

Annual Report



FINMA's mandate and core values

FINMA is an independent supervisory authority with the legal mandate to protect clients and ensure the proper functioning of the financial markets. FINMA thus contributes to enhancing the reputation, competitiveness and future sustainability of the Swiss financial centre.

FINMA supervises banks, securities firms, insurance companies, financial market infrastructures, collective investment scheme products and institutions, entities under the Financial Services Act and the Financial Institutions Act, in addition to insurance intermediaries. It carries out its activity independently and in a consistent manner. Its staff are responsible, have high standards of integrity and are able to deliver results. In its role as supervisor, FINMA adopts a risk-oriented approach. Its activities cover the following areas:

Licensing

FINMA is responsible for licensing companies operating in the sectors it supervises.

Supervision

FINMA monitors permanent compliance with statutory regulations and licensing requirements. It is also responsible for combating money laundering. In addition, together with the trading venues, it supervises compliance with market conduct rules as well as the disclosure of shareholdings at listed companies.

Enforcement

To enforce supervisory law FINMA conducts proceedings, issues rulings, implements sanctions and is the body to which appeals against decisions of the Swiss Takeover Board may be brought. Where wrongdoing is suspected, it files criminal complaints with the competent criminal authorities.

Resolution

FINMA is responsible for the restructuring proceedings and bankruptcies of companies subject to financial market laws.

Regulation

Where it is authorised to do so and when necessary to meet its supervisory objectives, FINMA issues its own ordinances. It also publishes circulars detailing the interpretation and application of financial market law.

International activities

FINMA fulfils the cross-border tasks that are related to its supervisory activity. It represents Switzerland in international fora and cooperates with foreign regulators.

2021 in milestones

Marlene Amstad takes up her duties as Chair of FINMA's Board of Directors.
p. 78

Regulations implementing FinSA and FinIA come into force.
p. 30, p. 47 ff., p. 83 ff.

FINMA welcomes small banks to the annual symposium, held in an entirely digital format for the first time.
p. 73



For the first time, all of the domestic systemically important banks now have credible resolution strategies.
p. 58

FINMA opens enforcement proceedings against Credit Suisse in connection with the "Archegos" and "Greensill" cases.
p. 39

JANUARY

FEBRUARY

MARCH

APRIL

Banks around the world suffer large losses as a result of dealings with financial firm Greensill and hedge fund Archegos.

FINMA CEO Mark Branson is appointed President of the Federal Financial Supervisory Authority BaFin in Germany.



FINMA's Takeover and State Liability Committee **rejects** the appeal against the Swiss Takeover Board's ruling 750/02 regarding Swiss Steel Holding AG. **p. 56**

Established supervisory practice on supplementary health insurance regarding the protection of insured persons from abuse is integrated into a **circular**. **p. 64**

FINMA enables the **scanning of chips embedded in biometric identity documents for the purposes of digital client onboarding**. **p. 18**

Specific transparency obligations for climate risks come into force. **p. 28 ff.**

The Federal Council **approves the appointment** of Urban Angehrn as FINMA's new CEO with effect from 1 November 2021. **p. 80**

MAY

Diem Networks GmbH withdraws its application for authorization as a payment system in Switzerland, which was at an advanced stage. **p. 19**

JUNE

Negotiations commence regarding an agreement on cross-border market access for financial services between the United Kingdom and Switzerland.

JULY

AUGUST

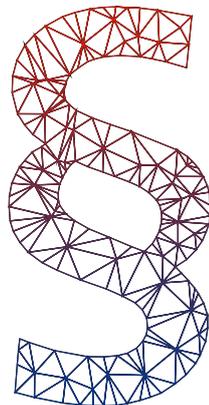
The Distributed Ledger Technology Act comes into force.

FINMA approves the first-ever stock exchange and central securities depository for the trading of tokens.
p. 20 f.

FINMA reports on the status of the LIBOR transition.
p. 38 f.

FINMA recognises the adjusted AMAS self-regulation as a minimum standard.
p. 47

FINMA approves the first crypto fund pursuant to Swiss law.
p. 48



FINMA concludes proceedings against Credit Suisse in connection with observation activities and Mozambique loans.
p. 53

The Federal Council appoints two new members to FINMA's Board of Directors.
p. 78

FINMA commits to implementing the relevant recommendations of the Network for Greening the Financial System.
p. 67

FINMA holds its third Asset Management Symposium on sustainable finance with a focus on greenwashing.
p. 73

The recovery plans of SIX x-clear and SIX SIS are approved for the first time, subject to conditions.
p. 59

FINMA concludes final enforcement proceedings in connection with the Venezuelan oil conglomerate PDVSA.
p. 53

SEPTEMBER

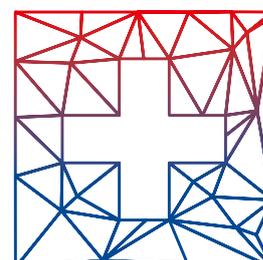
OCTOBER

NOVEMBER

DECEMBER

The Federal Council reinstates mandatory working from home.

The Swiss parliament adopts an amendment to the Banking Act concerning insolvency, deposit protection and segregation.



A financial centre founded on stability and focused on the future

The coronavirus pandemic prompted market turmoil on a global scale, putting the stability of the financial sector to a very severe test. The financial markets and most economies have since recovered. Nonetheless, the risks for the financial sector remain real and some risks have even increased. FINMA therefore remains committed to stability and is playing its part in laying down solid foundations for the future to build confidence among all participants in the Swiss financial market.

Stability promotes confidence

Following the financial crisis in 2008, financial regulation was overhauled worldwide to make financial institutions more resilient and thus bolster the stability of the financial system. These achievements underwent their first real test during the coronavirus pandemic. In-depth analysis by FINMA in recent months has demonstrated unequivocally that the increased capital and liquidity buffers have had an important stabilising effect on the Swiss financial institutions. The capital buffers proved to be particularly beneficial when the hedge fund Archegos inflicted losses ranging from significant to substantial on the two large Swiss banks. This event showed that the proportionality principle – i.e. requiring the large banks to hold bigger safety buffers – is an essential part of the regulatory architecture.

These crises have been dealt with successfully in recent months, but that should not lull us into a false sense of security. The Swiss financial market will inevitably face further challenges in future. The economic outlook remains uncertain and has the potential to erode the profitability of individual financial institutions over time. It is therefore notable that an important last building block of the regulatory architecture is still outstanding. The “Basel III” project addresses longstanding weaknesses in the banking sector and will make large institutions in particular more robust by regulating them in a proportionate manner. The imminent finalisation of the liquidity regulations for large banks also seeks to ensure that the Swiss financial centre is well-prepared for any future crises. Clients must continue to have confidence in the stability of the Swiss financial institutions.

Confidence in financial institutions is underpinned by good risk management and exemplary leadership. FINMA therefore puts considerable emphasis on these standards in its supervisory work. In 2021 we saw once again that shortcomings in business conduct, for example anti-money laundering, can severely damage a financial institution’s reputation. Where necessary FINMA’s enforcement activities have ensured that full compliance with the law is restored.

A solid foundation for the future – focus on sustainability and digitalisation

Stability and confidence will be equally indispensable to the Swiss financial centre going forward and deserve our protection. They provide security while also leaving space for innovation. FINMA engages in depth with the whole spectrum of issues the financial sector is set to face in the future.

The push for greater sustainability is particularly important in this regard. The disclosure rules on climate risks for large banks and insurers implemented by FINMA in mid-2021 are an important milestone in managing climate risks in the financial sector. Together with partner authorities in Switzerland and abroad, in academia and the financial industry, FINMA is continuing to work on making these risks more measurable. One of the strengths of the Swiss financial centre FINMA is keen to promote is that the promises made by sustainable products are consistently fulfilled. Therefore FINMA used the tools at its disposal to combat greenwashing in 2021.

Digitalisation will give rise to new risks and opportunities for financial institutions. FINMA has always approached innovative projects with an open mind and on the basis of the “same risks – same rules” principle. Current legislation in Switzerland, enhanced by recent additions, provides an excellent framework for this by ensuring appropriate protections combined with equal treatment of all participants on the financial markets. New developments such as projects in decentralised finance will pose new and different challenges to this framework and FINMA’s supervision. A high level of technical expertise will remain

central to how FINMA approaches this demanding task in future. FINMA strives to continuously optimise its internal processes via digitalisation, and its staff deepen their skills and knowledge through training. This strengthens FINMA's solid foundations for tackling the upcoming challenges.

This report provides an overview of FINMA's activities in 2021, highlights important milestones during the year and discusses FINMA's approach to regulation against the backdrop of its statutory responsibilities.



We hope you enjoy reading the report.

Prof. Marlene Amstad

Dr Urban Angehrn

Contents

Market developments and innovation

12 Market developments

- 12 Market developments among banks and securities firms
- 13 Market developments among insurance companies
- 14 Market developments in the Swiss fund market

18 Innovation

- 18 Digital client onboarding – keeping up with technological developments
- 18 Status of FinTech licence and implementation of DLT Act
- 19 Issue of stable coins by supervised institutions
- 19 Decentralised finance (DeFi)
- 20 Stock exchange and central securities depository approved for the first time for the trading of tokens
- 20 Artificial intelligence in the Swiss financial market

FINMA's core tasks

22 Wide public interest in FINMA's work

24 Focus of prudential supervision

- 24 Low interest rate environment
- 25 Trends in the real estate market
- 26 Governance
- 27 Findings from cyber supervision
- 28 Climate risks
- 30 Portfolio managers and trustees: supervising and monitoring supervisory organisations in taking the initial steps during the applicable transition period

32 Focus of conduct supervision

- 32 Money laundering supervision in the crypto area
- 33 Money laundering supervision in numbers
- 34 Trends in on-site supervisory reviews relating to money laundering
- 35 Greenwashing
- 36 Market integrity
- 36 Developments in relation to compensation from third parties
- 37 Register of advisers

38 Supervisory activity by sector

- 38 Banking supervision
- 41 Insurance supervision
- 45 Market supervision
- 47 Asset management supervision

52 Enforcement

- 52 Federal Supreme Court ruling regarding the appointment of audit mandataries by FINMA
- 52 Business conduct: conclusion of important money laundering enforcement cases
- 53 Enforcement proceedings for shortcomings in corporate governance and risk management
- 54 Restoring compliance with the law outside of enforcement proceedings
- 56 FINMA's Takeover and State Liability Committee: decisions with regard to Swiss Steel Holding AG
- 56 Provision of subsequent information to clients in administrative assistance proceedings

58 Recovery and resolution

- 58 Emergency planning at systemically important banks
- 58 Resolvability and rebates
- 59 Crisis management colleges
- 59 Recovery and resolution for financial market infrastructures
- 60 Significant insolvencies
- 60 Dealing with destabilised institutions

62 Regulation

- 62 Update on the implementation of “Basel III”
- 62 Revisions of FINMA ordinances
- 63 Revisions of circulars
- 64 Format compliance of FINMA regulation
- 65 Total length of regulations in 2021

66 International affairs

- 66 Financial Stability Board
- 66 Basel Committee on Banking Supervision
- 67 International Association of Insurance Supervisors
- 67 International Organization of Securities Commissions
- 67 Network for Greening the Financial System
- 68 Bilateral relationships

FINMA as an authority

70 FINMA's staff actively contribute to ensuring the safety and stability of the Swiss financial centre

72 FINMA in dialogue

- 72 Annual accountability
- 72 Provision of expert information to parliamentary committees
- 72 Discussions with important stakeholder groups
- 73 Expert panels and symposia with market participants
- 73 Enquiries
- 73 Public reporting

75 Audits on behalf of FINMA

- 75 Audit firms play a key role
- 75 FINMA mandataries – an important instrument for specific supervisory and enforcement issues

78 Board of Directors and Executive Board

- 78 The Board of Directors
- 80 The Executive Board

82 Staff

- 82 Preparation for the new post-pandemic normal
- 82 Measures to further promote equality
- 83 Update on gender diversity targets and measures
- 83 Staff expansion related to FinSA and FinIA
- 85 Staff turnover within defined limits

86 Operations

- 86 Workplace 2.0: hybrid working models and technical collaboration opportunities
- 86 Digitalisation and increase in electronic correspondence
- 87 Data strategy
- 88 Key environmental indicators
- 89 FINMA's operating costs

90 Abbreviations

Institutions and products overseen

Individuals or companies wishing to accept money from investors, offer insurance products, set up funds or operate in another manner in the Swiss financial markets must, depending on their activity, be licensed, recognised, authorised, approved or registered by FINMA. The statutory requirements and supervisory intensity vary depending on the type of authorisation concerned. In total, FINMA oversees some 30,000 institutions and products across several types of authorisation. Not all of those are supervised by FINMA directly.

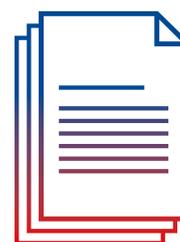
160 financial market infrastructures

180 securities firms

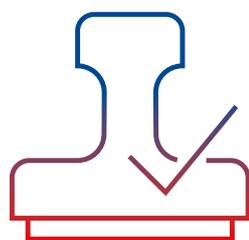
190 insurers and general health insurers

500 banks

420 fund management companies, managers of collective assets and custodian banks



10,210 collective investment schemes



20 self-regulatory and supervisory organisations, registration and reviewing bodies

18,180 insurance intermediaries

140 portfolio managers and trustees

30,000 institutions and products overseen

FINMA | ANNUAL REPORT 2021

Market developments and innovation

12 Market developments

18 Innovation

Market developments

The Swiss financial centre was once again strongly influenced by the pandemic and the continuing low interest rates in 2021. However, banks, insurance companies and asset managers held their own well in this challenging environment.

The economic environment for the Swiss financial centre remained challenging in the year under review. However, thanks to government intervention and the recovery of the economy, the downward risks due to the coronavirus pandemic did not materialise. Credit defaults were limited thanks to the low risk of loss for banks towards sectors that had suffered particularly from the consequences of the pandemic. While the banks' profitability increased, the continuing low interest rates once again proved a burden. Prices rose further in the real estate market, as did the volume of mortgages despite tightened self-regulation. The business of insurance companies was most strongly impacted by the coronavirus pandemic, followed by the major storm damage. The theme of sustainability generally gained importance, while the ongoing pandemic further advanced digitalisation in terms of both client contact and internal processes.

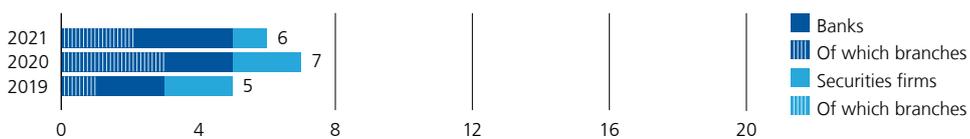
Market developments among banks and securities firms

Swiss banks and securities firms for the most part operated successfully in the year under review, despite the challenging environment. Thanks to government support packages and monetary policy interventions, the recession due to the coronavirus pandemic took a V-shaped course and the Swiss economy recovered rapidly.

The 2021 financial statements of banks and securities firms were sound. Despite relatively high growth of loans to customers, there were no major value adjustments, nor was there a marked reduction in provisions. The reasons for this included the monetary and fiscal support measures and the limited risk of loss for banks towards those sectors that had suffered strongly due to the pandemic. Regarding lending, the number of borrower insolvencies has so far been remarkably low despite the coronavirus crisis. The year under review accordingly saw the continuation of an unusually long phase without major credit defaults. However, the situation could change with the discontinuation of the support measures potentially delaying necessary structural change. Customer deposits rose again in 2021, prompting many institutions to reduce their criteria for passing on negative interest rates to both institutional and retail clients. The capital situation of Swiss banks was sound across all peer groups.

The profitability of the various groups of banks developed positively altogether in 2021. However, the return on capital¹ remained at a low level or even fell further. Retail banks fundamentally held up well in the challenging environment and stabilised their income; however, their return on capital fell even further from a low level. Margins remained under pressure, particularly among institutions with business

New licences



Market exits



¹Profitable means that a business yields a profit. Return on capital, by contrast, indicates the relationship between profit and the capital invested – i.e. how effectively the capital was used.

models heavily dependent on the interest margin business. Interest income was in many cases only kept stable thanks to quantitative growth of the lending business, particularly in the investment properties segment. The commission business and services continued to perform positively, but remained of minor importance for retail banks.

Wealth management banks recorded an increase in gross operating profit for the fifth year in succession in 2021. This was driven by the result from trading activities and commission. Assets under management increased significantly due to a net inflow of client assets and above all thanks to record price peaks at key stock exchange centres. The return on equity (RoE) of wealth management banks only rose slightly and thus remained stable, as has been the case for years.

Trends already observed for some time continued in the Swiss real estate market and were accentuated by the consequences of the pandemic. Despite ongoing high vacancy rates, investment properties remained highly sought after among investors due to the lack of alternative investment opportunities. Prices in the owner-occupied sector rose more sharply than in previous years due to the increased demand, now also visible on the outskirts of major centres. The tightened self-regulation in the funding of investment properties that entered into force at the beginning of 2020 had little impact on the volume of mortgages, which was 3.3% above the previous year's level. However, with regard to credit quality, the tightened self-regulation led to a significant decrease in the share of new mortgages with a high loan-to-value ratio (LTV) in this segment, as intended.

Compared with the previous year, the issue of sustainability rose further up the list of priorities for most supervised institutions. ESG topics (environment, social and governance) could in future lead to lasting

changes not only in the asset management business, but also in lending and investment banking.

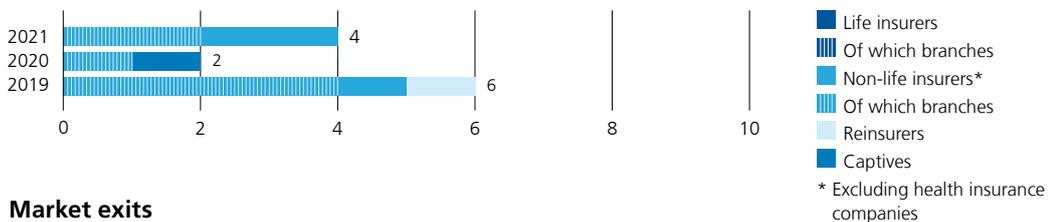
Furthermore, the pandemic accelerated digitalisation in terms of both client contact and internal processes. The ongoing digitalisation of the financial system and the entry of new players to the market are promoting new business models and driving the development of new services. The focus is on payment apps, asset management tools and automated processes for lending. On the one hand, FINMA observed at the institutions a trend towards more outsourcing, such as the use of cloud solutions instead of traditional data centres. At the same time it noted that new IT solutions enable the extensive integration of other service providers, especially FinTech companies. These IT solutions are dynamic, highly flexible, and use standardised technical interfaces.

Market developments among insurance companies

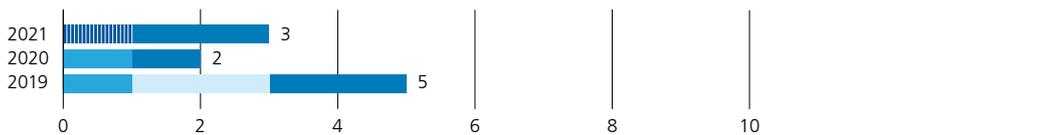
The insurance sector maintained good overall risk capacity according to the Swiss Solvency Test (SST) in the year under review (see "SST figures by insurance sector", page 42). The coronavirus pandemic was the most significant, but by no means the only challenge giving rise to uncertainty. Further challenges included the exceptionally high hail damage as well as new opportunities and risks in the cyber realm. Non-life insurers and reinsurers in particular responded swiftly and comprehensively to the circumstances, for example by adjusting their coverage. For life and health insurers, the persistently low interest rates, increasing life expectancy and possible turbulence on the overheated real estate market remained issues that required intensive risk management and needed to be taken into account in the valuation of investments and reserves.

The market developments in non-life insurance remained strongly impacted by the coronavirus pandemic in 2021. Mobility decreased due to employees

New licences



Market exits



working from home and limited travel opportunities, investments in the residential sector increased, online trading grew considerably, and there was a rising awareness of the growth of cyber risks. This led to new client expectations and posed both challenges and opportunities for insurers. Fears that the pandemic would exert a strongly negative impact on the overall economic situation and thus also significantly impair the non-life insurance industry proved unduly pessimistic.

With regard to severe weather events, 2021 was a year of exceptional losses. Comprehensive motor vehicle insurance and insurance against natural hazards in particular sustained losses that far exceeded the customary values. According to an estimate by the largest non-life insurers, storm-related losses exceeded expectations by around CHF 1 billion. Major hailstorms in June 2021 played a particular role here.

The global reinsurance sector sustained losses from disaster events in 2021 that were above the average of the last ten years. Hurricane "Ida" alone caused losses of around USD 30 billion. Generally speaking it was possible to establish higher premiums when renewing annual policies. A degree of consolidation was observed among reinsurers in Switzerland. The number of reinsurance companies decreased.

Supplementary health insurance generated stable year-on-year premium income of CHF 10.2 billion in 2021. Benefit payments fell by 4.6% from CHF 7.3 billion to CHF 7.0 billion. Increased payments under daily sickness benefits insurance were more than offset by reduced claims of supplementary health benefits of both an inpatient and outpatient nature.

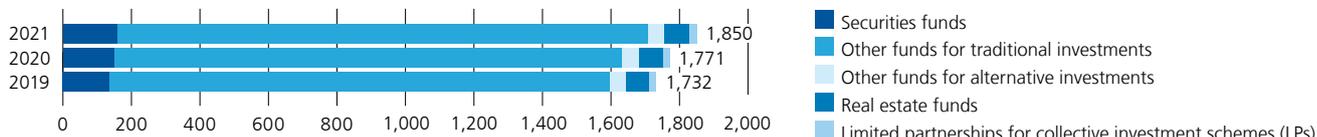
Licences were granted to four non-life insurers in the year under review, two of which were branches of foreign insurance companies. There were also seven market exits in total, four of which were caused by mergers. One life insurer and two reinsurance captives were released from supervision.

Market developments in the Swiss fund market

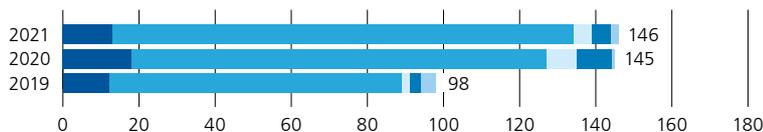
The friendly market environment, particularly on the stock markets, continued to have a positive effect on the asset management industry and the Swiss fund market. The dominant theme here was sustainable investing. The more robust economic development and good development of the financial markets meant that aggregate net assets under management by open-ended Swiss collective investment schemes reached a new peak of just under CHF 1,200 billion at the end of September 2021. Shares and bonds were the most significant asset classes with CHF 408 and 337 billion respectively. The number of approved

Swiss and foreign collective investment schemes also developed positively, reaching new peaks of 1,850 Swiss and 8,360 foreign collective investment schemes as at the end of 2021. A five-year comparison of the net assets under management according to fund type reveals that other funds for traditional investments and in particular other funds for alternative investments saw above-average growth. Despite ongoing margin and cost pressure, the number of licensed institutions and specifically managers of collective assets increased further. FINMA also licensed two representations of foreign managers of collective assets for the first time in the year under review.

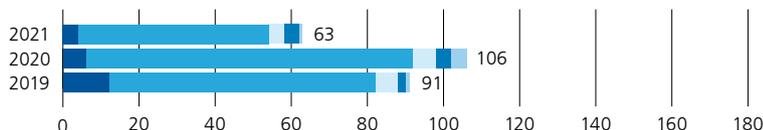
Total Swiss funds



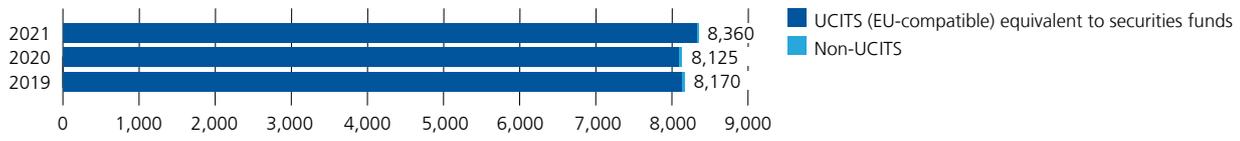
Market entries of Swiss funds



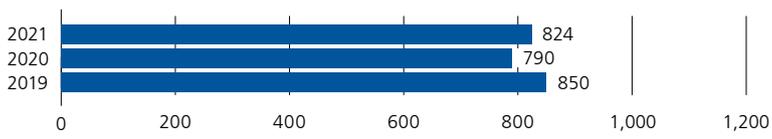
Market exits of Swiss funds



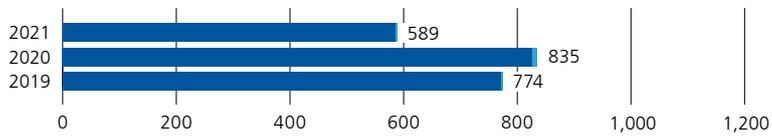
Total foreign funds



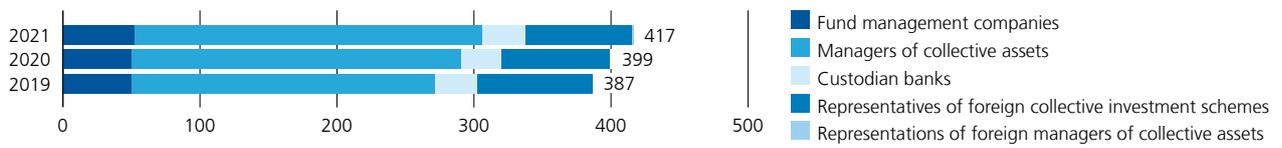
Market entries of foreign funds



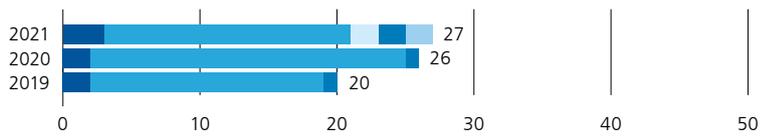
Market exits of foreign funds



Total institutions



Market entries of institutions



Market exits of institutions



Innovation

Technological innovation is also opening up a wide range of opportunities for new and enhanced processes and business models in the financial markets. FINMA actively monitored these innovations in 2021 in order to offer financial institutions modern regulatory conditions adapted to the technological possibilities.

FINMA updated the circular for the online client identification process in the year under review. It also further developed the regulatory principles with the Distributed Ledger Technology (DLT) Act. For the first time it authorised two financial market infrastructures based on DLT, and four institutions had obtained the FinTech licence launched in 2019 by the end of 2021.

Digital client onboarding – keeping up with technological developments

Digitalisation is providing companies with increasing opportunities for process optimisations and efficiency gains that also stand to benefit their clients. FINMA is open to such developments. It set out its practice for enabling new clients to be identified digitally for the first time back in 2016 in [Circular 2016/07 “Video and online identification”](#). The requirements for effectively preventing money laundering need to be met and the specific risks in the digital environment taken into account. In order to facilitate modern processes adapted to the technological possibilities, the circular is regularly adjusted to reflect technological developments. This has already happened twice since it entered into force in 2016.

Compared to in-person interactions, the digital sphere entails higher risks of false documents (that are genuine but originate from a third party) or fraudulent documents (that have been manipulated) being used. Financial intermediaries therefore have to implement specific security mechanisms for video or online identification. Technological developments are enabling these security mechanisms to be improved and designed more efficiently.

One such development was included in the revision of the circular in 2021 for the online client identification process. Previously, financial intermediaries were obliged to check the identity of a client by means of a bank transfer from an existing bank account. As an alternative, the identity of clients can now be verified

using a biometric passport chip. Financial intermediaries can also now use geolocation to verify home addresses.

Status of FinTech licence and implementation of DLT Act

The FinTech area is continuing to develop from a regulatory perspective. In the year under review, new experience was gained with the FinTech licence that entered into force in 2019. At the same time, the regulatory principles for the Distributed Ledger Technology (DLT) Act were further developed, with the DLT trading facility offering a new licence type for innovative business models.

Experience with the FinTech licence

The FinTech licence in accordance with the Banking Act (Art. 1b BA) entered into force at the start of 2019. Four institutions had obtained this licence by the end of 2021. The licensing procedure for three of these four institutions was conducted in the year under review. It appears that the FinTech licence is particularly attractive for innovative service providers in the area of payment transactions. The lower requirements compared with a banking licence take account of the lower prudential risks of payment service providers. The lower requirements facilitate access to the financial market. These simplifications continue to attract interest in the licence. FINMA has therefore conducted a large number of meetings with potentially interested parties, including in the year under review. However, some interested parties are reconsidering when they realise that despite the simplifications mentioned the applicants still have to fulfil stringent requirements. While the capital and organisational requirements are significantly reduced compared with a banking licence, no concessions are made in terms of the anti-money laundering requirements, as payment services pose high inherent money laundering risks. The requirements placed on applicants should therefore not be underestimated. Interested parties are advised to study the statutory

requirements in detail and if necessary to obtain expert advice.

Changes brought about by the DLT Act

The entry into force of the Federal Act on the Adaptation of Federal Law to Developments in Distributed Electronic Register Technology (DLT Act) on 1 August 2021 extended the scope of application of the FinTech licence to certain deposit-taking activities of payment tokens. Furthermore, the DLT trading facility pursuant to the Financial Market Infrastructure Act (Art. 73a ff. FinMIA) also created a new financial market infrastructure for the multilateral trading of DLT securities (standardised book-entry securities suitable for mass trading that are held on a blockchain and can be transferred). In contrast, for instance, to stock exchanges, a DLT trading facility can also admit end customers as participants and also offer settlement and custody services alongside trading. This combination of activities that were previously not compatible serves to create scope for innovative new business models. However, it also entails a wide range of requirements for applicants. FINMA has therefore published [detailed guidelines](#) on its website. No supervisory experience has so far been gained with the new rules.

Issue of stable coins by supervised institutions

In September 2019, FINMA published an initial indicator in its [supplement to its guidelines for enquiries relating to initial coin offerings](#) of how in its supervisory practice it would assess stable coins under Swiss supervisory law. The “Libra/Diem” project, which enabled FINMA to develop its practice and expectations placed on issuers of stable coins and payment systems based on stable coins, is of particular note here. Libra/Diem decided during the year under review to launch the payment system from the USA due to the fact that the USA was intended to be an important target market, with the project set to be based solely on a stable coin linked to the dollar. FINMA remains involved with stable coin projects

of existing institutions and start-ups. It responded to a large number of enquiries for such projects in the year under review. While most of these came from institutions with no financial market licence, some supervised banks also approached FINMA with stable coin projects.

When responding to these enquiries from banks, in each case FINMA conducted an overall assessment of the risks, particularly including the risks posed to the integrity of the financial market. If a bank wishes to issue stable coins on a transaction system with open access such as Ethereum, the increased money laundering and reputational risks must particularly be taken into account. Due to the open nature of such systems, the issuing institution only retains control after the stable coin has been issued in the event of a potential redemption against the underlying value. The anti-money laundering due diligence obligations can accordingly only be met vis-à-vis the first and the last person to dispose of the stable coin. Intermediate persons buying or selling the stable coin on the open platform lie outside the control of the issuing institution. This risk can create reputational damage for both the institution concerned and the entire Swiss financial market.

In order to address these risks, contractual and, where appropriate, technological transfer restrictions are required for the issue of stable coins by supervised institutions. All persons disposing of stable coins must be sufficiently identified by the issuing institution or by adequately supervised distribution partners in order to comply with the due diligence obligations under the Anti-Money Laundering Act for all transactions with stable coins.

Decentralised finance (DeFi)

Many projects submitted enquiries to FINMA from the emerging area of “decentralised finance” in the year under review. This term describes a new form of openly accessible financial services. The develop-

ment, which has become known by the abbreviation “DeFi”, is linked to open-access, programmable blockchain systems in the form of smart contracts. DeFi has so far emerged particularly in the form of DeFi applications that facilitate financial market services such as the trading of tokens and the lending business. DeFi is largely based on peer-to-peer models. Traditional intermediaries such as banks and securities firms therefore do not play any role. Any service in the financial market that can be realised as a computer program can in principle also be implemented as a DeFi application. Unlike traditional financial market services, there are no individually identifiable or controlling operators for genuine DeFi applications.

When processing enquiries, it is important to distinguish projects without identifiable operators from those that describe themselves as DeFi but are actually organised and controlled centrally and therefore similar to traditional financial market intermediaries. Such projects fall within the scope of financial market law. The specific enquiries to FINMA concerned trading platforms via which tokenised securities or cryptocurrencies can be traded. When responding to such enquiries, FINMA utilises the following approaches:

- FINMA applies the existing rules to DeFi applications and in doing so abstracts from the use of specific technologies or procedures (principle of technology neutrality).
- If a DeFi application offers the same service and poses the same risks as intermediaries in the traditional financial market, FINMA also applies the same rules (same risks, same rules).
- If, from an economic perspective, a DeFi application offers an activity under financial market law that would require licensing, FINMA also assumes a licensing requirement in the case of new types of technical or legal implementation (substance over form).

Stock exchange and central securities depository approved for the first time for the trading of tokens

On 10 September 2021, FINMA issued two approvals to operate financial market infrastructures based on distributed ledger technology (DLT): one to SIX Digital Exchange AG to act as a central securities depository and one to the associated company SDX Trading AG to act as a stock exchange. The Swiss financial centre thus for the first time has infrastructures that facilitate the trading of digitalised securities in the form of tokens and their integrated settlement. FINMA applied the existing provisions of financial market law in a technology-neutral way here in keeping with the “same risks, same rules” principle.

The licences granted took the traditional route, namely approval to act as a stock exchange and central securities depository in accordance with the Financial Market Infrastructure Act. They have facilitated a close-knit value chain ranging from issue and trading through to the settlement and custody of tokenised assets. After exchange execution, transactions are settled gross and immediately. There is no clearing by a central counterparty of the transactions to be settled. Furthermore, owing to the close linkage of trading and settlement, stock exchange transactions only become legally binding once the central securities depository has fully settled them from existing stocks of the participants. The SDX offering is aimed at supervised financial institutions.

Artificial intelligence in the Swiss financial market

The area of “artificial intelligence” (AI) and in particular “machine learning” has seen spectacular progress in the last decade. On the one hand, machine learning has enabled new connections and problem solutions to be found in the form of practically implementable algorithms that without these technologies would have remained concealed. On the other

hand, it is often not possible to explain in detail how some of these algorithms are discovered by the machine. In isolated cases, these algorithms result in errors that are difficult to explain. There are also examples of such algorithms that – unintentionally – lead to systematic discrimination.

Owing to the abundance of data, the financial market offers a promising field for the use of AI. Based on surveys at selected banks, FINMA compiled an initial review of the areas of use for AI applications in the year under review. These include

- client and transaction monitoring, for instance with regard to money laundering, credit card misuse and payment transaction fraud;
- portfolio analysis and suitability analysis;
- trading systems and trading strategies;
- process automation for document processing, IT or human resource management and deployment in marketing and sales promotion.

FINMA is planning further work and analyses in 2022 concerning the use of these technologies in areas relevant to supervisory law. It will concentrate on data management, governance and the control environment of the applications.

A detailed survey of one hundred Swiss insurance companies conducted by FINMA showed that AI is already widely used in this sector (see page 44). The insurers use it mainly in customer interactions, as well as in claims processing and distribution. AI is also used for pricing applications. In relation to governance, the insurers have begun to set up committees to professionalise and further develop their AI-specific processes.

FINMA has also developed initial applications based on AI that are used to support data-driven supervision. These tools have been used for a number of years and include automated data evaluation for analysing irreg-

ularities. Such applications can be found in the Asset Management division with respect to certain investment vehicles and in the Banks division in connection with selected financial institutions.

Wide public interest in FINMA's work

Over 6,600 clients, investors, lawyers and other interested parties contact FINMA by phone or in writing every year. The questions they ask are generally about their bank or insurance policies, unauthorised financial market players, and licensing issues. These contacts provide FINMA with valuable information for its supervisory activities and the action it takes against unauthorised providers.

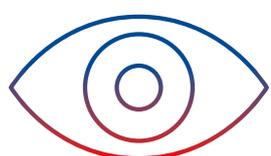
22

FINMA's core tasks
FINMA | Annual Report 2021

6,671
enquiries

1,255
supervisory-related enquiries

2,539 enquiries about
authorised institutions
(banks, insurers, etc.)

 **1,422**
unauthorised institutions reported

1,462 regulatory enquiries

FINMA's core tasks

24 Focus of prudential supervision

32 Focus of conduct supervision

38 Supervisory activity by sector

52 Enforcement

58 Recovery and resolution

62 Regulation

66 International affairs

Focus of prudential supervision

By means of its forward-looking prudential supervision activity, FINMA monitors how financial institutions are dealing with current and future risks as well as the measures they are taking to protect their clients. In the year under review, the supervisory work has focused, above all, on the continuing low interest rates and the trends in the real estate market, as well as on cyber risks and climate risks.

Thanks to government support packages and monetary policy interventions, the coronavirus pandemic caused less economic damage than had been feared during 2021. However, it contributed to expansionary monetary policy and, in some cases, increased the risks faced by the financial centre. Consequently, FINMA once again made interest rate movements and the real estate market priority areas for its prudential supervisory work. It also focused on cyber security and corporate governance. In connection with the transitional periods stipulated in the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA), particular attention was paid to portfolio managers and trustees.

Low interest rate environment

FINMA considers the risks arising from the persistently low interest rate environment to be one of [six top risks](#) for the financial market and is carefully monitoring the developments in various sectors.

Focus on interest rate movements and inflation

The expansionary operating conditions on the money and capital markets have intensified even further as a result of the coronavirus crisis. Consequently, the pathway towards normalisation has now become even more challenging and will therefore involve higher risks. Following a long downward trend in long-term interest rates, a relatively strong counter movement was seen for the first time during February of the year under review. Interest rates sank again until the summer, however, and consequently the ten-year market interest rate became negative (–0.18%) once more; but then, from September, it began to climb back into positive territory once again. The emerging higher inflationary trends may lead to an adjustment in the very expansionary money and capital market policy, particularly in the US or the EU. Rising inflation rates in these economic regions mean that there is an increasing level of uncertainty in relation to the future interest rate trajectories of the respective central banks, and that interest rate rises have become more likely.

Risks associated with the low interest rate environment remain unchanged for banks and insurance companies

In the year under review, the persistently low interest rate environment and the flat yield curves continued to have a negative impact on the profitability of banks operating in the interest margin business. The measures taken by banks to stabilise earnings – such as increased credit volumes, fee increases, the increasing practice of passing negative interest rates on to clients, or cost-reducing measures such as outsourcing or consolidations – involve various risks.

For life insurance companies, the process of generating the returns required in connection with legacy insurance contracts, as well as when entering into profitable new business transactions, has remained challenging. In order to cover long-term guarantee commitments, the insurance companies purchase long-term bonds yielding very low interest rates. This means that the low yields set at the acquisition date are fixed for several years. The low interest rate environment has also resulted in decreased demand for life insurance products with saving components and interest rate guarantees, since the interest rate guarantees have adapted to the low interest rate environment. Clients are increasingly choosing products for which they bear the investment risk themselves. The low interest rate environment continues to pose a risk in respect of certain business models based on insurance products with a saving component.

The risk-bearing capacity of supervised institutions is a priority of supervision

During 2021, FINMA's supervisory work in relation to banks focused on identifying institutions with potentially excessive interest rate risks (also known as outlier institutions), and on conducting specific, on-site supervisory reviews and stress tests. In this respect, increased attention was paid to the capacity to bear short- to medium-term yield risks under various interest rate scenarios. FINMA also conducted

regular monitoring to establish how, and under what conditions, banks were passing on negative interest rates to their clients, which may pose risks to ensuring stable refinancing.

Excessive interest rate risks were highlighted in discussions with certain individual banks, most of which subsequently implemented risk-mitigating measures. Implementing such measures frequently involved the use of interest rate swaps to hedge against interest rate risks, or the use of Pfandbrief loans to make adjustments to the balance sheet structure. In individual cases capital add-ons were also effected in order to ensure an adequate risk-bearing capacity. During the course of on-site supervisory reviews, FINMA identified some individual banks that also needed to make improvements to their implementation of the revised regulation that entered into force at the beginning of 2019 ([Circular 2019/02 "Interest rate risks – banks"](#)). The relevant banks were called upon to make the necessary adjustments and FINMA will monitor and support the implementation of its recommendations.

As part of its ongoing supervisory role, which includes auditing insurance reports, FINMA has carried out monitoring to ensure that insurance companies are not providing guarantees which would be unlikely to be met, given their amount or duration. It also conducted checks to ensure that adequate provisions were in place to cover the incurred liabilities. These checks were performed as part of the annual review of provisions and, in the event of any irregularities, through institution-specific on-site supervisory reviews. FINMA also advocated for improved transparency towards consumers.

Trends in the real estate market

The substantial risks in the mortgage and real estate markets were further accentuated as a result of the price increases during 2021. The strong demand seen in the tenant market – also during the coronavirus

pandemic – at least helped to ward off further increases in the risks faced by the residential investment property sub-market. In the owner-occupied housing market, the rate of growth in real estate prices attained levels last seen eight years ago, which was attributed to brisk demand coupled with a depleted level of supply in this sector. As incomes have remained stable, the gap between residential house prices and wages has increased even further. FINMA therefore continues to regard a potential correction on the real estate and mortgage market as one of [six top risks](#).

Banks accelerate the expansion of mortgage volumes

The banks have responded to falling interest margins and increased competitive pressure by improving efficiency and, above all, by expanding volumes, including in the mortgage sector (+3.3% compared with the previous year). In the case of domestic mortgages, they maintained their market share² of approximately 94%. The market share of insurance companies – for which limits in tied assets have a restrictive effect – decreased slightly to below 4%. Alongside the accelerated volume expansion, FINMA observed an increase in the affordability risks associated with the granting of new mortgages, particularly in the residential investment property sector.

FINMA imposes stricter loan criteria and increases use of data-driven supervisory techniques

On 1 January 2020 the Swiss Bankers Association introduced stricter self-regulation requirements on the maximum loan-to-value ratio for new financing loans for investment properties, not least as a result of the additional involvement of FINMA. This tightening has already led to a reduction in banks' mortgage portfolio risks – including during the year under review. FINMA monitored compliance with the stricter requirements and took action in cases where banks had not adequately implemented these adjust-

² Sources:
SNB: Year-end statistics;
FINMA: Insurance market
report 2020; FSO: Pension
fund statistics 2019.

ments. Furthermore, FINMA strongly recommended that the stricter requirements should also be applied to the buy-to-let financing sub-segment, which is not officially covered by the self-regulation. During the course of implementing the final provisions of "Basel III", FINMA also called for an improvement in the risk sensitivity of the capital requirements for mortgages.

FINMA utilised its regular supervisory instruments, such as on-site supervisory reviews and stress tests, in order to identify elevated risks affecting individual supervised institutions in connection with the real estate and mortgage market. The above two approaches prompted the institutions concerned to implement risk-mitigating measures in the areas of lending and risk management as well as in their internal directives. In this regard, FINMA has improved its data-driven supervisory techniques in the credit area through the addition of new monitoring tools. Besides the increased use of existing data sources, it also investigated the use of additional information on credit portfolios.

Governance

In the year under review, FINMA continued with its intensified supervision aimed at enhancing the corporate governance of large banks and insurance companies (see also: [FINMA Annual Report 2019](#), page 22, and [FINMA Annual Report 2020](#), page 33).

Implementation of the supervisory approach for banks

In the banking sector, the weaknesses that were identified during the course of 2020 in the corporate governance systems of the five "outlier institutions" were remedied. For all banks in supervisory categories 1 to 3, FINMA has made further progress with systematically addressing the strategic action areas defined at the end of 2020. The issues relating to bank governing bodies with multiple mandates and to the handling of conflicts of interest were compiled

into a questionnaire, which was sent to the institutions for a one-off self-assessment. The first evaluation results are expected by mid-2022. The issue of "checks and balances" within operational management was scrutinised more closely as part of the periodic analysis of the management structures of institutions in the supervisory categories concerned. Unbalanced management structures will be corrected. The question of when and how the third action area aimed at managing the overall composition of the bank councils of cantonal banks will be dealt with remains open.

To address the procedures for effecting changes to bank governing bodies, FINMA has published a set of [Guidelines](#), which it prepared in consultation with the Swiss Bankers Association. As a form of guidance for the supervised institutions, this provides a transparent explanation of FINMA's current practice for dealing with changes to governing bodies. Verifying that the requirements for irreproachable business conduct are met continues to consist of the two elements of professional suitability (fitness) and personal integrity (properness). Institutions are now required to submit the requirements profile as well as explanations with regard to the selection process and the suitability assessment performed in respect of the candidate.

Corporate governance supervision in the insurance sector

During the year under review, FINMA also used a structured procedure to assess key aspects of corporate governance within insurance companies. Data collected from the insurance companies served as the main basis for this assessment. The latter focused on the company-wide management and control mechanisms, the modus operandi of the board of directors and the operational executive board, as well as the independence and responsibilities of the supervisory functions. This data collection process was performed for all insurance companies and insurance

groups or conglomerates that are subject to institutional supervision by FINMA, including branches of foreign insurance companies. Reinsurance captives were not included.

The assessment findings revealed that most insurers have generally sound corporate governance structures. For those companies demonstrating significant weaknesses, FINMA specified the corrective actions to be taken in each case. Across the institutions, it identified the most significant weaknesses in the areas of fitness and properness (professional and personal suitability) as well as potential conflicts of interest for persons providing a guarantee for proper business conduct. These topics remain a focal point of corporate governance supervision.

In addition, FINMA reviewed its tools for supervising corporate governance in insurance companies and introduced some further developments, e.g. in the area of monitoring to ensure that governing bodies have appropriate professional knowledge and experience, and are composed of members who have adequate time availability, as well as in the area of handling conflicts of interest.

Corporate governance supervision in the asset management sector

After conducting a survey on various aspects of corporate governance at selected institutions in the asset management sector during 2020, FINMA assessed all of the fund management companies and managers of collective assets during 2021. FINMA displayed the results on a heat map, which provided an overview of the potential action areas and indicated outliers. In particular, FINMA identified isolated institutions that showed signs of a de facto concentration of power in the CEO. Corporate governance also presents a challenge when the licensee is an integrated part of a financial group with dependent board members, dual reporting lines and intra-group delegations and bodies. Such findings

were incorporated into the process for ongoing supervision of the institutions. No urgent need for action was identified among the remaining fund management companies and managers of collective assets, even if potential for improvement was identified in the case of various institutions.

Findings from cyber supervision

During the year under review, successful cyber attacks on established companies from all industry sectors, both in Switzerland and the rest of the world, were reported in the headline news. FINMA has also observed an increasing number of reported cyber attacks. Since the entry into force, in September 2020, of the clarifications on the duty to report cyber attacks, as published in [FINMA Guidance 05/2020](#), a total of 95 cyber attacks of substantial importance for the affected institutions have been reported. The worst-affected institutions were banks, followed by asset managers and insurance companies.

FINMA continues to regard cyber risks as one of the principal risks faced by the Swiss financial centre. During the year under review, it has therefore allocated further resources to this area. Compared with 2020, FINMA also conducted a significantly greater number of cyber-specific on-site supervisory reviews.

Findings from on-site supervisory reviews and reported cases of major cyber attacks

Supervised institutions are paying increasing attention to cyber risks, which they very frequently identify as one of their main risk areas. Between 2019 and 2021 FINMA almost tripled the number of on-site supervisory reviews conducted at institutions. A further increase in the number of reviews is planned for the year 2022. However, during the year under review, it was also established that some supervised institutions were failing to provide regular reports on these risks to their executive board or their board of directors.

With regard to identifying institution-specific potential threats from cyber attacks, some institutions lacked a clear definition of the scope and content of their critical and/or sensitive company-specific data. Consequently, these institutions reported difficulties in implementing the targeted protective measures.

To gain a more comprehensive and realistic insight into the capacities of institutions to withstand cyber attacks, FINMA's cyber supervision encompassed, for the first time, two different threat-based scenario analyses during the year under review. Firstly, the processes for detecting and responding to a cyber attack were tested by means of tabletop exercises, which simulate attack scenarios. Secondly, FINMA commissioned specialists to conduct scenario-based tests under controlled conditions and in consultation with the institutions.

The majority of the findings from the on-site supervisory reviews concerned the protection of business processes and technological infrastructure. Some supervised institutions showed room for improvement in the areas of cyber training and awareness. In order for the protective measures to be effective, it is essential to ensure that employees at all hierarchical levels are kept regularly informed about the cyber risks and that they know and understand the most common methods of attack, such as phishing; they must also know who to contact within the company if they spot any signs of a cyber attack.

More than half of the received reports of cyber attacks of substantial importance involved attacks on availability through distributed denial of service (DDoS). Since the reporting obligation was introduced in September 2020, three waves of DDoS have been observed in total. In particular, the first wave in September 2020 had serious consequences and, in some cases, affected the availability of remote-working infrastructure, online services, email infrastructure and other systems. Some institutions

had neglected their defence mechanisms in this area. The second most frequent reporting category involved attacks on third parties. Approximately 25% of the affected supervised institutions were not attacked directly; instead, they were attacked indirectly via their key service providers.

With respect to the identification and logging of cyber attacks, it was clear that some institutions had been failing to monitor their technological infrastructure in a timely and systematic manner. In some cases critical log data was not being analysed, or such analyses were being performed only during office hours.

In the year under review, most institutions implemented precautionary measures to ensure the prompt restoration of normal business operations following extraordinary events. In many cases, however, there was still a lack of specific measures for restoring operations following cyber attacks.

Climate risks

As part of its strategic goals for the period 2021–2024, FINMA is making a contribution towards the sustainable development of the Swiss financial centre. Overall, financial institutions and supervisory authorities across the globe are still in the process of developing established practices with respect to climate risks. Inspired by international developments, FINMA took further steps during the year under review that are intended to drive this process forward for the Swiss financial centre.

Supervisory approaches

During 2021, FINMA continued to encourage supervised institutions to take appropriate measures to address climate risks. It is primarily the responsibility of the institutions to identify and reduce these risks and to develop their risk management accordingly. In this respect, the supervisory approach is generally comparable to the approach adopted for other risk drivers, and it is risk-based and proportionate.

Alongside other measures, the priority areas during the year under review included continuing the discussions with the largest supervised institutions on how their climate-related financial risks can be addressed, as well as the formulation and further development of supervisory approaches for monitoring the climate risk management systems of banks and insurance companies. These approaches form the basis for the targeted application of existing supervisory instruments and measures in the area of climate-related financial risks, and are generally aligned with the relevant guidelines issued by international standard-setting bodies. The initial approaches developed during the year under review will be applied for the first time in 2022, particularly in order to ensure compliance with new disclosure requirements. However, the supervisory work also encompasses other aspects, such as reviewing the risk management system or ensuring that the governance of the supervised institutions takes adequate account of climate risk issues.

In parallel, FINMA intends – during the course of the coming years – to further develop and continuously refine its supervisory practices by means of an iterative process. In doing so, the experiences from the specific application of these approaches will be taken into account, in consultation with the supervised institutions, as well as developments and advances at the international level.

“Measuring climate risks” pilot project in collaboration with the SNB

In the year under review, FINMA continued to address the core question of how to quantify climate-related financial risks resulting from the transition to a more climate-friendly economy. In the course of a joint project, FINMA and the Swiss National Bank (SNB) analysed the impact of a range of transition scenarios on the portfolios of the two largest banks. They analysed the banks’ exposure from securities and loans where the counterparties are in those sec-

tors of the economy that are sensitive to climate policy developments, and also conducted climate-related scenario analyses. The analyses were carried out between May 2020 and December 2021 in cooperation with the University of Zurich.

Objectives and methods

FINMA and the SNB had two objectives: firstly, to gather experience in the field of climate-related scenario analysis, and secondly, to obtain a more precise picture about climate-related transition risks for the two largest banks. The pilot project also implemented the recommendation by the Basel Committee on Banking Supervision (BCBS) on climate-related scenario analysis.³

After evaluating a variety of methodologies, FINMA and the SNB opted for the approach developed by Professor Battiston (University of Zurich).⁴ This approach was refined in cooperation with the University of Zurich and applied to the data of the two largest banks. The analysis required a specific data survey at these banks, where information about business loans, shares and corporate bonds (including derivatives) on the banks’ balance sheets was collected.⁵

The Battiston scenario analysis approach models sudden changes in the expectations of market participants worldwide relating to a range of transition scenarios. The basis is a scenario that does not feature any new policy measures. This is compared with the market expectations for scenarios based, for example, on greenhouse gas emissions of net zero by 2050 or a delayed transition starting in 2030. The changes in market participant expectations in these scenarios lead to the revaluation of the financial instruments in the banks’ balance sheets. Financial instruments issued by companies that depend on fossil fuels are particularly impacted.

The transition scenarios used in the model were developed by the Network for Greening the Financial

³Principle 18 of the BCBS consultation paper “Principles for the effective management and supervision of climate-related financial risks” states in particular that supervisors should use climate-related risk scenario analysis to identify relevant risk factors, the size of portfolio exposures and potential data gaps, and (where appropriate) should disclose the findings.

⁴Cf. Professor Battiston’s climate stress-test (Battiston et al. 2017, *Nature Climate Change*) and subsequent developments (Roncoroni et al. 2021, *Journal of Financial Stability*; Battiston et al. 2021, *Science*). A more complete list is available online.

⁵Assets managed for third-party account, loans to private households (for example, mortgages) and government bonds were not part of the analysis.

System (NGFS) and are now used by supervisory authorities as benchmarks. For comparative purposes, a stress test methodology developed by the Netherlands Central Bank (DNB) was additionally implemented.⁶

Results

Aggregated across the two largest banks (UBS and Credit Suisse), about a quarter of the portfolios analysed were exposed to sectors of the economy that are particularly susceptible to transition risks.⁷ Compared with the market as a whole (market capitalisation based on a leading index provider), the banks do not exhibit any significant concentrations in the individual sectors of the economy. Their exposure to the carbon-intensive sectors is low. For example, coal producers only account for around 0.2% of portfolios, aggregated across the two banks.

The scenario analyses provide initial indicators for estimating transition risk.⁸ To obtain a more accurate estimate of the materiality of climate risks for banks, however, a more detailed survey would be necessary. This relates in particular to how long time horizons are dealt with and the impact of transition scenarios on companies and banks. Likewise, assumptions about market and bank expectations that have already been priced in and the effect of previously unconsidered transactions on potential climate-related losses (for example, commission and mortgage transactions) need to be taken into account. Physical risks also need to be considered.

Corresponding studies at an international level will also be important for answering these questions.

Outlook

The results of the pilot project will flow into the overall assessment of climate-related transition risks at large banks and into FINMA's supervisory dialogue with the banks.⁹ In light of the high level of uncertainty surrounding the transition to a low green-

house-gas-emitting economy, the financial institutions should also consider extreme but plausible scenarios and estimate their impact on their business models and risk positions. FINMA and the SNB will continue to address quantitative approaches for measuring climate risks. They will follow corresponding studies at the international level and contribute to answering the questions discussed.

Portfolio managers and trustees: supervising and monitoring supervisory organisations in taking the initial steps during the applicable transition period

Since the Financial Institutions Act (FinIA) entered into force on 1 January 2020, portfolio managers and trustees have been required to obtain a licence. FINMA has received notifications from 2,521 institutions that intend to submit a licence application before expiry of the statutory deadline of 31 December 2022. In actual fact only 276 institutions submitted a licence application by the end of 2021. In total, FINMA has issued licences to 138 portfolio managers and 5 trustees.

Hence, the majority of portfolio managers and trustees will be submitting their application in 2022. Both the supervisory organisations (SOs) and FINMA will thus be faced with a large quantity of applications during 2022. In the year under review, FINMA has gradually expanded its human resources responsible for granting the expected applications from portfolio managers and trustees. It has also established a means for applications to be efficiently submitted and processed using a digital and risk-based procedure.

Responsibility for submitting applications on time by 31 December 2022 lies with the portfolio managers and trustees. Before submitting a licence application to FINMA, they must obtain confirmation of a potential affiliation from an SO. They will therefore need to allow an adequate amount of time for the

⁶Cf. Vermeulen et al.: *The heat is on: A framework for measuring financial stress under disruptive energy transition scenarios*. DNB Working Paper No. 625, February 2019.

⁷In accordance with Battiston's classification of "Climate Policy Relevant Sectors" (CPRS); exposures in the CPRS "fossil fuel", "utilities", "transportation" and "energy-intensive", but not in "buildings", "agriculture" and "finance".

⁸In line with its practice in the case of stress tests and in light of the fact that only two banks were analysed, FINMA does not go into any detail about the specific results of the scenario analyses.

⁹Corresponding to the BCBS's proposed recommendations for considering climate-related financial risks (Principle 15).

Licensing procedures as at 31 December 2021	Applications submitted	Applications approved
Portfolio managers with SO supervision	180	62
Portfolio managers with group supervision	82	76
Trustees with SO supervision	14	5

affiliation process. A failure to meet the statutory deadline for submission of the licence application will mean that the institution concerned is operating illegally, which may result in criminal consequences. In consultation with the SOs, FINMA has therefore advised the affected institutions to submit their applications as soon as possible, and to their SO by 30 June 2022 at the latest.

During the year under review, FINMA disseminated its key information messages on the licensing concept in the course of various industry events and media reports. Along with the expectation that applications should be submitted on time, it also provided information on the business models that it considered to be particularly high risk, and explained that licences would be issued only to institutions with appropriate risk management measures in place. This relates, in particular, to the risks involved in cross-border financial services, in relation to the suitability of financial services and to money laundering. Where business models involve high levels of risk, the risk management unit and the internal control mechanisms must, as a general rule, be kept independent of the profit-related activities – even in the case of smaller institutions.

Supervisory organisations

The 2021 supervisory year was marked by regular and intensive exchanges between FINMA and the five supervisory organisations (SOs) that it authorised in 2020. After authorising the SOs, FINMA's priority was to implement and optimise the process for

licensing independent portfolio managers and trustees via the SOs.

To ensure correct supervision of the portfolio managers and trustees, FINMA issued the SOs with uniform guidelines and emphasised the importance of their implementation. The guidelines included, by way of example, approaches for evaluating the licensing requirements and rating systems. Emphasis was also placed on the need for the SOs to develop a compliant IT infrastructure in a timely manner.

Furthermore, during this first year of supervision of the SOs, FINMA invested significant time and effort in answering policy questions.

Focus of conduct supervision

Effective conduct supervision builds trust in the financial centre. Notwithstanding the progress already achieved, FINMA once again made combating money laundering and terrorist financing a priority area. This was particularly the case in the crypto area, in which increasing numbers of institutions supervised by FINMA are now offering services. The issue of greenwashing has also been brought into focus.

In the year under review, FINMA analysed numerous offered and planned services in the crypto area. It provided the institutions with further details of its expectations in relation to the money laundering regulations, including in consultation with the self-regulatory organisations responsible for the money laundering supervision of numerous providers. Positive trends were seen with respect to the preventive reports being made to the Money Laundering Reporting Office Switzerland (MROS). Transaction monitoring has increasingly served as a source of information. With the sharp increase in demand for sustainable investment products, FINMA also intensified activities aimed at preventing greenwashing.

Money laundering supervision in the crypto area

Cryptocurrencies entail higher risks as a result, in particular, of their anonymity and the technology-driven speed of the transactions as well as the fact that the transactions are not tied to a particular location. By using cryptocurrencies, large amounts can be transferred from one electronic account to another in a matter of seconds, without the senders or recipients of the transactions being identifiable. The Financial Action Task Force on Money Laundering (FATF) confirmed this finding in a [report published in 2021](#).¹⁰

The institutions supervised by FINMA are increasingly offering services in the crypto area, or planning to launch such offers. In the year under review, FINMA analysed a variety of business activities that banks were planning to introduce in this area and reviewed these with a particular focus on compliance with the money laundering regulations. This also included projects to issue stable coins (see “Issue of stable coins by supervised institutions”, page 19).

FINMA also provided further details on its expectations for the auditing of institutions active in the

crypto area. During the summer of 2021, it supplemented the five existing risk-based modules, which are used for reviewing compliance with the Anti-Money Laundering Act (AMLA),¹¹ with a sixth module on virtual assets (VAs) and virtual asset service providers (VASPs).

A large number of providers in the crypto area are not supervised by FINMA and are instead affiliated with self-regulatory organisations (SROs) that are responsible for conducting money laundering supervision. The discussions between FINMA and the relevant SROs focused on how to implement the travel rule¹² in conformity with [FINMA Guidance 02/2019 “Payments on the blockchain”](#) of 26 August 2019. In order to gain insight into the specific supervisory work being conducted in this area, FINMA performed an on-site supervisory review at one of the SROs during 2021.

During its discussions with the SROs, it also addressed the money laundering regulations that apply to the exchange of cryptocurrencies. Whereas clients were always identified in the case of long-term business relationships, identity checks for spot transactions with occasional clients were only being performed if the transaction value exceeded a certain threshold. On 1 January 2021, FINMA specified that contracting parties must be identified if they are executing cryptocurrency exchanges with a value above CHF 1,000 (previously CHF 5,000). The adjusted threshold value meets the requirements of the FATF recommendations and reflects the increased risks in this area. It has been adopted by the SROs. One application example would be the ATMs for cryptocurrencies. In order to effectively apply the threshold, operators must implement technical measures to ensure that their ATMs do not enable cryptocurrency transfers to third-party wallets.

The following chart provides an overview of the services offered by VASPs in Switzerland.

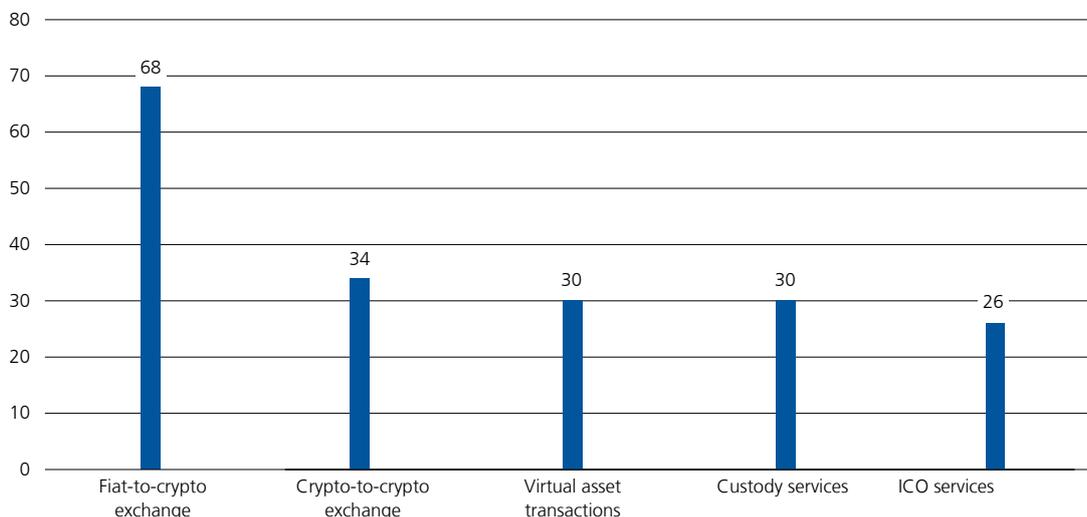
¹⁰FATF Report “Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers”, October 2021.

¹¹Booking centres, identification rules, complex structures, a more in-depth focus on the topic of politically exposed persons, and trade finance.

¹²Article 10 AMLO-FINMA requires that information about the client and the beneficiary be transmitted with payment orders. The recipient financial intermediary then has the possibility to check, for example, the name of the depositor against sanction lists. It can also check whether the information for the beneficiary is correct or whether it will return the payment in the event of discrepancies.

Categorisation of virtual asset service providers (VASPs)

Number of institutions as at the end of June 2021, multiple answers possible



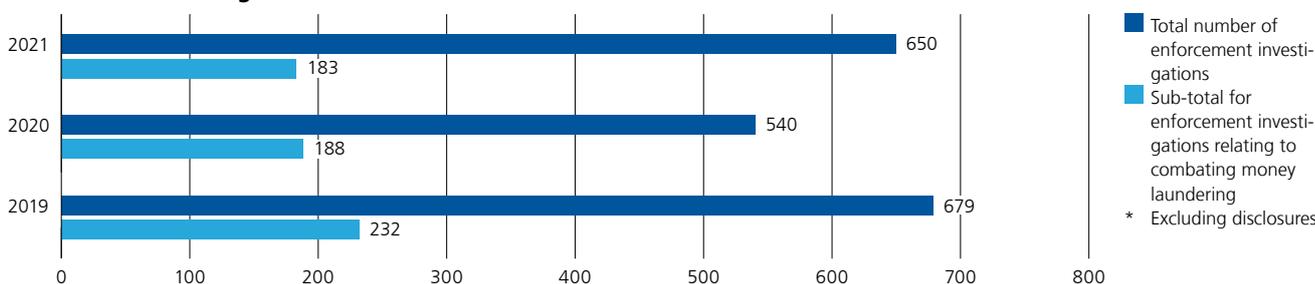
Money laundering supervision in numbers

Preventing money laundering plays an important role in the prevention of crime. Well-functioning anti-money laundering measures are also essential to the success of the financial centre. As part of its supervisory activity, FINMA strives to prevent money laundering.

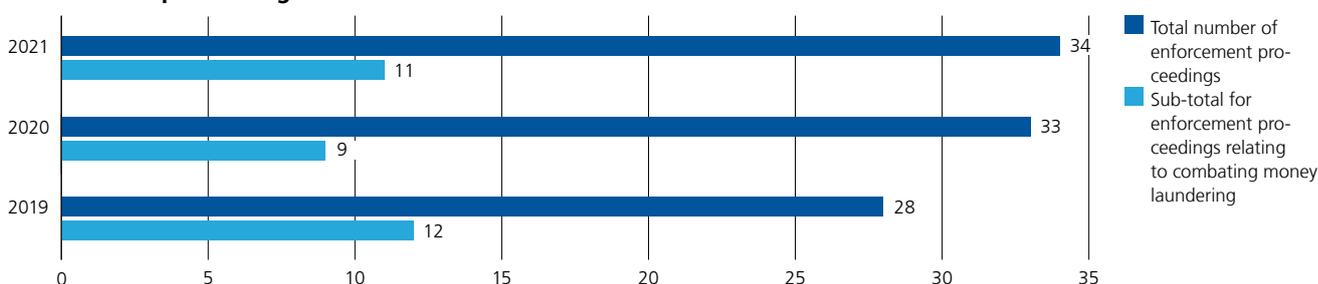
Enforcement proceedings related to combating money laundering

A significant part of FINMA's enforcement activity during the reporting period involved combating money laundering. FINMA conducted enforcement investigations in cases where it had reason to believe that supervisory law could have been breached. If FINMA concluded that supervisory law had been breached, and there was no other way to restore compliance, it initiated enforcement proceedings.

Enforcement investigations*

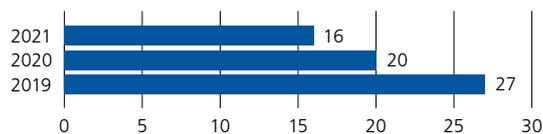


Enforcement proceedings



Criminal charges based on contravention of the Anti-Money Laundering Act (AMLA)

In the event of criminal breaches of supervisory law, in particular breaches of reporting obligations under Article 9 AMLA or activities being carried out without the required licence, FINMA pressed charges.



Trends in on-site supervisory reviews relating to money laundering

The developments in the area of cryptocurrencies have led to new risks in terms of money laundering prevention. However, the traditional money laundering risks still remain.

In the year under review, a positive trend was observed in the fact that banks are increasingly using transaction monitoring as a source of information for the purposes of preventively reporting well-founded suspicions to the Money Laundering Reporting Office Switzerland (MROS) ([MROS Annual Report 2020](#)). If this trend continues, it indicates that banks are making increasing use of their internally available data. Nevertheless, relevant client information that is available from public information sources still remains a key component in terms of enabling financial intermediaries to obtain and analyse information for money laundering prevention purposes.

However, in the course of its supervisory work, FINMA also identified weaknesses in the area of transaction monitoring. In some cases, high-risk transactions were not adequately investigated. Weaknesses were also identified in risk assessments relating to business relationships with domiciliary companies. As a consequence of these deficiencies, the necessary reports were not made to MROS. A key element of the revision of the FINMA Anti-Mon-

ey Laundering Ordinance (AMLO-FINMA), which entered into force in 2020, consists of strengthening transaction monitoring processes and enhancing the interaction with client risk monitoring systems (Art. 13 para. 2 let. i AMLO-FINMA). In this respect, special emphasis was placed on investigating the reasons for the use of domiciliary companies, particularly in cases involving complex structures (Arts. 9a and 13 para. 2 let. h AMLO-FINMA).

For example, in the course of its supervisory work regarding the establishment of complex structures FINMA identified a failure to scrutinise the alleged charitable purpose specified by a client. This was the case despite the fact that transaction monitoring had provided clear evidence indicating that there was no charitable activity involved and that the client was using the assets for its own purposes. In another case, it was found that the domiciliary companies set up by a client had been receiving significant “commissions” from a listed company. The Chief Executive Officer of the listed company was the same bank client as the one that had set up the domiciliary companies. The bank had failed to adequately investigate the background to the transactions and consequently the unlawful contributions had remained undiscovered for a long time. These examples highlight how important a sound analysis and evaluation of the transaction monitoring data can be, particularly for the purposes of understanding complex structures.

In order to ensure effective reduction of money laundering risks, financial intermediaries must rigorously identify any such risks associated with their business activity. Pursuant to Article 13 para. 2^{bis} AMLO-FINMA, financial intermediaries are required to record, in the context of their risk analysis, whether each of the individual criteria listed in the article are relevant to their business activity. In the course of its on-site supervisory reviews, FINMA determined that, in general, this article had either not been observed or had

not been complied with adequately. Although risk analyses had been performed, they failed to go into sufficient detail. All money laundering risks must be identified and then, after taking into account the business strategy, they must be duly considered, analysed and assessed. To this end, the financial intermediary must establish whether the criteria listed in Article 13 para. 2 AMLO-FINMA are relevant to its business activities. A simple summary of the money laundering risks will not meet the requirements pursuant to AMLO-FINMA.

Greenwashing

FINMA's mandate includes protecting financial market clients and investors from improper business conduct, in particular from deception. The prevention of "greenwashing" is primarily a matter of ensuring that clients and investors are not misled, either knowingly or unknowingly.

Demand for sustainable financial products and services has risen rapidly in recent years, which has led in turn to a corresponding surge in supply. This increases the risk of clients and investors being deceived about the sustainable characteristics of financial products and services (also known as "greenwashing"). FINMA's investigations during the year under review clearly demonstrated that greenwashing practices in the offering of financial products and services need to be monitored, and that providers often make product promises that range from the vague to the misleading.

Accordingly, FINMA introduced various measures to counteract the greenwashing risks falling within the scope of its mandate. It published [Guidance in November 2021](#) in which it clarified, inter alia, the key areas of its supervisory focus as well as its expectations in terms of products making reference to sustainability. In addition to the product-level considerations, the Guidance also addresses greenwashing issues at the institutional level and at the point of

sale. This Guidance is intended to raise awareness of this problem, once again, among the relevant institutions and, in particular, fund management companies. In November 2021, FINMA also held an Asset Management Symposium on sustainable finance with a focus on greenwashing; this addressed the issues mentioned in the Guidance in further detail and illustrated these with practical examples.

For the purposes of greenwashing prevention, FINMA relies on guidelines of a general nature in the absence of any specific rules on the transparency of financial products and financial services making reference to sustainability.

With regard to collective investment schemes, however, the statutory principles provide, in particular, for the express prohibition of deception. Investors should also be able to make informed investment decisions with respect to products that are marketed as sustainable. For example, during the year under review, FINMA set out the specific information that Swiss fund documentation should contain if a fund is labelled as sustainable. In applications for new product approvals and amendments to product approvals, additional information on the sustainability targets pursued, their implementation and their intended impact has to be provided. This makes it easier for FINMA to evaluate whether potential investors are being deceived, and to intervene accordingly. By means of spot checks performed on numerous funds, FINMA also checked for any cases of deceptive products, and carried out around ten sustainability-focused on-site supervisory reviews of managers of collective assets.

Overall, however, FINMA's scope of action to efficiently prevent and combat greenwashing is limited. For instance, there is a lack of specific, sustainability-related transparency obligations as well as a lack of effective supervisory bases for taking action at the point of sale. Specific regulatory measures could pro-

vide FINMA with additional tools for tackling greenwashing in a broader and more effective way.

Market integrity

Effective market supervision builds trust in the proper functioning of markets and ensures fair and transparent pricing. To this end, securities firms must declare their transactions fully and without qualitative defects to the reporting offices established by the trading venues. The analyses of the reports form the basis for combating market abuse. In suspicious cases, the trading supervisory bodies submit reports to FINMA and pass on their transaction data. FINMA reviews the data quality, evaluates the data and, if necessary, passes it on to the criminal authorities.

Poor quality of transaction reports

The proper fulfilment of transaction reporting obligations by securities firms is an essential prerequisite for successful supervision of the Swiss securities market by the trading venues and FINMA. Although the involved parties had improved the quality of their transaction reports during recent years, there was still a significant need for improvement during the year under review. More specifically, FINMA identified that securities firms were submitting incomplete derivatives reports. In particular, value-determining information was found to be lacking, e.g. the type (call or put), strike price, term, underlying asset or subscription ratio. For this reason, FINMA focused its supervisory work on the correct implementation of these reporting obligations in order to make market abuse more easily detectable by the surveillance units of the trading venues and by FINMA. To improve the reporting quality, the first steps were taken to make minor adjustments to FinMIO-FINMA.

Measures to be taken in cases of incomplete or non-submitted reports

If FINMA identifies during the course of its quality audits, or on the basis of information provided by the trading venues, that a securities firm is failing to com-

ply with its reporting obligations, or is not doing so satisfactorily, it will conduct investigations and, where necessary, order measures to restore compliance with the law. In the year under review, FINMA identified repeated violations of the reporting obligations. In one serious case, for example, it concluded enforcement proceedings against a securities firm and, in two further cases, it reported criminal offences to the Federal Department of Finance.

Developments in relation to compensation from third parties

Compensation payments that financial service providers receive from third parties in connection with the provision of financial services must be passed on to their clients, unless the client has expressly waived this. Such compensation payments include brokerage fees, commissions, kickbacks, discounts and other benefits for assets. These types of remuneration can lead to conflicts of interests if financial service providers do not select the best product or service for their client but consider instead the highest compensation payment that they could receive. Compensation payments that will not be passed on to the clients must therefore be disclosed. In this way, they can decide whether they wish to use the product or service and waive the reimbursement.

In the year under review, there was a further contraction in the area of application of such third-party remuneration. Many financial service providers are now waiving such revenues or have been passing them on to the clients automatically. For example, approximately 30% of banks no longer accepted any remuneration payments from third parties in connection with financial services. Other institutions waived at least some of their third-party remuneration payments and structured their asset management services or investment advisory services on a retrocession-free basis.

However, despite this declining trend, there were still financial service providers who were unwilling to

forego this source of income, or at best they did not wish to do so in full. In these cases, the clients were required to waive the compensation payments in advance. To this end, however, it was necessary for the clients to be aware of what they were actually waiving. Hence, the amounts of the third-party compensation payments, or at least the estimated ranges for these payments, must be disclosed to the clients. It must also be possible for these amounts to be compared with the other fees associated with the financial service. Hence, in the asset management and portfolio-based investment advisory services sectors, it will not suffice to disclose only individual ranges for each asset class. Instead, a comparison with the total investment volume is required (see Federal Supreme Court judgement 4A_355/2019 of 13 May 2020). In the year under review, market analyses conducted by FINMA revealed that the advance waivers and the information provided on the compensation payments were frequently only of a very general nature and did not provide any specific statements on the amount to be waived. FINMA will therefore conduct increased monitoring in this area to ensure transparent and correct disclosures.

Register of advisers

On 20 January 2021, the transitional period expired for enrolling the client advisers of financial service providers which are not subject to prudential supervision for registration in one of the registers of advisers maintained by the three authorised registration bodies.

FINMA is responsible for licensing the registration bodies, evaluating their activity reports and providing them with ongoing support. The evaluations of the first activity reports presented by the registration bodies during the year under review revealed that, during the transitional period, 3,850 client advisers had submitted an application for registration. Of the registered client advisers, just over a third were domiciled abroad; furthermore, just over 95% were work-

ing within an employment relationship. During the fourth quarter, FINMA collected information from a selection of financial service providers based in Switzerland, which were not subject to prudential supervision, in order to determine whether or not they had complied with the registration requirement for client advisers. This revealed that the financial service providers are generally aware of the new registration requirement.

In the course of checking on the authorised registration bodies, FINMA satisfied itself that the coordination between the three registration bodies was functioning adequately. For example, it ensured that the registration criteria had been applied consistently. However, it also emerged that the three registration bodies had recorded very different numbers of applications for registration.

Supervisory activity by sector

FINMA's level of supervision is most intensive wherever risks for the financial centre are greatest. However, it is always committed to proportionality. The four supervisory divisions – Banks, Insurance, Asset Management and Markets – follow trends in the relevant sectors closely. Key supervisory instruments include on-site supervisory reviews, stress tests, specific surveys and high-level meetings.

As part of its integrated financial market supervision, FINMA monitors the overarching trends in all areas of the financial centre and oversees the risks that are associated with the activities of the supervised institutions in the financial market. This risk-oriented, comprehensive perspective ensures that similar or identical situations receive the same supervisory treatment across all supervised institutions. Sector-specific issues are dealt with by the responsible supervisory divisions. Close cooperation between the divisions ensures knowledge management at all times within FINMA.

Banking supervision

FINMA's banking supervisory activities were once again conducted in a risk-oriented and proportional way. Regular audit work was supplemented by on-site supervisory reviews. The small banks regime has established itself well as one particular expression of the risk-oriented and proportional approach. It helped exempt the participating banks and securities firms from certain supervisory requirements. FINMA has long considered the disorderly abolition of LIBOR as one of the major risks facing the Swiss financial centre. It therefore monitored its replacement closely. The supervision of cryptobanks also posed challenges, and FINMA provided close support to the affected institutions.

Experience with the small banks regime

FINMA pursues a range of initiatives so that it can ensure that implementation of banking regulation is structured as proportionately as possible. The small banks regime exempts banks and securities firms in categories 4 and 5 that are particularly liquid and well capitalised from certain supervisory requirements. Overall, the small banks regime has established itself well in the year under review. With 57 participating banks, the number has fallen slightly since its introduction.

The initial experience since the introduction of the small banks regime on 1 January 2020 was selectively analysed in 2021. There were no acute weaknesses that had to be rectified until the regular ex-post evaluation of the new rules. Potential improvements were identified in the area of communication, for example with regard to the precise scope of the exemptions. FINMA's analysis also indicated the key importance of a dynamic analysis of the small banks regime. In the future, for example, further possible exemptions should be considered when developing or updating the regime. There were no indications that there needs to be a change in the eligibility criteria for the small banks regime. The most important findings of the analysis were discussed with the sector at the Small Bank Symposium in January 2022.

The good establishment of the small banks regime is all the more encouraging because it had to be implemented in the middle of the coronavirus pandemic in a difficult environment. It should be noted that due to altered client behaviour as a result of the pandemic, some banks had difficulty meeting the simplified leverage ratio requirements, due in particular to the increased inflow of client funds. FINMA engages in an ongoing dialogue with the industry so that these specific developments can be taken into account and suitable solutions found.

LIBOR replacement

For a long time, FINMA viewed the disorderly replacement of LIBOR as one of the largest risks for the Swiss financial centre, in particular with regard to operational readiness and the valuation and legal risks. Supervisory activity was also correspondingly intensive in the year under review: FINMA monitored the LIBOR replacement with requirements for monthly self-assessments by the twenty most exposed banks and securities firms. This helped it promptly identify the institutions that were lagging behind compared with the recommended timetable in [FINMA Guidance 10/2020](#) and address this with the institutions con-

cerned. Overall, the timetable was complied with well by most of the institutions. FINMA intervened at the few remaining outliers in September 2021. Additionally, it delegated an audit mandatary to the most heavily exposed institutions, who audited and assessed the remaining legal risks in the case of discontinuation of LIBOR in CHF and EUR.

In [Guidance 03/2021](#), FINMA reported in September 2021 about the status of LIBOR replacement and drew attention to existing challenges, such as the switch of syndicated loans to alternative benchmark interest rates. FINMA again called on all financial market participants to drive forward their preparations for the discontinuation of LIBOR with maximum priority. To help all supervised institutions, it published tried-and-tested procedures.

Overall, the supervised institutions achieved tremendous progress in the switch; in particular, the volume of LIBOR contracts without robust fallback clauses fell by more than 90% since mid-2020. For the remaining contracts without robust fallback clauses, FINMA is expecting certain legal risks associated with potential materialisation after the end of 2021. FINMA will therefore continue to monitor the decrease in such contracts in 2022. On the basis of the progress made, the risk of a disorderly abolition of LIBOR benchmark rates was downgraded in FINMA's [Risk Monitor](#) and is no longer considered a principal risk for the Swiss financial centre.

Archegos

At the end of March 2021, various major international banks reported that US-based family office Archegos Capital Management LLC was unable to meet margin requirements for derivatives transactions. This particularly affected the two large Swiss banks, which suffered high losses.

As part of their prime services business, the investment bank divisions of Credit Suisse and UBS offer a

range of services and financing arrangements for professional counterparties such as hedge funds. A significant level of leverage can be obtained by using derivatives. In the case of Archegos, the high concentration risks in the course of realising the underlying positions resulted in significant price drops. As a result, Credit Suisse had to report a loss of around USD 5.5 billion. UBS reported a loss of USD 861 million.

FINMA ordered a range of immediate measures at Credit Suisse and opened enforcement proceedings. Among other things, the immediate measures comprised organisational measures, risk mitigation measures and capital add-ons, as well as cuts or suspensions to variable remuneration components. FINMA also initiated work to address the incidents in cooperation with the affected foreign supervisory authorities, as well as to strengthen risk management and the risk culture.

FINMA noted in its 2020 Risk Monitor that loan defaults, particularly by foreign counterparties, have become more likely in the present market environment. These risks must be controlled adequately by the supervised institutions. At the same time, the occurrence of tail risks – events with a low probability of occurring but an extreme impact – cannot be excluded in the financial markets, causing substantial losses. For this reason, the large banks are required to have high safety buffers for capital and liquidity. The Swiss regulation makes Switzerland an international leader when it comes to prudential requirements and once again proved to be both adequate and necessary.

Supervision of cryptobanks

In August 2019, SEBA Bank AG and Sygnum Bank AG received FINMA's approval to commence banking business. Both institutions focus on trading and safe custody of assets that are based on blockchain technology.

New companies in the new and dynamic markets face particular challenges. Services associated with cryptobased assets in particular demand new business models. One example is the “tokenisation” of assets, whereby assets such as expensive wines, art or shares are modelled in a blockchain. Investors can buy shares of tokenised assets, for example parts of a painting.

For banking supervisors, these business models are creating a range of new challenges and problems. Because there is little experience in this area, FINMA provided close support to the two banks in the year under review. On the one hand, there were regular, detailed discussions with the boards of directors and the management. On the other, there were increased requirements for reporting by the banks and the regulatory audit firm. FINMA additionally performed its own on-site supervisory reviews in order to ascertain particular important aspects, such as transactions with cryptocurrencies, the risks and the corresponding need for reviews.

Value adjustments of non-impaired receivables

In 2021 FINMA conducted deep dives in order to obtain a deeper understanding of the application of the expected credit loss approach under IFRS (in force since 1 January 2018) or US GAAP (in force since 1 January 2020) at the two large banks. The coronavirus pandemic meant that the models did not always provide meaningful results. For this reason, post-model adjustments or model overlays based on expert assessments were increasingly required to calculate value adjustments for expected credit losses. FINMA analysed these developments as a major focus of its supervisory work.

Banks that apply the Swiss accounting standards for banks were required to introduce a value adjustment model at the latest in financial year 2021 that is governed by the relevant categorisation under Annex 3 of the Banking Ordinance. Banks and securities firms

had the option to switch to a more far-reaching approach under a higher category. In the case of category 2 and 3 banks, FINMA obtained information about the status of the switch. It also analysed the 2020 financial statements of those category 3, 4 and 5 banks that had applied the new approach for inherent default risks in financial year 2020 prior to the effective date. In the case of category 3 banks that are primarily active in the interest margin business, FINMA conducted an analysis of the relevant coverage ratios (ratio of value adjustments to loans) as at end-2020 (initial users) and as at 30 June 2021 (others) and notified the banks of the results. FINMA also identified a range of deficiencies at initial users, especially in disclosures, and in October published [FINMA Guidance 04/2021](#) on the implementation of new value adjustment approaches to non-impaired receivables.

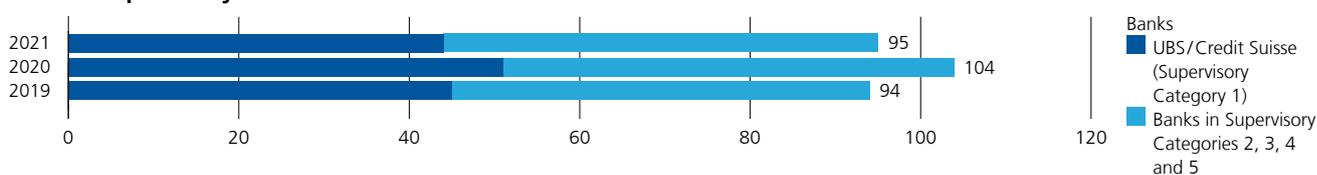
On-site supervisory reviews: banks

On-site supervisory reviews are an important supervisory tool. They enable FINMA to obtain for itself an assessment of the risks and the control environment at banks. They deliver key insights and culminate, if necessary, in further measures.

FINMA can conduct on-site supervisory reviews at the institutions it supervises or it can outsource these reviews to partners engaged by the institutions. Either by itself or together with foreign supervisory authorities, FINMA additionally conducts on-site supervisory reviews at subsidiaries or branches of supervised institutions abroad, or conversely supports foreign financial market supervisory authorities when they conduct direct reviews in Switzerland.

FINMA uses on-site supervisory reviews in addition to its regular review activities. They are risk-based in line with its supervisory approach. Event-driven or institution-specific risks are each assessed by a team of various specialists.

On-site supervisory reviews: banks



Average number of on-site supervisory reviews per institution in the banking sector

In brackets: number of on-site reviews per category

	2021	2020	2019
Category 1	22.00 (44)	25.50 (51)	22.50 (45)
Category 2	4.33 (13)	4.67 (14)	3.33 (10)
Category 3	0.89 (25)	1.00 (27)	1.23 (32)
Category 4	0.17 (10)	0.18 (10)	0.09 (5)
Category 5	0.02 (3)	0.01 (2)	0.01 (2)
All institutions	0.36 (95)	0.39 (104)	0.35 (94)

In line with the [Risk Monitor](#) published by FINMA and the FINMA annual targets for 2021, the focus of the on-site supervisory reviews in the reporting period was on combating money laundering, managing legal and reputational risks in the cross-border business, liquidity risk management and management of interest rate risk, the mortgage lending business and compliance with market conduct rules. Various on-site supervisory reviews were also conducted on the subject of IT and dealing with cyber risks. In some cases, FINMA identified deficits in the implementation of the cyber requirements. There were also sporadic reviews in the areas of corporate governance and greenwashing. In the course of dealing with losses from the business relationship with Archegos (see also page 39), FINMA conducted on-site supervisory reviews at the two large banks regarding the management of counterparty risks and the risk management of capital market transactions.

In total, FINMA conducted 95 regular on-site reviews in 2021, including 57 longer supervisory reviews and

38 deep dives, of which one was outside Switzerland. In comparison with the previous year, these represented around 9% fewer on-site reviews. In addition to these regular reviews, FINMA conducted intensive on-site supervisory reviews at two institutions. Because of the pandemic, 77 on-site reviews were conducted in full or in part via digital communication channels.

Insurance supervision

The consequences of the coronavirus pandemic continued to be felt in the insurance sector in 2021, particularly in the solvency figures of non-life insurers and reinsurers. The impact on life insurers was significantly lower. In the area of supplementary health insurance, FINMA stepped up its activities with regard to ensuring transparent and understandable billing by inpatient service providers to supplementary health insurers.

SST figures by insurance sector

The impact of the coronavirus pandemic was seen in 2021 in particular in the data on the Swiss Solvency

Test (SST) for non-life insurers and reinsurers. The impact on life insurers remained minimal, not least thanks to the broad-based recovery of the financial markets from the shock in March 2020. Individual parameters of the SST standard model for health insurers were recalibrated on an improved data basis, which led to a certain increase in the SST ratios.

Update on supplementary health insurance

The benefits side of supplementary health insurance was also significantly impacted by the coronavirus pandemic in the course of 2020.¹³ The benefits paid by individual and collective daily sickness benefits insurance increased by 8.0% and 6.3% respectively compared with 2019. By contrast, benefits in the traditional private supplementary health insurance products (inpatient and outpatient cover) fell by 7.4% due to the coronavirus pandemic. Because of the Federal Council's COVID-19 Ordinance 2 dated 13 March 2020, healthcare facilities such as hospitals, clinics, medical practices and dental practices were not permitted to offer non-urgent medical treatment and therapies for five weeks. Even after this period, they were unable to provide normal levels of capacity because of hygiene measures. This resulted in an 8.0% reduction in payments for hospitalisation cover, whilst the decrease in payments for outpatient

cover was 5.7%. Overall, a combined analysis of daily sickness benefits insurance and private supplementary health insurance showed a 4.6% reduction compared with 2019.

In 2021, FINMA stepped up its activities aimed at ensuring that billing agreements between inpatient service providers (e.g. hospitals and doctors also caring for patients in hospitals) and supplementary health insurers are in line with supervisory requirements. Through subsequent on-site reviews FINMA monitored the progress in adjusting these agreements at several insurers. The internal control systems were reviewed and plans of measures were obtained. There was also an in-depth exchange of information with other stakeholders on this topic. For example, cooperation by FINMA with both the Federal Office of Public Health and the price supervisor was regulated and enhanced through memoranda of understanding. FINMA will continue to focus on this subject in the coming years as part of its supervision of insurance companies by reviewing the implementation of measures specified in action plans by individual insurers.

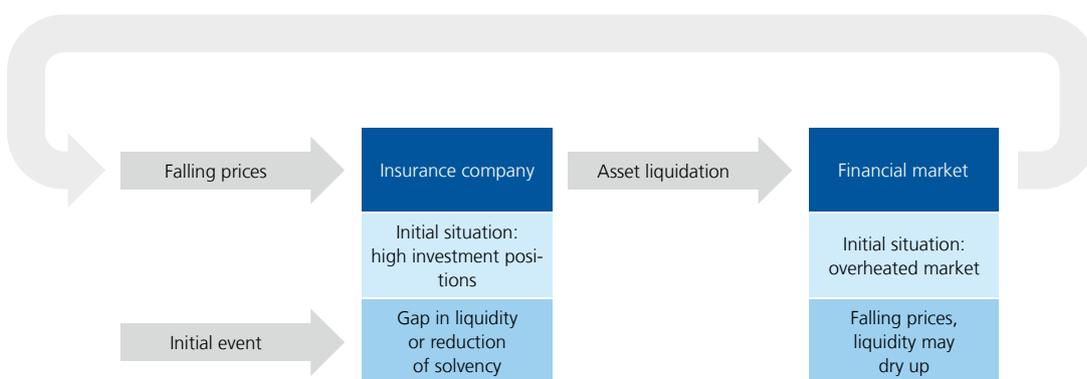
¹³ Pursuant to Article 25 ISA, solo primary insurers (life, non-life, health) submit their annual financial statements to FINMA by 30 April of the following year, while reinsurers have until 30 June. Figures are therefore not yet available for the sectors in question for the financial year 2021.

SST figures by insurance sector

Insurance sectors	SST 2021		SST 2020	
	SST ratio	Number of insurers with SST ratio below 100%	SST ratio	Number of insurers with SST ratio below 100%
Life	207%	0 (16)	201%	0 (16)
Non-life insurers	221%	1 (51)	263%	0 (52)
Health insurers	339%	0 (19)	302%	0 (19)
Reinsurers	185%	0 (24)	194%	0 (24)
Reinsurance captives	269%	0 (23)	299%	0 (26)
Total	216%	0 (133)	226%	0 (137)

The number before the brackets refers to the number of companies with an SST ratio below 100%. The number in brackets refers to the total number of companies. Example: 1 (16) means that 1 of 16 companies has an SST ratio below 100%.

Feedback effect in the liquidation of assets by multiple insurance companies



Systemic risks

In early 2021, FINMA developed and implemented a methodology for identifying emerging sector-wide and systemic risks in the insurance sector and has applied it since then. FINMA conducted a comprehensive analysis based on available data sources such as ORSA reports and a dedicated survey of the insurance industry. The aim of the methodology is to safeguard the stability of the financial system and to strengthen confidence in the orderly functioning of financial markets by identifying emerging sector-wide or even potentially systemic risks at an early stage and thus facilitating timely mitigating measures.

The methodology is underpinned by the idea that a risk will emerge if a certain initial event triggers a causality chain. The change in the status of one actor could then lead to losses for other actors. Examples of actors include insurers or the insured, but also the financial market as a whole. A simplified illustrative example with a feedback effect is shown above.

As a result, a key risk was identified that has been paid little international attention until now: the one-year time horizon for regulatory capital requirements to meet solvency requirements, as is common inter-

nationally in the insurance sector. This horizon is based on the assumption that it is possible to cover the risks existing after the end of the one-year period by recapitalisation if necessary. Should many insurers be forced to undertake this type of recapitalisation in a period of market stress, the costs would typically be much higher than expected.

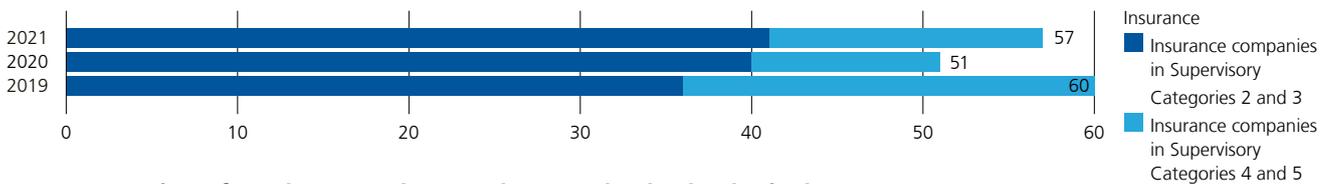
Other key risks already discussed result from developments in the real estate market (see “Trends in the real estate market”, page 25) and from the persistent low interest rate environment (see page 24).

FINMA monitors the risks identified in this way more closely and takes them into account when determining its supervisory focus. It also addresses these risks in discussions in connection with regulatory processes.

Survey about artificial intelligence in the insurance industry

An introduction to the field of artificial intelligence (AI) can be found in the section “Artificial intelligence in the Swiss financial market” on page 20. The Insurance division conducted a survey on the subject of AI in 2021 covering one hundred insurance compa-

On-site supervisory reviews: insurance companies



Average number of on-site supervisory reviews per institution in the insurance sector

In brackets: number of on-site reviews per category

	2021	2020	2019
Category 2 and groups	1.18 (13)	1.36 (15)	1.36 (15)
Category 3	0.73 (28)	0.68 (25)	0.57 (21)
Category 4	0.16 (10)	0.11 (7)	0.19 (12)
Category 5	0.07 (6)	0.04 (4)	0.13 (12)
All institutions	0.29 (57)	0.25 (51)	0.30 (60)

nies in all sectors. The companies reported 81 AI applications already in use. Another 45 applications were in the planning stage, whereby 31 projects are highly likely to be implemented in the next four years. Based on the feedback from the sector, FINMA assumes that the number of applications in the planning stage is actually much higher than the number of projects effectively reported. The main area of application related to interaction with customers, followed by applications for claims processing and sales. The survey revealed that AI is already being used by non-life insurers for pricing applications. Overall, there were wide variations in both the application spectrum and the specific AI methods used.

Competence centres for AI are already in place or being developed, especially at the large insurers. They primarily support the business units in identifying potential AI applications and in the development and implementation of these applications. In terms of governance, some committees relating to data have been institutionalised and AI-specific development processes have been formalised. This was accompanied by the creation of new roles and func-

tions relating to data, such as data scientist, machine learning engineer or AI test manager.

Some institutions also conducted specific risk analyses relating to the development of AI applications. However, there were still no general or company-wide minimum requirements for the explainability of AI applications. Such requirements were defined individually, depending on the application and its area of use.

On-site supervisory reviews: insurance companies

As in the previous year, the processing of charges billed by medical service providers was also the subject of on-site supervisory reviews at several supplementary health insurers in the year under review. The status of the measures defined by the insurers was reviewed. These included ensuring transparent, understandable invoices, the adjustment of contracts with service providers or the development of effective financial controlling systems in this context (see "Update on supplementary health insurance", page 42).

Emphasis was also placed on the technical provisions of life and non-life insurers. The actuarial bases of provisioning, the processes for calculation and review of provisions, relevant controls and the quality of the underlying data were the subjects of on-site supervisory reviews.

The on-site supervisory reviews conducted for the first time in 2020 on the insurance companies' management of cyber risks were continued in 2021. The focus was on companies that offer life and health insurance.

Compliance with the requirements of [FINMA Circular 2016/03 "ORSA"](#) was the subject of several on-site supervisory reviews. A focus was placed in particular on data bases and the scenarios used for the "Own Risk and Solvency Assessment (ORSA)", the processes and the reporting, as well as established controls in this regard.

A range of on-site supervisory reviews investigated how insurers were implementing the requirements of [FINMA Circular 2018/03 "Outsourcing"](#). Among other things, the reviews focused on the outsourcing inventory, the business plan, governance for managing the outsourcing and the processes for reviewing the services outsourced to the providers.

Market supervision

In connection with the entry into force of the Federal Law Amending Federal Legislation on Developments in Distributed Ledger Technology (DLT), FINMA monitored the measures taken by the bodies that fulfil the regulatory and supervisory tasks of the trading venues. In connection with combating money laundering, it also dealt with amendments to stock market rules that enable the stock market listing of special purpose acquisition companies (SPACs). As in previous supervisory years, FINMA supported the revision, harmonisation and improvement of the self-regulatory organisations' (SROs) approach to supervision.

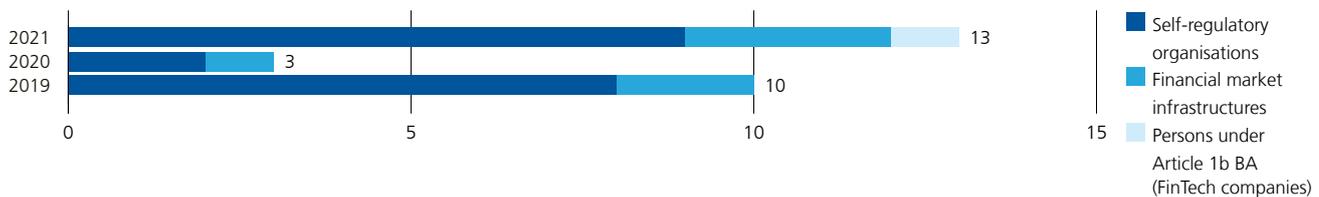
Article 24 of the Financial Market Infrastructure Ordinance: independence requirements for the self-regulatory and supervisory organisation of the trading venues

At its meeting on 18 June 2021, the Federal Council adopted the Federal Law Amending Federal Legislation on Developments in Distributed Ledger Technology (DLT) fully into law as of 1 August 2021. The related ordinance took effect on the same date. This foresees stricter independence requirements for bodies that fulfil the regulatory and supervisory tasks for trading venues in the framework of their self-regulatory organisations. The body that fulfils the supervisory tasks of the trading venue must now be fully independent of the participants and issuers with respect to both personnel and organisation. The body that fulfils the regulatory tasks of the trading venue must be largely independent. During the reporting period, FINMA closely supported the measures adopted by the Swiss trading venue regulatory entities in order to quickly ensure that a majority of the personnel were independent, and granted the regulatory bodies a nine-month implementation period. Additionally, FINMA obtained an overview of the status of the independence of members of the regulatory bodies.

Special purpose acquisition companies

Special purpose acquisition companies (SPACs) are exchange-traded shell companies that search for a privately held company one to two years after being listed and bring it to market by means of a merger. The stock exchanges compete globally for SPAC listings and the relevant supervisory authorities worldwide are imposing appropriate, risk-driven requirements. In 2021, FINMA addressed a request to amend the stock exchange rules and regulations of SIX Swiss Exchange AG (SSX) in this respect. The amendments enable the stock market listing of SPACs on the SSX and impose certain minimum requirements for the acquisition of target companies. FINMA had previously asked SSX to revise the stock

On-site supervisory reviews at self-regulatory organisations and financial market infrastructures



market rules and regulations to reflect the potential risks (investor protection, market transparency, market integrity) and to consult market participants.

Compared with traditional IPOs, SPACs entail specific risks for investors and for market integrity. For investors, there is a risk that the sponsor of a SPAC will propose closing a transaction with a target company even if the conditions are not optimal because the persons associated with the SPAC will only be compensated for their effort if the transaction is successfully completed. There is thus a conflict of interests because of the compensation structure of SPACs. Additionally, dilution effects due to SPAC structures are often diverse and difficult to foresee. Dilution occurs, for example, because of the compensation of the sponsor in shares or the issuance of warrants.

The low level of interest rates and the resulting search for yield could induce investors to invest in SPACs without taking account of the related risks or without having the necessary knowledge. There are also risks relating to the safe custody of cash proceeds from the SPAC public offering until the merger with the target company, and the repayment of the amounts to investors. For the evaluation of potential target

companies by the SPAC management, there is a risk from the perspective of market control and market monitoring that, for example, spreading rumours about potential target companies could trigger price movements that constitute market abuse. These risks are mitigated through the approval of specific requirements for the listing of and in connection with SPACs.

On-site supervisory reviews at self-regulatory organisations

In connection with combating money laundering, FINMA conducts annual on-site supervisory reviews once a year at the self-regulatory organisations (SROs). In the reporting period, FINMA conducted on-site supervisory reviews at nine out of the eleven SROs. Because of the pandemic, the reviews of the self-regulatory organisations were conducted virtually.

With its on-site supervisory reviews, FINMA again systematically tracked the overarching SRO focus topic of "Implementation of risk-based supervisory approaches" in the supervisory year. FINMA also defined further SRO- and risk-specific review topics for individual SROs.

Focus on implementing risk-based supervisory approaches

As part of its fourth country evaluation of Switzerland, the Financial Action Task Force (FATF) criticised the SROs' approach to supervision, among other points. In light of this, FINMA tracked and supported the revision, harmonisation and improvement of the SROs' approach to supervision in recent supervisory years. The focus of SRO supervision in 2021 was on the effective implementation and in particular the effectiveness of the revised supervisory approaches of the SROs towards their members. To do this, FINMA obtained a comprehensive picture of the state of implementation and the functionality of the risk-based supervisory approaches in the course of the on-site supervisory reviews conducted. The results indicated that further improvements are still needed in particular in the area of effectiveness and in the use of the relevant risk-based supervisory tools.

Based on its findings in the course of benchmarking, FINMA will discuss the results of the on-site supervisory reviews in depth with the SROs and take corresponding measures.

Asset management supervision

In the area of asset management, FINMA focused on the transitional periods and provisions of the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA). Self-regulation also had to be revised when these acts entered into force, and FINMA recognised the amended self-regulatory norms issued by the Asset Management Association Switzerland (AMAS) as a minimum standard. It checked whether

managers of assets of pension funds and other occupational pension schemes met the organisational requirements set out in the FinIA. In the product area, FINMA approved a fund that invests primarily in cryptoassets and established the conditions under which a fund can invest in special purpose acquisition companies (SPACs). To help it to better fulfil its responsibilities, FINMA prepared the launch of a direct survey of quantitative fund data. This data basis improves the quality of supervision and helps identify systemic risks more easily.

Adaptation and recognition of AMAS self-regulation

As the industry organisation of the fund and asset management industry in Switzerland, the Asset Management Association Switzerland (AMAS) issued nine sets of self-regulatory norms in recent years that were also recognised by FINMA as a minimum standard.

This self-regulation had to be revised and adapted because of the entry into force of the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA). AMAS largely adapted its self-regulation both materially and formally to the current legislation and in particular deleted rules governing point-of-sale conduct from the self-regulation. This area was comprehensively addressed by FinSA for all financial services and can no longer be regulated on a sector-specific basis in any self-regulation recognised by FINMA. The revision was also used to incorporate some developments in international standards and Swiss supervisory practice. These adaptations related spe-

cifically to liquidity risk management, business continuity management requirements, where cyber risks in particular also have to be taken into account, and the organisation for processing investor complaints. AMAS also included in its self-regulation the principles developed by FINMA for mandating legal persons as valuation experts for real estate funds.

Upon request by AMAS, the FINMA Board of Directors recognised the revised and adapted six bodies of self-regulatory norms as a minimum standard under the Financial Market Supervision Act (Art. 7 para. 3 FINMASA). In doing so, it took account of the broad support for self-regulation in the fund and asset management industry covered by the scope, as binding minimum standards for this industry were established with the recognition of self-regulation. In the run-up to recognition, FINMA conducted the interdepartmental consultation required by the Ordinance to the Financial Market Supervision Act.

Product-related developments

The volumes invested in the Swiss fund markets continued to increase in the year under review. The net inflows recorded reflected a greater appetite on the part of investors for collective investment schemes.

There were various applications regarding innovative investment opportunities in the product area in 2021. For example, for the first time, FINMA approved a Swiss fund that invests primarily in cryptoassets, meaning assets that are based on blockchain or distributed ledger technology. This concerns an "other fund for alternative investments" with a specific risk

under Swiss law in which only qualified investors may invest. Because cryptoassets are associated with specific risks, FINMA made approval of the fund conditional on specific requirements. For example, the fund may only invest in established cryptoassets with a sufficiently large trading volume. The investments must also be made using established counterparties and platforms whose registered office is in a member state of the Financial Action Task Force (FATF) and that are subject to corresponding anti-money laundering provisions. Finally, the institutions involved in the management and custody are subject to specific requirements with regard to risk management and reporting. Additionally, a custodian bank must be appointed that is specialised in the specific challenges associated with the custody of cryptoassets. Besides the directly investing crypto funds, FINMA also dealt with applications relating to indirect investment by Swiss funds in cryptoassets.

In addition, FINMA assessed the admissibility of investments by Swiss collective investment schemes in special purpose acquisition companies (SPACs). As a rule, such an investment can only be considered if it is compatible with the investment objective and investment policy of the collective investment scheme, and potential conflicts of interest are adequately excluded or disclosed. The ability to invest in SPACs must be provided for in the fund documents and an explicit percentage limitation must be defined.

A Swiss limited partnership for collective investment schemes will for the first time give qualified investors an opportunity to invest in real estate in which the

purchase price paid on acquisition will be supplemented by a regular life annuity. This gives the sellers the right to continue to use and live in the real estate while they are alive. For the investor, the life annuity is a means of buying a property at a discount to the market price. However, this advantage is subject to the longevity risk of the annuity creditor. In the course of the approval procedure, FINMA ensured that the legal and reputational risks are reduced by an appropriate review and disclosure of risks to the sellers and that adequate risk management is in place.

Direct survey of quantitative fund data by FINMA

FINMA relies on data to perform its mission. At the end of 2021, it conducted another survey of data at the level of individual funds. The survey of Swiss collective investment schemes was conducted with fund management companies. For foreign funds that are managed from Switzerland, the data is surveyed from the Swiss institutions that manage the corresponding collective investment schemes.

As part of the data collection, each year supervised financial intermediaries must provide data on risk exposures, leverage, liquidity and counterparty risk of the administered or managed funds. The purpose of the data is to improve the quality of supervision of fund management and to identify systemic risks more easily. The data also allow a better assessment of the risks associated with the financial intermediaries and their funds. International standards and provisions are also taken into account.

The survey is risk-based. As a threshold for data collection, FINMA has defined a minimum amount of CHF 500 million. In addition, only foreign funds that follow an alternative investment strategy are included. This means that smaller and less risky funds are not surveyed.

Occupational pension scheme managers

Managers of assets of pension funds and other occupational pension schemes (pension scheme managers) that do not exercise any other activity requiring a licence had to be licensed by the Occupational Pension Supervisory Commission until the Financial Institutions Act (FinIA) came into force. Since 1 January 2020, they have been authorised by FINMA and supervised either by a supervisory organisation or directly by FINMA. By no later than 31 December 2022, pension fund managers must satisfy the requirements of the FinIA and submit an authorisation application to FINMA.

Priorities for assessing occupational pension scheme managers

In the course of authorisation, FINMA examines whether occupational pension scheme managers satisfy the organisational requirements of the FinIA at institutional level. This also includes corporate governance, the management of conflicts of interest, and risk management, with attention being paid to the specific risks relating to occupational pension scheme assets.

Management of occupational pension scheme assets in Switzerland

The management of occupational pension scheme assets can also be performed by fund management companies, managers of collective assets, banks, insurance companies and securities firms.

To capture the scope of management of occupational pension scheme assets by the institutions already authorised by FINMA, and the risks associated with this activity, FINMA conducted a comprehensive data survey for the first time in the reporting period covering the management of occupational pension scheme assets by banks, insurance companies and securities firms. Previously, this data was only available for fund management companies and managers of collective assets.

Close cooperation with the OPSC

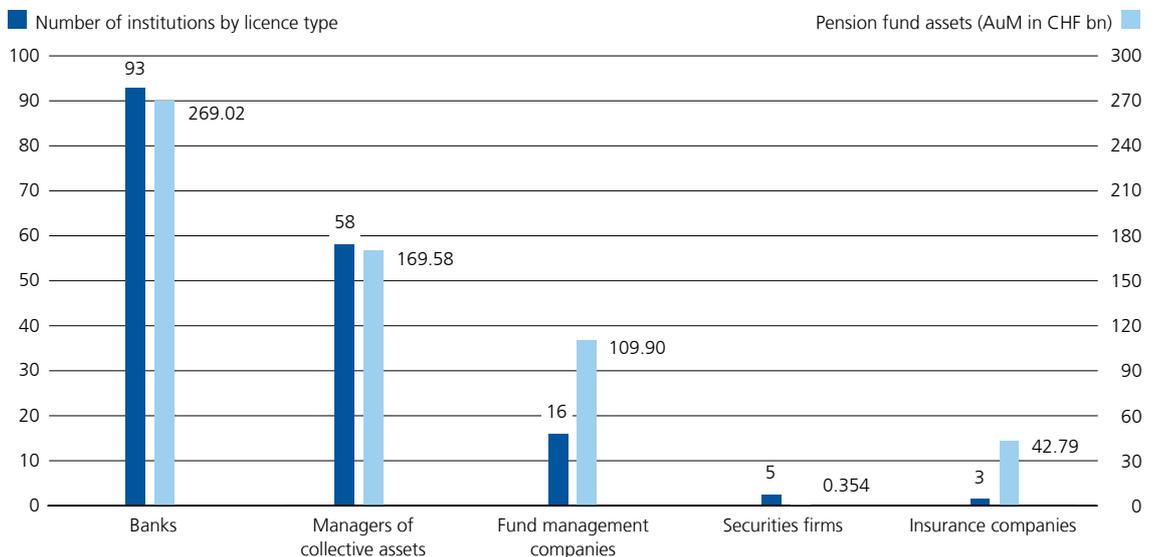
Compliance with the applicable statutory requirements in the area of occupational pension schemes was again supervised in the year under review by

the Occupational Pension Supervisory Commission (OPSC) and the regional and cantonal OPA supervisory authorities. FINMA was therefore in regular contact with the OPSC. To intensify the existing exchange of information and in particular cooperation in the authorisation and supervision of occupational pension scheme managers, FINMA entered into a memorandum of understanding with the OPSC in October 2021.

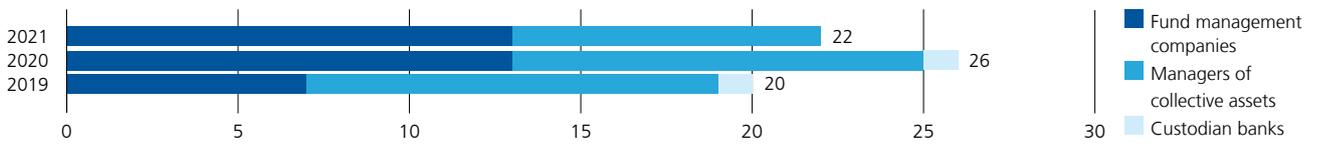
On-site supervisory reviews: asset management institutions

There were two central themes for the on-site supervisory reviews conducted by the Asset Management division in 2021. On the topic of ESG (environment, social and governance), the primary issue was assessing the implementation of the ESG strategy developed by the institutions at the level of the institution and at the level of the products, as well as the integration of the ESG criteria defined by the individual supervised institutions in the investment decision process, the review of these criteria in risk controls

Occupational pension scheme managers



On-site supervisory reviews: asset management institutions



and reporting. Additionally, compliance with the information provided in the fund agreement and in the other (marketing) documents regarding fund management in accordance with ESG criteria was reviewed, and potential cases of greenwashing were therefore identified. The second issue related to the management of occupational pension scheme assets, assessing the specific risks resulting from this activity (see "Management of occupational pension scheme assets in Switzerland", page 50). FINMA also obtained a picture of how the institutions ensure compliance with the contractual fundamentals, undertake risk disclosure and meet the accountability obligation.

Enforcement

In the year under review, FINMA conducted numerous investigations and many proceedings against companies and individuals. These included proceedings that were complex and international in scope.

FINMA applies enforcement as a visible means of acting against breaches of supervisory law and to restore compliance with the law. FINMA enforcement proceedings may be conducted against licence holders and their employees, against unauthorised financial services providers and against any participants in the Swiss financial market. An important aspect of enforcement is the provision of administrative and/or legal assistance to foreign supervisory authorities and domestic prosecution authorities.

FINMA's decisions can be contested before the courts. This resulted in a total of 26 court rulings in 2021. The statistics show that the appeals bodies upheld 96% of FINMA's enforcement rulings, meaning the majority were upheld wholly or predominantly.

Federal Supreme Court ruling regarding the appointment of audit mandataries by FINMA

In its order of 29 January 2020, FINMA appointed Quinn Emanuel Urquhart & Sullivan (Schweiz) GmbH as audit agent at Credit Suisse and instructed it to review certain observation activities of the bank with regard to any violations of supervisory law. Credit Suisse appealed against this appointment order. The appeal was ultimately dismissed in its entirety by the Federal Supreme Court in its ruling of 28 December 2020, to the extent that the Court considered it.¹⁴

The Federal Supreme Court found that, in principle, FINMA has a margin of judgement and thus a technical discretion when appointing an audit agent as defined in the Financial Market Supervision Act (Art. 24a para. 1 FINMASA). Against this background, the Court also found that mandates of an audit agent

against an affected supervised institution may only give rise to a lack of independence if these mandates are related to the respective financial market supervision proceedings. The Federal Supreme Court found that no such relationship existed with regard to the mandates carried out by the audit agent against Credit Suisse. Furthermore, it recognised that in the case of large banks, the choice of potential audit agents is limited in light of the market situation. For this reason, the criterion of independence should not be applied too strictly. The audit agent appointed by FINMA at Credit Suisse therefore met the legal requirements for independence.

Business conduct: conclusion of important money laundering enforcement cases

In the year under review, a sustained positive impact by FINMA on the conduct of supervised financial institutions remained a key strategic objective. As part of its enforcement activities, FINMA worked to ensure compliance with the requirements for combating money laundering and terrorist financing and again concluded important enforcement cases in this context during the year under review.

In the proceedings against Credit Suisse in connection with loans made to state-owned companies in Mozambique in 2013, FINMA found, among other things, a serious violation of money laundering reporting obligations. Specifically, the bank had seriously violated its obligations by failing to immediately report a payment to the Money Laundering Reporting Office Switzerland (MROS) despite reasonable suspicions of corruption.

¹⁴ Federal Supreme Court ruling 2C_399/2020 of 28 December 2020.

FINMA also concluded two further proceedings in connection with the alleged corruption cases involving the Venezuelan oil company PDVSA. In particular, it found that Banca Zarattini & Co. and CBH Compagnie Bancaire Helvétique SA had not sufficiently investigated the economic background of business relationships and transactions with increased risks and had thus seriously violated duties in respect of due diligence to combat money laundering. In both cases, FINMA ordered measures to restore compliance with the law. It thus concluded all enforcement proceedings against banks with a connection to Venezuela. In this context, FINMA was in contact with a total of around 30 banks and conducted five enforcement proceedings.

Enforcement proceedings for shortcomings in corporate governance and risk management

In the course of enforcement proceedings in the year under review, FINMA identified deficiencies in corporate governance and risk management at several supervised financial institutions. It ordered appropriate measures to restore compliance with the law.

In October 2021 FINMA concluded enforcement proceedings against Credit Suisse with regard to its observation activities. Among other things, it found that the bank's observation activities were based on significant corporate governance failings. FINMA therefore ordered Credit Suisse to take measures that went beyond the corrective organisational and operational measures taken by the bank. In particular, it obliged the bank to set up a new internal reporting system, via which the executive board will continuously inform the board of directors or one of its committees about important governance topics. In addi-

tion, any observations of persons must be approved by top-level management, and the bank must take measures to document business-relevant communications in a comprehensible manner.

The enforcement proceedings conducted by FINMA against Credit Suisse in connection with loans made to state-owned companies in Mozambique (see also "Business conduct: conclusion of important money laundering enforcement cases", page 52) also revealed serious corporate governance shortcomings in the bank's group-wide risk management. In this regard FINMA decreed that in future Credit Suisse Group AG must ensure that all lending transactions that pose an increased risk for the entire group are escalated to group level and that the decision-making process is documented accordingly. In doing so, it must make an overall assessment of all types of risk at group level. In its decision, FINMA also clarified that the duty to manage risk on a group-wide basis also extends to foreign entities of a financial group or that transactions in entities abroad must be treated as part of group risk management.

Other enforcement proceedings conducted by FINMA concerned a bank that had gradually built up a shareholding in a company. Despite warning signs and internal recommendations, the bank had failed to scrutinise the available information on the target company and, in particular, had not carried out any due diligence in this regard. In addition, the information provided to the bank's governing bodies was incomplete, which meant that these bodies were unable to make well-founded decisions. These bodies had also failed to sufficiently scrutinise the statements of the operational management team and had ignored possible

risks. These omissions on the part of the bank's most senior bodies were made possible by an organisational system that was inadequate in parts. In particular, there were no processes for the acquisition of a shareholding during the period under review. Overall, this does not meet the requirements of appropriate administrative organisation and is not compatible with the requirements for proper business conduct. As a result of this serious breach of supervisory law, FINMA ensured that compliance with the law was restored and imposed a two-year industry ban on the person primarily responsible for this.

[In its database of case reports](#) FINMA provides transparent information on enforcement proceedings conducted, the underlying breaches of supervisory law and the measures it has taken. In doing so, it helps to promote responsible corporate governance at financial institutions.

Restoring compliance with the law outside of enforcement proceedings

In 2021, FINMA continued to receive a large number of reports of suspected breaches of supervisory law, which it consistently investigated. In a first step, the responsible supervisory division took action at the supervised institutions; in the event of a suspected serious breach of supervisory law, the case was then transferred to the Enforcement division for further investigations and, where necessary, was escalated by commencing enforcement proceedings.

FINMA's attention was once again drawn to a large number of providers who were suspected of conducting business activities without the required licence under financial market legislation. These reports were investigated by a dedicated unit in the Enforcement division. Furthermore, the Enforcement division continuously investigated cases of market abuse, such as insider trading or price and market manipulation. In 2021, the Enforcement division conducted a total of 650 such investigations, resulting

in 20 proceedings (excluding the disclosure of shareholdings).

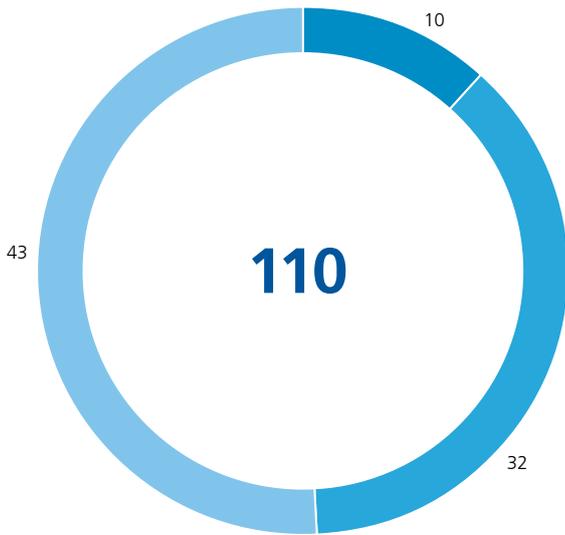
In a large number of cases, it was appropriate for reasons of proportionality to deal with the alleged misconduct outside of enforcement proceedings. In many cases the institutions licensed by FINMA took proactive steps themselves to remedy the shortcomings in question. For example, they took organisational measures, introduced supplementary controls or withdrew from a risky area of business. In these cases, the matter was generally referred to the relevant supervisory division for further monitoring by FINMA. If misconduct was found to have taken place in the past and the proper state of affairs had already been restored, FINMA could record this in writing and reprimand the institution.

In the case of unauthorised activities, assistance to restore full compliance with the law may have been advisable, for example, by discontinuing or adapting the business activities in question or by submitting a licence application provided there was a clear prospect of obtaining the necessary licences. This approach required an assessment on a case-by-case basis and, in addition to full cooperation, required inter alia that there was no risk of conduct detrimental to investors. If FINMA was unable to obtain the necessary information on the activities of the person presumed to require supervision, it could place the person on FINMA's warning list. FINMA uses this instrument to warn about persons who may be carrying out an activity requiring authorisation without a licence.

When investigating suspected inadmissible market conduct, FINMA usually acted outside the area requiring authorisation. Restoring compliance with supervisory law through ongoing supervision formed the exception while collaboration with the Office of the Attorney General of Switzerland was the main focus. As part of this coordination, suspicious cases were analysed jointly and further steps to be taken

Measures taken in investigations of authorised activities

Multiple measures possible per case

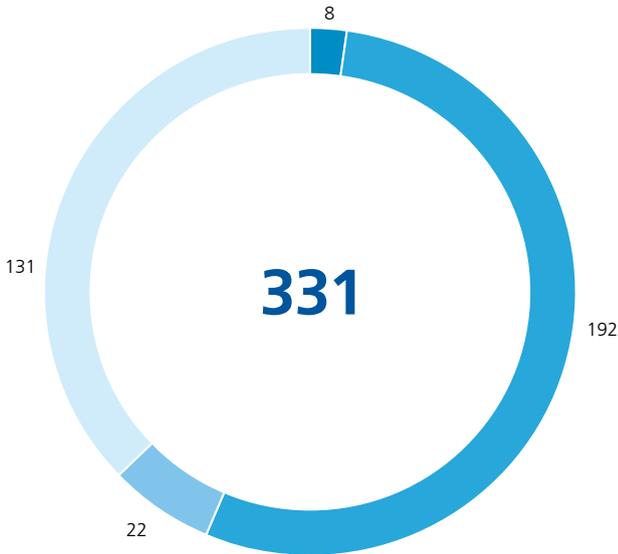


- Total investigations of authorised activities concluded
- Of which with proceedings initiated
- Of which with other measures*
- Of which with criminal charges

* Other measures include those through which compliance with the law was restored, such as the suspension or modification of the activity performed or the implementation of suitable organisational and staffing measures.

Measures taken in investigations of unauthorised activities

Multiple measures possible per case

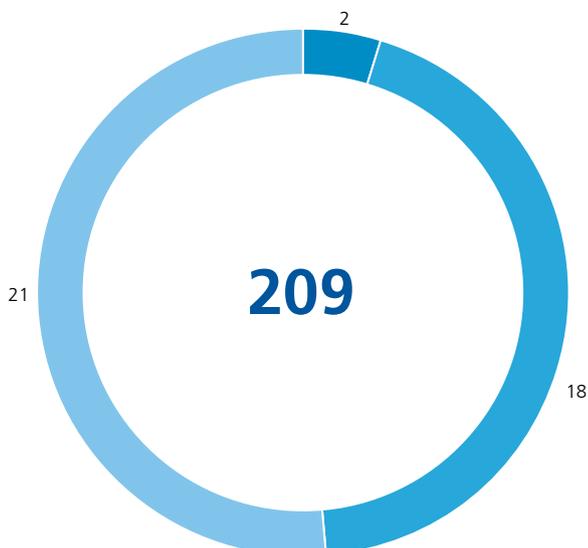


- Total investigations of unauthorised activities concluded
- Of which with proceedings initiated
- Of which with other measures*
- Of which with criminal charges
- Of which with entry on the warning list

* Other measures include those through which compliance with the law was restored, such as the suspension or modification of the activity performed, the removal of unfounded references to FINMA or terms reserved to supervised institutions and individuals.

Measures taken in investigations of inadmissible market conduct

Multiple measures possible per case



- Total investigations of inadmissible market conduct concluded
- Of which with proceedings initiated
- Of which with other measures*
- Of which with criminal charges**

* Other measures include those through which compliance with the law was restored, such as the suspension or modification of the activity performed or the implementation of suitable organisational and staffing measures.

** Including reports made to the Office of the Attorney General (OAG) without a formal criminal charge.

by the authorities involved were discussed. If the constituent elements of insider trading or price manipulation under criminal law were found to have been established, FINMA filed criminal charges.

FINMA's Takeover and State Liability Committee: decisions with regard to Swiss Steel Holding AG

In its decision of 6 December 2019, FINMA's Takeover and State Liability Committee granted Martin Haefner and BigPoint Holding AG ("BigPoint") an exemption from the duty to make an offer in restructuring cases ("restructuring exemption" under the Financial Market Infrastructure Act, Art. 136 para. 1 let. e FinMIA) in appeal proceedings with regard to Swiss Steel Holding AG ("Swiss Steel", formerly: Schmolz + Bickenbach AG). The exemption was granted subject to the condition that BigPoint must make a mandatory offer if BigPoint's shareholding in Swiss Steel is still above the threshold of 33 $\frac{1}{3}$ % on 31 December 2024.

In this context, Liwet Holding AG ("Liwet") made an application for reconsideration or revision to FINMA in January 2021. In its application, Liwet essentially argued that there had been a change in the underlying facts with the result that a finding in favour of an obligation to make an offer on the part of BigPoint should be made and, where necessary, the order of 6 December 2019 should be amended. In its decision of 27 January 2021, FINMA's Takeover and State Liability Committee did not consider this application for revision due to the lack of an admissible ground for revision and referred the application to the Swiss Takeover Board (TOB) citing a lack of jurisdiction in terms of subject-matter. The latter rejected Liwet's request for a finding and did not consider the requests made in the alternative claim. It also established ex officio

that the minimum price for a potential mandatory offer on the part of BigPoint was determined in compliance with the above-mentioned condition under Article 135 FinMIA. Liwet appealed to FINMA against this decision.

In its decision of 18 May 2021, FINMA's Takeover and State Liability Committee rejected this appeal. In particular, it found that a purchaser who was granted a restructuring exemption – subject to conditions and provided there were no transactions aimed at evading certain obligations and no abuse of rights – is generally free to increase its shareholding without subsequently triggering an obligation to make an offer. In addition, it emphasised that the only condition imposed on BigPoint by the decision of 6 December 2019 was that it must make a mandatory offer if it continued to exceed the threshold on 31 December 2024. Against this background, FINMA's Takeover and State Liability Committee concluded that the circumstances invoked by the appellant did not give rise to an obligation on the part of BigPoint to make an offer. Finally, it held that, in accordance with the statutory provision (Art. 135 para. 2 FinMIA), a period of twelve months applied when considering a prior acquisition in the context of a potential future mandatory offer by BigPoint.

Provision of subsequent information to clients in administrative assistance proceedings

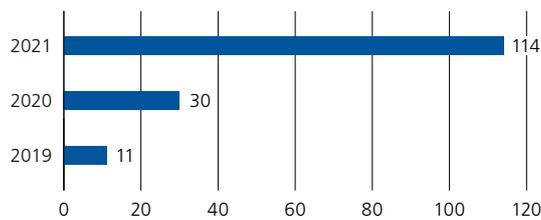
In order to increase the efficiency of international cooperation, the client procedure was restricted as of 1 January 2016. Accordingly, FINMA refrains from informing the clients concerned in advance if the requesting authority can show that the provision of information to clients in advance would frustrate the purpose of administrative assistance and the effec-

tive performance of its duties (Art. 42a para. 4 FINMASA). Since then, FINMA has gained a great deal of experience in this regard. In particular, the foreign authorities cited, for example, the risk of evidence being destroyed, possible collusion between various alleged participants, the transfer of assets and other acts of collusion in the confidential investigations still under way abroad as reasons for refraining from providing information to clients in advance.

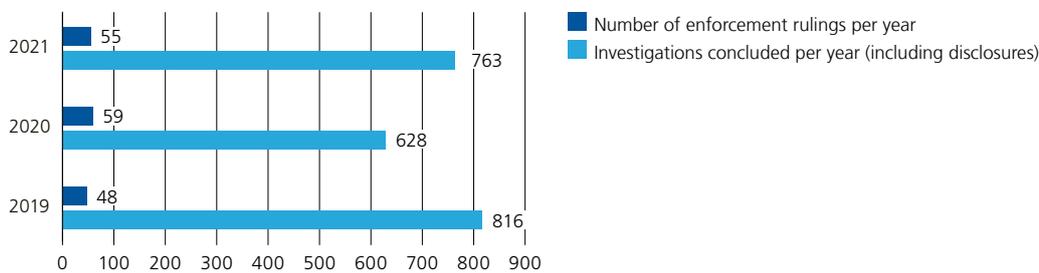
In this regard, it became apparent that, during recent years, various market supervision authorities in particular have increasingly requested the procedure of providing subsequent client information. When investigating insider trading or market manipulation offences, the foreign authorities are usually not yet aware of the identity of the market participants involved. Therefore, at the time the request is made, there is often a risk of collusion, and subsequent notification is justified in these cases.

In line with FINMA's practice, it transmits the information directly to the requesting authority without notifying clients in advance, provided the legal requirements are met. Clients are informed of the transmission as soon as the reason for the provision of subsequent information ceases to apply. A subsequent legal review is limited to determining whether the transmission was unlawful (Art. 42a para. 6 FINMASA).

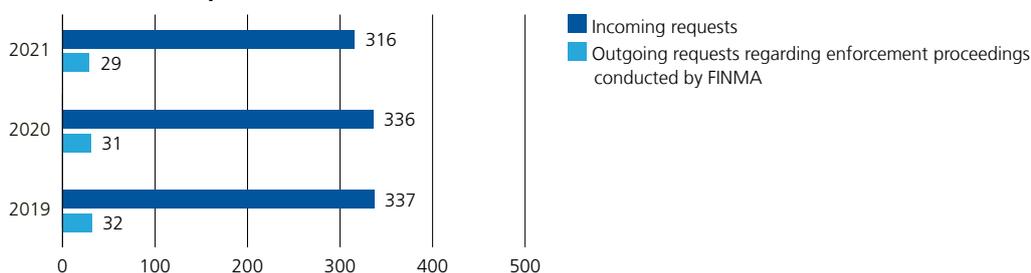
Transmission with subsequent notification



Investigations and enforcement rulings



International cooperation



Recovery and resolution

The two large banks' emergency plans have been deemed to be effective since the end of 2019. There was further progress in the emergency plans of the domestic systemically important banks. The resolution strategy for central counterparties remains a priority issue.

FINMA published its annual Resolution report in March 2021. It closely scrutinised the resolvability and emergency plans of the two large banks again. The large banks made further scheduled progress towards global resolvability. FINMA assisted the domestic systemically important banks in broadening their resolution strategies and continuing to close gaps in their emergency plans. The recovery plans of SIX x-clear and SIX SIS were approved for the first time, subject to conditions. FINMA continued its active international engagement as home resolution authority and participated in national and international expert groups. There was progress in a number of important insolvencies. FINMA worked with a larger number of licence holders in banking and insurance who were at risk of destabilisation, although no authorised financial institution was placed into a compulsory resolution, liquidation or bankruptcy during the financial year.

Emergency planning at systemically important banks

FINMA's assessment of the emergency plans of the Swiss units of UBS and Credit Suisse in 2021 concluded that they were effective. As in previous years, Credit Suisse met the statutory requirements in full. At UBS approval of the emergency plan is still qualified owing to residual financial interdependencies within the group. The contingent liabilities arising from joint and several liability for certain claims of UBS Switzerland AG against UBS AG continued to diminish during the year.

PostFinance, Zürcher Kantonalbank and Raiffeisen improved their emergency planning considerably compared to 2020. For the first time all domestic

systemically important banks have a credible resolution strategy in place. However, further work is needed to bring the emergency plans to a state of implementation readiness. This will be affected by changes deriving from the partial revision of the Banking Act (e.g. the provisions on bail-in bonds at cantonal banks). In the case of PostFinance, whether the legislation to provide a capitalisation guarantee for PostFinance is introduced, as proposed by the Federal Council, remains key to the bank's emergency planning.

All systemically important banks update their emergency plans on an ongoing basis to ensure they are able to continue their systemically important functions in the event of impending insolvency.

Resolvability and rebates

Both large banks met the targets laid down by FINMA and made improvements in their resolvability in a number of areas. These included:

- drawing up a viable blueprint for recapitalisation within the group;
- transparency of the requirements for maintaining access to essential financial market structures in a crisis;
- developing capabilities to estimate liquidity requirements in the event of resolution;
- group-wide management of the collateral needed to raise liquidity;
- timely provision of valuations in the event of resolution.

The banks received additional rebates of 7.5% (UBS) and 10.0% (Credit Suisse) based on the results of the assessments carried out by FINMA and relative to the

total rebate potential in 2021, which left the banks with rebate utilisation of 55.0% each at the end of 2021. Further improvements that qualify for an additional rebate are expected by the end of 2022. With the planned achievement of full resolvability by the end of 2022, the current rebate system will be abolished and replaced by a new system to incentivise continual improvements in global resolvability.

Crisis management colleges

As home supervisor of two global systemically important banks (G-SIBs), FINMA is responsible for coordinating the cross-border restructuring or liquidation of these institutions in a crisis and ensuring cooperation between the competent supervisory authorities. Crisis management groups in which the two banks' most important foreign supervisory and resolution authorities are represented have been set up for Credit Suisse and UBS.

In 2021 these crisis management groups concerned themselves first and foremost with resolution planning to ensure the resolvability of the large banks. Discussions centred around the implementation-readiness of the two Swiss G-SIBs' recovery plans. Furthermore, under the ambit of the FSB Resolvability Assessment Process (RAP), high-ranking representatives of the crisis management groups assessed the resolvability of the two Swiss G-SIBs. They found that while both banks have made progress, they have not yet reached full resolvability.

FINMA also held the annual crisis management college for the central counterparty SIX x-clear, which was classified as systemically important on a cross-border basis in 2017 (it was already domestically sys-

temically important). Thirteen supervisors from Switzerland and the European area are represented in this crisis management group. Its work focuses on assessing resolvability and fostering cooperation and coordination in recovery and resolution planning and for the eventuality of a specific crisis at SIX x-clear.

Recovery and resolution for financial market infrastructures

SIX x-clear and SIX SIS submitted their revised recovery plans to FINMA at the end of the second quarter of 2021. As systemically important financial market infrastructures (FMIs), they are required to show how they would stabilise their operations in a crisis to enable systemically important functions to continue. The starting point is a risk analysis, based on which the FMIs evaluate potential stress scenarios, draw up a portfolio of countermeasures and analyse the prerequisites for applying these measures and their implications.

Both FMIs improved their plans compared with the previous version. They also bolstered their loss absorption capacity, firstly by raising additional capital and secondly by extending the existing remedial measures to additional scenarios. FINMA approved the plans subject to conditions.

FINMA defined its preferred resolution strategy for SIX x-clear. It also examined whether potential resolution scenarios were up to date and considered how to calibrate the financial resources required for a resolution. The prerequisites for implementing the chosen strategy also need to be put in place at a regulatory level. The areas where FINMA has identified that action is needed have been included in the

ongoing work of the State Secretariat for International Finance in evaluating the Financial Market Infrastructure Act (FinMIA).

At an international level FINMA participated in work on the adequacy of financial resources of central counterparties (CCPs).

Significant insolvencies

The purpose of a restructuring is to enable an entity to continue operations at least in part. This includes the solvent run-off of insurance contracts in the case of insurance companies. In the event of a liquidation or bankruptcy, the supervised institution is wound down in an orderly fashion. FINMA did not need to place any authorised financial institution into a compulsory restructuring, liquidation or bankruptcy during the financial year. Meanwhile, significant progress was made in resolving pending cases from prior years.

Banque Privée Espírito Santo

The liquidator presented a second schedule of claims in the bankruptcy of Banque Privée Espírito Santo (BPES) and FINMA approved a second instalment. A disbursement of 2.2% of admitted claims was made to third-class creditors. FINMA also moved the case forward through numerous transaction agreements and by concluding pending proceedings. The negotiations with the other companies in the group to resolve intra-group claims continued and FINMA made further progress in realising inventory positions.

Hottinger & Cie AG in liquidation

The appeals against the schedule of claims in the Hottinger & Cie AG bankruptcy were resolved with one exception. Realisation of the disputed and illiquid assets continued. The bankruptcy liquidators launched two lawsuits for around CHF 14 million in total during the year under review. Liquid assets of around CHF 55 million were blocked due to various legal proceedings and were not available to be further distributed to creditors. Following a FATCA group request by the US tax authorities, there were detailed consultations with the Federal Tax Administration about how best to proceed with the bankruptcy case.

Lehman Brothers Finance AG in liquidation

During the year under review FINMA continued to resolve inventory positions and realise illiquid assets in the Lehman Brothers Finance AG insolvency. In particular, this included realising admitted claims on guarantees issued by the former group holding company. By the end of 2021, total instalments of 67.7% had been paid on the admitted third class claims out of the assets realised by then. A further CHF 15.9 million of third-class creditors' claims were therefore satisfied compared with 2020. One appeal against the schedule of claims is still pending.

Dealing with destabilised institutions

FINMA worked with licence holders at serious risk of becoming destabilised during the year under review. Such a risk is often associated with breaches of fi-

nancial market law by the licence holder. A destabilisation can be financial in nature and be caused by non-compliance with regulatory targets applicable to the licence holder or by looming over-indebtedness or illiquidity. Alternatively, serious corporate governance or conduct problems and failures in risk management can also be destabilising.

In all of these cases FINMA attempts to stabilise the licence holder sustainably and work towards restoring full compliance with the regulations. If this is impossible, it will help licence holders to exit the market voluntarily, or alternatively facilitate as orderly a liquidation or bankruptcy as possible. In all situations the focus is on safeguarding the legally protected interests of clients and creditors alongside the public interest in the proper functioning of the financial markets.

In the banking sector, FINMA worked with a number of smaller licence holders who were at risk of becoming destabilised. In the insurance sector, it was involved in stabilising a non-life insurer in supervisory category 5.

Regulation

FINMA regulates only when necessary to meet its supervisory goals. It is committed to principles-based and proportional regulation on the basis of a robust regulatory process.

Where expressly empowered to do so by legislation or ordinance, FINMA regulates technical details and topics subject to rapid change by issuing ordinances in specified areas of supervision. It also publishes circulars in which it sets out its supervisory practice and how it proposes to interpret laws and ordinances. By deploying these tools, and in dialogue with other public bodies and interest groups, FINMA further enhanced the proportionality of regulation during the year under review. This included the ongoing implementation of “Basel III” in the amended Capital Adequacy Ordinance and the new disclosure rules for climate-related financial risks. In general, the overwhelming majority of FINMA’s regulation is driven by the need to clarify superordinate legislation (federal legislation and Federal Council ordinances as well as international standards). Only a small number of FINMA regulations are issued to codify its supervisory practice.

In the year under review, in accordance with its legal requirements relating to the regulatory process and in line with its strategic goals, FINMA committed itself to risk-oriented and proportional regulation that is equivalent to international standards. It focused particularly on the implementation of regulatory measures that were taken on the basis of lessons learned from the 2008/2009 financial crisis. These included, in particular, “Basel III”. Credible implementation of these standards in Switzerland is essential for safeguarding the financial system, protecting the good reputation enjoyed by the financial centre and ensuring market access for export-oriented Swiss banks. FINMA’s aim is to take a proportional approach to this regulatory project.

Update on the implementation of “Basel III”

The “Basel III” finalisation package published by the Basel Committee on Banking Supervision (BCBS) in December 2017 is part of a catalogue of measures to address shortcomings in banking regulation highlighted by the financial crisis of 2007 to 2009. The

final package contains revised rules on determining the capital requirements for credit, market and operational risk, the output floor for modelled approaches and the leverage ratio. Switzerland’s Capital Adequacy Ordinance is being amended under the lead of the State Secretariat for International Finance (SIF) to implement these rules. The relevant provisions were finalised during the year under review, so that they can be sent for consultation in 2022. At the same time FINMA transferred the following circulars to new FINMA ordinances:

- Circular 2008/20 “Market risks – banks”
- Circular 2013/1 “Eligible capital – banks”
- Circular 2015/3 “Leverage ratio – banks”
- Circular 2016/1 “Disclosure – banks”
- Circular 2017/1 “Credit risks – banks”

The capital requirements for operational risks, which are dealt with in Circular 2008/21 “Operational risks – banks” will also be transferred to a new FINMA ordinance. The remaining qualitative requirements for managing operational risk in this circular will also be completely revised to incorporate the amended BCBS Principles for the Sound Management of Operational Risk and the new Principles for Operational Resilience.

The amendments are based on a guidance document agreed jointly by the authorities and industry representatives in March 2019. This provides for a capital-neutral implementation of the “Basel III” finalisation package for the banking system, except for the two large banks. For the large banks, not least against the backdrop of the “too big to fail” problem, the risk-based implementation should lead to higher capital requirements. The regulatory process is working to a similar timetable as the SIF’s for the Capital Adequacy Ordinance.

Revisions of FINMA ordinances

FINMA regulates through ordinances of its own only where it has explicit authorisation to do so. These

ordinances serve to determine technical details, for instance, or to provide regulation in areas subject to particularly dynamic change. The following FINMA ordinances were revised in 2021:

FINMA Ordinance on Data Processing

Following the revision of the Swiss Data Protection Act, FINMA began a revision and expansion of the FINMA Ordinance on Data Processing in 2021. This fulfils the statutory mandate for FINMA's data processing practices in the course of supervision to be governed by the Financial Market Supervision Act and the financial market legislation. The changes deriving from the revised Data Protection Act are also being incorporated at the same time.

FINMA Anti-Money Laundering Ordinance

The Swiss parliament passed an amended Anti-Money Laundering Act (AMLA) on 19 March 2021. The latest revision of the AMLA necessitates a number of formal and substantive changes to the FINMA Anti-Money Laundering Ordinance (AMLO-FINMA). FINMA's Board of Directors issued the regulatory mandate for these amendments in September 2021. The partial revision began in the autumn of 2021.

FINMA Insurance Supervision Ordinance

The partial revision of the Insurance Supervision Act (ISA) and Insurance Supervision Ordinance (ISO) relates to the legal framework for restructuring, consumer protection, insurance intermediaries, the implementation of international standards, the Swiss Solvency Test and group supervision, among other topics. Thus the partial revision will also trigger changes in FINMA circulars and ISO-FINMA. FINMA will firstly regulate in ISO-FINMA in line with the delegations contained in ISO, and directly from ISA if required. Secondly, the focus will be on transferring existing circular content to FINMA ordinance level. The consultation on ISO-FINMA and the circulars is expected to run from January to March 2023; entry into force is planned for 1 January 2024.

Revisions of circulars

FINMA's circulars set out how it applies financial market legislation in practice. The circulars give substance to non-specific legal principles and lay down guidelines for the exercise of discretion. FINMA's aim is to apply financial market legislation in a uniform and measured way in its supervisory practice.

Circular 2017/06 "Direct transmission"

The Financial Market Supervision Act permits supervised institutions and individuals to transmit non-public information directly to foreign public authorities and entities, i.e. without FINMA's involvement, in certain circumstances. In order to ensure the law was being applied uniformly and facilitate lawful and prompt transmission of data abroad, FINMA published [Circular 2017/06 "Direct transmission"](#) in 2017.

To reflect international developments and the views of supervised entities on how the circular has worked in practice, FINMA carried out an ex-post evaluation of the circular in 2019. This identified a need to update the circular, and hence FINMA launched a partial revision.

Changes in the circular included adding a further 25 foreign public authorities to the list of those eligible for administrative assistance, as adequate bilateral cooperation agreements are in place with these authorities. In addition, the rules were relaxed in a number of areas. For example, if information is passed on to public authorities who are not on the list, this no longer needs to be reported to FINMA.

The revised "Direct transmission" Circular entered into force on 1 April 2021.

Circular 2016/07 "Video and online identification"

During the year under review, FINMA updated [Circular 2016/07 "Video and online identification"](#), and thus the procedures for digital client onboarding, to

reflect technological developments. The amendments were largely welcomed by participants in the consultation, which was held from 16 November 2020 to 1 February 2021, although many wanted them to go further. FINMA now permits chip scanning of biometric identity documents as a form of identification, and geolocation as an alternative confirmation of address (see the discussion in "Digital client onboarding – keeping up with technological developments", page 18).

However, FINMA decided against introducing other methods such as automatic video identification followed by downstream manual verification by an institution's staff (known as asynchronous identification), as it is not seen as sufficiently secure yet.

The changes entered into force on 1 June 2021.

Circular 2010/03 "Health insurance under the ICA"

FINMA Circular 2010/03 "Health insurance under the ICA" deals with actuarial questions relating to the setting of premium tariffs and technical provisions in supplementary health insurance. In its judgement of 25 November 2019, the Federal Supreme Court confirmed that FINMA's approach to combating abuse resulting from unfair discrimination in premium tariffs is lawful. The partial revision of the circular in 2021 was intended to give effect to this decision. It was designed first and foremost to safeguard the interests of policyholders by protecting them from abuse, particularly unfair premiums. Thus the revised version of the circular sets out FINMA's practice in reviewing supplementary health insurance premiums and any changes in them. After an initial interdepartmental consultation, a public consultation was carried out from September to November 2020. The introduction of transparency rules for premiums for older customers met with agreement from insurance industry participants in the consultation. Various participants also argued that they should be permitted

to adjust tariffs on an exceptional basis and avail of unlimited margins in their technical results. FINMA made a number of changes as a result of the contributions to the consultation.

The partly revised circular entered into force on 1 June 2021.

Circulars 2016/01 "Disclosure – banks" and 2016/02 "Disclosure – insurers"

Climate change could give rise to significant long-term risks for financial institutions. Transparency by supervised entities about their climate-related financial risks is an important first step towards identifying, measuring and managing these risks. FINMA identified a need to regulate the financial statements of supervised entities with regard to the disclosure of climate-related financial risks across the financial industry. It thus added new requirements to the existing circulars 2016/01 "Disclosure – banks" and 2016/02 "Disclosure – insurers". This came after a regulatory round table and a public consultation were held in 2020. FINMA's amendments stuck closely to the framework of the Task Force for Climate-Related Financial Disclosures (TCFD) and other international developments.

The revised circulars entered into force on 1 July 2021 and have been applicable since 1 January 2022. The first disclosures on climate-related financial risks will therefore be included in the annual reports on financial year 2021.

Format compliance of FINMA regulation

When issuing its regulations, FINMA is guided by the principles laid down in the Financial Market Supervision Act (Art. 7 FINMASA) and the Ordinance to the Financial Market Supervision Act. One of these principles is to ensure that its regulations are issued in the appropriate format.

In 2021 FINMA continued the process begun in recent years of reviewing and implementing format compli-

ance organically in the course of ongoing or upcoming regulation projects. For example, as part of the work on the final “Basel III”, many of the provisions on liquidity and capital requirements were raised to Federal Council or FINMA ordinance level. This meant drafting new FINMA ordinances and slimming down or revoking the relevant circulars (see “Update on the implementation of Basel III”, page 62).

The review of FINMA insurance circulars was also finalised, and certain content was transferred to the level of the Insurance Supervision Ordinance (ISO) or ISO-FINMA. This related primarily to the provisions in the circulars on capital requirements and provisioning as well as a few other areas. A review of format compliance also began for financial market infrastructures as part of the evaluation of the Financial Market Infrastructure Act. Where necessary, the appropriate changes will also be made there.

Total length of regulations in 2021

In terms of pages, the total length of FINMA’s ordinances and circulars was roughly unchanged in 2021 compared with the prior year. The number of pages in circulars was 1,037, a fall of 2% from 1,057 in 2020, while ordinances rose by 8% from 243 pages in 2020 to 263 pages. This increase reflects the impact of the legislation on financial institutions and the new FINMA Personnel Data Ordinance, although the latter does not impact on supervised entities.

International affairs

Internationally binding standards are of great importance for an export-oriented financial centre like Switzerland's. FINMA represents Swiss interests in international fora in coordination with the Federal Department of Finance and plays a central role in reviews of Switzerland's compliance with international standards.

International cooperation enables Switzerland to participate in the standard-setting process and to secure access to foreign markets. It is therefore vitally important for the Swiss financial centre. As part of this cooperation FINMA sits on international bodies such as the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO). The main outlines of the positions taken when representing Switzerland on these bodies are determined jointly with the Federal Department of Finance (FDF). FINMA's international responsibilities are set out in the Ordinance to the Financial Market Supervision Act (Arts. 2 to 4 Ordinance to FINMASA).

Financial Stability Board

The Financial Stability Board (FSB) is responsible for monitoring financial stability globally and acts as the link between the G20 and the standard-setting bodies in coordinating financial market regulation. Work relating to the coronavirus pandemic and the resulting risks for financial stability topped the FSB's agenda in 2021.

The Swiss National Bank (SNB) and the State Secretariat for International Finance (SIF) represent Switzerland in the FSB Plenary, the FSB's decision-making body. FINMA is a member of the Standing Committee on Supervisory and Regulatory Cooperation and the Resolution Steering Group. FINMA is also a member of the Steering Committee on NBF,

which is tasked with coordinating policy work on non-bank financial intermediation. The coronavirus pandemic has underlined the additional urgency of completing this work. In 2021 FINMA was therefore involved in all of the FSB's workstreams relating to the pandemic. In addition it concentrated on issues such as potential minimum requirements for the financial resources of a central counterparty (CCP) in the event of resolution, cybersecurity, sustainable finance – a new priority for the FSB – and the replacement of LIBOR.

Basel Committee on Banking Supervision

Switzerland was a founding member of the Basel Committee on Banking Supervision (BCBS) and is represented by FINMA and the SNB in its internal fora. FINMA continues to contribute to strengthening the stability and resilience of the international banking system through its active involvement in various BCBS committees. In recent years the BCBS finalised the last important components of its post-financial crisis "Basel III" reforms. Hence other issues have moved to the fore, above all ongoing monitoring and evaluation of the risks and vulnerabilities of the global banking system and promoting international cooperation in banking supervision. In the year under review, for example, the work relating to the digitalisation of the financial system and climate-related financial risks was intensified. Key milestones included the publication of principles on operational resilience, e.g. with regard to cyber attacks, and a public consultation on the treatment of cryptoassets for capital purposes.

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) promotes effective and globally consistent supervision of the insurance industry with a view to protecting policyholders and contributing to financial stability.

One of IAIS' main areas of focus in 2021 was the work towards implementing the holistic framework to assess and mitigate systemic risk. The IAIS reviewed the implementation of the holistic framework by member authorities in countries with internationally active insurance groups (IAIGs) in two phases. The first phase, the baseline assessment (BLA), which largely took the form of a self-assessment by 26 countries including Switzerland, was completed in the second quarter of 2021. The second more intensive phase, known as the targeted jurisdictional assessment (TJA), has been running since the spring of 2021. Ten countries including Switzerland will be assessed.

In the year under review the IAIS member authorities also had access to the first year's data from the 5-year monitoring phase for the design of the Insurance Capital Standard (ICS), which runs from 2020 to 2025. The Swiss data was discussed with foreign supervisory authorities in various supervisory colleges for Swiss insurance groups. [Five insurance groups](#) in Switzerland met the IAIG criteria as at the end of 2021.

International Organization of Securities Commissions

The aims of the International Organization of Securities Commissions (IOSCO) include investor protection, ensuring fair, efficient and transparent markets, mitigating systemic risk, developing and monitoring the implementation of internationally consistent standards of securities market regulation and promoting effective international cooperation. As a member of the Board and various committees in IOSCO for many years, FINMA again participated in a number of technical projects in 2021 and benefited from the international discussions on developments in securities markets in its supervisory work.

New technologies, cryptoassets and fragmentation risk on the securities and derivatives markets remain among the priority issues for IOSCO. The work in the areas of financial stability and conduct was intensified during the year under review against the backdrop of market developments triggered by the pandemic. Sustainable finance, particularly the assistance provided by IOSCO in establishing the IFRS International Sustainability Standards Board, was another of the items high up the policy agenda.

Network for Greening the Financial System

FINMA participates actively in international discussions on improving sustainability in the financial sector within the scope of its mandate. Together with the SNB, it has been a member of the Network for Greening the Financial System (NGFS) since April

2019. The NGFS is a group of central banks and supervisors committed to better understanding and managing environmental and climate risks in the financial sector. In the year under review the NGFS further expanded its offering of analyses and practical tools to share knowledge and best practice. This included the updated NGFS climate scenarios, a progress report on global supervisory and central bank climate scenario exercises, and new workstreams on bridging data gaps and coordinating relevant research topics. FINMA participated actively in work on climate-related financial risks with direct relevance for its supervisory practice and was involved, for instance, in drawing up a progress report on integrating climate risks in the supervisory practice of NGFS members. It also supported the aims of the NGFS

Glasgow Declaration ahead of the COP26 UN Climate Change Conference, i.e. to improve understanding and management of the financial risks resulting from climate change.

Bilateral relationships

FINMA has a direct relationship with numerous foreign supervisors globally and works closely with them in the course of its supervisory work. It signs cooperation agreements to underpin these relationships. In the year under review, for example, FINMA signed a cooperation agreement with the US Securities and Exchange Commission (SEC). This agreement allows Swiss financial institutions to register with the SEC as securities swap dealers and makes them eligible for certain regulatory exemptions.

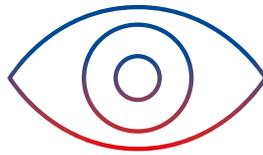
FINMA also lends its expertise to the State Secretariat for International Finance (SIF) to assist it in its work. In this context it again took part regularly in financial dialogues and market access negotiations by SIF with third countries in 2021. A particular focus in the year under review was FINMA's participation in the negotiations led by SIF on a financial services agreement with the United Kingdom.

FINMA's staff actively contribute to ensuring the safety and stability of the Swiss financial centre

FINMA employs lawyers, economists, mathematicians, auditors, actuaries, accounting experts and other specialists. They are committed to protecting bank clients, investors, creditors and policyholders in Switzerland. FINMA also helps train young people through its internships and apprenticeships.

50.1

licensing

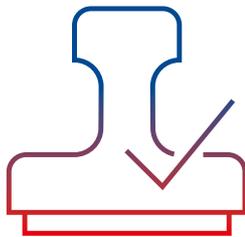
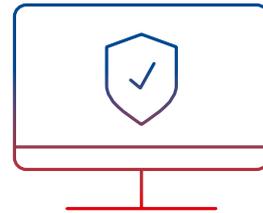


151.4

supervision

55.7

risk management



118.3

legal, regulation, enforcement

153.5

operations, support,
central specialist functions

529.0

total full-time equivalents
(FTEs)

of which apprenticeships,
training places
and internships

14.8

These figures reflect the total headcount as at the end of 2021. They also include apprentices, interns and persons paid by the hour.

FINMA as an authority

72 FINMA in dialogue

75 Audits on behalf of FINMA

78 Board of Directors and Executive Board

82 Staff

86 Operations

FINMA in dialogue

FINMA informs its stakeholder groups in an open and transparent manner. It provides politicians with information about its supervisory and regulatory activities, exchanges information with numerous interest groups and informs the public about its activities in the appropriate way. In doing so, it complies with its legal mandate of accountability.

FINMA maintains a dialogue with politicians, other authorities, supervised institutions and individuals, the public and other interest groups. In the year under review, FINMA engaged in exchanges on numerous topics relating to its responsibilities and its role in government policy, such as the effects of the pandemic on the Swiss financial centre, the accentuated risks in the fields of the mortgage market, cyber security and climate change or on FINMA's approach to supervision regarding corporate governance and risk management of supervised institutions and individuals. FINMA held various discussions with associations and other stakeholder groups and participated in topic-specific working groups. It informed the public by means of a range of press releases and publications and by responding to more than 6,600 enquiries.

Annual accountability

Each year, the Chair of the Board of Directors and Chief Executive Officer meet the parliamentary supervisory committees, i.e. the Control Committees and the Finance Committees of the Federal Assembly, to fulfil their accountability obligation. In the year under review, questions were asked about the most significant risks for the financial market and issues relating to FINMA's management. As in 2020, the impact of the coronavirus pandemic on the Swiss financial centre received special attention during this year's meeting. Furthermore, the incidents at Greensill and Archegos, the accentuated risks on the mortgage market, the challenges regarding the supervision of digital financial services, cyber security risks and finance-related climate risks were discussed. Jan Blöchliger attended both meetings as CEO ad interim and introduced himself to the members of the supervisory committees.

The annual meeting with the Federal Council, as provided for by the Financial Market Supervision Act (FINMASA), took place in autumn. On this occasion, FINMA provided an update on its progress in achieving its strategic goals and the most significant risks

for the Swiss financial market were discussed. The 2021 exchange also provided a chance to get to know the new Chair of the Board of Directors and the new FINMA CEO.

Provision of expert information to parliamentary committees

In the year under review, FINMA also provided information on specific topics to the parliamentary committees. In meetings of the Economic Affairs and Taxation Committees (EATCs) of both councils, FINMA gave its views on the "too big to fail" problem and the supervision of corporate governance and risk management at major banks in Switzerland. FINMA also took part in EATC meetings on the revision of the Insurance Supervision Act, the Banking Act and the fundamental change to residential property taxation.

Discussions with important stakeholder groups

FINMA held annual or semi-annual discussions with key associations of supervised institutions and encouraged regular exchanges through topic-specific working groups.

As in previous years, FINMA also organised a round table with a number of players committed to client protection. The event was attended by consumer protection organisations (Foundation for Consumer Protection, Konsumentenforum), the Health Insurance Ombuds Office, the Private Insurance Ombuds Office and the price supervisor. The discussion covered a variety of topics relating to supplementary health insurance, including an update on the service providers of inpatient supplementary health insurance, the revision of [FINMA Circular 2010/03 "Health insurance under the ICA"](#) and the insights from the 2022 tariff negotiations.

Expert panels and symposia with market participants

Dialogue with supervised institutions is encouraged, particularly through subject-specific panels made up of high-level representatives from the supervisory and private sectors. These meetings enable direct and open exchange between the parties responsible for making decisions at the supervisory level and the level of financial market institutions. Their discussions look at specific supervisory and regulatory issues and the current market situation. In the banking sector, the panels in the fields of asset management, retail banking, private banking and small banks proved their worth and were continued in the year under review. In the insurance sector, equivalent bodies for non-life, health, life insurance and reinsurance were the forum for discussions between FINMA and supervised parties in the year under review. In addition, FINMA organised two professional exchanges with representatives from the banking, insurance and asset management sectors on the topic of climate-related financial risks in the year under review, and informed portfolio managers at industry events about the changes to the licensing procedure and supervision associated with the entry into force of the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA).

In addition, FINMA once again invited participants to two major events in the small banks and asset management sectors. At the Small Bank Symposium, FINMA provided information to more than 250 participants on the topics of the discontinuation of LIBOR and cyber security risks, followed by a panel discussion on current risks in the financial market. At the Asset Management Symposium with around 350 external guests, the focus was on sustainability and greenwashing. In light of the coronavirus pandemic, both events took place virtually.

Enquiries

In 2021, FINMA was contacted by more than 6,600 financial market clients, investors, lawyers and other

interested parties. This means that the volume of enquiries decreased compared to the previous year. Enquiries often provided FINMA with valuable information on individual players in the financial markets, which it was able to use in a targeted manner in its supervisory activities.

In the year under review, FINMA fielded a total of 2,139 telephone enquiries and 4,532 written enquiries. These concerned licensed institutions, licensing requirements and regulation. More than 1,400 reports were received in relation to unauthorised financial market participants, who had frequently misled their clients about being located in Switzerland or about possessing a FINMA licence. FINMA conducted several hundred in-depth investigations on the basis of these reports from clients or investors. Some of these led to proceedings or an entry on the warning list. The regularly updated FINMA warning list was one of the most frequently visited pages on www.finma.ch with 220,000 clicks. Investors were made aware of possible dangers on the financial market by way of precaution.

The entry into force of the provisions of the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA) and the corresponding registration requirements resulted in numerous licensing enquiries in 2020. The number of these enquiries decreased in 2021. The majority of authorisation enquiries in the year under review related in particular to asset management and FinTech services.

Public reporting

The majority of public reporting takes place via FINMA's website. All the basic information on FINMA's supervisory and regulatory activities is available there. In 2021, FINMA continued to provide transparent information about how it fulfils its legal mandate by providing information on the website, specific reports, thematic dossiers, fact sheets or explanatory videos. In the year under review, the website was accessed a total of more than 1.6 million times.

FINMA also actively provided information regarding topics relevant to the financial centre in 10 news articles and 24 press releases in 2021. The FINMA press office dealt with more than 798 press enquiries. More than 10,000 interested parties signed up to the newsletter to receive updates about new information posted on the FINMA website. And this number is on the rise. The same is true of the number of FINMA followers on social media.

Audits on behalf of FINMA

FINMA calls on the support of third parties in all aspects of its supervisory work. Its key focus in this context is on effectiveness and efficiency of the audit firms and mandataries. The significant cost savings that were achieved in 2020 thanks to a revision of the regulatory auditing process were maintained at a constant level in the year under review.

Audit firms produce a risk analysis and an audit strategy for their assigned financial institution. For banks in supervisory categories 1 and 2, FINMA defines the audit strategy in consultation with the audit firm. For all other financial institutions FINMA can adjust the audit strategy provided by the audit firm. In the insurance sector FINMA defines the audit strategy and the audit programme. Audit firms report their findings to FINMA on the basis of their audit. They must maintain their independence. In addition, they must take a critical approach and guarantee an objective assessment.

Audit firms play a key role

The Federal Audit Oversight Authority (FAOA) issues regulatory auditor authorisations. The costs of regulatory audits conducted by audit firms are borne directly by the supervised institutions. Audit firms report their invoiced fees to FINMA on an annual basis. The average hourly rate for a regulatory audit completed in the year under review is CHF 229, and CHF 153 for a financial audit. Audit costs accounted for 34% of the total supervisory costs invoiced by FINMA and audit firms for the Swiss financial market. The extent to which audit firms were used varied from sector to sector. In banking supervision, they

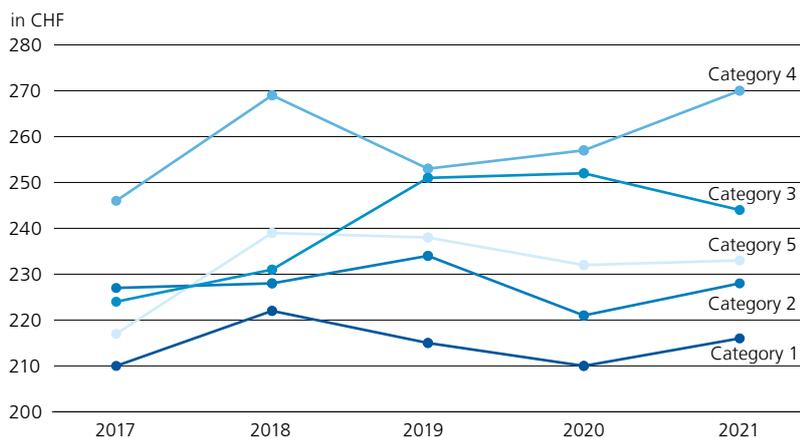
accounted for 45% of costs, with average hourly rates for regulatory audits varying according to the size of the bank (see chart below). These may be subject to stronger fluctuations, especially in supervisory categories 1 and 2 due to the small number of institutions. Accordingly, the varying degrees of complexity of the audit fields, which are also subject to rotation over several years, as well as the different business models and audit methods, are more significant. Since FINMA undertook most of the supervisory work in the insurance sector itself, costs attributable to audit firms in this sector were just 13%.

The efficiency gains made in the previous year through the revision of [FINMA Circular 13/3 "Auditing"](#), which had led to significant savings in running costs of the supervised institutions, were maintained. FINMA will conduct an impact analysis after three full audit years to examine the cost-benefit ratio of the revision of the circular.

FINMA mandataries – an important instrument for specific supervisory and enforcement issues

Mandataries are an important supervisory instrument for FINMA. In contrast to auditors, mandataries are not usually commissioned for recurring audits with a

Average hourly rates for regulatory audits of banks



Fees charged by audit firms for regulatory audits

Annual fees per supervisory area in CHF millions¹⁵

	2021	2020 ¹⁶	2019	2018	2017	2016
Banks and securities firms	54.6	55.3	76.9	81.4	86.7	89.4
Insurance	7.1	6.8	7.7	7.2	6.3	6.6
Markets	1.0	0.8	1.6	1.9	2.3	1.3
Asset management	9.3	9.8	13.1	13	12.4	12.6
Total	72.0	72.7	99.3	103.5	107.7	109.9

predefined audit programme; instead they are deployed to look into specific issues relating to supervision and enforcement. FINMA's mandates are as varied as the areas they cover and thus require different types of specialisation. Their costs are borne by the supervised institutions. The following are the five types of mandatary and the areas they operate in:

- audit mandataries at authorised financial intermediaries;
- investigating agents at authorised financial intermediaries
- investigating agents of unauthorised activities
- restructuring agents and crisis managers at authorised financial intermediaries;
- bankruptcy and liquidation mandataries.

The selection of a mandatary is a two-step process. All interested providers can apply to be included in a publicly accessible list of candidates.

FINMA has defined requirement profiles for its standard mandates. Candidates who meet the requirement profile are accepted onto the list. When selecting a mandatary, FINMA refers to this list on a case-by-case basis. There were 93 mandataries on the FINMA list at the end of the year under review. If no suitable mandatary is available, FINMA may commission an expert who does not appear on the list.

Candidates for a specific mandate are selected on the basis of different criteria. The FINMA mandataries must be suitably qualified and independent (cf. Arts. 24a and 36 FINMASA). These are the key factors for the commissioning of mandataries in a particular case. Other selection criteria are language skills or the area of assignment. Depending on the mandate, sufficient resources may also be required. In addition, the proposed fees are a deciding factor when awarding the contract.

¹⁵The figures reported each year relate to audits conducted in the previous financial year. Regulatory audit costs include the basic audit and any additional audits. Other costs associated with regulatory audits (such as expenditure on special audits required by law) over which FINMA has no control are not included.

¹⁶Deviations from the figures published in the 2020 Annual Report are due to audit costs retrospectively reported or adjusted.

FINMA assigned 29 mandates during the year under review. As part of its selection process it ensured that, if possible, mandates were not awarded overly frequently to certain mandataries. FINMA monitored the fulfilment of the mandates on an ongoing basis and checked the proportionality of the costs to be borne by the supervised institutions. Costs for all FINMA mandataries commissioned in 2021 came to CHF 21 million.¹⁷

¹⁷Invoices received as of mid-February 2022.

Costs for FINMA mandataries by fee volume and number of mandates granted

Category of supervised institution	2021		2020		2019	
	Fee volume ¹⁷ (in CHF m)	Number of mandates commissioned	Fee volume in CHF m	Number of mandates commissioned	Fee volume in CHF m	Number of mandates commissioned
Auditing of authorised financial intermediaries	7.6	10	13.0	8	8.9	12
Investigations of authorised financial intermediaries	10.6	11	2.2	4	3.9	6
Investigations of unauthorised activities	0.3	4	0.6	7	0.6	8
Liquidation proceedings	0.2	1	0.2	1	0.4	1
Bankruptcy liquidation proceedings	2.3	3	4.9	5	4.3	5
Total	21.0	29	20.9	25	18.1	32

Board of Directors and Executive Board

FINMA is a public law institution in its own right. Its strategic orientation is defined by the Board of Directors. The Executive Board, under the leadership of the CEO, is responsible for day-to-day operations.

The Executive Board leads FINMA in operational terms and is responsible for the supervision of Swiss financial market participants in accordance with statutory and strategic provisions. It implements the resolutions passed by the Board of Directors and its committees. The Board of Directors is FINMA's strategy-setting body and is responsible for overseeing and controlling 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 Board. It decides on matters of substantial importance, issues ordinances and circulars and is responsible for FINMA's budget. The Board of Directors acts 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 2021)¹⁸

Prof. Marlene Amstad	Chair
Martin Suter	Vice-Chair
Prof. Ursula Cassani Bossy	Member
Prof. Susan Emmenegger	Member
Benjamin Gentsch	Member
Bernard Keller	Member
Dr Andreas Schlatter	Member
Franz Wipfli	Member

Prof. Marlene Amstad, who was previously Vice-Chair, has been Chair of FINMA's Board of Directors since 1 January 2021. On the same date, Prof. Susan Emmenegger, professor of private and banking law at the University of Bern, was appointed to FINMA's Board of Directors.

On 20 October 2021 the Federal Council elected Dr Alberto Franceschetti and Marzio Hug to the Board of Directors of the Swiss Financial Market Supervisory Authority FINMA. The two Italian-speaking experts from the financial sector will succeed the

departing members Franz Wipfli and Bernard Keller on 1 January 2022.

Committees of the Board of Directors

The Board of Directors has three committees, formed from among its members: the Audit and Risk Committee, the Appointments Committee and the Takeover and State Liability Committee. The Takeover and State Liability Committee is the complaints body with which appeals against rulings by the Swiss Takeover Board may be lodged. It also rules on claims seeking to establish state liability under the Government Liability Act.

¹⁸To ensure transparency, FINMA maintains a [public list of the interests](#) of members of the Board of Directors. Information about [FINMA's Code of Conduct](#) is publicly available. The [conditions for holding office](#) as stipulated by the Federal Council also apply to FINMA's Board of Directors.



Prof. Marlene Amstad



Prof. Ursula Cassani Bossy



Martin Suter



Prof. Susan Emmenegger



Benjamin Gentsch



Dr Andreas Schlatter



Bernard Keller



Franz Wipfli

The standing committees of the Board of Directors and their members (31 December 2021)

	Audit and Risk Committee	Appointments Committee	Takeover and State Liability Committee
Prof. Marlene Amstad		Chair	
Prof. Ursula Cassani Bossy			Chair
Prof. Susan Emmenegger			X
Benjamin Gentsch		X	
Bernard Keller	X		
Dr Andreas Schlatter		X	X
Martin Suter	X (Chair since April)		
Franz Wipfli	X (Chair until March)		

The Executive Board

The Executive Board is FINMA's operational management body. It is charged with supervising banks, insurance companies, exchanges, securities firms and other financial intermediaries in line with statutory regulations and FINMA's strategy. It prepares decision-making materials for matters which fall within the remit of the Board of Directors and is responsible for implementing the resolutions of the Board and its committees.

Members of the Executive Board

(31 December 2021)

Dr Urban Angehrn, CEO

Birgit Rutishauser Hernandez, Deputy CEO and Head of Insurance division

Jan Blöchliger, Head of Banks division

Léonard Bôle, Head of Markets division

Patric Eymann, Head of Enforcement division

Thomas Hirschi, Head of Asset Management division

Alexandra Karg, Head of Operations division

Johanna Preisig, Head of Strategic Services division

Rupert Schaefer, Head of Recovery and Resolution division

The Board of Directors appointed [Dr Urban Angehrn as CEO of FINMA with effect from 1 November 2021](#).

In accordance with the prescribed process, this decision was approved by the Federal Council. The Board of Directors conducted an extensive search and evaluation before making the appointment. Dr Urban Angehrn was previously a member of the Group Executive Committee and Group Chief Investment Officer of Zurich Insurance Group (Zurich) as well as serving as Chairman of the Board of Directors of Zurich Life Insurance Company and as Chairman of the Board of Trustees of the Zurich Insurance Group Pension Plan. Since taking up his post, Dr Urban Angehrn, like all FINMA employees, has been subject to the recusal rules as set out in FINMA's Code of Conduct. He will therefore recuse himself from all items of business that concern his former employer

(Zurich Insurance Group) until the end of October 2022. As usual, FINMA will also examine whether any other grounds for recusal exist.

The outgoing CEO Mark Branson had worked for FINMA since 1 January 2010, initially as Head of Banking Supervision, additionally as Deputy CEO from 2013 and as CEO since April 2014. He left FINMA at the end of May 2021 and became President of the Federal Financial Supervisory Authority BaFin at the beginning of August. Jan Blöchliger, Head of the Banks division, acted as FINMA's CEO ad interim until the new CEO, Dr Urban Angehrn, took up his post. During this transitional period, Michael Waldburger, head of the section responsible for supervising UBS, led the Banks division.

Enforcement Committee

The Enforcement Committee (ENA) is a standing committee of the Executive Board responsible for making decisions on enforcement. It issues enforcement rulings and decides whether to initiate and/or discontinue proceedings.

Permanent members of the Enforcement Committee (31 December 2021)

Dr Urban Angehrn, Chair

Patric Eymann

Johanna Preisig

Heads of divisions affected by particular cases may also join the Enforcement Committee as voting members on a case-by-case basis.



Dr Urban Angehrn



Birgit Rutishauser
Hernandez



Jan Blöchliger



Léonard Bôle



Patric Eymann



Thomas Hirschi



Alexandra Karg



Johanna Preisig



Rupert Schaefer

Staff

FINMA also focuses on sustainability in its personnel policy, the key principles of which are efficiency, balance and transparency. A particular priority in 2021 was assisting and preparing employees for the new working reality in the post-pandemic era.

Once again in 2021, the implications of the coronavirus pandemic for staff occupied a central position – both directly and indirectly – in FINMA’s HR activities. For example, the basic personnel policy principles were established regarding flexible working in the “new normal”. FINMA-wide training and development programmes relating to virtual communication and managing employees remotely were a particular priority. HR activities also focused on involving and assisting employees during the ongoing project to transform the working environment.

Preparation for the new post-pandemic normal

At FINMA, too, the experience of remote and flexible collaboration during the coronavirus pandemic is resulting in marked and lasting changes to ways of working. Back in 2020, FINMA already started establishing the working conditions for the new post-pandemic normal. This redesign and transformation of ways of working and working environments is taking place on three levels: first, in HR policy and governance; second, in the physical working environment; and third, in the technical equipment for virtual collaboration.

The decisions regarding HR policy were implemented in early 2021, and FINMA staff have since been free to perform up to half of their contractual working hours remotely, i.e. without being present in the office. At the same time, weekly “presence days” on which staff are physically present in the office with their teams will maintain and strengthen direct and informal interaction within the group. However, due to the unfavourable evolution of the coronavirus pandemic, this policy could not be implemented in all teams and for a sustained period in 2021.

To support future cooperation in the “new normal” era, management processes have also been adapted. On the whole, staff and managers have more scope to shape management relationships in a trust-based and personalised manner. The feedback and assess-

ment tools have been further simplified and the focus is now on structuring and clarifying future collaboration rather than on past performance, as it was previously.

The planning work for the redesign of the physical working environment was an additional focus. The goal of these adaptations is to provide staff with an optimal working environment to suit the new ways of working (see “Workplace 2.0: hybrid working models and technical collaboration opportunities”, page 86). In 2021, HR activities centred on accompanying staff and managers through this process of change and involving them in the design of the future working environment. To this end, surveys and systematic feedback rounds were carried out in the various teams at different stages of the project. The findings were incorporated into the workplace design and were regularly communicated to staff. When the renovation work gets under way in 2022, the focus will shift from accompanying and including staff to helping them use the new working environment effectively and productively.

The implementation of better technical support for virtual collaboration will also be a priority for 2022. Here, too, it is the role of HR management to support the organisational change with appropriate measures.

Measures to further promote equality

Concrete measures to implement FINMA’s sustainability concept and commitment to gender equality were put in place in early 2021 with further changes to the HR policy. For example, FINMA decided to grant men and women two weeks of paid leave beyond the statutory minimum when they become parents. FINMA therefore now offers four weeks of paternity leave for new fathers. This will also be applied in the form of parental leave for same-sex couples and adoptions.

Women now also have the right to choose to continue working up to the age of 65. This puts them on an equal footing with men in terms of the potential length of their working lives.

Update on gender diversity targets and measures

One of FINMA's key personnel policy objectives is to ensure that the proportion of women at all management levels is approximately the same as in the overall workforce. In the year under review, 28.8% of all management positions were held by women (2020: 28.9%); overall, women accounted for 41.2% of the workforce, the same as in the previous year. In order to achieve this goal, FINMA has defined maintenance and development targets for equal opportunities for men and women.

The purpose of the maintenance targets is to ensure that good outcomes in terms of equal pay and employment conditions are maintained into the future. To this end, FINMA had its salary policy reviewed again in 2021 by an independent body using "Logib", the Federal Government's equal-pay tool. In the year under review, the wage differential measured in this way amounted to just -0.9% (2020: -1.9%) to the disadvantage of women. Taking into account the uncertainty of the model for an organisation the size of FINMA, this means that the gender pay gap at FINMA is no longer statistically significant. Equal pay in the strict sense has been achieved.

The gender diversity development goals are defined in terms of phased targets which over time will deliver appropriate and sustainable gender distribution at each management level. Based on the 2021 work-

force, the indicative figures and percentages achieved are as follows:

- at least 35% of lower specialist management positions to be filled by women by 2022
2021: 32.4% (2020: 32.5%)
- at least 35% of lower management positions to be filled by women by 2024
2021: 22.7% (2020: 21.4%)
- at least 33.0% of higher specialist and management staff and executive management positions to be filled by women by 2026
2021: 23.3% (2020: 24.2%)

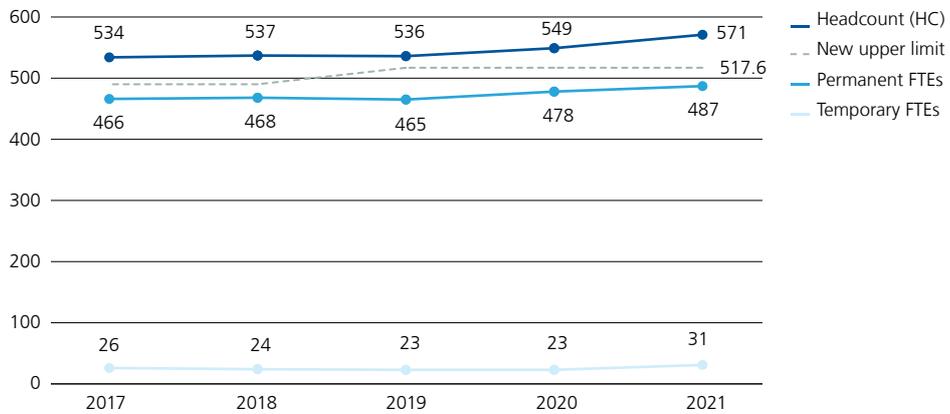
The comparative gender monitoring measures for personnel processes for the recruitment, selection, assessment and development of employees are firmly established and will be continued to support the overarching objectives.

Staff expansion related to FinSA and FinIA

In accordance with FINMA's strategic objectives as approved by the Federal Council, the resources required will be based on the expenditure necessary for FINMA's extended legal remit to be fulfilled in an efficient manner. In view of the additional responsibilities that FINMA is assuming in connection with the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA), the Board of Directors increased the maximum number of full-time positions by 36.6 to 517.6 with effect from 1 January 2019. This increase specifically includes all of the personnel resources that will be required in the coming years, mainly for the authorisation, supervision and enforcement of financial market participants that are now subject to supervision by FINMA.

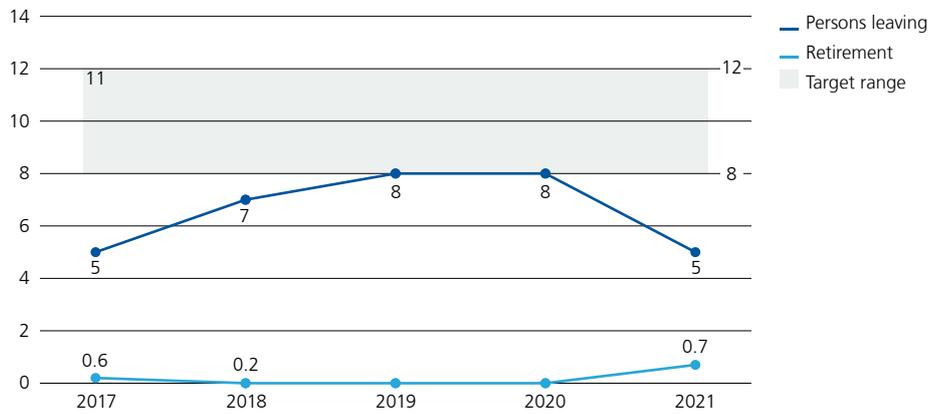
FINMA publishes [detailed personnel data](#) annually on its website.

Average headcount



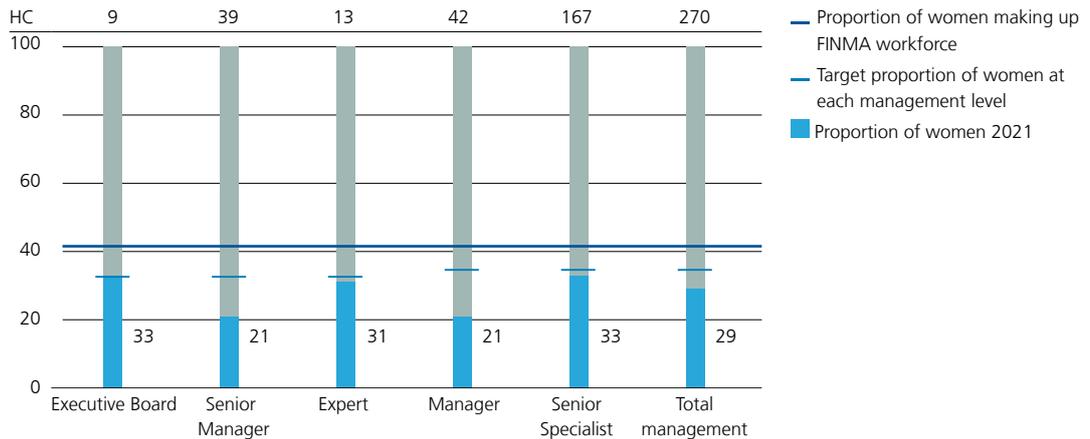
Staff turnover

in %, at year end



Proportion of women at each management level

in %, at year end



Given the implementation timeline for FinSA and FinIA, the additional resources will only become necessary in the medium term, and the actual number of full-time positions is therefore rising gradually towards the new upper limit. In the year under review, 11 new permanent full-time positions were actually created and filled (2020: 5).

FINMA had an average of 571 employees in permanent and temporary employment in 2021 (2020: 549). Around 28% (2020: 25%) of employees worked part-time, i.e. less than 90%.

Staff turnover within defined limits

The optimum staff turnover rate for FINMA is higher than in the Federal Administration as a whole or in public administration. As part of its personnel strategy, FINMA aims for a medium-term average staff turnover rate of 8% to 12%.

The analytical rigour of FINMA's supervisory activities is enhanced by the influx of know-how from the financial sector and the fresh perspectives provided by new employees. A healthy dynamism in the personnel structure also offers existing employees greater opportunities to take on additional responsibilities and to explore new roles and take on new challenges within the organisation.

At 5% (2020: 8%), staff turnover in 2021 was below the defined target range. In addition, 0.7% (2020: 0%) of the workforce retired.

It is pleasing to note that the dynamism in the workforce was retained despite low staff turnover. In the year under review, 87% (2020: 64%) of vacancies for permanent positions were filled internally in the first instance. These internal transfers and promotions led to vacancies elsewhere, which again were filled internally or externally. To additionally promote the internal sharing of knowledge, 24 internal secondments also took place. A vacant post can thus result in several internal transfers. In 2021, the percentage of vacant senior specialist and management positions filled from within the organisation was 73% (2020: 65%).

Operations

FINMA's office environment is being adapted to the new post-pandemic reality. Digitalisation is being further promoted and there is a greater focus on modern analytical techniques. Meanwhile, total energy consumption decreased again in the year under review, mainly thanks to building infrastructure measures. The slightly increased headcount due to the staggered implementation of the Financial Services Act and the Financial Institutions Act caused a slight rise in operating costs.

At FINMA, too, the pandemic has brought new insights in terms of physical and digital collaboration. The office landscape is therefore being transformed to create the best possible environment to support hybrid and virtual forms of individual collaboration. Employees will plan and structure their work even more flexibly in future.

Workplace 2.0: hybrid working models and technical collaboration opportunities

Since the coronavirus restrictions were first introduced and within the scope of the official regulations, FINMA employees have had flexibility regarding where they work. On days when employees are in the office, the focus is on forms of collaboration that require a physical presence. Meanwhile, focused individual work can be carried out both at home or in the office. The aim is to continue to conduct work meetings in person, virtually and in hybrid form after the coronavirus pandemic is over.

The personal workstations in the Bern and Zurich offices are being converted into shared desks. The divisions will be assigned "home bases". Besides the traditional workstations, there will be collaboration zones. The existing FINMA offices will be organised so that these collaboration zones have more space. Finally, enhanced digital infrastructure (such as video conferencing equipment) will support collaboration and facilitate all types of hybrid and virtual meeting, workshop or training session.

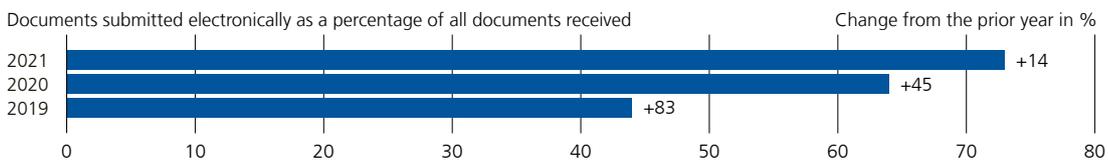
Digitalisation and increase in electronic correspondence

Following the improved user friendliness and the expanded range of functions offered by the survey and application platform (EHP) in 2020, a number of key innovations were implemented in the year under review. For example, the layout and legibility of survey forms was improved. For audit firms, the general overview of the status of overall surveys was optimised. The notification system was also expanded so that institutions and audit firms are actively notified before expiry of a period. Once again in 2021, FINMA continuously developed the EHP and established it more firmly as a central tool for cooperation with supervised entities and audit firms.

Survey on digitalisation strategy

As a basis for the development of the FINMA-wide digitalisation strategy, a survey of employees and a survey of selected supervised entities and audit firms were conducted in the year under review on FINMA's digital maturity. The results showed that in terms of respondents' perceptions, FINMA has evolved to become an authority with an increasing level of digital maturity in recent years. The overwhelming majority of supervised institutions and audit firms value digital collaboration. The main area where respondents considered there was potential for improvement was in the user friendliness of digital channels. Some respondents said they would like to see a single, standardised channel for all digital interaction and collab-

Digital information submission trends



oration. Optimisation potential was also identified in the area of support documentation. The results of the survey have been incorporated into FINMA's digitalisation strategy. The strategy aims to increase efficiency within the organisation (e.g. through increased automation and targeted use of robotic process automation) and to simplify digital interaction with supervised institutions, audit firms and other third parties.

Electronic correspondence trends

The usage rate of digital channels was further increased. A growing amount of mail was handled electronically. Over 73% of FINMA's incoming mail was in electronic format, and there was a sharp increase in outgoing electronic correspondence. Following an increase of 35% in 2020, an additional increase of 65% was achieved in the year under review. FINMA's digitalisation measures, as well as the willingness of registered supervised institutions and audit firms, supported this development. The increase was also aided by the pandemic situation and the associated general growth in digital communication.

Data strategy

The improved data basis through increased use of digital submission channels and the associated expansion of data-driven supervisory techniques also provides better analysis capabilities. While in 2020 the focus was on creating the necessary foundations, and above all optimising data quality, in 2021 it was on expanding the analysis possibilities in the various divisions and making preparations to scale modern analytics (such as the use of artificial intelligence).

To begin with, FINMA made significant progress in the areas of automation, plausibility checking and user-friendly analysis of information received. In addition, an established expert group was transformed into a FINMA-wide specialist group to address the use of modern analytics within FINMA. This includes, for instance, identifying, evaluating and implementing pilot projects, and developing frameworks for the use of these new opportunities. In order to transfer these to regular operations and to remain equipped for the future, FINMA is adapting its IT infrastructure accordingly.

Work on public data was also intensified in the year under review. The analysis of possible use cases showed significant potential for optimised provision of data for supervised institutions and the public, to be offered on a self-service basis, thereby increasing general information transparency. For example, the [statistical basis](#) of the annual [insurance market report](#) will already be available to the public in a revised form in the first half of 2022.

To stay abreast of the latest developments in modern analytics, FINMA also stepped up cooperation with authorities in Switzerland and abroad, and with experts.

Key environmental indicators

FINMA voluntarily opted to take part in the [Federal Administration's programme for managing resources and environmental issues \(RUMBA\)](#) in the year under review. RUMBA intends to halve the Federal Administration's greenhouse gas emissions compared to 2006 levels through a climate package. The package includes measures in areas such as air travel, building technology and electricity and heat production. The

remaining greenhouse gas emissions are fully offset through the purchase of emission reduction certificates. By participating in this scheme, FINMA is meeting the Federal Council's climate policy targets, benefits from technical support from RUMBA, and can reduce its environmental impact on an ongoing basis through targeted action.

Energy consumption of buildings

The positive trend of previous years regarding the energy consumption of buildings continued in the year under review. FINMA once again improved its overall energy efficiency (–3.1% energy consumption). This was not just down to the increase in working from home. The entire lighting system was also modernised at the Bern office in the year under review. These two effects had a positive impact on power consumption in Bern (–16.1%). In terms of district heating in the Bern offices, slightly fewer kilowatt hours were used in the year under review. This was due to the lower number of heating days in Bern. However, gas consumption in Zurich was up on the previous year's level. Through the switch to fully carbon-neutral district heating in Bern and the 35%

Key environmental indicators

	Unit	2017	2018	2019	2020	2021	Change from prior year in %
Power consumption, Bern	kWh	949,695	866,062	823,274	710,892	596,769	–16.1
Power consumption, Zurich	kWh	102,282	100,758	107,006	81,804	68,428	–16.4
Consumption of heating energy, Bern (district heating)	kWh	1,186,540	948,928	1,056,248	1,004,466	992,893	–1.2
Consumption of heating energy, Zurich (natural gas)	kWh	–	436,832	456,605	438,125	508,144	+16.0
Total energy consumption	kWh	2,238,517	2,352,580	2,443,133	2,235,287	2,166,234	–3.1
Proportion of total energy needs met by renewable energy sources	%	86.6	71.2	70.2	68.9	80.2	+16.5
Paper consumption per FTE	kg	26.4	21.8	16.7	8.8	3.6	–58.9

contribution made by a carbon-neutral gas product in Zurich, the proportion of total energy needs met by renewable energy sources increased compared with the previous year.

Paper

Paper consumption fell again, now amounting to only around 3.6 kg per full-time equivalent (FTE). This equates to a further year-on-year reduction of 59%. The increasing digitalisation of business processes and remote working have supported FINMA in its efforts to help protect the environment and to reduce paper consumption.

FINMA's operating costs

Due to the long transition period, implementation of the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA) is being staggered. While FINMA's operating costs were stable for a long time, they already rose in 2020 due to the costs associated with the FinIA and FinSA. However, FINMA's costs remained stable during the year under review. The additional costs resulting from the implementation of the FinIA and FinSA were compensated by lower

operating costs, partly due to the coronavirus pandemic. FINMA's annual financial statements therefore showed operating costs of CHF 126 million (2020: CHF 126 million). Together with the statutory reserves, this amounted to CHF 139 million (2020: CHF 138 million). These expenses were covered by income from supervisory fees and levies.

FINMA's total reserves amounted to CHF 118 million before allocation. Article 37 of the FINMA Ordinance on the Levying of Supervisory Fees and Charges (FINMA-GebV) states that 10% of FINMA's total annual costs must be allocated to the statutory reserve until the total reserve has reached or re-reached an amount equivalent to one annual budget. Owing to the implementation of the FinIA and FinSA, and of the Insurance Supervision Act (ISA), operating costs are set to increase further. An allocation to the total reserves is therefore to be anticipated in 2022.

2021 Annual Financial Statements

The [2021 Annual Financial Statements](#), which set out FINMA's results in detail, are published separately.

Abbreviations

- AI** Artificial intelligence
- AMAS** Asset Management Association Switzerland
- AMLA** Swiss Federal Act of 10 October 1997 on Combating Money Laundering and Terrorist Financing in the Financial Sector (Anti-Money Laundering Act; SR 955.0)
- AMLO-FINMA** Ordinance of 3 June 2015 of the Swiss Financial Market Supervisory Authority on Combating Money Laundering and Terrorist Financing in the Financial Sector (FINMA Anti-Money Laundering Ordinance; SR 961.011.0)
- Art.** Article
- AuM** Assets under management
- BA** Swiss Federal Act of 8 November 1934 on Banks and Savings Banks (1 January 2016) (Banking Act; SR 952.0)
- BaFin** Federal Financial Supervisory Authority (Germany)
- BCBS** Basel Committee on Banking Supervision
- BLA** Baseline assessment
- bn** billion
- BPES** Banque Privée Espírito Santo
- CCP** Central counterparty
- Cf.** Compare
- CHF** Swiss francs
- COP26** 26th Conference of the Parties to the United Nations Framework Convention on Climate Change held in Glasgow in 2021
- COVID-19 Ordinance 2** Ordinance 2 on Measures to Combat the Coronavirus (SR 818.101.24)
- CPRS** Climate Policy Relevant Sectors
- CS** Credit Suisse
- DDoS** Distributed denial of service
- DeFi** Decentralised finance
- DLT** Distributed ledger technology
- DNB** Netherlands Central Bank (De Nederlandsche Bank)
- D-SIB** Domestic systemically important bank
- EATC** Economic Affairs and Taxation Committee
- EHP** Survey platform
- ENA** FINMA Enforcement Committee
- ESG** Environment, social, governance
- EU** European Union
- ff.** and the following
- FAOA** Swiss Federal Audit Oversight Authority
- FATCA** United States Foreign Account Tax Compliance Act
- FATF** Financial Action Task Force on Money Laundering
- FDF** Federal Department of Finance
- FinIA** Swiss Federal Act of 15 June 2018 on Financial Institutions (Financial Institutions Act; SR 954.1)
- FINMA-GebV** FINMA Ordinance on the Levying of Supervisory Fees and Charges
- FINMASA** Swiss Federal Act of 22 June 2007 on the Swiss Financial Market Supervisory Authority (Financial Market Supervision Act; SR 956.1)
- FinMIA** Swiss Federal Act of 19 June 2015 on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act; SR 958.1)
- FinMIO** Swiss Federal Ordinance of 25 November 2015 on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Ordinance; SR 958.11)
- FinMIO-FINMA** Ordinance of 3 December 2015 of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FINMA Financial Market Infrastructure Ordinance; SR 958.111)
- FinSA** Swiss Federal Act of 15 June 2018 on Financial Services (Financial Services Act; SR 950.1)
- FinTech** Financial technology
- FMI** Financial market infrastructures
- FSB** Financial Stability Board
- FSO** Swiss Federal Statistical Office
- FTE** Full-time equivalent
- G-SIB** Global systemically important bank
- G20** Group of the 20 leading industrialised and developing economies
- HC** Headcount
- IAIG** Internationally active insurance group
- IAIS** International Association of Insurance Supervisors
- ICO** Initial coin offering or token generating event
- IPO** Initial public offering
- ICS** Insurance Capital Standard
- IFRS** International Financial Reporting Standards
- IOSCO** International Organization of Securities Commissions
- ISA** Swiss Federal Act of 17 December 2004 on the Supervision of Insurance Companies (Insurance Supervision Act; SR 961.01)
- ISO** Swiss Federal Ordinance of 9 November 2005 on the Supervision of Private Insurance Companies (Insurance Supervision Ordinance; SR 961.011)
- ISO-FINMA** Ordinance of 9 November 2005 of the Swiss Financial Market Supervisory Authority on the Supervision of Private Insurance Companies (FINMA Insurance Supervision Ordinance; SR 961.011.1)
- IT** Information technology
- let.** letter
- LIBOR** London Interbank Offered Rate
- Liwet** Liwet Holding AG
- Logib** Federal Government's equal-pay tool
- LP** Limited partnership for collective investment schemes
- LTV** Loan-to-value ratio
- m** million
- MROS** Money Laundering Report Office Switzerland

NBFI Non-bank financial intermediation

NGFS Central Banks and Supervisors Network for Greening the Financial System

Non-UCITS Non-UCITS-compatible collective capital investments

OAG Office of the Attorney General

OPA Swiss Federal Act of 25 June 1982 on Occupational Old-Age, Survivors' and Invalidity Pension Provision (Occupational Pension Act, SR 831.40)

OPSC Occupational Pension Supervisory Commission

Ordinance to FINMASA Swiss Federal Ordinance of 13 December 2019 to the Financial Market Supervision Act (Ordinance to FINMASA, SR 956.11)

ORSA Own Risk and Solvency Assessment

p. Page

para. Paragraph

PDVSA Petróleos de Venezuela S.A.

RAP Resolvability Assessment Process

RoE Return on equity

RUMBA Federal Administration's programme for managing resources and environmental issues

SDX SDX Trading AG

SEC United States Securities and Exchange Commission

SIF State Secretariat for International Finance

SNB Swiss National Bank

SO Supervisory organisation

SPAC Special purpose acquisition company

SRO Self-regulatory organisation

SST Swiss Solvency Test

SXX SIX Swiss Exchange AG

TCFD Task Force on Climate-related Financial Disclosures

TJA Targeted jurisdictional assessment

TOB Swiss Takeover Board

UBS UBS Group AG

UCITS Undertakings for Collective Investment in Transferable Securities

USA United States of America

US GAAP United States Generally Accepted Accounting Principles

VA Virtual asset

VASP Virtual asset service provider

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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

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Remo Ubezio, Bern

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Banks

Jan Blöchliger *

Division Operating Office

Heribert Decorvet

Supervision of UBS

Michael Waldburger

Supervision of CS Group

Simon Brönnimann

Supervision of D-SIB
and Medium-Sized Banks

Philippe Ramuz

Supervision of Small Banks
and Securities Firms

Alain Girard

Authorisation

Annemarie Nussbaumer

Risk Management

Christian Capuano

Insurance

Birgit Rutishauser *

Division Operating Office

Markus Geissbühler

Supervision of
Zurich Insurance Group

Judit Limperger

Supervision of Swiss Re Group

Andreas Widmer

Supervision of Small and Medium-
Sized Insurance Companies

Vera Carspecken

Supervision of Groups and
Large Insurance Companies

Camille Bosgiraud

Risk Management

Michael Schmutz

Markets

Léonard Bôle *

Division Operating Office

Michael Brandstätter

Supervision of the
Parabanking Sector

Christoph Kluser

Anti-Money Laundering
and Suitability

Noël Bieri

Financial Market Infrastructures
and Derivatives

Andreas Bail

Market Analysis

Matthias Obrecht

Accounting

Stefan Rieder

Board of Directors
Marlene Amstad
Chair

Secretariat of the Board of Directors

Internal Audit

CEO
Urban Angehrn *

Asset Management
Thomas Hirschi *

Enforcement
Patric Eymann *

Recovery and Resolution
Rupert Schaefer *

Division Operating Office
Martin Meier

Division Operating Office
Danielle Schütz
Sarah Bienz

Division Operating Office
Marcel Walthert

Legal Expertise
Noélie Läser

International Cooperation
Dominik Leimgruber

Recovery and Insolvency Proceedings
Marcel Walthert

Portfolio Managers and Trustees
Kenneth Ukoh

Investigations
Philipp Lüscher

Recovery, Resolution and Resolvability
Sven Wyssbrod

Supervision
Daniel Bruggisser

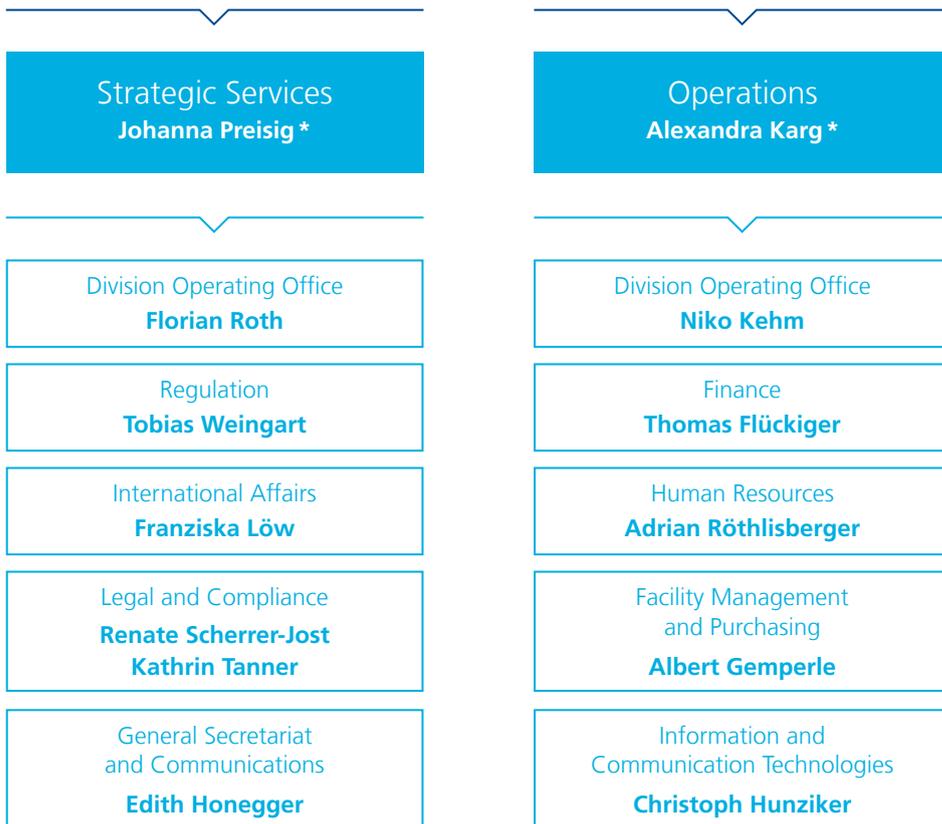
Proceedings
Christoph Kuhn
Marc Mauerhofer

Authorisation
Philip Hinsén

Organisation chart

(31 December 2021)

- Divisions
 - Sections and groups reporting directly to the division heads
 - Sections and groups reporting directly to the Board of Directors
- * Member of the Executive Board



FINMA's ten strategic goals for 2021 to 2024

The strategic goals show how FINMA intends to fulfil its legal mandate and where its focus will lie. The goals concern various areas of client and system protection, as well as operational topics (see page 72).

Goals for client and system protection

1 – Capital and liquidity

FINMA will safeguard the stability of supervised financial institutions, particularly by ensuring that banks and insurance companies are well capitalised and have ample liquidity resources.

2 – Conduct

FINMA will have a sustained positive impact on the conduct of supervised financial institutions.

3 – Risk management and corporate governance

FINMA is committed to ensuring that supervised financial institutions maintain the highest risk management standards, and will promote responsible corporate governance through its supervisory activities.

4 – Too big to fail

The plans provided for by law will be drawn up in order to mitigate the “too big to fail” risk.

5 – Structural change

FINMA will seek to ensure that the financial system remains robust in the light of forthcoming structural changes and its clients are able to benefit from new opportunities without being exposed to additional risks.

6 – Innovation

FINMA will promote innovation in the Swiss financial centre.

7 – Sustainability

FINMA will contribute to the sustainable development of the Swiss financial centre by giving particular consideration to climate-related risks in its supervisory work and urging financial institutions to tackle these risks transparently.

8 – International cooperation and regulation

FINMA will seek to ensure that Swiss financial regulation is in line with international standards. It will represent Swiss interests in international fora and make the case for credible international standards. FINMA is a recognised, cooperative and reliable partner for foreign supervisory authorities. FINMA is committed to financial regulation that achieves targeted reduction of the risks while also being proportional and as simple as possible.

Operational goals

9 – Resources

The resources required will be based on the expenditure necessary for FINMA's extended legal remit to be fulfilled in an efficient manner. New technologies will be used to help realise gains in efficiency and effectiveness.

10 – Staff

FINMA's staff are highly qualified and receive continuous training. They are highly motivated, demonstrate a high level of integrity and are flexible. As an attractive employer, FINMA is committed to ensuring equal opportunities and that work can be successfully combined with family life.

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