Autorité des marchés financiers (France/Canada)

AMLA Swiss Federal Act of 10 October 1997 on Combating Money Laundering and Terrorist Financing in the Financial Sector (Status as of 1 January 2015) (Anti-Money Laundering Act; SR 955.0)

AMLO-FINMA Ordinance of 8 December 2010 of the Swiss Financial Market Supervisory Authority on the Prevention of Money Laundering and Terrorist Financing (Status as of 1 January 2011) (Anti-Money Laundering Ordinance-FINMA; SR 955.033.0)

AOA Swiss Federal Act of 16 December 2005 on the Licensing and Supervision of Auditors (Status as of 1 January 2015) (Auditor Oversight Act; SR 221.302)

AOO Swiss Federal Ordinance of 22 August 2007 on the Licensing and Supervision of Auditors (Status as of 1 January 2015) (Auditor Oversight Ordinance; SR 221.302.3)

ASC Alberta Securities Commission (Canada)

AT1 Additional Tier 1 capital

BA Swiss Federal Act of 8 November 1934 on Banks and Savings Banks (Status as of 1 January 2015) (Banking Act; SR 952.0)

BaFin Federal Financial Supervisory Authority (Germany)

BCBS Basel Committee on Banking Supervision

BCR Basic Capital Requirements

BCSC British Columbia Securities Commission (Canada)

BO Swiss Federal Ordinance of 30 April 2014 on Banks and Savings Banks (Status as of 1 January 2015) (Banking Ordinance; SR 952.02)

CAO Swiss Federal Ordinance of 1 June 2012 on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (Capital Adequacy Ordinance; SR 952.03)

CBI Central Bank of Ireland

CCs Control Committees of the Federal Assembly

CCP Central counterparty

CDB Agreement on the Swiss Banks' Code of Conduct with regard to the exercise of due diligence

CEAT Committees for Economic Affairs and Taxation of the (Swiss) Federal Assembly

CET1 Common Equity Tier 1 capital

CFTC U.S. Commodity Futures Trading Commission

CHF Swiss franc

CIS Collective investment schemes

CISA Swiss Federal Act of 23 June 2006 on Collective Investment Schemes (Status as of 1 January 2015) (Collective Investment Schemes Act; SR 951.31)

CISO Swiss Federal Ordinance of 27 August 2014 on Collective Investment Schemes (Status as of 1 January 2015) (Collective Investment Schemes Ordinance; SR 951.311)

CISO-FINMA Ordinance of 21 December 2006 of the Swiss Financial Market Supervisory Authority on Collective Investment Schemes (FINMA Collective Investment Schemes Ordinance; SR 951.312)

CMG Crisis Management Group

ComFrame Common Framework for the Supervision of Internationally Active Insurance Groups

CONSOB Commissione Nazionale per le Società e la Borsa (Italy)

CPMI Committee on Payments and Market Infrastructures

CSD Central securities depository

CSDR Central Securities Depositories Regulation

CSSF Commission de Surveillance du Secteur Financier (Luxembourg)

DoJ U.S. Department of Justice

DFS Department of Financial Services (USA)

DSFI Directly subordinated financial intermediary

EBA European Banking Authority

ECB European Central Bank

EFSA Finantsinspektsioon (Estonia)

EMIR European Market Infrastructure Regulation

ENA FINMA Enforcement Committee

ESMA European Securities and Markets Authority

ETF Exchange-traded funds

FAOA Swiss Federal Audit Oversight Authority

FATF Financial Action Task Force on Money Laundering

FBO-FINMA Ordinance of 21 October 1996 of the Swiss Financial Market Supervisory Authority on Foreign Banks in Switzerland (Status as of 1 January 2015) (FINMA Foreign Banks Ordinance; SR 952.111)

FCs Finance Committees of the (Swiss) Federal Assembly

FCA Financial Conduct Authority (UK)

FDF Swiss Federal Department of Finance

FDIC Federal Deposit Insurance Corporation (USA)

Fed Federal Reserve System

FFSA Financial Services Act (planned legislation)

FI Finansinspektionen (Sweden)

FinIA Financial Institution Act (planned legislation)

FINMA Swiss Financial Market Supervisory Authority

FINMASA Swiss Federal Act of 22 June 2007 on the Swiss Financial Market Supervisory Authority (Status as of 1 January 2015) (Financial Market Supervision Act; SR 956.1)

FINRA Financial Industry Regulatory Authority (USA)

FMA Financial Market Authority for Liechtenstein/Austria

FMAO-FINMA Ordinance of 5 November 2014 of the Swiss Financial Market Supervisory Authority on Auditing (Status as of 1 January 2015) (FINMA-FMAO; SR 956.161)

FMIA Financial Market Infrastructure Act (planned legislation)

FSA Finanstilsynet (Denmark and Norway)

FSAP Financial Sector Assessment Program

FSB Financial Stability Board

FSC Financial Services Commission (Gibraltar)

FSMA Financial Services and Markets Authority (Belgium)

G-20 Group of the 20 leading industrialised and developing economies

G-SIB Global systemically important bank

G-SIFI Global systemically important financial institution

G-SII Global systemically important insurer

GFSC Guernsey Financial Services Commission

HNWI High-net-worth individual

IAIG Internationally active insurance group

IAIS International Association of Insurance Supervisors

ICP Insurance Core Principles

ICS Insurance Capital Standard (Global capital standard for insurers)

IMF International Monetary Fund

IOSCO International Organization of Securities Commissions

IRB Internal ratings-based

ISA Swiss Federal Act of 17 December 2004 on the Supervision of Insurance Companies (Status as of 1 January 2015) (Insurance Supervision Act; SR 961.01)

ISDA International Swaps and Derivatives Association

ISO Swiss Federal Ordinance of 9 November 2005 on the Supervision of Private Insurance Companies (Status as of 1 January 2013) (Insurance Supervision Ordinance; SR 961.011)

JFSC Jersey Financial Services Commission

LCR Liquidity coverage ratio

LiqO Swiss Federal Ordinance of 30 November 2012 on the Liquidity of Banks (Status as of 1 January 2015) (Liquidity Ordinance; SR 952.06)

MbO Management by Objectives

MFSA Malta Financial Services Authority

MiFID Markets in Financial Instruments Directive

MiFIR Markets in Financial Instruments Regulation

MoU Memorandum of understanding

NAIC National Association of Insurance Commissioners (USA)

NSFR Net stable funding ratio

OCC Office of the Comptroller of the Currency (USA)

ORSA Own Risk and Solvency Assessment

OSC Ontario Securities Commission (Canada)

OTC Over the counter

PEP Politically exposed person

PRA Prudential Regulation Authority (UK)

QIS Quantitative impact study

RAP Resolvability Assessment Process

RCAP Regulatory Consistency Assessment Programme

RWA Risk-weighted assets

SBA Swiss Bankers Association

SEC U.S. Securities Exchange Commission

SESTA Swiss Federal Act of 24 March 1995 on Stock Exchanges and Securities Trading (Status as of 1 January 2015) (Stock Exchange Act; SR 954.1)

SESTO Swiss Federal Ordinance of 2 December 1996 on Stock Exchanges and Securities Trading (Status as of 1 January 2015) (Stock Exchange Ordinance; SR 954.11)

SFAMA Swiss Funds & Asset Management Association

SIA Swiss Insurance Association

SICAF Investment company with fixed capital

SICATC Swiss Institute of Certified Accountants and Tax Consultants

SICAV Investment company with variable capital

SIF Swiss State Secretariat for International Financial Matters

SNB Swiss National Bank

SRO Self-regulatory organisation

SRO-SIA Self-Regulatory Organisation of the Swiss Insurance Association

SSM Single supervisory mechanism

SSPA Swiss Structured Products Association

SST Swiss Solvency Test

T1 Tier 1 capital

T2 Tier 2 capital

TLAC Total loss-absorbing capacity

TOB Swiss Takeover Board

TSX Toronto Stock Exchange (Canada)

UCITS Undertaking for Collective Investment in Transferable Securities

Organisation chart

(31 December 2014)

- Divisions
- Sections and groups reporting directly to the division heads
- Internal Audit

Banks
Michael Schoch

- Supervision of UBS – Manuela Luzio a.i.
- Supervision of CS Group – Eva Aigner a.i.
- Supervision of Retail, Commercial and Trading Banks – Philippe Ramuz-Moser
- Supervision of Wealth Management Banks and Securities Dealers – Martin Bösiger
- Solvency and Capital – Reto Schiltknecht
- Risk Management – Thomas Hirschi
- Authorisation – Hansueli Geiger
- International Legal Issues and Case Management – Britta Delmas

Insurance
Peter Giger

- Supervision of Life Insurance – Eckhard Mihr
- Supervision of Non-Life Insurance – Markus Kreienbühl
- Supervision of Health Insurance – Markus Geissbühler
- Supervision of Reinsurance – Stefan Senn
- Supervision of Insurance Groups – Alain Kupferschmid
- Insurance Supervisory Law – Hans-Peter Gschwind
- Quantitative Risk Management – Hansjörg Furrer
- Qualitative Risk Management – Judit Limperger-Burkhardt

Board of Directors
Anne Héritier Lachat
Chair

Internal Audit
Nicole Achermann

CEO
Mark Branson

Markets
Léonard Bôle

- Directly Subordinated Financial Intermediaries — **Achille Babbi**
- Money Laundering and Financial Crime — **Dominik Witz**
- Supervision of Financial Market Infrastructure — **Andreas Bail**
- Market Analysis — **Léonard Bôle**
- Audit Firms — **Heinz Meier**

Asset Management
Michael Loretan

- Institutions and Products Bern — **Sandra Lathion**
- Institutions and Products Zurich — **Philip Hinsen**
- Supervision of Institutions and Products — **Daniel Bruggisser**
- Legal Expertise — **Tobias Weingart**
- Distribution — **Daniel Schmid**

Enforcement
David Wyss

- Investigations — **Patric Eymann**
- Proceedings — **Regine Wolfensberger**
- Insolvency — **Michel Kähr**

Strategic Services
Nina Arquint

Regulation
Noël Bieri

Legal and Compliance
Renate Scherrer-Jost
Kathrin Tanner

General Secretariat and Communications
Jan Blöchliger

International Affairs
Rupert Schaefer

Accounting
Stephan Rieder

Operations
Andreas Zdrenyk

Finance
Anita Koch

Human Resources
Adrian Röthlisberger

Information and Communication Technologies
Heinz Ruffieux a.i.

Facility Management and Procurement
Albert Gemperle

Change and Process Management
Sascha Rassl

Enterprise Risk Management and Internal Control System
Patrick Tanner

Procurement and Contract Management
Martin Portenier

FINMA's core values

Systematic supervisory activity
FINMA acts as a supervisory authority, protecting financial market clients and the proper functioning of the Swiss financial sector. Licensing, monitoring, enforcement and regulation are among its key tasks. FINMA adopts a risk-based approach to supervision that ensures continuity and predictability, fostering dialogue with supervised institutions, authorities, professional associations and other key institutions in and outside Switzerland.

Independent decision-making
FINMA is functionally, institutionally and financially independent, and acts in the public interest. It operates in an environment characterised by the diverging interests of various stakeholders. Acting on the basis of its statutory remit, FINMA preserves its autonomy and reaches its decisions independently.

Responsible staff
FINMA's staff combine responsibility, integrity and the ability to deliver results. They are skilled, flexible and can handle challenging situations. They take account of changes in their operating environment and respond with concrete measures that are timely and appropriate.

PUBLICATION DETAILS

Published by:
Swiss Financial Market Supervisory Authority
FINMA
Laupenstrasse 27
CH-3003 Bern
Tel. +41 (0)31 327 91 00
Fax +41 (0)31 327 91 01
info@finma.ch
www.finma.ch

Annual financial statements:
The FINMA annual financial statements for 2014 are published separately.

Photography:
– Stefano Schröter, Lucerne*: pp. 88/89;
– Beat Schweizer, Bern: pp. 2, 91, 93;
– Thies Wachter, Zurich*: outer cover, pp. 6/7, 20/21, 36/37, 97, 100/102;
– Inner cover: Getty Images (photos 6, 8, 9) and Keystone (photos 1, 2, 3, 4, 5, 7, 10)

* Photographs featuring financial institutions are of a purely illustrative nature.

Design:
evoq communications AG, Zurich

Printed by:
Neidhart + Schön AG, Zurich

03.15 200 860348550