

FINMA Guidance 03/2026

Risks associated with the use of products in individual portfolio management

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1 Introduction

FINMA has recently recorded a sharp rise in cases escalated to it owing to deficiencies (hereinafter “escalation cases”) concerning portfolio managers pursuant to Article 17 of the Financial Institutions Act of 15 June 2018 (FinIA; SR 954.1). The analysis of these escalation cases has revealed recurring risk patterns or irregularities, which FINMA wishes to highlight in this guidance to inform and raise awareness. In these cases, portfolio managers often used products such as foreign funds, structured products (particularly actively managed certificates, so-called “AMCs”) or securities issued by issuing or structuring companies in their clients’ portfolios. The identified risk patterns were particularly evident in the use of in-house products, regulated or registered products lacking equivalent supervision and unsupervised structures. These resulted in some cases in substantial losses. Both the complexity and the limited liquidity of the financial instruments used had a risk-increasing effect.

The escalation cases underlying this guidance primarily involved portfolio managers pursuant to Article 17 FinIA. This guidance is therefore primarily addressed to them. However, some of the cases also concerned managers of collective assets and other supervised financial intermediaries. The findings in this guidance are therefore also relevant to supervised institutions in other licensing categories that provide individual portfolio management services to clients (for example, managers of collective assets [Art. 24 FinIA], fund management companies [Art. 32 FinIA], securities firms [Art. 41 FinIA], banks as defined by the Banking Act of 8 November 1934 [SR 952.0] and insurance companies under the Insurance Supervision Act of 17 December 2004 [SR 961.01]).

2 Findings from the escalation cases

The number of cases escalated to FINMA owing to identified deficiencies concerning portfolio managers pursuant to Article 17 FinIA continued to rise in 2025. These were predominantly cases requiring intensive investigation. Particularly serious irregularities concerned cases in which complex, high-risk or illiquid products were sold to retail clients or used within the scope of a permanent portfolio management or investment advice relationship without adequate suitability assessments, without regard to clients’ risk capacity and risk appetite and without appropriate risk disclosures. Products particularly affected included foreign funds without equivalent supervision, AMCs and products of foreign, unregulated issuing or structuring companies. Such products are often subject to lower or no supervisory, transparency, valuation, liquidity and risk diversification requirements. Furthermore, in

some cases, these products are not subject to equivalent requirements on financial accounting or external audit. This increases the risks of these products for retail clients. Such cases can lead to substantial losses.

In some escalation cases, institutions invested excessively in individual complex, high-risk or illiquid products and provided clients with only inadequate information on portfolio performance. Thus, they failed to examine, or examined only inadequately, whether the risk-increasing characteristics of these products aligned with their clients' financial needs and risk appetite.

In certain escalation cases, the measures taken to prevent conflicts of interest arising from the use of in-house products were insufficient. Issues such as non-transparent double fee charging, remuneration incentives favouring the use of the firm's own products, a lack of diversification in clear contradiction to clients' risk profiles, and the absence of product selection processes based on objective criteria customary in the industry came to light. Furthermore, the initial and ongoing due diligence as well as risk management in connection with the use of complex or high-risk products were, in some cases, inadequate.

FINMA also observed that smaller institutions frequently outsourced control functions in the area of risk management and compliance to external service providers that do not require authorisation. In the cases escalated to FINMA, outsourcing also often resulted in standardised rather than individual controls, which led to unclear responsibilities and control gaps. Finally, specific product or business risks associated with portfolio management were also regularly not given sufficient consideration.

Comparable risk patterns or irregularities were also identified among certain managers of collective assets and other supervised financial intermediaries.

3 Requirements associated with the use of products in individual portfolio management

3.1 Requirements pursuant to the FinSA – client-focused conduct requirements

Financial service providers must comply with the obligations pursuant to the Financial Services Act of 15 June 2018 (FinSA; SR 950.1) and the implementing Financial Services Ordinance of 6 November 2019 (FinSO; SR 950.11) when providing financial services in the form of portfolio management.

In individual portfolio management involving high-risk products, certain requirements relating to the provision of financial services (hereinafter referred to as “conduct requirements”) are particularly important: the **assessment of suitability** (see Art. 12 FinSA, Arts. 16–17 FinSO, margin nos. 13–14 of FINMA Circular 2025/2 “Rules of conduct under the FinSA/FinSO”) and the obligations relating to the handling of **conflicts of interest** (see Art. 8 para. 2 lets. b and c in conjunction with Art. 25 FinSA, Arts. 9–10 and 24–28 FinSO, margin nos. 23 ff. of FINMA Circ. 25/2).

In the **assessment of suitability** for portfolio management mandates and ongoing advisory relationships, the portfolio manager must enquire about the client’s financial situation (including the type and amount of regular income, assets and current and future financial obligations), investment objectives (including time horizon, purpose of the investment, risk appetite and any investment restrictions) as well as their knowledge and experience (Art. 12 FinSA). Specifically, based on the information obtained, a risk profile must be prepared for each client, on the basis of which an investment strategy is to be defined with the client (Art. 17 para. 3 FinSO). The financial instruments used must be suitable, taking into account the client’s risk profile and the agreed investment strategy. Particular attention must be paid to this suitability assessment, especially when using high-risk, complex or illiquid financial instruments in the portfolios of retail clients.

Portfolio managers must inform their clients whether the market offer taken into account when selecting the financial instruments comprises only their own or also other financial instruments (Art. 10 FinSO, margin no. 23 of FINMA Circ. 25/2). When using their own and third-party financial instruments, portfolio managers must take appropriate measures to avoid any associated **conflicts of interest** (Art. 25 FinSA). This includes, in particular, implementing a structured selection process based on customary, objective industry criteria (Arts. 24–28 FinSO, margin no. 24 of FINMA Circ. 25/2). The use of their own financial instruments must not be favoured through specific incentives in the remuneration of staff involved in providing these financial services (Art. 25 let. e FinSO, margin no. 24 of FINMA Circ. 25/2). As a general rule, conflicts of interest must be prevented or measures must be taken to ensure that clients are not disadvantaged as a result of such conflicts (Art. 25 para. 1 FinSA). Where conflicts of interest cannot be prevented, institutions are subject to particularly stringent requirements regarding how they are managed. In particular, unavoidable conflicts of interest must be disclosed to clients (Art. 26 para. 1 FinSO, margin no. 25 of FINMA Circ. 25/2).

3.2 Requirements pursuant to the FinIA – institution-specific risk management requirements

A portfolio manager’s risk management must encompass all business activities and be organised in such a way that all the main risks can be

identified, assessed, controlled and monitored (Art. 12 para. 4 of the Financial Institutions Ordinance of 6 November 2019 [FinIO; SR 954.11]). Portfolio managers should therefore also include the risks to which the assets managed under mandates and any products managed by them are or could be exposed, such as concentration, liquidity, valuation or conflict of interest risks. This also includes subjecting the financial instruments used to careful, risk-based due diligence. Particularly for unsupervised products or those lacking equivalent supervision, factors such as the absence of audited financial information, outstanding audit opinions, a change or termination of the audit firm or a lack of other reliable data on the product's structure, valuation or liquidity may be indicative of increased risks.

3.3 Requirements for the outsourcing of control functions

If an institution outsources activities, such as risk management and/or the compliance function, responsibility for the outsourced activities nevertheless remains with the institution (Art. 17 para. 1 FinIO), which must at all times have the necessary resources and specialist knowledge to monitor the outsourced activities (Art. 16 para. 3 FinIO). The selection of the service provider requires careful due diligence, clear rules on responsibilities and complete access to information (Art. 17 paras. 2 and 4 FinIO). The scope of the outsourcing, particularly the question of whether it also covers risk management of client portfolios and any products managed, should be clearly regulated.

4 Supervision of portfolio managers and trustees

4.1 Continued high level of activity in licensing

Of the total of 1,699 licence applications submitted to FINMA by the expiry of the transitional period provided for in the FinIA until the end of 2022, approximately two percent are still pending. These pending applications generally stood out in 2025 due to their complexity, slow feedback from applicants and/or in-depth investigations concerning the proper business conduct of the directors and therefore require intensive support from FINMA. Licence applications that did not meet the authorisation requirements or that were withdrawn, as well as those that had to be rejected in the context of proceedings, were particularly resource-intensive. Furthermore, change applications submitted by licensed portfolio managers and trustees also tie up resources: the number of change applications remained consistently high in 2025, at approximately 150 applications per month.

After the expiry of the transitional period, the number of licence applications submitted by portfolio managers and trustees pursuant to Article 17 FinIA remains at a high level. As at 31 December 2025, 222 new licence

applications for market entry as a FINMA-licensed portfolio manager or trustee had been submitted, of which 155 institutions were licensed, 8 were released from supervision again and 17 applications were withdrawn.

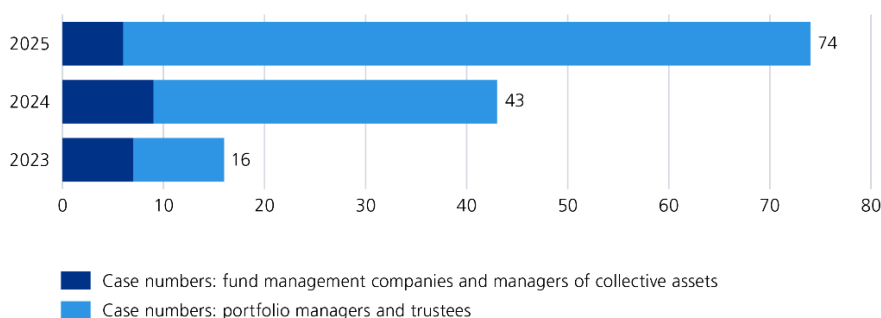
Altogether, FINMA granted 1,664 portfolio managers and trustees a licence by the end of 2025, 97 of whom have already been released again from supervision. 148 institutions withdrew their submitted licence application while the licensing procedure was in progress.

4.2 High number of new escalation cases and intensive supervision

The ongoing supervision of portfolio managers under Article 17 FinIA is performed by one or more supervisory organisations (SOs) (Art. 43a para. 1 of the Financial Market Supervision Act of 22 June 2007 [FINMASA; SR 956.1]). FINMA only becomes directly responsible when the SO reports a serious breach of supervisory law that cannot be remedied within an appropriate period or other irregularities (Art. 43b para. 2 FINMASA or Art. 11 of the Supervisory Organisations Ordinance of 6 November 2019 [SOO; SR 956.134]).

In 2025, the SOs escalated 34 cases to FINMA through reports. (2024: 23 cases; 2023: 4 cases). A further 34 escalations were triggered in 2025 by third-party reports (2024: 11 cases; 2023: 5 cases). In total, 68 supervisory cases were opened in 2025 (2024: 34 cases; 2023: 9 cases). The resulting investigations are usually associated with a high workload. Identified shortcomings are serious in some cases and, in the most extreme instances, put substantial investor funds at risk, including, in certain cases, those required for retirement provision. In the most extreme instances, the assets entrusted by clients amount to several (two- to three-digit) million Swiss francs.

Case numbers in asset management rise significantly



4.3 FINMA's supervision of the SO

The SO must verify on an ongoing basis whether the entities under its supervision comply with the statutory requirements (Art. 84 para. 1 FinIO). Portfolio managers must appoint an audit firm in accordance with Article 43k para. 1 FINMASA to conduct an annual audit, unless the SO itself performs this audit (Art. 62 para. 1 FinIA). In practice, for ongoing supervision, the SOs engage these audit firms, which they authorise and whose activities they must nevertheless oversee (Art. 12 ff. SOO). In this context, FINMA identified weaknesses in the organisation of the SOs, particularly regarding their authorisation and supervision of audit firms, as well as the processing of audit reports and follow-up of findings contained therein (see FINMA Annual Reports [2024](#)¹, pp. 63 f. and [2025](#)², p. 54). FINMA has therefore ordered measures to ensure appropriate ongoing supervision and will continue to monitor their implementation as well as progress at the SOs.

4.4 Decrease in supervisory costs compared with the previous year, while resource expenditure remains high

Supervisory costs decreased slightly in 2025 compared with 2024. Nevertheless, FINMA's supervisory expenditure in this area remains high, largely due to the growing number of cases escalated to it and the resources required to supervise the SOs. FINMA publishes information on expenditure, levies and fees by supervisory area in its annual financial statements (see [2025 annual financial statement](#)³, p. 47). It charges its expenditure in this area to the SOs based on the number of affiliated institutions (Art. 15 para. 2 let. e FINMASA). The SOs pass on these costs to the institutions in accordance with the allocation formula laid down in their regulations.

¹ Download from www.finma.ch > Documentation > FINMA publications > Annual reports and financial statements > 2024

² Download from www.finma.ch > Documentation > FINMA publications > Annual reports and financial statements > 2025

³ Download from www.finma.ch > Documentation > FINMA publications > Annual reports and financial statements > 2025