finma

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

Annual Report

FINMA's mandate

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.

As an integrated supervisory authority, FINMA supervises banks, securities firms, insurance companies, financial market infrastructures, collective investment scheme products and institutions, and 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 a supervisor, FINMA adopts a risk-oriented approach. Its activities cover the following areas:

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

Supervision
FINMA monitors ongoing 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.

2023 in milestones

JANUARY

FINMA publishes the Guidance: "Developments in the management of climate risks".
p. 48

FINMA's Board of Directors appoints Isabelle Chabloz and Mario Rossi to the Swiss Takeover Board with effect from 1 March 2023.

FEBRUARY

FINMA concludes "Greensill" proceedings against Credit Suisse.
p. 79

MARCH

FINMA and the SNB issue statement on market uncertainty.
p. 19 ff.

FINMA approves merger of UBS and Credit Suisse.
p. 12 f.

FINMA provides information about the basis for writing down AT1 capital instruments.
p. 13 ff.

APRIL

FINMA assesses the recovery and resolution plans of systemically important institutions again.
p. 73 f.

MAY

FINMA concludes proceedings against crypto platform and its founder.

FINMA organises a small insurer symposium for the first time.
p. 64, p. 95

FINMA holds a small bank symposium for the sixth time.
p. 95

The ex-post evaluation of the revision of the "Auditing" Circular is completed.
p. 85

JUNE

Completion of large banks merger brings clarity and stability.
p. 13

The Federal Council adopts the amendments to the ISO in the area of private insurance and brings the revised ISA into force together with the revised ISO on 1 January 2024.

The Federal Assembly establishes a Parliamentary Investigation Committee on the emergency Credit Suisse merger.
p. 13 ff.

JULY

FINMA completes ex-post evaluation of "Pricing of occupational pension schemes" Circular.
p. 86

FINMA concludes proceedings against Credit Suisse in connection with Archegos.
p. 13, p. 78

AUGUST

FINMA, CONSOB and Banca d'Italia sign cooperation agreement.
p. 90

FINMA revises the FINMA Insurance Ordinance and various circulars for insurance companies.
p. 84

FINMA announces increased oversight of life insurers' sample calculations.
p. 56

FINMA publishes guidance on money laundering risk analysis.
p. 53 f.

SEPTEMBER

The Federal Council reappoints FINMA's Board of Directors for the term of office from 2024 to 2027.
p. 103 f.

FINMA CEO Urban Angehrn resigns. Birgit Rutishauser takes over as CEO of FINMA on an interim basis.
p. 105 f.

FINMA determines in the course of enforcement proceedings that Comparis qualifies as an insurance intermediary.
p. 79

The report of the group of experts on banking stability is published.

OCTOBER

Symposia on the new regulation for insurance intermediaries are held in Bern, Lausanne, Zurich and Lugano in October and November 2023.
p. 95

Switzerland is removed from the FATF's enhanced follow-up regime due to progress made in the area of money laundering.

NOVEMBER

FINMA publishes the 2023 Risk Monitor and identifies nine significant risks for the financial sector.
p. 97

The Federal Council adopts the amendments to the Capital Adequacy Ordinance on 29 November. This means that the final Basel III standards will enter into force on 1 January 2025.

DECEMBER

FINMA implements the recommendations of the Network for Greening the Financial System.
p. 90

FINMA publishes its report on the Credit Suisse crisis.
p. 15

Stability in uncertain times

2023 will be remembered as a historic year for the Swiss financial centre: Credit Suisse, a global systemically important bank with a workforce of 50,000 worldwide and total assets of over half a trillion Swiss francs, faced an imminent threat of bankruptcy in mid-March. The proximate cause was a loss of confidence on the part of its clients and the market as a result of the inadequate implementation of its strategic focus areas, failings in risk management, and a series of scandals and missteps over many years.

Apart from the Credit Suisse crisis, the financial markets also faced other risks and uncertainties in 2023. The ongoing war in Ukraine and the resurgence of the Middle East conflict spread uncertainty, raised geopolitical tensions further and created new challenges for participants in Switzerland's internationally-oriented financial centre. The after-effects of the COVID crisis continued to linger in the world economy, and rising inflation and interest rates also had repercussions both for financial institutions' business models and their capital and liquidity positions. For example, three banks in the USA had to be resolved in the first half of 2023. This changing backdrop underlined how important effective risk management is for financial institutions.

Stability and security

In these uncertain and risky times, FINMA played a central role in protecting clients and ensuring the financial centre continued to function smoothly. In mid-March the federal government, the Swiss National Bank and FINMA worked closely together on a solution to stabilise Credit Suisse. FINMA was already devoting considerable resources to the in-depth supervision of Credit Suisse before the crisis, within the limits set by law, and had steadily intensified this supervision over time. FINMA had asked Credit Suisse to plan for adverse scenarios and prepare concrete steps to deal with them well before the crisis. This preparation achieved its primary aim of protecting creditors when the crisis hit.

The major cross-border banks are not the only source of risk for the financial centre or financial institutions and clients, however. Other important risk drivers included the US banking crisis and upheaval on the crypto market. FINMA therefore continued to take a risk-based approach to monitoring banks, insurers, exchanges and asset managers operating on the Swiss financial market in 2023. It analysed these financial institutions in simulated crises via stress tests, reviewed compliance with conduct rules in on-site inspections and held supervisory meetings to interview supervised institutions about their activities and communicate its expectations. As well as supervising capital, liquidity and corporate governance, in 2023 FINMA focused on combating money laundering, enforcing sanctions and managing risks relating to cybercrime, artificial intelligence and sustainability. It also kept a close eye on the latest developments in cryptoassets, decentralised finance and DLT trading systems. When it found deficiencies in the course of this supervision, it ensured they were resolved. The aim of FINMA's supervision is always to protect clients and ensure the proper functioning of the financial system.

Alongside its regular supervisory activity, FINMA was rigorous in carrying out investigations, initiating enforcement proceedings and instructing firms to take corrective measures where necessary. In 2023, FINMA uncovered problems at 52 supervised financial institutions, and took enforcement action to restore compliance with the law. This included instructing banks with inadequate risk management to raise additional capital and ordering institutions that were not managing their anti-money laundering and risky relationships properly to restructure their organisations.

Nonetheless, in a market economy it will never be possible for supervision to be 100% watertight with an efficient use of resources. As in other industries, financial institutions are responsible for their own conduct, and it must be possible for them to fail. FINMA ensures the financial institutions keep to the rules, and will not hesitate to intervene where they do not.

Looking ahead to the future

In times of change, FINMA also has an eye on the future. To ensure it is prepared for change and emerging risks, it continually examines its own actions and learns from experience. FINMA has published its analysis of the Credit Suisse crisis and the lessons learned, and will integrate this into its activities where appropriate and adapt its supervisory approach in certain areas. As the Credit Suisse case highlighted, the state of Switzerland's financial centre in five or ten years' time will greatly depend on whether action is taken now to strengthen the legal foundations for supervision. FINMA therefore contributed its findings to the work on the Federal Council's report on systemically important banks.

FINMA also actively embraces innovation. Alongside the topics already mentioned, such as crypto, DLT, artificial intelligence and sustainability, this includes automating FINMA's own processes, enabling the digital exchange of information with supervised institutions and using the latest analysis methods. In the year under review, FINMA was able to receive data electronically from the supervised institutions via its platform and automatically incorporate it into other processes. FINMA also used artificial intelligence to extract secondary data for its supervision from large volumes of text. This process enabled FINMA to target its resources in supervision and enforcement, and so better protect clients and the functioning of the financial markets.

If supervision is to be ready for future challenges, it is not just helpful but essential to use the latest technology. FINMA supervised a whole variety of firms in the banking, insurance and asset management sectors in 2023 – in addition to the large financial institutions – and authorised trustees, asset managers and thousands of financial products. This was only possible thanks to automated digital processes and supervision that is both data-based and risk-oriented.

New events, new technologies and new ideas were not just a feature of 2023; they will continue to change the financial world going forward. We are proud of having maintained our risk-based oversight of these changes along with all of our staff and having continued to protect clients at all times in 2023.

We hope you find the report informative.

Birgit Rutishauser

B. Rutishauser

Prof. Marlene Amstad

M. Amstad

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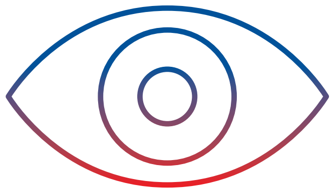
FINMA as an authority

Intensive supervision of Credit Suisse

FINMA had already been taking far-reaching and invasive measures in the context of its supervisory activities vis-à-vis Credit Suisse since 2012, long before the crisis, to rectify the deficiencies, particularly in the bank's corporate governance, risk management and risk culture. From summer 2022 onwards, FINMA asked Credit Suisse to take additional measures to prepare for an emergency.



43
preliminary investigations for possible enforcement proceedings

11
enforcement proceedings against the institution

3
enforcement proceedings against individuals

9 reprimands

16 criminal charges

on-site supervisory reviews
108

382
shortcomings identified as requiring action
Of these, **113** were classified as high-risk or critical

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Credit Suisse crisis

FINMA contributed decisively to stabilising the financial markets in March 2023 when Credit Suisse was on the verge of imminent insolvency. During the weekend of 18 and 19 March 2023, as the crisis unfolded, FINMA – together with the other authorities – worked out the preferred stabilisation option of merging UBS with Credit Suisse, while also preparing an alternative option of restructuring Credit Suisse. FINMA had already addressed failings at Credit Suisse in previous years by means of additional capital and liquidity requirements, interventions in governance, business restrictions and enforcement proceedings.

FINMA has learned lessons from this crisis and will adapt its supervisory approach in certain areas. In particular, FINMA believes that additional tools will enable it to fulfil its supervisory and enforcement duties more consistently and will not hamper the free markets doctrine underlying Switzerland's approach to financial markets in which the institutions are held responsible for their behaviour and stability.

Credit Suisse crisis

The disappearance of one of Switzerland's two global banks has been a traumatic event for the Swiss financial services sector. In the context of its supervisory activities in the recent past, FINMA had already been taking extensive measures to address failings at Credit Suisse. In March 2023, the federal government, the SNB and FINMA enforced new measures to safeguard the solvency of Credit Suisse and facilitate the acquisition by UBS. To assist with the appraisal of the crisis, FINMA carried out a comprehensive analysis and assessment of the background, the related supervisory activities, the acute phase of the crisis, and the lessons learned.

March 2023 saw a worsening of the crisis of confidence which the Credit Suisse Group (hereinafter Credit Suisse, the bank or the Group) had been facing for some considerable time. From 2018 onwards in particular, confidence in the bank was dented by repeated scandals (such as the Mozambique case, the surveillance affair, and the Greensill and Archegos cases), which resulted in extensive measures, fines, losses and reputational damage. In addition, the repeated attempts by Credit Suisse over the years to reduce the size of the investment bank in order to generate more stable returns were incomplete and insufficiently effective, and were unable to impress the market and clients. The problem was exacerbated by the upheavals in the US banking market and other events, resulting in many clients withdrawing their money and market participants restricting their business activities with the bank. In mid-March 2023, there was an imminent threat of Credit Suisse becoming insolvent.

The Federal Authorities, the Swiss National Bank and FINMA instituted measures to safeguard Credit Suisse's solvency and to assist in the acquisition of Credit Suisse by UBS, which was announced on 19 March 2023. All of the authorities involved, including FINMA, had concluded that in the present circumstances the scenario of this takeover was the best and most reliable way of achieving the aims, first and foremost that of stabilising the market as quickly as possible. On 12 June 2023 the merger of CS Group AG and UBS Group AG took legal effect. This meant that the aims of protecting the creditors and the proper functioning of the financial markets were met – even in this dramatic crisis – and hence also that FINMA's goals were met. At the same time, the disappearance of one of Switzerland's two large global banks was a traumatic event for the Swiss financial services sector.

The options available to FINMA and their limits

Due to the proliferation of problems and deficiencies at Credit Suisse, FINMA had increasingly intensified its supervisory and enforcement activities in relation to the bank, adopting a more stringent approach and instituting increasingly incisive measures. These culminated in higher loss absorbency requirements (Pillar 2), interventions in governance, and specific restrictions on business activities. Ultimately, however, all these measures were insufficient to rectify Credit Suisse's weaknesses in a sustainable way and to restore confidence in Credit Suisse among its customers and on the markets.

Within the scope of the applicable laws, FINMA went to great lengths to fulfil its supervisory duties in respect of Credit Suisse. Since 2012, it has conducted 43 preliminary investigations of Credit Suisse for potential enforcement proceedings, issued 9 reprimands, filed 16 criminal charges and completed 11 enforcement proceedings against the institution and 3 proceedings against individuals. Eleven of these 14 proceedings took place in 2018 or after. In this context and within the scope of its authority, FINMA warned Credit Suisse of the risks in no uncertain terms and called for improvements and measures. In the period from 2018 to 2022, it also conducted 108 on-site supervisory reviews at Credit Suisse and recorded 382 points requiring action. Of these, 113 were classified as high-risk or critical. These figures clearly illustrate the limitations of even intensive supervisory activity and FINMA's statutory competencies. Responsibility for the bank's strategy and management, including appropriate organisational and risk management, remained with the Board of Directors or the responsible management team at all times.

In assessing the crisis, FINMA identified various areas in which it believes that an extension of the legal framework needs to be discussed or the implementing provisions need to be clarified, or where it will adapt its supervisory activity. However, it must be noted that it will never be possible to subject financial institutions to "100% water-tight" supervision. Even with greater regulation and extended supervision, there is no guarantee that a financial institution will not fail. However, the possible solutions reduce the probability and impact of a failure.

What were the main reasons for the failure of Credit Suisse?

– The bank adopted numerous initiatives for strategic changes with the aim of downsizing the investment bank, reducing the volatility of its earnings and focussing the business model more strongly on asset management. Ultimately, these strategy changes were never implemented in a consistent manner. Earnings remained volatile in both the investment bank and in asset management.

– Recurrent scandals undermined the bank's reputation, weighed on its results and led to customers, investors and the market losing faith in the bank.

– Reorganisations, high costs, fines and losses also eroded its capital base. As a result, Credit Suisse was repeatedly forced to raise capital on the market.

– Even in years in which the bank reported large losses, variable remuneration remained high. Negative results had little impact on remuneration. Credit Suisse's main shareholders made little use of the possibilities available to them to influence remuneration.

– Credit Suisse's problems became apparent in a range of business areas and risk types. In almost all cases, serious deficiencies in risk management played a role. FINMA's measures targeted these deficiencies and tightened up the checks and controls. FINMA also addressed the bank's poor risk management culture. Despite some extensive adjustments over the years, Credit Suisse's executive bodies were unable to remedy the repeatedly identified deficiencies in the bank's organisation in a holistic and sustainable manner.

– Credit Suisse satisfied the regulatory capital requirements. Even this capital adequacy situation was unable to contain or prevent the massive crisis of confidence. The parent company, Credit Suisse AG, had the weakest capital adequacy within the Group, which made it the weakest link in the chain.

– Credit Suisse also met the regulatory requirements for liquidity and held comfortable liquidity buffers in summer 2022. However, the loss of confidence in the bank led to very rapid and widespread liquidity outflows, which were exacerbated by digital means of communication (digital bank run) and ultimately brought the bank to the brink of insolvency.

Following the crisis, FINMA analysed the development of Credit Suisse between 2008 and 2023 with regard to its strategy, business performance, management decisions, risk management and preparation for crises. FINMA also reviewed its own supervisory work with the bank. What lessons, briefly, can be learned?

– The authorities' crisis measures achieved their aim: The measures taken by the authorities in March 2023 were effective and fulfilled the legal mandate. They ensured that creditors were protected and that the financial markets continued to function properly.

– The legal basis for supervision reached its limits: Due to the mounting problems and deficiencies, FINMA increasingly intensified its supervisory and enforcement activities at Credit Suisse over the past few years and instituted more and more incisive measures. It thus reached the limits of its legal options.

- Increased obligation to take responsibility in the area of governance: FINMA is in favour of extended options that would enable it to have more influence on the governance of supervised institutions. It considers a Senior Managers Regime, powers to impose fines, and the option of publishing enforcement proceedings on a regular basis to be particularly appropriate here. To enable FINMA to effectively intervene in remuneration systems, a more solid legal mandate is required.

- Improve capital regulation: In the area of capital requirements, the legal obligation to grant exemptions at the level of the specific institution led to the parent company being weakened. In addition, the regulatory handling of participations had a procyclical effect during the crisis. FINMA is therefore calling for stricter standards for regulation at the specific institution level in the context of a review of the "too big to fail" requirements.

- Focus on additional capital charges: FINMA ordered far-reaching additional capital charges to counter the increased risks from Credit Suisse's business activities. In future, FINMA will analyse the risks involved in strategy implementation or an inadequate control environment and the resulting potential for losses by financial institutions even more systematically, and will impose and disclose additional capital charges if necessary. It should be examined whether this will also require a change to the regulatory principles.

- Focus on the feasibility of recovery and resolution measures: Some of the measures in the recovery plan reviewed and approved by FINMA could not be implemented as planned during the crisis. In future, FINMA will therefore place a stronger focus on ensuring that the measures can be implemented effectively, and will consider tightening up its approval practice. It will also adapt the resolution plan to include faster bank runs and more crisis scenarios.

FINMA published its analysis in the form of a report on 19 December 2023. It has also made the report available to the Parliamentary Investigation Committee (PInC). The findings from the report were incorporated into the Federal Department of Finance's comprehensive evaluation of the "too big to fail" rules and regulations.

Adjusted organisation of large bank supervision
Following the legal completion of the merger between UBS and Credit Suisse, FINMA has amalgamated the former large bank supervision teams. This means that the combined UBS Group can be monitored by a single section, which is divided into four groups focusing on the topics of capital and liquidity, conduct supervision, risk control and on-site activities. The section has been allocated additional personnel resources to help it meet the challenges posed by integration. The direct supervision team receives support from additional specialists performing various cross-divisional functions within the Banks division and other divisions.

FINMA will make use of the full range of supervisory instruments at its disposal to fulfil its legal mandate to supervise the integrated large bank. This implies an intensive and critical supervisory dialogue with all levels of the bank's hierarchy, ongoing analyses and independent assessments of UBS's risk profile and control environment, several dozen on-site reviews in all business units, intensive supervision of the bank's capital and liquidity planning, and coordination with foreign supervisory authorities. The focus here is on risks arising from the bank's integration as well as ongoing business risks. FINMA will notify the bank of any identified irregularities and weaknesses and will take measures using all the supervisory means to ensure that they are remedied.

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. Not all of these are supervised by FINMA directly (also see the FINMA website).

269 financial market infrastructures

70 securities firms

194 insurers and general health insurers

481 fund management companies, managers of collective assets and custodian banks, representatives and agencies

500 banks

10,469 collective investment schemes

5 registration bodies and reviewing bodies for prospectuses

1,195 portfolio managers and trustees

6 FinTech companies

16 supervisory and self-regulatory organisations

8,794 insurance intermediaries

Market developments and digitalisation

Wars, geopolitical tensions, rising interest rates and losses from disasters weighed on the financial markets in 2023 and therefore also posed challenges for supervision. FINMA took account of the risks associated with these developments and used them as the basis for its risk-based supervisory activity – for example to ensure the protection of creditors when licensing new financial market participants. The situation among the supervised institutions proved fundamentally stable despite the global challenges.

Market developments

The markets have been under increased pressure since 2022 due to various developments: rising interest rates and geopolitical tensions increase the risks for the financial markets and the supervised institutions. The Swiss financial centre proved resilient and stable in this environment in the year under review. However, the crisis at Credit Suisse was already becoming apparent.

As in the previous years, unexpected events of global significance shaped international economic and political developments in 2023. Global economic growth fell to its lowest level since the financial crisis in 2008, and the central banks of the major economies significantly increased their base rates. The violence in the Middle East escalated, while the war in Ukraine continued. Although inflation fell, the pressure arising from it on households, businesses and governments remained high. These uncertainties had a curbing impact on global demand.

Economic growth in Switzerland declined sharply following a good first quarter, while the base rate rose to a 15-year peak. Banks, insurance companies and asset managers held their own to varying degrees in this environment.

Key factors for market developments

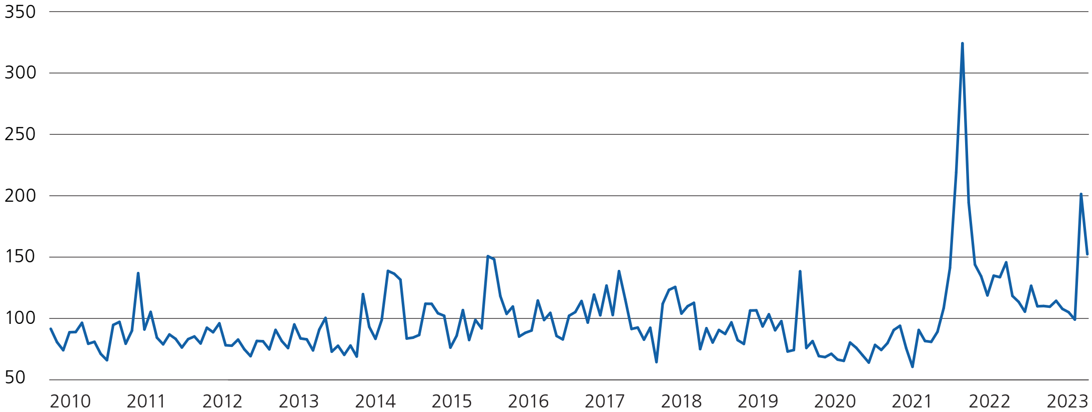
Geopolitical risks have grown in recent years (see "Geopolitical risks" chart below). The economic and political tensions between the USA and Europe on the one hand and China on the other increased in the first half of the year. The war in Ukraine continued, and violence in the Middle East escalated in the second half of the year. These risks hampered economic developments and drove energy prices up, fostered inflation and thus higher interest rates. They resulted in higher credit spreads for bonds, problems with supply chains, and weaker economic activity. However, the feared rise in energy prices and large-scale price drops on the equity markets failed to materialise by the end of the period under review. There were also no further swings in growth figures and inflation. The challenges faced by companies in terms of borrowing costs and supply chains likewise did not change dramatically.

The GPR Index is a measure of negative geopolitical events and the associated risks. It briefly reached its highest level since 2010 after Russia's invasion of Ukraine in February 2022. The Hamas attack on Israel in October 2023 led to a renewed increase.

The base rate in Switzerland rose in the period under review from 1% in January to 1.75% in June. In the eurozone it increased from 2.5% in January to 4.5% in September, and in the USA from 4.5% in January to 5.5% in July. The rate hike resulted in persistently high credit spreads for corporate and government

Geopolitical risks

Geopolitical risk index



Source: Geopolitical Risk (GPR) Index

bonds on the capital markets, with government bond interest rates reaching levels last seen prior to the financial crisis of 2008.

Following a good first quarter with an increase of 0.9%, Swiss economic growth stagnated in the second quarter and also only expanded marginally in the third and fourth quarters. This resulted in growth for the year as a whole of 1.3%. While this is better than in the eurozone, the weak economic performance nevertheless generally had a negative impact on the lending business. Support came from private consumption. Inflation stood at 2.2% over the year as a whole, which was significantly lower than in 2022 (+2.8%). This was also attributable to the fall in energy prices.

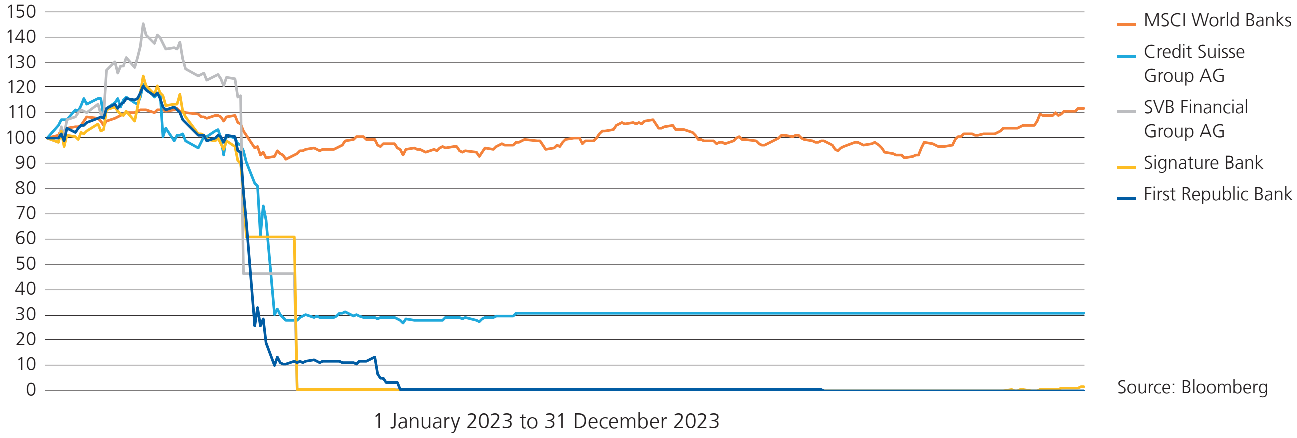
March 2023 saw the greatest stress situation in the global banking sector since the financial crisis of 2008. Three regional US banks were closed or placed into receivership. At the same time, the crisis of confidence at Credit Suisse worsened. The bank faced immediate insolvency, and a merger by absorption of Credit Suisse by UBS took place, supported by measures by the Confederation, the SNB and FINMA. The developments at these banks gave rise to a major crisis of confidence in various regions and, among other things, resulted in a reduction in banks' assets and share prices, and various government interventions.

Market developments among banks and securities firms

Retail and commercial banks posted good results in the 2022 financial year, and this trend also continued in the interim financial statements for 2023. Although business development and growth were limited, profitability altogether remained slightly positive in 2023, and institutions benefited from the turnaround in interest rates. Due to the delay in passing on the rise in interest rates on the assets side to customer deposits, interest income grew significantly in most cases. The rising interest rates fostered an increase in credit risks, although the number of defaults at banks remained at a low level. The development of the Swiss real estate market strongly impacted the income statements of retail banks. A fall in real estate prices might have been expected given the interest

Stress situation in the banking sector

Performance of the MSCI World Banks Index compared with Credit Suisse, Silicon Valley Bank, Signature Bank and First Republic Bank share prices (indexed, 1 January 2023 = 100)



Source: Bloomberg

rate trend, but analyses show that these remained stable at a high level. Switzerland again saw moderate construction activity in the year under review. Vacancy rates remained low, and the demand for housing was down slightly. Demand also fell in the commercial and office sector while prices remained relatively stable.

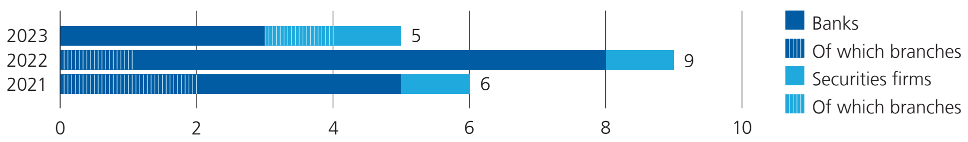
Unlike retail and commercial banks, wealth management banks faced a challenging environment due to the price development on the equity and bond markets. Assets under management decreased overall, undermining the commission business and resulting in a slight reduction in income. However, gross operating profit increased at these institutions thanks to higher interest income. Business development and growth were limited. The war in Ukraine and the conflict in the Middle East led to reduced business acquisitions and required extensive investigations of business relationships. The institutions were required to conduct a continuous assessment of the general political climate and align this with their strategy and risk appetite. The Financial Action Task Force (FATF) reported in this context that it recognised the progress made by Switzerland in the area of money laundering and terrorist financing, and recommended that institutions keep up their efforts concerning the implementation of the regulatory provisions.

The capital situation and liquidity buffer of the Swiss banks remained robust across all peer groups. In the context of the entire banking population, an increase in the liquidity coverage ratio (LCR) has been observed since the start of 2023.

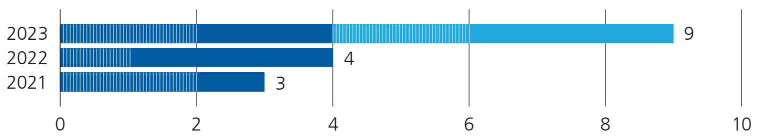
The takeover of Credit Suisse by UBS and its subsequent integration into UBS (see "Credit Suisse crisis", page 13 ff.) brought about a transfer of client assets to other institutions in the course of the year. These changes have so far been well received in the market. The further development and any adjustments to specific areas of the market offering as a result of this remain to be seen.

FINMA issued licences to five new financial institutions (banks and securities firms) in 2023. Nine institutions voluntarily exited the market based on business or economic rationale. Two newly licensed

New licences



Market exits



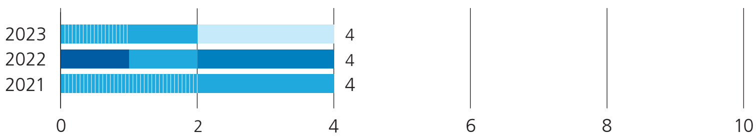
banks are former branches of Raiffeisen Switzerland Cooperative that were approved as independent banks. Raiffeisen Switzerland Cooperative accordingly concluded its project for the legal independence of branches. The third newly licensed bank is a subsidiary of a foreign insurance group that provides asset management and custody services for affluent private clients. FINMA also licensed an owner-managed securities firm that engages in proprietary trading and market making of structured products. Finally, FINMA licensed a branch of a foreign securities firm that offers brokerage activities for professional and institutional clients that are mainly active in listed derivatives.

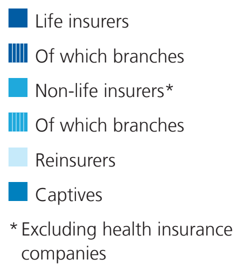
When it comes to the licensing process, FINMA has since 2023 attached greater importance to the project phase. The preliminary review carried out at this stage allows it to familiarise itself with the objective pursued and set out in detail in the licensing request, and make an initial regulatory assessment. The initiators of the project thus receive valuable feedback at an early stage on any obstacles to licensing or other important issues. In 2023, this led to the early withdrawal of licensing projects that were not yet ready. Two institutions submitted their licence applications to FINMA after successfully completing the project phase.

Market developments among insurance companies

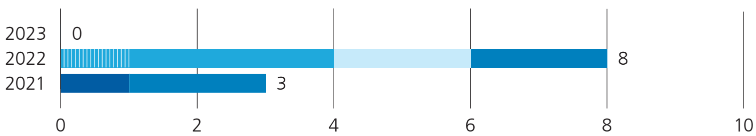
Despite the uncertainties in the economic environment, the insurance sector as a whole succeeded in upholding or even improving its high risk resistance as measured by the Swiss Solvency Test (SST) (see "Stability of the supervised institutions: capital", page 41 f.). A particular challenge was posed by inflation that directly resulted in a reduction of insurance results.

New licences



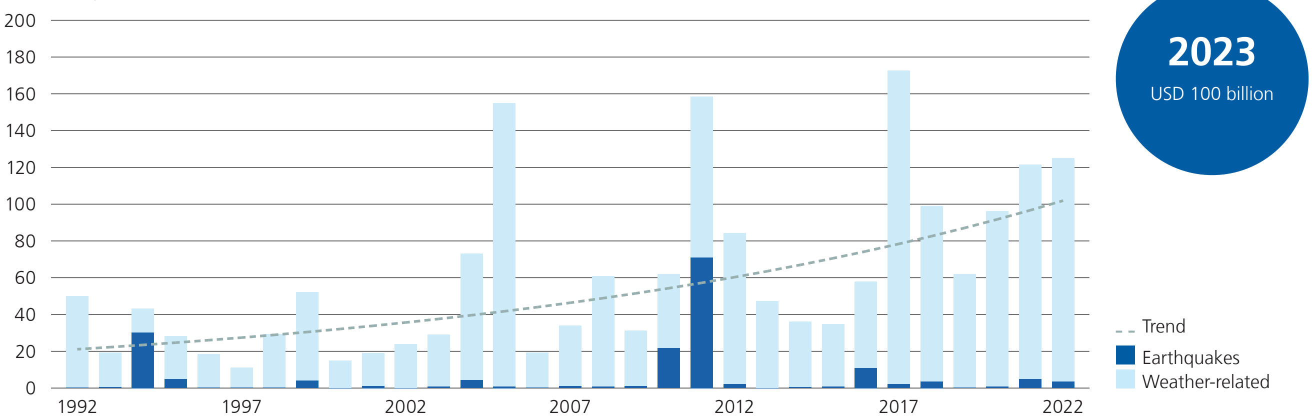


Market exits



2023: Insured losses from natural disasters remain at a high level

Growth in global insured losses from natural disasters in USD billion



It should be noted that the data in the chart is inflation-adjusted as at 2022, but has not been adjusted for higher value concentrations.

Source: sigma 1/2023. Natural catastrophes and inflation in 2022: a perfect storm. Swiss Re Institute

Reinsurers

An above-average level of losses from disasters weighed on the reinsurance sector again in 2023. Estimates of the total insured losses, i.e. including the losses for primary insurers, amounted to around USD 100 billion. Losses fell compared with the previous year, but were well above the 10-year average.

Alternative markets, such as insurance-linked securities for natural disasters, experienced high demand. The volume of new issuances in 2023 exceeded that of the entire previous year by more than 50%.

Reinsurers once again successfully implemented attractive premiums and conditions for themselves when renewing annual reinsurance policies. Similar market cycle situations in the past have given rise to a considerable number of newly founded reinsurance companies. However, only modest signs of such a development arose in the period under review.

The claims experience and processing of claims differed from those of previous years. Particularly in the case of long-tail sectors such as liability, high claims inflation was recorded in some countries, which can have a negative impact on claims settlement and thus on the annual results.

Non-life insurers

The market developments in non-life insurance in 2023 were significantly influenced by the rise in inflation since 2021. This caused higher claims expenditure as the replacement or repair of damaged goods became more expensive. However, the different sectors and product categories were affected to varying degrees. Particularly noteworthy is the increase in expenditure in motor vehicle insurance following a noticeable rise in both the prices of spare parts from abroad and the hourly rates charged by garages. In 2023, these additional costs were increasingly passed on to policyholders by way of premium increases.

Life insurers

The rise in interest rates led to a slight easing in the market for life insurers in 2023. The higher interest rates that life insurers received when reinvesting maturing government bonds facilitated the financing of interest rate guarantees from the period before the low-interest phase. Two new providers started selling insurance contracts: one primary insurer started taking on new business again and, at the end of 2022, a new life insurer was authorised to offer group life insurance in the occupational pensions sector.

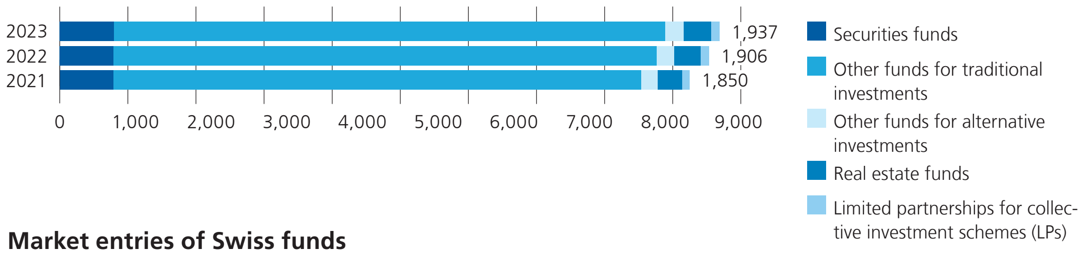
Supplementary health insurers

The "outpatient before inpatient" rule contained in the Health Insurance Benefits Ordinance (HIBO) since 2019 and its extension to 18 groups of medical interventions as of 1 January 2023 is resulting in an ongoing rise in the proportion of operations performed on an outpatient basis. The supplementary health insurers have developed new products in this connection that will enter distribution. After FINMA had drawn attention to the need for action in supplementary health insurance in a press release in December 2020, tariff reductions were observed on average across the market for hotel-style services in the area of inpatient cover in 2023.

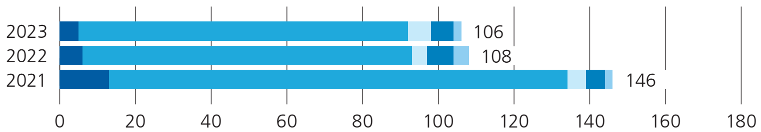
Developments in the fund market

The rise in central bank base rates and the fight against inflation persisted in 2023 and exerted a strong impact on the asset management sector. Real estate funds in particular were impaired, which was reflected in lower premiums. Moreover, unlike in previous years, several real estate funds were unable

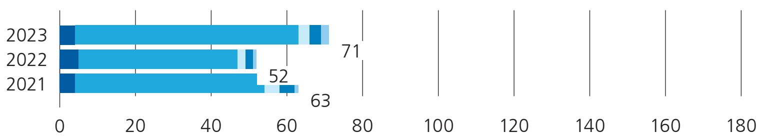
Total Swiss funds



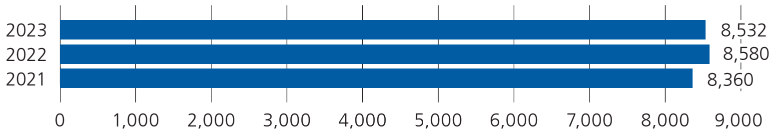
Market entries of Swiss funds



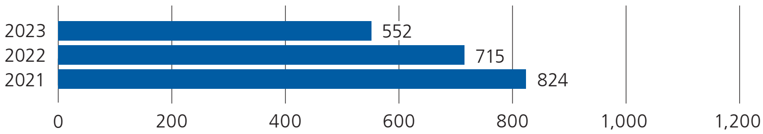
Market exits of Swiss funds



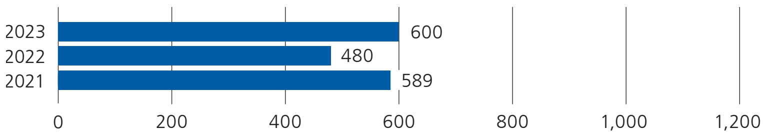
Total foreign funds



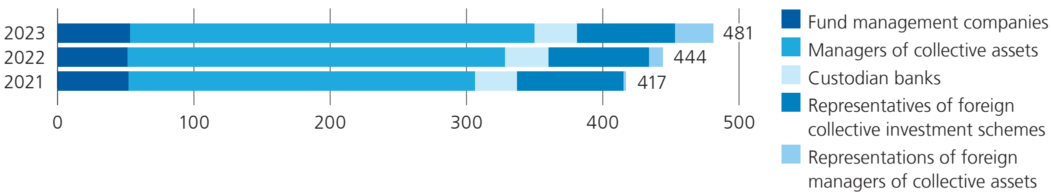
Market entries of foreign funds



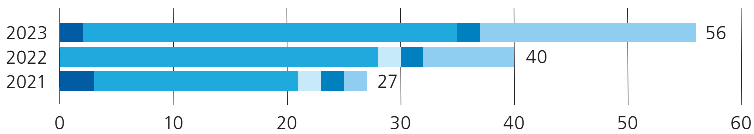
Market exits of foreign funds



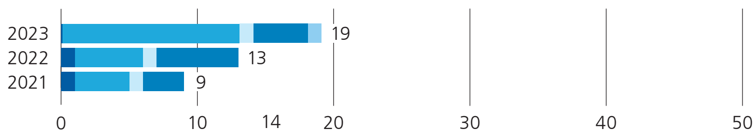
Total institutions



Market entries of institutions



Market exits of institutions



to obtain the envisaged additional capital from investors, who favoured other investments (see also "The situation for real estate funds" on page 46 f.). The higher interest rates also led to a shifting of capital to products invested in money market instruments, equities and bonds. Demand for innovative products was lower than in previous years. With 1,937 Swiss and 8,532 foreign collective investment schemes as at the end of 2023, the figures remained relatively stable compared with 2022. The "Other funds for traditional investments" category remained the most widespread fund type and the largest in terms of volume. The number of licensed institutions operating in asset management (fund management companies, managers of collective assets) increased further despite the ongoing pressure on margins, and amounted to 350 at the end of 2023 (2022: 328), of which 53 (2022: 51) were fund management companies and 297 (2022: 277) were managers of collective assets.

Portfolio managers and trustees

FINMA received 1,777 licence applications from portfolio managers and trustees by the end of 2023. It granted the bulk of licences for existing institutions and at the same time processed a large number of change requests.

Progress in the licensing process for portfolio managers and trustees

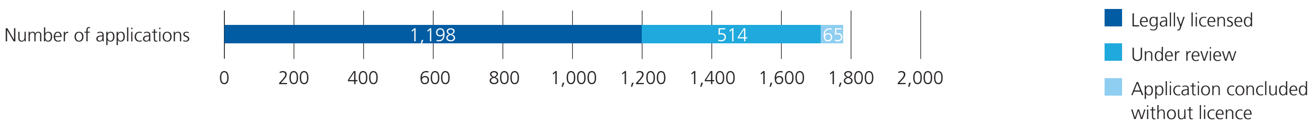
Portfolio managers and trustees have been required to obtain a licence since 1 January 2020. According to the law, existing institutions were required to submit their licence applications to FINMA by the end of 2022 at the latest. FINMA granted the majority of licences for existing institutions in 2023 and already had a large number of change requests to process. FINMA is conducting a review of the potential existence of unauthorised activities in the case of non-responsive companies that have neither submitted an application nor explicitly communicated their intention of not submitting an application.

Risk-based licensing process

A total of 1,777 portfolio managers and trustees submitted a licence application to FINMA before the end of 2023. FINMA approved 1,198 of these applications (of which 11 licensed institutions have already been released from supervision) before the end of 2023. It informed the public transparently in the course of the year by means of two sets of guidance (02/2023 of 30 January 2023 and 03/2023 of 18 August 2023) about the progress made in the licensing process, as well as about supervisory measures and investigations concerning non-responsive companies.

Overview of licensing status

As at 31 December 2023



FINMA essentially processes the applications on a first come, first served basis. However, in order to ensure a risk-based approach, it gives priority to the applications of those applicants who pose increased risks, such as insufficient minimum capital or capital adequacy, a large number of clients or a high volume of assets under management. FINMA likewise processes applications from new applicants as a priority as the transitional provisions are not applicable to them and they are not able to commence their business activities for which a licence is required until after the licence is granted.

The licensed portfolio managers and trustees altogether submitted 994 change requests to FINMA in 2023. The most frequent reasons for changes concerned persons responsible for proper business conduct, organisational and governance regulations, the articles of incorporation or association, and delegated tasks.

Supervisory measures for portfolio managers and trustees

Since 2020, a total of 1,313 financial institutions (formerly) associated with portfolio management or trustee activities have explicitly communicated to FINMA their intention of not submitting a licence application. Wind-downs, adjustments to the business models and continuation of the business activity below the commerciality threshold were the main reasons given for this.

In order to investigate any activities requiring a licence, FINMA wrote to a total of 300 financial institutions in Switzerland in mid-May 2023 and asked them for details of the nature and size of their business activity. These particularly included financial institutions that had registered as portfolio managers or trustees on FINMA's survey and application platform (EHP) but later neither submitted a licence application nor explicitly communicated their intention of not submitting an application. If any such investigations confirm that unauthorised activities are being carried out, the institutions and persons responsible face supervisory measures and penalties under criminal law.

FINMA once again provided a suitable regulatory environment to support innovation on the financial markets in 2023. It responded to enquiries concerning applications in the crypto and DeFi areas swiftly and competently. At the same time, it monitored the custody of cryptoassets, responsibilities for DeFi projects and the use of artificial intelligence for the protection of clients.

Digitalisation in the financial sector

The Swiss financial centre has maintained a high level of innovation activity. Numerous enquiries both from supervised institutions with innovative expansions to their business models and from new players wishing to enter the market are evidence of this. FINMA once again responded swiftly and professionally to enquiries in this connection in 2023 and supervised the institutions with a view to the risks for their clients in particular.

FINMA once again dealt with numerous practical questions in the area of cryptoassets in 2023 and ensured compliance with applicable law, in particular for the protection of clients. It also set out its supervisory expectations in the area of artificial intelligence in line with its strategic goals.

Technology-neutral assessment of practical questions concerning cryptoassets

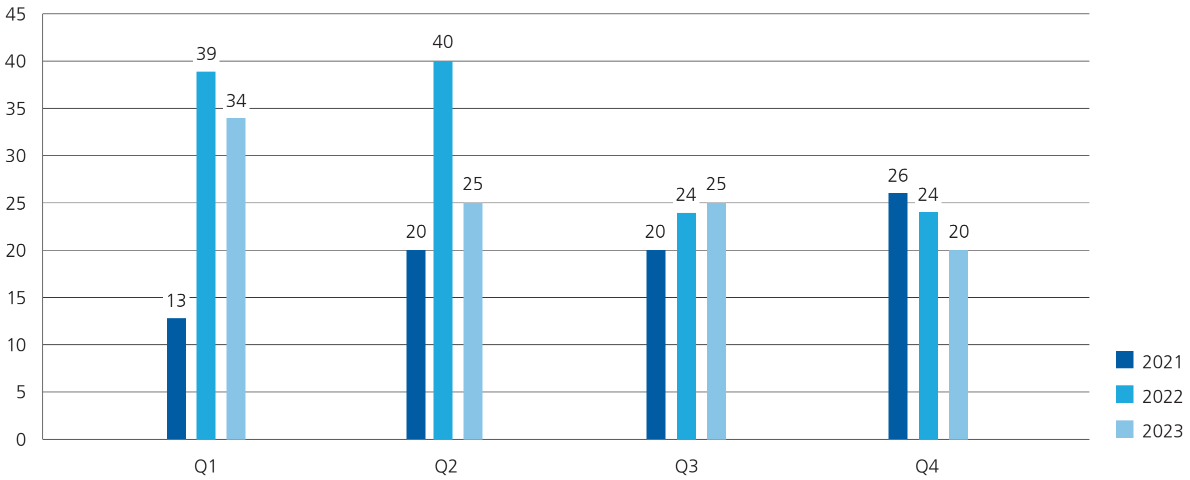
The interest in cryptoassets remains high among both new market participants and established financial institutions. FINMA responded to all corresponding enquiries on the basis of the applicable law. The trading and custody of payment tokens and staking were the core topics of interest in 2023.[1] An initial application for licensing as a distributed ledger technology (DLT) trading facility was in progress. FINMA also participated actively in the regulatory project for the successor to the FinTech licence.

Swift processing of FinTech authorisation enquiries

FINMA received around 100 FinTech authorisation enquiries in 2023, which is roughly the same number as in the previous year (see chart below). FINMA was able to process these enquiries swiftly by providing sufficient resources with a high level of expertise. This enabled it to process FinTech enquiries within an average of two months in 2023. The actual processing time in each individual case depended largely on the complexity of the project and the quality and degree of detail of the enquiries. Clear and consistent factual information, for instance concerning technical details, the allocation of responsibilities and the economic background, facilitates the assessment of a project. The projects submitted varied greatly in terms of content. However, they generally bore reference to current trends in the FinTech sector, such as decentralised finance, the tokenisation of assets and the use of tokenised items in a metaverse.

[1] Staking is a means of earning rewards in return for taking part in validating the integrity of blockchains.

FinTech authorisation enquiries received 2021–2023



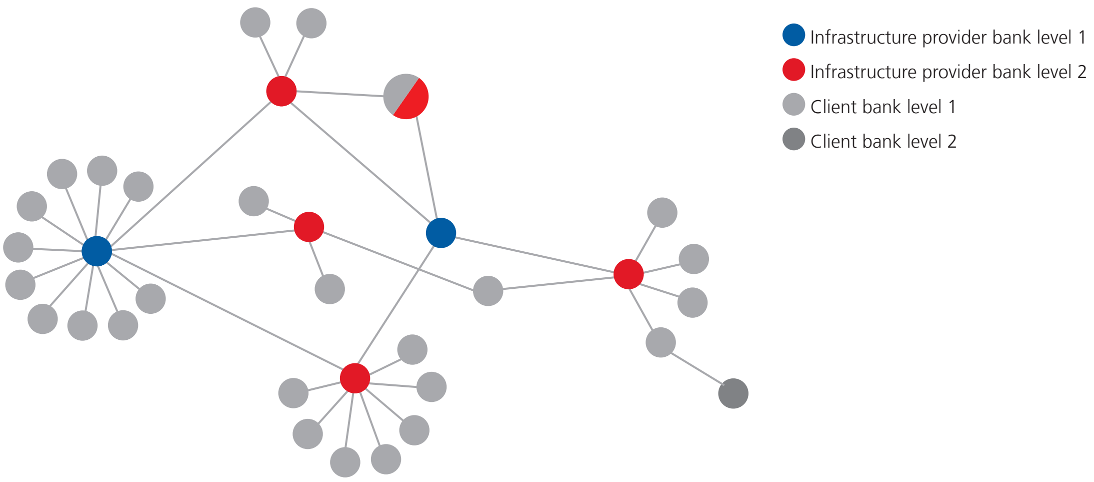
Stable interest in crypto activities of institutions supervised by FINMA

The number of FINMA-supervised institutions offering services in the crypto sector rose slightly in 2023 compared to the previous year, from 30 to 34 banks and securities firms, despite the fact that the market for cryptoassets had bottomed out at a lower level in 2022 following various scandals. FINMA dealt with various issues in this connection while taking into account the risks posed by the dynamic developments in this area. In February 2023, it introduced standardised reporting processes for activities with cryptoassets. The reports indicate that cryptoassets (almost exclusively payment tokens) amounting to around CHF 6 billion were held in custody. The bulk of these were client holdings and only around CHF 0.7 billion were own holdings. It also emerged that while the majority of institutions offer custody, they rely on other banks and securities firms as third-party custodians for this. The third-party custodians were found to be highly concentrated among a small number of companies, as shown by the depiction of the custodian network below (red and blue nodes).

The majority of enquiries from institutions supervised by FINMA in connection with crypto activities concerned the trading and custody of payment tokens. The entry into force of the Distributed Ledger Technology Act created a specific legal basis in the Banking Act for segregating payment tokens held in custody for clients in the event of bankruptcy (Art. 16 no. 1bis BA). In order to achieve such a segregation of custody accounts and thus avoid capital requirements, banks must hold the payment tokens in readiness for custody account clients at all times. If they do not keep the cryptoassets in custody themselves, they must ensure that protection under insolvency law (in accordance with Swiss law or a similarly secure legal basis if abroad) likewise exists in the event of a sub-custodian's insolvency.

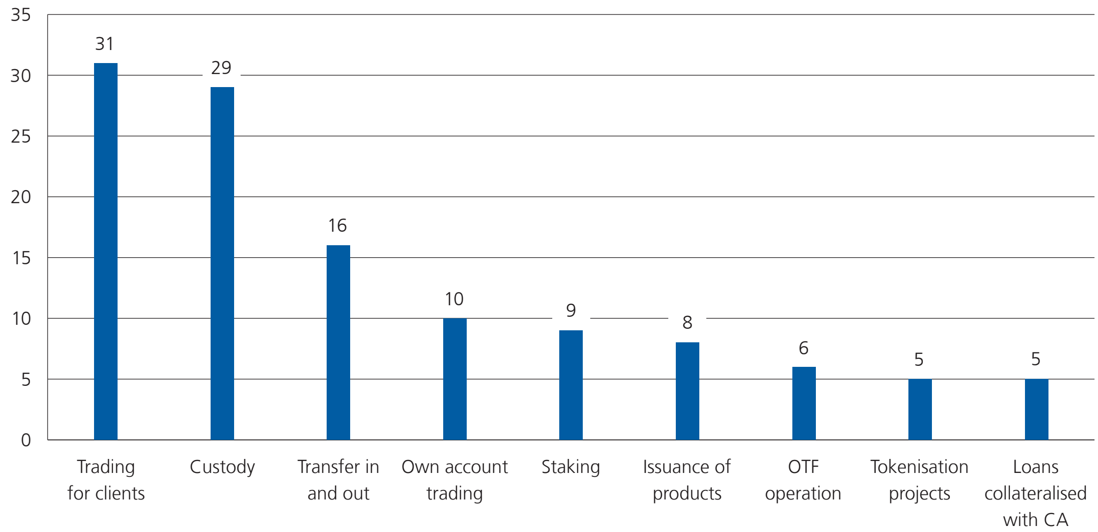
Owing to the transition of the Ethereum blockchain from a proof-of-work to a proof-of-stake consensus algorithm, questions concerning staking are increasingly gaining in importance.

Custodian network



34 banks and securities firms with crypto activities

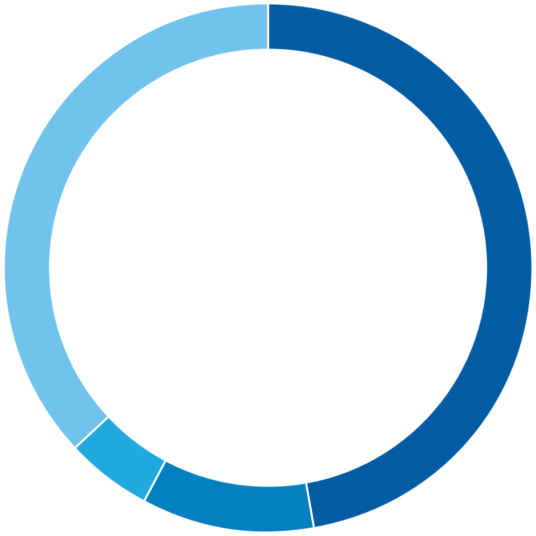
At the end of 2023, a total of 34 banks and securities firms in Switzerland were engaged in activities related to cryptoassets. The activities were composed as follows:



The data is based on reports from institutions and has not yet been verified.

Individual enquiries concerning crypto activities of banks and securities firms received in 2023

Trading and custody	9
DeFi	2
Tokenisation projects	2
Other	7
Total	**20**



The questions about staking focus on substantiating the legal interpretation for distinguishing between custody accounts protected in the event of bankruptcy and deposits exposed to the risk of insolvency. These mainly revolve around the central criterion for bankruptcy protection, which is that the cryptoassets are held in readiness for the customer at all times. In Guidance 08/2023, FINMA set out how it intended to treat staking services in view of the current legal uncertainty, on account of which FINMA would review its classification of staking services in the event of any relevant court rulings or international developments.

Critical review of enquiries in the area of decentralised finance

FINMA also responded to enquiries in the area of decentralised finance (DeFi) and closely followed developments in this area in 2023. When assessing these enquiries, it drew on the principles of technology neutrality and economic and functional substance (see FINMA Annual Report 2021, page 20). Many allegedly decentralised applications nonetheless turned out to be controlling operators, so that there was no genuine decentralisation. Indications of a type of control relevant under financial market law arose, for instance, from the management of the further development of applications. For example, the operator would have admin keys, or hold the majority of governance tokens, or the application would be dependent on data entered by a specific person, e.g. via an oracle. Other indications were business relationships with end users and income flows from the application to a specific person.

First application for licensing as a DLT trading facility

A new financial market infrastructure, the DLT trading facility, was launched with the entry into force of the DLT Act on 1 August 2021. In particular, FINMA established that DLT trading facilities may also offer possible settlement services to third parties, i.e. not exclusively to participants in their own trading facility. FINMA has since conducted a large number of meetings with potentially interested parties concerning this new licensing category. It received the first formal licence application for a DLT trading facility in the year under review. The project will offer trading and post-trading services and ensure the smooth delivery of DLT securities against payment (delivery versus payment) in an ecosystem with limited access by means of a smart contract on a public blockchain.

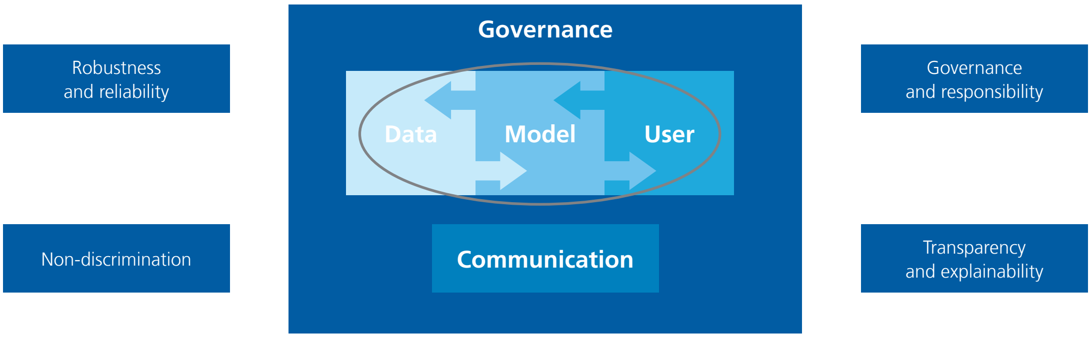
Artificial intelligence: FINMA sets out its supervisory expectations

Artificial intelligence (AI) is being steadily adopted in the financial market, particularly to support internal processes, but also in risk management, pricing, and customer interaction. The autonomy and complexity of AI systems entail various risks. For example, there is a risk that results generated by AI cannot be understood or explained by humans, that errors or unequal treatment creep in unnoticed or that responsibilities for decisions based on AI are unclear.

In order to limit the risks associated with using AI, FINMA has set out its supervisory expectations regarding the use of AI in the business processes of supervised institutions. The expectations, which focus on four areas (see chart on page 33), have been coordinated and refined with various stakeholders and are described in detail in the 2023 Risk Monitor.

In the dynamic area of AI, FINMA relies strongly on a close exchange with experts in Switzerland and abroad, as well as with financial market institutions that utilise AI. It can be deduced from the discussions that the majority of institutions that utilise AI are monitoring the developments in this area very closely. But many are also currently experimenting in fields of application that involve only limited risks. Here, it is rarely the aim to achieve full automation, and the human factor is still considered very important in the process. The industry welcomes FINMA's technology

FINMA's supervisory expectations in connection with AI



The illustration is based on a chart from the Bank of England: DP5/22 – Artificial Intelligence and Machine Learning.

neutrality and risk-based approach. As AI essentially represents a technical evolution, most institutions do not consider the risks to be fundamentally new and are already addressing them within their existing risk management processes.

In addition to communicating its supervisory expectations, FINMA is looking into the adequacy of risk management and governance relating to AI at the supervised institutions. In order to identify, limit and monitor AI-specific risks, FINMA has been conducting on-site inspections and supervisory exchanges with financial institutions that deploy AI extensively or in areas relevant for supervision since the fourth quarter of 2023. In addition, FINMA has taken a closer look at initial applications in asset management, transaction monitoring and liquidity management as part of its ongoing supervision.

Wide public interest in FINMA's work

Over 6,000 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.

7,096 enquiries

828 supervisory-related enquiries

2,961 enquiries about authorised institutions (banks, insurers, etc.)

1,680 unauthorised institutions reported

1,627 regulatory enquiries

FINMA’s core tasks

In 2023, FINMA continued to integrate the latest technical solutions and analytical methods into its supervisory activity. By introducing automated reviews, incorporating new data sources and presenting data in a more user-friendly manner, FINMA has organised its supervisory activity in a more efficient way. This means that both clients and the proper functioning of the financial market now benefit from even better levels of protection.

Digitalisation of supervisory activity (SupTech)

FINMA's supervisory activity is becoming increasingly data-driven, and modern technology solutions are playing a noticeably greater supporting role. In 2023, FINMA developed and put into operation a variety of tools for enabling relevant information from diverse sources to be processed automatically and then made available for use by the supervisory staff.

FINMA is resolutely adopting these new opportunities for digitalisation in order to facilitate information sharing with its supervised institutions, thus enhancing the efficiency and effectiveness of its supervisory activities. With the launch of the FINMA portal back in 2017 and the introduction of the web-based survey and application platform (EHP) in 2018, key foundations for enabling (greater) digital cooperation with the supervised institutions had already been laid. Since that time, and especially during the year under review, FINMA has been introducing new digital and data-driven tools into its supervisory activity and further expanding the potential applications of its existing platforms.

FINMA's digital strategy: enhanced data-driven supervision and expanded use of supervisory technology

FINMA is making greater use of data-driven supervisory systems to facilitate its activities. To support its supervisory work, it thus incorporated the use and deployment of modern technologies into its strategic goals and the digital strategy adopted in 2022. It is anticipated that digital tools and new technologies will help to optimise the effectiveness and efficiency of FINMA's supervisory activity. Current developments in the field of artificial intelligence (AI) are also presenting a broad range of new opportunities that can be used in an appropriate manner to support its supervisory work. This area is referred to as "supervisory technology" (SupTech). According to the Financial Stability Board, SupTech encompasses all FinTech applications used by regulatory, supervisory and monitoring authorities.

During the 2023 financial year, FINMA continued to work hard to develop new SupTech applications to support its day-to-day supervisory work. A few examples are outlined below.

Sentiment analysis of publicly available data

FINMA is analysing greater volumes of available secondary data to assist in its supervisory work. For example, a news dashboard to support its supervisory activity was developed during the year under review. This uses AI to evaluate daily press articles and summarise any topics of relevance to financial market supervision. These summaries are then presented automatically in the form of a dashboard.

During 2023, FINMA also made use of "sentiment analyses" in order to integrate social media data. A supervised machine learning method was used to train an algorithm that can determine whether a social media post has positive or negative connotations. With the aid of that tool, rumours or negative statements relating to supervised institutions can be rapidly identified by the supervisory staff. Active discussions with foreign supervisory authorities have revealed that FINMA's practice of systematically evaluating publicly available data is generating a high level of interest.

Data-driven solutions for monitoring unlawful market conduct

Every month, FINMA receives transaction data in diverse formats. It verifies the quality of the data and analyses it for indications of inadmissible market conduct. During the 2023 financial year, FINMA has significantly optimised and simplified that process. With the aid of the new solution, transaction data can be automatically read, validated and standardised. The relevant, quality-controlled analyses can thus be presented to the market supervisory staff more rapidly in the form of a dashboard.

System-supported assessment of applications

In the Asset Management division, a technical solution was developed that assesses applications automatically. This enables applications for foreign investment funds that are regulated by EU directives (referred to as "UCITS applications") and applications from new Swiss collective investment schemes to be analysed and assessed automatically. Once that assessment process is complete, the relevant staff then receive a report with a visual summary of the assessment results. As a consequence, the entire assessment process was expedited during the year under review. Staff were thus able to focus more on risky aspects.

SST calculations

In the insurance sector, FINMA is continuously improving applications and analyses in connection with the SST and continued that process in 2023. The standard stochastic model, which is based on Monte Carlo simulations, has already been provided to insurance institutions as an open-source R package for several years. It enables a highly automated, risk-based SST calculation (including company-specific adaptations) to be carried out. In 2023, the internal analytical processes in particular were automated and optimised. For example, efficient market simulations can thus be run in an innovative tool to evaluate how the SST behaves under changed parameters.

These selected use cases are representative examples of the path FINMA has taken. The aim is to harness technologies in a manner that is appropriate and beneficial for our supervisory activity, and which will thus generate added value. However, substantive decisions will continue to be taken by FINMA employees in the future.

To protect financial market clients, FINMA has focused once again on ensuring that supervised institutions have sound capital and liquidity positions. To achieve that aim, it made use of stress tests, data analyses and supervisory exchanges, and ordered corrective actions where necessary. In doing so, FINMA concentrated on the most significant risks, which were primarily interest rate and credit risks, as well as mortgage-market, climate and cyber risks.

Measures for promoting stability

A well-functioning financial market is vital to the growth of the entire Swiss economy. As part of its supervisory activity, FINMA takes specific measures to support the stability of financial market participants.

As one of its primary supervisory objectives, FINMA monitors the stability of its supervised financial institutions, particularly with regard to capital and liquidity. This is the only way to ensure that the financial market can continue to perform its function even during crisis situations.

Stability of the supervised institutions: capital

Sufficient levels of capital resources are an essential prerequisite for stable financial institutions. They ensure that banks and insurance companies are able to function and support the national economy even during times of crisis and market turmoil. During the course of 2023, FINMA thus implemented various measures in furtherance of its efforts to ensure that supervised institutions have sound capital resources across all areas.

Stable capitalisation of banks

The capital adequacy of banks remained stable, at a generally good level. In general, the banks surpassed the capital requirements prescribed under supervisory law, including the buffer requirements needed to provide a cushion against potential losses. In terms of their capitalisation, the banks are generally well-equipped to absorb any potential losses. The capital surpluses are set out in the table below (excluding particularly liquid and well capitalised banks covered by the small banks regime provided for under Arts. 47a–e of the Capital Adequacy Ordinance [CAO]). The merger of Credit Suisse with UBS has reduced UBS's capital surplus as a result of Credit Suisse's AT1 bonds being written off.

With the aid of stress tests, FINMA subjected the capital situation of the banks to an in-depth evaluation and tightened the requirements where necessary. It relied on analyses carried out by the banks themselves as well as on its own stress simulations, with a focus on residential mortgages and on interest rate risks, and assessed the impact of stressed capital conditions on the various business risks. It also examined the consequences of potential losses arising from operational risks, e.g. as a result of legal risks. Where necessary in individual cases, FINMA increased the bank-specific capital requirements, thus indirectly reducing dividend distributions. In certain cases involving significant failings in the area of risk management or in cases of an excessive and inadequately managed risk appetite, as identified by FINMA during the course of on-site supervisory reviews or other forms of audit, capital requirements were reinforced. During 2023, ten cases of such capital requirements measures were notified and enforced.

Capital surpluses of banks in supervisory categories 1 to 5

As a percentage of the requirement laid down by supervisory law (including buffer requirements) for loss-absorbing core capital (Tier 1 capital)

Bank categories as defined in the Banking Ordinance	Capital surplus	
	End of 2022	Middle of 2023
Category 1*	13	10
Category 2	27	28
Category 3	59	63
Category 4	86	89
Category 5	177	191

* For the purpose of comparison with 2022, this figure relates to UBS only (without Credit Suisse)

Swiss Solvency Test: a positive trend across all insurance sectors

In the area of solvency, the insurance industry adapted successfully to the major uncertainties stemming from volatile markets and higher levels of inflation. In particular, some major international insurance companies consequently reduced their risk exposure by restructuring their international portfolios. Across the market as a whole, it was primarily those measures – alongside the rather favourable developments on the financial markets for many insurance companies up to this point – that were responsible for driving a positive trend in the SST ratios (see table below). As part of its supervisory activity, FINMA has therefore placed a special focus on reviewing the adequacy of the assumptions for future inflation trends made in the context of solvency calculations.

Stability of the supervised institutions: liquidity

A solid liquidity position is vital to the stability of financial institutions. In March 2023, the case of Credit Suisse clearly demonstrated the potential impacts of a liquidity crisis. Consequently, FINMA has worked to ensure that supervised institutions across all supervisory areas have adequate liquidity.

Positive development in banks' liquidity

Since the end of 2022, increased attention has been paid to the liquidity risks faced by banks. Among the banks supervised in Switzerland, Credit Suisse stood out during the first quarter when the accelerated deposit withdrawals that were sparked by its crisis of confidence resulted in dramatic liquidity shortages, as a result of which the bank faced immediate insol-

SST figures by insurance sector

Insurance sectors	SST 2023		SST 2022	
	SST ratio	Number of insurers with SST ratio below 100%	SST ratio	Number of insurers with SST ratio below 100%
Life insurers	243%	0 (15)	236%	0 (14)
Non-life insurers	288%	0 (52)	239%	0 (52)
Health insurers	365%	0 (16)	393%	0 (18)
Reinsurers	258%	0 (22)	200%	0 (22)
Reinsurance captives	232%	0 (23)	242%	1 (23)
Total market	**270%**	**0 (128)**	**238%**	**1 (129)**

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%.

vency. In the context of the overall population of supervised financial institutions, there has been a discernible rise in the short-term liquidity coverage ratio (LCR). This follows a short two-year period in which the LCR declined slightly. That brief decline from the beginning of 2021 was more pronounced among the Swiss retail banks than it was among the banks operating in the asset management sector. The recent rise in the LCR was also more pronounced among the retail banks. Efforts to contain inflation (by way of base rate hikes and quantitative tightening) and the corresponding expectations of market participants were certainly factors influencing that trend. The rising interest rates enabled the banks to once again offer a greater number of deposit accounts with longer terms or similar types of products. These typically have a positive impact on the LCR since this is based on a 30-day horizon, and maturity dates outside of that horizon are not taken into account when calculating the modelled net outflows (denominator of the LCR).

The special liquidity requirements for systemically important Swiss banks entered into force on 1 January 2024. This significant adjustment to the liquidity regulations encompasses a revision of the basic requirements determined via specified parameters, as well as a second component consisting of additional institution-specific requirements. FINMA defined the latter on the basis of estimates provided by each individual systemically important bank. Alongside the requirement for intraday liquidity (which is not covered by the LCR), the liquidity requirement to cover a potential restructuring or liquidation is a very important component of the additional institution-specific requirements. This requirement must be covered at the end of the 90-day period modelled for the purposes of the special liquidity requirements. The additional institution-specific requirements are to be reviewed at suitable intervals by the relevant banks and will be revised by FINMA where necessary.

Liquidity risks faced by insurance companies

FINMA has been carrying out annual stress tests at selected, particularly important insurance companies for a number of years. Since 2022, the focus of these has also been on liquidity risks. The aim of these stress tests is to gain insights into adverse macrofinancial developments and their impact on insurance companies supervised by FINMA, including potential courses of action. In the year under review, the findings were once again incorporated into the supervisory dialogue with the companies and groups.

Liquidity risks faced by real estate funds of funds

FINMA has identified a higher liquidity risk in real estate funds of funds. It therefore called upon the managers of the relevant funds to pay greater attention to liquidity risk management. This included the incorporation into the fund contracts of suitable liquidity risk management measures, such as gating, redemption in kind or soft closing, as well as ensuring transparency with respect to existing liquidity risks.

As at the end of September 2023, 26 real estate funds of funds were managing CHF 23.7 billion in Switzerland. They are invested exclusively or predominantly in listed Swiss real estate funds. The vast majority of these funds guarantee daily redemption. FINMA identified the increased liquidity risk in the course of its analyses. The majority of the listed real estate funds held by the real estate funds of funds had only very limited trading liquidity.

As part of its supervisory activity, FINMA will review whether or not the adopted measures are being adequately implemented, and will consider introducing further measures to reduce liquidity risks where necessary.

Increased interest in Swiss money market funds

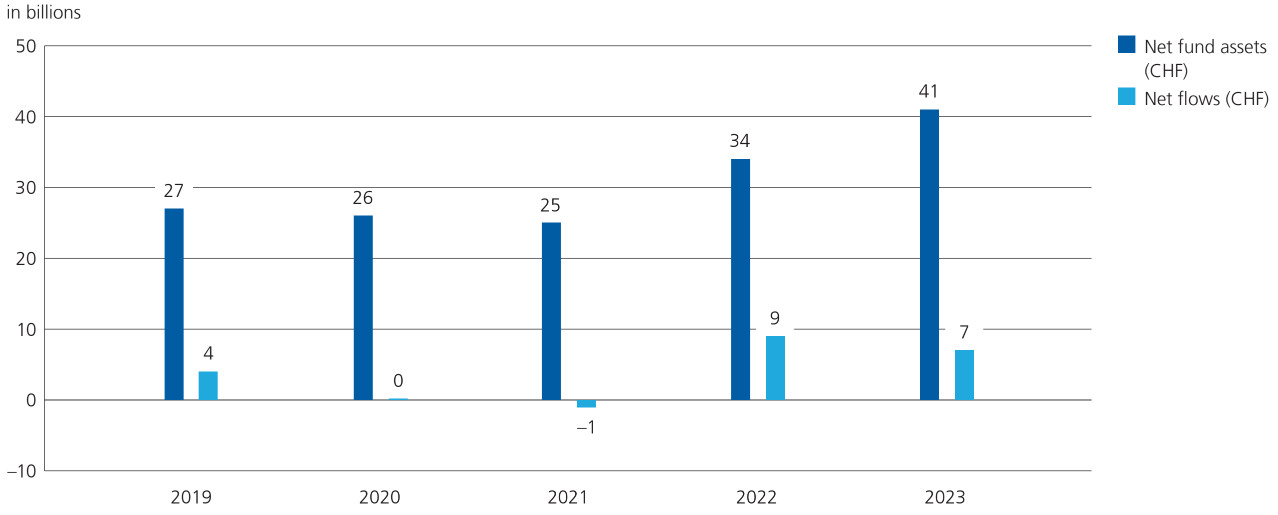
During 2023, FINMA conducted an analysis of money market funds aimed at assessing their features, risks and processes. In doing so, it placed a special focus on the liquidity risk. For example, FINMA reviewed and evaluated the suitability of the liquidity management measures in place at the most important funds during the course of on-site supervisory reviews, supervisory exchanges and supervisory correspondence. Due to their special profile and the vulnerabilities that have come to light in certain countries, money market funds are subject to close international scrutiny. In some countries, investors regard money market funds as alternatives to liquid assets, which can mean that money market funds are exposed to high levels of unexpected redemptions. Appropriate management of the liquidity risk is therefore of vital importance.

As at the end of September 2023, FINMA was supervising 31 Swiss money market funds with a total net asset value of CHF 43 billion, which corresponded to approximately 5% of all Swiss funds. The majority of Swiss money market funds are denominated in US dollars and Swiss francs and are managed by a small number of fund management companies.

In relation to their number and net asset value, the funds have remained stable over several years, including 2020 when the COVID-19 pandemic began. This was in spite of the high volatility prevailing in the financial markets at that time, which caused money market funds in some other countries to experience liquidity problems. The stable position of the Swiss money market funds can be explained in part by the fact that those funds were held, and continue to be held, mainly by private investors. In

Changes in net assets held by Swiss money market funds

Figures for 2019–2022 as at 31 December, 2023 as at 30 September



other countries, by contrast, institutional investors account for the majority of the investors in money market funds. Following the interest rate rises that began in 2022, FINMA noted a growing level of interest in money market funds coupled with strong inflows (see the chart on page 44). It is therefore continuing to keep a close watch on how liquidity risks are being managed by the money market funds.

Risks associated with inflation and interest rate movements

In recent years, sustained inflationary pressures have caused capital market interest rates to rise in Switzerland as well, albeit at a slower rate than elsewhere. This has resulted in a tightening of monetary policy and rising money market interest rates. By conducting regular, proactive risk analyses, FINMA was able to identify potential interest rate risks among the supervised institutions at an early stage and, where necessary, it instructed them to take action.

Interest rate risks

As a result of the normalised market interest rate levels, the prior balance sheet risks became apparent mainly in the form of hidden liabilities. This means that the market values have – at least temporarily – fallen below the book values. FINMA has been monitoring and evaluating the balance sheet risks on a continuous and forward-looking basis. In this regard, a special focus was placed on financial assets in view of their liquid nature. Falling longer-term interest rates have, in some cases, already resulted in a slight drop in interest rate risks. By means of its regular risk analyses, FINMA identified the interest rate risks and, where necessary, called upon the supervised institutions to take action (see also the explanations on stress tests set out under "The situation for real estate funds", page 46). In-depth on-site supervisory reviews and specific stress tests were also carried out. The failures of some US regional banks illustrated the importance of identifying and managing such risks at an early stage.

Credit risks and the current economic situation

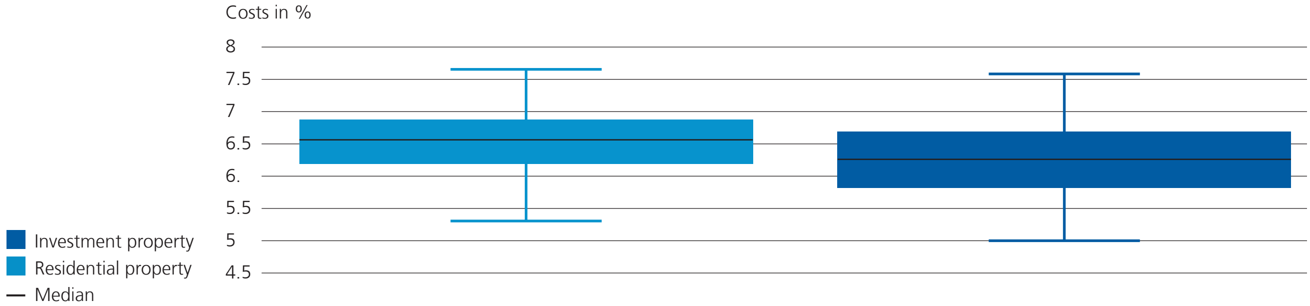
FINMA intensified its monitoring of credit risks, noting that the current economic situation, namely the economic slowdown observed in 2023, is set to continue. Among other sectors faced with stagnant development, the slowdown has impacted export-based industries in particular. A rise in default risks is therefore likely. FINMA thus carried out closer monitoring during 2023 of the need for valuation adjustments in relation to both impaired and non-impaired bank claims, aided by its data-driven supervision.

Moreover, in a more challenging environment, both compliance with credit standards and credit-quality monitoring of commercial loans became matters of central importance. FINMA assessed both of these issues by means of measures including targeted on-site supervisory reviews of banks' corporate client business. Rising interest rates coupled with reduced credit ratings among borrowers may lead to tougher conditions in the area of leveraged finance, or the financing of commercial properties or associated real estate properties, as illustrated by the failures of individual subsidiaries within the Signa Group during late 2023. The associated risks were thus analysed and monitored more intensively.

Significant risks in the real estate and mortgage markets

The mortgage sector is of vital importance to the Swiss financial centre. In 2023, FINMA therefore continued to monitor the real estate and investment market closely, taking corrective action in cases where it identified undesirable developments in the loans business. As a result of rising interest rates, the ever-increasing demand for real estate weakened, particularly in the case of private homes, and the growth rate for mortgages fell slightly. In the case of buy-to-let properties, a situation of historically low vacancies resulting from reduced construction activity and higher immigration placed strain on the rental market.

Affordability criteria in lending



The box plot displays the minimum, lower quartile, median, upper quartile and maximum.

Maximum projected costs in % for a mortgage with a loan-to-value ratio of 80% (residential property) or 75% (investment property), taking into account the affordability thresholds of the individual banks. The affordability threshold is taken into account so that the banks can be compared in terms of affordability criteria.

Source: FINMA Risk Monitor 2023, page 10

The proportion of new variable-rate mortgages (SARON-linked) has doubled in the wake of the interest rate rises. Rising interest rates expose the affected borrowers to higher interest rate risks and the banks to higher default risks.

During 2023, a number of banks continued to overestimate the capacity of their borrowers to service their loans, or underwrote too many loans that did not meet their own lending criteria (exception to policy). This is not consistent with the self-regulation requirements introduced by the Swiss Bankers Association. Where corresponding irregularities were identified, FINMA deployed its supervisory instruments and ordered capital add-ons where necessary.

The situation for real estate funds

Interest rate rises have a significant impact on the real estate market. They lead to increased refinancing costs, on the one hand, while other forms of investment become more attractive on the other. Rising interest rates pose a pronounced risk for real estate funds. During 2023, FINMA continued to monitor real estate funds using a risk-based approach.

Refinancing structure and borrowing ratio of real estate funds

Due to the significant increases in interest rates since 2022, FINMA carried out an analysis of 70 real estate funds during 2023 in order to investigate their refinancing structure, borrowing ratio, and the average interest rate payable on the borrowed funds.

The average remaining term of the financing was 2.4 years. Around a quarter of the analysed funds had an average remaining term of less than 1 year and were thus refinanced at very short notice. Only a few real estate funds used the period of low or negative interest rates to lock in the lower interest rates for the longer term. The total volume of refinancing effected with remaining terms of over 10 years amounted to approximately CHF 500 million, thus corresponding to only 2.4% of the entire external debt amount of CHF 20.5 billion.

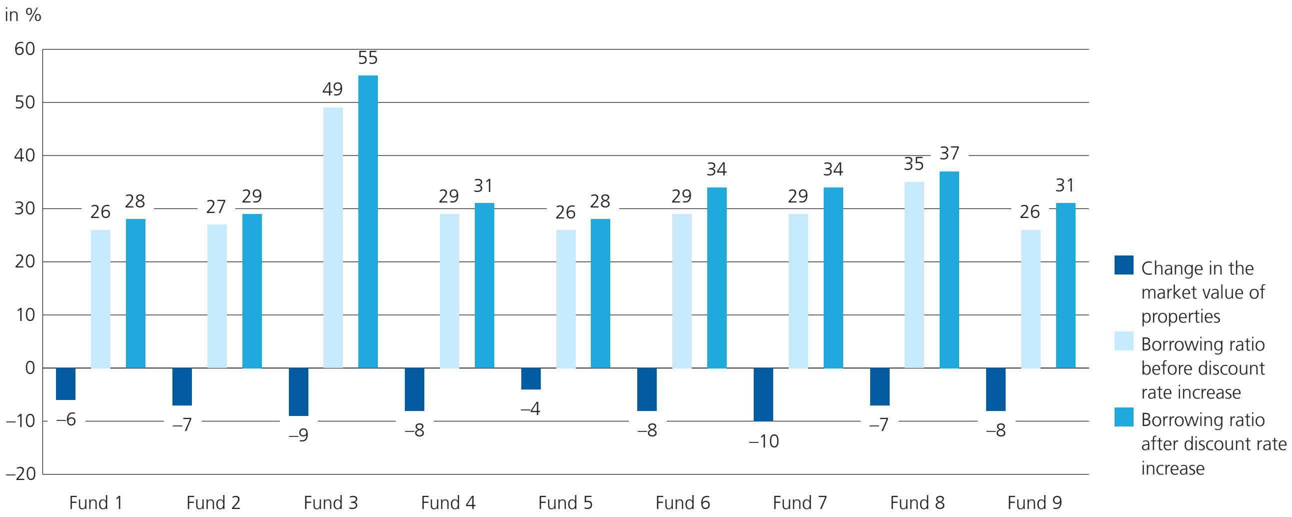
The average borrowing ratio at the beginning of 2023 (based on the latest available annual and semi-annual reports) was 23% (median 24%). There has been no change in the average value compared with the figures from early 2022. Only four funds had a borrowing ratio above 33.33%. Those funds were exclusively new funds launched in the past few years for qualified investors who were authorised to use a maximum leverage ratio of 50% until the end of the set-up phase (mostly a maximum period of 5 years). With average interest charges of 0.71% (median 0.63%), real estate funds have been able to refinance at historically low rates during recent years.

Stress testing of real estate funds

During risk-targeted spot checks, FINMA called upon real estate funds to provide information on their most recent scenario analyses and to calculate a stress test scenario based on parameters specified by FINMA.

Almost half of the funds analysed showed elevated risks in connection with negative changes to the valuation parameters (discount rate, market rents, vacancies) or due to discounts linked to redemptions. FINMA also identified potential for optimisation in relation to the specifications for scenario analyses set out in internal guidelines. The provisions were often too vague and did not address all of the relevant

Impact of a 25-basis-point increase in the discount rate on the estimated market value of properties and on the borrowing ratio



aspects. Communications within boards of directors regarding the risks revealed in the findings of the scenario analyses and stress tests also showed potential for improvement. In many cases, it appeared that the boards of directors were content to merely take note of the findings.

FINMA communicated its expectations regarding the scenario analyses to all the fund management companies involved in the spot checks. To facilitate the closer monitoring of developments, periodic reporting was introduced for higher-risk funds.

Climate risks

During 2023, FINMA addressed the issue of climate risks in the course of its supervisory exchanges with larger institutions and communicated its expectations with regard to the management of nature-related risks. In the banking sector, it also analysed mortgage products making references to sustainability.

Analysis of transition risks inherent in mortgage portfolios

FINMA collected data from 16 banks in categories 1 to 3 in order to perform an initial quantitative assessment of the climate-related transition risks inherent in their mortgage portfolios. This data collection covered 72% of the total mortgage loan volume of the Swiss banking sector. The data collected related to the overall energy efficiency and heating systems of the mortgage-financed buildings. An assessment was also made of the data sources relied upon and the quality of the data. The results show that, of the financed buildings for which appropriate data was available, approximately 50% of the mortgage loan volume is linked to buildings with a medium to poor overall energy efficiency (Swiss Cantons' Building Energy Certificate Label D to G or a comparable classification). Approximately two thirds of the mortgages serve to finance buildings heated with fossil fuels. In a future transition towards a climate-friendly economy, mortgage loans linked to those buildings may be exposed to transition risks, which could crystallise if, for example, new legislation were to be enacted. FINMA also identified significant data gaps in relation to the features being surveyed. The majority of the banks are planning to further improve their data collection processes in that area. For its part, FINMA is consulting with other relevant authorities with a view to introducing measures aimed at improving the nationwide availability and quality of data in the building sector.

Supervisory expectations in respect of measures to combat nature-related risks

In January 2023, FINMA published its FINMA Guidance 01/2023 on the relevant developments with regard to the management of climate risks. International standard-setting bodies have developed specific recommendations and explanations for handling climate-related risks, with the expectation that banks and insurance companies will manage those risks effectively alongside all the other risks to which they are exposed. In issuing this Guidance, FINMA has affirmed that it expects supervised institutions to establish an adequate system for managing climate-related risks in a manner consistent with their individual risk profile.

FINMA has subsequently decided to prepare a new circular on managing nature-related financial risks (see "Circular on nature-related financial risks", page 84 and the corresponding dossier on the FINMA website).

Cyber risks

The cyber risks faced by the financial market remain high. The management of cyber risks was therefore a focal point of FINMA's supervisory activity in 2023. As in previous years, FINMA directly conducted cyber-specific on-site supervisory reviews at more than a dozen institutions, in addition to the regular audits conducted by audit firms. Furthermore, numerous supervisory exchanges addressing the issue of cyber risks were held with systemically important institutions.

The number of cyber attacks remains high

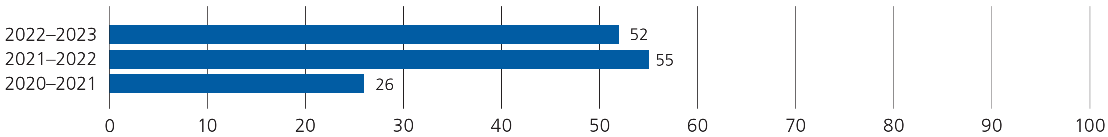
The number of reports submitted to FINMA concerning successful cyber attacks on supervised institutions remained stable at the levels recorded in 2022. FINMA has reported extensively on those attacks in the Risk Monitor 2023. There was also a further increase in attacks targeting the external service providers of supervised institutions. In 2022, such attacks accounted for approximately 50% of the reported cyber attacks. That trend continued in 2023 at a slightly slower rate (in this respect, see the comments in the Annual Report 2022 and in the Risk Monitor 2022).

Experience from previous years has shown that attackers were increasingly targeting smaller institutions, and that those institutions were affected by above-average numbers of successful cyber attacks.

Proportion of attacks on external service providers in comparison to the total number

As at 31 December 2023

in %

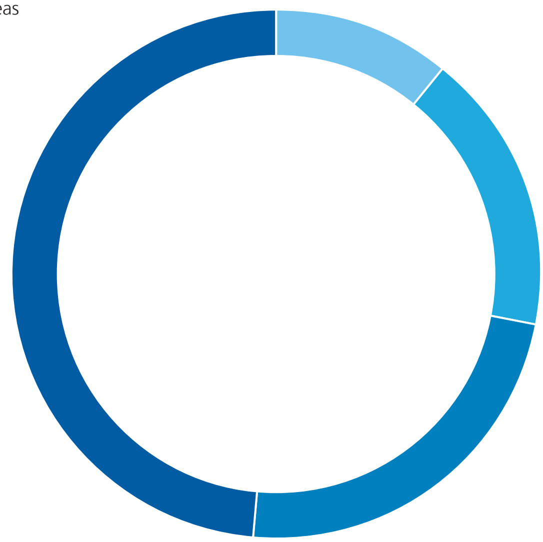


Cyber attacks reported to FINMA in 2023

Number of reports by supervisory category, all FINMA supervisory areas

in %

Categories 1 and 2	7
Category 3	11
Category 4	15
Category 5	31
Total	**64**



To facilitate a better assessment of those risks, an extensive analysis was carried out to assess the state of preparedness among small and medium-sized insurance companies and selected portfolio managers.

Findings from cyber supervision: deficiencies in the area of governance and the identification of potential threats

A large proportion of the deficiencies identified by FINMA during its cyber-specific on-site supervisory reviews lay in the area of governance.[2] FINMA frequently identified an unclear boundary between the first and second lines of defence, particularly among medium-sized institutions. It is important that the operational management of cyber risks is continuously reviewed by an independent risk control organisation in order that the third line of defence can focus its audits on the most significant cyber risks for the institution.

Deficiencies in identifying potential institution-specific threats was the second most common issue identified by FINMA during the course of its on-site supervisory reviews.[3] Some institutions still lack a clear definition of what their critical data comprises. Furthermore, they often do not know which of their employees have access to critical data because they lack a central authorisation tool. This makes it more difficult for the institution's security organisation to establish protective measures that focus on the most important data.

FINMA also identified shortcomings in the protective measures aimed at data loss prevention, the absence of a cyber scenario in business continuity management systems, and inadequately implemented or untested backup or recovery plans.

Higher cyber risks associated with outsourcing

During 2023, FINMA clearly expressed its expectation regarding outsourcing: supervised institutions may outsource services but not the associated responsibility.

In 2023, the proportion of cyber attacks on institutions that affected information and communications technologies outsourced to third parties continued to rise. Findings from the on-site supervisory reviews indicated that this trend was due to a failure to provide the commissioned service providers with clear cybersecurity requirements, or a failure to monitor, or regularly review, compliance with those requirements. The major service providers were therefore a focal point of the cyber-risk supervision work. FINMA's aim was to find out why attacks on service providers were achieving above-average success rates.

- FINMA frequently observed that directly supervised institutions were successful in rapidly bringing their most serious vulnerabilities under control and thereby averting direct harm. However, their service providers were often failing to act with the same level of effectiveness and were inadequately prepared for successful cyber attacks.

- In cases involving serious security gaps, only a very small number of institutions were communicating with their service providers to ensure that they were able to close those gaps swiftly and before any harm occurred.

[2] FINMA Circular 2023/1, margin no. 62.
[3] FINMA Circular 2023/1, margin no. 63.

- In many cases, the institutions lacked a complete inventory of their service providers. There was also a lack of additional information pointing out that critical data is stored with a service provider, or that a service provider is responsible for providing a critical function. Consequently, although the institutions had submitted reports to FINMA concerning cyber attacks on their service providers that resulted in losses of critical data, they had failed to record the service provider as "major" or "critical" in the inventory. As a result, service providers were often being incompletely monitored, or no regular monitoring was taking place at all.

- This observation goes hand in hand with the finding described above in relation to identification, in which the relevant institutions lacked a clear definition of what constitutes critical data for them. Not only does that impede the implementation of internal measures for protecting the relevant data, it also makes it more difficult to classify the service provider appropriately and determine the monitoring measures necessary to reduce the identified risks.

FINMA examined the business conduct of supervised institutions in risky areas and instituted measures where necessary. For example, FINMA required investment and insurance advice to be legally compliant, thereby reducing risks for clients of life insurance and purportedly sustainable products. To safeguard the proper functioning of the financial markets, FINMA also addressed shortcomings at supervised institutions in the area of preventing money laundering and insider trading.

Measures to encourage positive business conduct and responsible governance

Positive business conduct and responsible governance build trust in the financial centre. They particularly help to mitigate risks and ensure compliance with the statutory framework. FINMA supports this good governance of supervised institutions through targeted measures.

FINMA identified shortcomings in a number of areas at supervised institutions in 2023. These included combating money laundering, transaction monitoring, the implementation of sanctions, the management of violations of internal rules, sample calculations in life insurance, and greenwashing. FINMA demanded improvements where necessary, formulated its related expectations and hence created transparency.

Money laundering supervision: focus on money laundering risk analysis and complex structures

FINMA focused on money laundering risk analysis in its 2023 money laundering supervision. Its goal was to positively influence risk management at financial institutions: very high risks should be eliminated or mitigated using adequate compliance measures and resources.

Money laundering risk analysis examined at over 30 banks

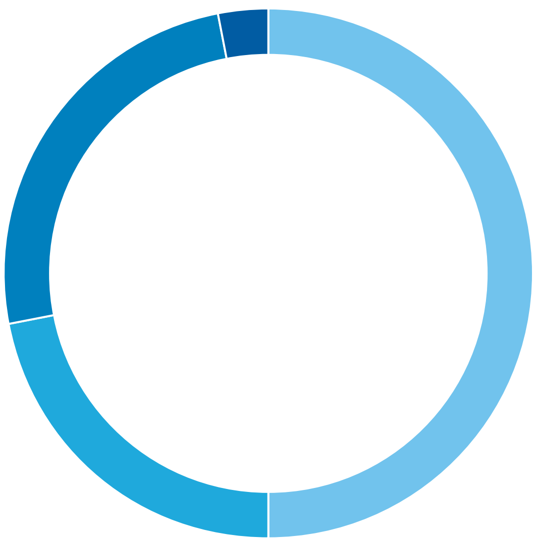
In the course of its on-site supervisory reviews, FINMA revealed shortcomings in the area of money laundering risk analyses. It used this as an opportunity to review the risk analyses at more than 30 banks in spring 2023. It emerged that a large number of the risk analyses reviewed did not meet the principal requirements (see chart below). In particular, in some cases there was no adequate definition of the money laundering risk tolerance, which forms the limiting framework for robust risk analyses by means of defined limits. Various structural elements that a risk analysis requires were also missing.

Money laundering risk analysis is a key tool in the strategic management of banks and other financial intermediaries. They use it to identify and mitigate money laundering risks and define the risk criteria

Quality of money laundering risk analysis at banks

in %

Largely unsatisfactory	50
Partially satisfactory	22
Largely satisfactory	25
Satisfactory	3



relevant to the financial institution's activities. Money laundering risk analysis additionally determines which money laundering risks do not match the institution's risk tolerance.

FINMA released its Guidance on money laundering risk analysis on 24 August 2023. This created transparency regarding its observations and experiences from its supervisory practice.

FINMA's initiative in this area is designed in particular to

– positively influence risk management at banks by clearly defining risk tolerance and eliminating very high risks or mitigating them with sufficient compliance measures and resources;
– clarify the responsibility of the most senior management bodies in determining risk tolerance ("tone from the top");
– improve the quality of risk analysis so that it constitutes an effective control instrument for the most senior management bodies.

On-site supervisory reviews: supervised institutions with complex structures

Complex structures can facilitate money laundering. FINMA examined the way in which complex structures are managed during on-site supervisory reviews in 2023 and demanded corrective measures.

Weaknesses in the documentation of the reasons why a domiciliary company is used in accordance with the FINMA Anti-Money Laundering Ordinance (Art. 9a AMLO-FINMA) were frequently identified in the area of complex structures. However, being able to document these reasons is key to recognising a risky structure under money laundering legislation at an early stage, such as frequent transfers between various accounts.

In particular, some of the institutions reviewed did not provide a sufficient description of the expected transactions within a particular structure that would reveal unusual movements, or no comparisons were made between the transactions actually executed and the documented transaction pattern expected by the institution. FINMA required the institutions to rectify these shortcomings.

The way in which warnings are dealt with in transaction monitoring must be improved

When it comes to transaction monitoring, FINMA found during its on-site supervisory reviews that some institutions leave inappropriately long periods of approximately 60 days before they perform their initial analysis of transaction alerts, and do not apply a risk-based approach to managing these alerts. FINMA expects institutions to perform an initial analysis of transaction alerts promptly. If increased risks are subsequently identified, clarification of the economic background must be initiated without undue delay (Art. 20 para. 3 AMLO-FINMA in conjunction with Art. 17 AMLO-FINMA). The institutions must define appropriate deadlines for initial analysis and establish a process to ensure that the defined deadlines are met.

Group money laundering supervision at insurance companies: due diligence requirements often not met

In 2023, FINMA also performed on-site supervisory reviews as part of its group money laundering supervision at insurance companies (Arts. 5–6 AMLO-FINMA) that are subject to its consolidated money laundering supervision.

In the course of the on-site supervisory reviews, a considerable need for improvement in core areas of anti-money laundering due diligence was identified at many institutions. Specifically, the risk classification of business relationships and transactions and their ongoing monitoring were not harmonised at the foreign entities. As a result, there was no effective global monitoring of money laundering risks. On various occasions, the classification of high-risk business relationships and transactions was not sufficiently risk-based in the group standards, and in some cases was inconsistently defined or not defined clearly enough. There were also gaps in the reporting of high-risk business relationships and transactions to the group. For instance, some institutions had not defined thresholds as of when a transaction had to be reported to the group, and the deadlines for the corresponding reports were not always adequately defined. There was also a need for action at several institutions when it came to the regular reviewing and updating of client data, as well as in the case of internal controls to establish whether the foreign entities were complying with group standards on consolidated anti-money laundering supervision. FINMA demanded corresponding improvements.

Sanctions and findings from on-site supervisory reviews regarding sanctions

The sanctions-related risks (in particular legal and reputational risks) for Swiss banks are high. There is no expectation that economic sanctions against Russia and Belarus will return to normal in the medium term. In 2023, FINMA therefore performed a comprehensive analysis of the results of the on-site supervisory reviews conducted in 2022 (see FINMA Annual Report 2022, pages 29 and 30), the additional audits and the regular regulatory audits conducted by the audit firms in the area of sanctions.

The audited organisational measures for compliance with the requirements in the area of sanctions (design effectiveness) were generally qualified as robust and appropriate. Types of sanctions that were already recognised before the Ukraine war, such as freezing the funds of individual clients, caused virtually no problems. The institutions were able to use existing processes. New types of sanctions, such as the ban on trading certain securities or the CHF 100,000 deposit limit for Russian clients, posed challenges for the banks during the initial implementation phase. In the first half of 2022 especially, certain resource shortfalls were identified in the compliance departments at various institutions. Other findings related to isolated incidents and gaps, as well as formal points that were resolved in 2023.

Suitability

In the course of its on-site supervisory reviews, FINMA found that the audited financial service providers had implemented most of the new requirements for the provision of financial services three years after the FinSA came into force. Despite this, there were still shortcomings. FINMA required the institutions to eliminate these weaknesses.

When the FinSA came into force, many financial service providers had to define new processes in the investment business. Appropriate controls must be in place to ensure compliance. Findings from the on-site supervisory reviews revealed that the control system is not yet fully or effectively designed in many cases. Controls on important processes were missing in some cases or were not effectively defined, or compliance and risk management were not sufficiently integrated into the control processes.

In its on-site supervisory reviews, FINMA also discovered that various financial institutions do not have policies in place for dealing effectively with violations of internal FinSA requirements by employees. There is a need for a clear, formally defined escalation process, especially for systematic and serious rule violations. One positive finding was that, in addition to profit-based criteria, qualitative targets were also increasingly being considered, such as compliance with regulatory requirements in the target-setting and remuneration process.

The renewal and preparation of FinSA-compliant risk profiles and the systematic incorporation of private clients' knowledge and experience are not yet happening throughout the sector. A FinSA-compliant risk profile that takes into account the client's entire portfolio must be in place when investment advice is provided, so that the suitability test can be performed. In addition, the information provided to clients about the type of investment advice (transaction- or portfolio-based) was often unclear or inadequately documented. FINMA required the institutions to rectify these shortcomings.

Lack of transparency in sample calculations in life insurance

FINMA repeatedly demanded improvements to sample calculations prepared by life insurers. The reason for this is that, since 2021, it has discovered that people who bought life insurance products with a savings component often had unrealistic expectations when they concluded the contract.

A core objective of FINMA's conduct supervision is to enable clients to realistically assess the opportunities and risks of the products offered. In the case of life insurance products with a savings component, life insurers must provide their clients with sample calculations that reflect an average, a favourable and an unfavourable capital market scenario. If a life insurance policy is purchased to save for retirement, the unfavourable scenario is particularly relevant because it is almost impossible to compensate for any shortfall during retirement. This is why the unfavourable scenario must reflect potential unfavourable developments on the capital markets until the end of the policy.

FINMA analysed insurers' sample calculations in 2023 and published the results in a press release. In the case of quotations made in 2020/2021, it found that in over 90% of the 85,000 contracts examined, the indicated capital market returns can only be attained in the supposedly unfavourable scenario if the investment risks entered into develop in the clients' favour. As a result, clients were not provided with transparent information about the material risks of this component of their old-age provision.

FINMA had already told the insurance industry about its expectations in previous years, and once again urged it to make changes quickly in 2023. It also supported explicit transparency requirements as part of the revision of the Insurance Supervision Act and the Insurance Supervision Ordinance. In addition to a realistic description of the unfavourable scenario, this also includes a transparent presentation of all costs incurred. The legislator took this on board accordingly, and the new regulations came into force on 1 January 2024 (with a one-year transition period).

Greenwashing

The range of sustainable financial services offered by banks grew again in 2023. To counter abuses, FINMA intensified its supervisory activities in the area of advising clients about sustainable financial services.

Supervisory measures to prevent greenwashing in asset management

Again in 2023, FINMA continued to ensure compliance with the transparency requirements relating to sustainability for Swiss sustainability-related funds, as defined in its Guidance 05/2021. It also ensured that institutions have the necessary organisation if they manage sustainability-related collective investment schemes.

FINMA's mandate also consists of protecting investors from improper business conduct, particularly from deception, which thus includes greenwashing. Preventing greenwashing therefore involves checking that investors are not being misled – knowingly or unknowingly – about the sustainable characteristics of financial products and services. However, there are still no specific regulatory requirements governing the transparency of sustainability-related financial products and services. In the year under review, FINMA therefore continued to systematically forge ahead with the measures already adopted to tackle greenwashing in 2021 (see Guidance 05/2021). In particular, based on the general prohibition of misleading claims under the law governing collective investment schemes, it continued to enforce the defined sustainability-specific transparency requirements for Swiss sustainability-related collective investment schemes. This sees investors being provided with additional information on the sustainability goals being pursued, and on how they are implemented in practice. Also in the case of products that are marketed as sustainable, investors should have sufficient information to allow them to make an informed investment decision.

In the year under review, FINMA also focused to a greater extent on ensuring that institutions that manage sustainability-related collective investment schemes have an adequate organisation. This particularly includes ensuring that sustainability-related criteria are incorporated into the investment decision-making process, that the relevant expertise is available, and that risk management also incorporates the risks inherent in sustainability.

Supervisory measures in the area of sustainable financial services at banks

In 2023, FINMA identified numerous shortcomings at banks offering sustainable financial services. Due to the fact that the applicable statutory basis is incomplete and contains many gaps, FINMA's scope of action for efficiently preventing and tackling greenwashing at the point of sale is limited. FINMA therefore focused on compliance with requirements in the areas of governance, risk management and internal control systems.

FINMA collected information from selected banks about the sustainable financial services they offer in 2023. This survey provided it with an overview of the range of sustainable portfolio management and investment advisory solutions on the market. The analysis of this data revealed weaknesses in investment business processes, especially in the areas of governance and risk management.

FINMA also systematically forged ahead with its measures to prevent greenwashing at the point of sale, in particular by means of on-site supervisory reviews. Its findings from these supervisory reviews largely coincided with the insights gained from the survey. For their newly launched sustainable investment solutions, the banks routinely integrated their sustainability claim into their internal rules and regulations. In terms of the investment process, however, it was noted that compliance with the internally defined sustainability claim was not yet adequately assured by means of appropriate controls. FINMA required the institutions to remedy such weaknesses.

FINMA identified further shortcomings in terms of ex-ante transparency and ex-post reporting regarding the sustainable investment solutions offered by the banks. Moreover, it appeared that banks made use of the existing scope for interpretation when they used ESG (environment, social and governance) terms such as "impact" broadly, or even applied their own definitions of the terms. In most cases, FINMA does not currently have any legal basis for addressing such shortcomings.

FINMA also acknowledged that the banks are making good progress overall in implementing the self-regulation of the Swiss Bankers Association. At the same time, however, it should be emphasised that FINMA does not have the authority to supervise voluntary self-regulation.

FINMA sees regulatory loopholes in the fight against greenwashing

The Federal Council adopted guidelines on sustainability in the financial sector on 24 June 2020. Its aim is to make Switzerland a leading location for sustainable financial services.[4] Since then, FINMA has contributed its findings from supervisory practice to several working groups at federal level whose goal was to prevent greenwashing and implement the Federal Council's position on this matter[5] – including

[4] Federal Council press release dated 26 June 2020: Switzerland to become a leading location for sustainable financial services.

[5] Federal Council press release dated 16 December 2022: Federal Council wants to prevent greenwashing in financial market.

in the year under review. On 25 October 2023, the Federal Council decided to draft a proposal for principle-based state regulation at ordinance level in order to implement the Federal Council's position on preventing greenwashing.[6] However, the Federal Department of Finance will dispense with any further regulatory efforts if the financial industry presents a self-regulation solution that implements this position effectively. FINMA will continue to support these efforts. It remains of the opinion that minimum regulatory requirements are vital for preventing greenwashing effectively and credibly. The focus is on cross-sectoral rules of conduct at the point of sale and, in the case of financial products, binding minimum requirements regarding product transparency and reporting. This is separate from any further developments regarding voluntary self-regulation solutions, which FINMA would welcome.

FINMA enforces monitoring of communication devices in trading rooms

In 2023, FINMA identified some serious shortcomings in the use of private communication devices in trading rooms and, also in 2023, enforced a requirement to record the external and internal phone calls of all staff working in securities trading at financial service providers. This recording obligation also applies to mobile phones. Communication devices that cannot be recorded may not be used.

On-site supervisory reviews expose shortcomings in the use of communication devices

In the course of the year, FINMA discovered during its on-site supervisory reviews that staff in the trading rooms of several supervised institutions were communicating internally and externally via unauthorised channels. Not all of these channels were integrated into the institution's monitoring and control regime. This poses a considerable legal and reputational risk and can lead to high fines internationally. To date, the US securities supervisory authorities alone have imposed fines totalling more than two billion US dollars in this area. FINMA also observed during its on-site supervisory reviews that trading staff were using their private and unmonitored mobile devices, in some cases in contravention of the institution's internal policies. This was sometimes done with the evident knowledge of line managers. Some institutions did not perform their own controls or did so inadequately.

Institutions restored compliance with the law

Phone calls made from the trading room must be recorded to prevent insider trading or market manipulation, or to be able to investigate them at a later date. FINMA advised the institutions concerned that inadequately mitigated risks in trading, and in particular the lack of recordings,[7] are violations of market conduct rules. Moreover, depending on their

[6] Federal Council press release dated 25 October 2023: Further efforts to prevent greenwashing.

[7] Within the meaning of margin no. 60 f. of FINMA Circular 2013/8 "Market conduct rules".

scope, severity and systematic occurrence, such omissions and staff misconduct also run counter to the requirements of an appropriate administrative organisation and the guarantee of irreproachable business conduct. The institutions modified their practices following FINMA's intervention.

FINMA's supervision of the financial institutions was risk-oriented and proportionate. It focused on specific areas such as interest rate movements, risk management, outsourcing, life insurance and money laundering, and, in line with its established approach, strengthened protection for clients and investors. To implement its proportionate approach to supervision, FINMA refined its small banks and small insurers regime and expanded its instruments for data-driven supervisory techniques.

In terms of client protection, FINMA drove forward the registration of untied insurance intermediaries in 2023 and advocated consistent supervisory activities at the self-regulatory and supervisory organisations in the area of combating money laundering.

Supervisory activity by sector

FINMA's level of supervision is most intensive wherever the risks for the financial centre are greatest. It follows the principle of proportionality. Its four divisions Banks, Insurance, Asset Management and Markets are responsible for supervising the corresponding market sectors. Key supervisory tools include on-site supervisory reviews, stress tests, specific surveys and supervisory exchanges at the highest level.

As part of its integrated financial market supervision, FINMA monitors the overarching trends in all areas of the financial centre. It oversees the risks that are associated with the activities of the supervised institutions. This comprehensive, risk-based 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 enables the transfer of knowledge within FINMA.

Banking supervision

Banking supervision is designed to be risk-based and proportionate. FINMA's focus in 2023 was on combating money laundering, the management of interest rate risk, the mortgage lending business, compliance with suitability rules, as well as cyber risks and information technologies.

Transparency regarding exemptions in the small banks regime

The Swiss small banks regime is unique worldwide and has been a successful supervisory model since 2019. In 2023, FINMA created even more transparency regarding the system by publishing a comprehensive overview of the exemptions granted. As at the end of 2023, 54 particularly liquid and well capitalised small banks and securities firms participated in the regime and benefited from simplified requirements for the calculation and disclosure of the required capital and liquidity, as well as from qualitative relief under the FINMA circulars. Over the course of the year under review, three banks were newly authorised under the small banks regime, while two banks left the regime. Both of the withdrawals were voluntary due to growth plans. This means that the number of banks in the small banks regime increased by one institution in the year under review. In the course of its supervisory activities, FINMA determined that the small banks regime provides a strong incentive for ensuring a high level of stability for the institutions.

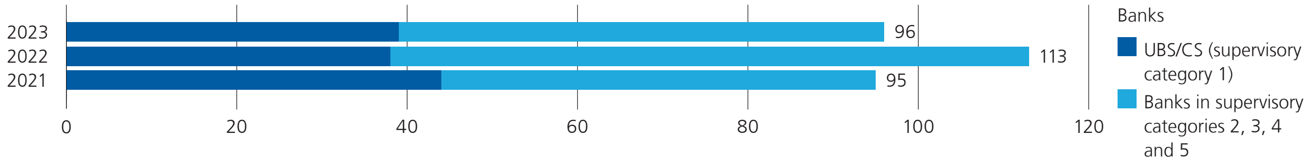
On-site supervisory reviews: banks

FINMA carried out numerous on-site supervisory reviews in 2023 at banks in a variety of supervisory categories. Its focus in 2023 was on combating money laundering (see "Money laundering supervision: focus on money laundering risk analysis and complex structures", page 53 ff.), the management of interest rate risk (see "Risks associated with inflation and interest rate movements", page 45), the mortgage lending business (see "Risks associated with inflation and interest rate movements", page 45 f.), compliance with suitability rules (see "Suitability", page 55 f.), as well as cyber risks and information technologies (see "Cyber risks", page 48 ff.) – in line with the focal points of its supervisory activity for the year (see also Risk Monitor 2023). FINMA identified a number of serious shortcomings, notably in the areas of money laundering, mortgage lending and cyber risks. It called on the banks concerned to remedy these shortcomings without delay. As a result of the on-site supervisory reviews carried out in 2023, FINMA imposed an institution-specific capital add-on at one institution on the mortgage risks, while three cases resulted in preliminary investigations or proceedings.

As it does every year, FINMA carried out on-site supervisory reviews not only at supervised institutions, but also at the outsourcing partners engaged by these institutions. Supervisory reviews were also performed at subsidiaries or branches of supervised institutions abroad, either by FINMA alone or together with foreign supervisory authorities. Conversely, FINMA supported foreign financial market supervisory authorities in their direct audits in Switzerland. Where circumstances demanded swift action, FINMA also performed on-site supervisory reviews on an ad hoc basis.

Specific on-site supervisory reviews were carried out at UBS and Credit Suisse in the areas of trading and capital markets business, as well as in international asset management. Following the merger of the two

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

	2023	2022	2021
Category 1	n/a (34)	19.00 (38)	22.00 (44)
Category 2	3.33 (10)	3.66 (11)	4.33 (13)
Category 3	1.29 (36)	1.52 (44)	0.89 (25)
Category 4	0.16 (9)	0.16 (10)	0.17 (10)
Category 5	0.04 (7)	0.06 (10)	0.02 (3)
All institutions	**0.39 (96)**	**0.44 (113)**	**0.36 (95)**

large banks in the spring of 2023, FINMA also focused on special topics in its on-site supervisory reviews. These included the newly created Non-Core Legacy business unit, for example, where risks from Credit Suisse's investment banking in particular are reduced, and compliance with a more conservative risk appetite at the Credit Suisse entities.

In total, FINMA conducted 96 on-site supervisory reviews in 2023, including 57 longer supervisory reviews and 39 deep dives. This represents a decrease of approximately 15% compared with 2022. The above-average number in 2022 is due to unplanned on-site supervisory reviews in the area of sanctions.

The decrease in supervisory category 1 should also be viewed in the context of the integration of Credit Suisse into UBS. Some on-site supervisory reviews at Credit Suisse initially planned for 2023 were cancelled because the corresponding business will no longer be continued in the merged group, or will be transferred to UBS and was therefore taken into account in on-site supervisory reviews at UBS.

Insurance supervision

In 2023, FINMA's insurance supervision activities focused on the introduction of a new financial reporting standard, tariffs for supplementary health insurance products, the new regulatory regime for insurance intermediation, sample calculations by life insurers, combating money laundering, and cyber security. Furthermore, FINMA provided information on the revised Insurance Supervision Ordinance at a symposium for small insurers.

Implementation of IFRS 17 "Insurance Contracts"

The introduction of a new financial reporting standard entailed operational risk and was monitored accordingly by FINMA. This was because the entry into force of the new international financial reporting standard IFRS 17 "Insurance Contracts" on 1 January 2023 fundamentally changed financial reporting for insurance groups. The new standard provides a consistent set of rules for insurance contracts on the basis of standardised accounting and valuation policies. This creates transparency and increases comparability between insurers. Much more information must now be disclosed both on the valuation of insurance liabilities and on profitability.

Four of the seven insurance groups supervised by FINMA are publishing their 2023 figures using the new financial reporting standard for the first time. One insurance group will switch to IFRS starting in 2024 and will then also implement the new standard. The other two groups will continue to prepare their consolidated financial statements in accordance with the previously chosen accounting standard, i.e. Swiss GAAP FER or the Swiss Code of Obligations. FINMA closely followed the introduction of the new standard and focused on the ensuing operational risk. It will use the additional information it receives thanks to the new IFRS 17 financial reporting standard to strengthen its risk-based supervision.

Improved tariff systems at supplementary health insurers

In the course of its on-site supervisory reviews of supplementary health insurers in 2020, FINMA discovered that the contracts between service providers, i.e. hospitals and doctors, and supplementary health insurers led to a lack of transparency and unjustifiably high costs being charged. It published the results of this analysis in a press release in December 2020.

In 2023, FINMA again carried out several on-site supervisory reviews on this issue. It found that the old tariff systems that had resulted in double billing had been largely eliminated. The insurers have also developed assessment models that support the recording and measurement of supplementary insurance benefits in the hotel services category in particular. In addition, the freedom to choose a doctor is a central component of supplementary insurance products. In comparison with hotel services, the creation of assessment models proved to be significantly more complex, particularly in terms of the additional medical benefits compared with those provided by compulsory health insurance. Even though initial attempts have been made and several pilot projects have been launched, FINMA still sees a considerable need for action in this segment. It will incorporate this topic into its planning for future activities.

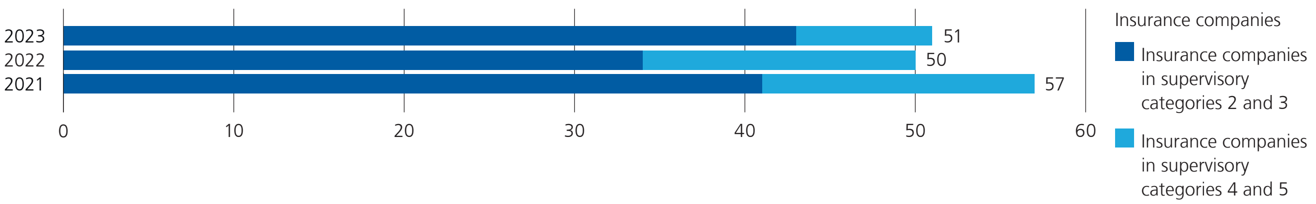
Supervision of intermediaries: 1,248 new registrations

The supervision of insurance intermediaries in the year under review was already shaped by the revised provisions of the Insurance Supervision Act and the Insurance Supervision Ordinance, which came into force on 1 January 2024. On the one hand, the requirements to which intermediaries are subject in order to act as an intermediary have changed. On the other, insurance intermediaries who were already registered on 1 January 2024 benefited from certain transitional periods, particularly in the area of training and continued education. These two points led to a noticeable increase in new registrations. Accordingly, 1,455 new registration applications were submitted in 2023, of which 1,248 were successfully processed. Compared with 2022, this represents a 9% increase in registration applications and a 31% increase in successful applications. The applications primarily concerned new licences for untied insurance intermediaries, with only 127 applications relating to persons carrying out tied intermediary activities. The reason for this is that tied intermediaries are no longer listed in the FINMA register as of 1 January 2024.

The first symposium for small insurers provided information on the revised Insurance Supervision Ordinance

FINMA's first symposium for small insurers was held in Bern on 23 May 2023. The event brought together representatives from 78 small and medium-sized insurers with representatives from the State Secretariat for International Finance (SIF), the Swiss Insurance Association (SIA), santésuisse and EXPERTSuisse. It focused on the conditions for admission to the new small insurers regime and the expected partial exemptions for participants and small and medium-sized reinsurers. The event also served to

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

	2023	2022	2021
Category 2 and groups	1.10 (11)	1.18 (13)	1.18 (13)
Category 3	0.82 (32)	0.58 (21)	0.73 (28)
Category 4	0.08 (5)	0.14 (9)	0.16 (10)
Category 5	0.04 (3)	0.08 (7)	0.07 (6)
All institutions	**0.26 (51)**	**0.26 (50)**	**0.29 (57)**

provide information on other topics related to the revision of the Insurance Supervision Ordinance.

On-site supervisory reviews: insurance companies

One important topic of the on-site supervisory reviews of insurers was the protection of policyholders. This is in keeping with the objectives of the revised Insurance Supervision Act.

FINMA carried out numerous on-site supervisory reviews of insurers in the various supervisory categories in 2023. The focus here was on the areas of life insurance (see subsection "Lack of transparency in sample calculations in life insurance" in "Suitability", page 56), money laundering at insurance groups with life insurance business (see subsection "Group money laundering supervision at insurance companies: due diligence requirements often not met" in "Money laundering supervision: focus on money laundering risk analysis and complex structures", page 54 f.) and cyber risks (see "Cyber risks", page 48 ff.).

On-site supervisory reviews of the cyber cover offered by insurance companies also focused on cyber risks. In addition to the strategy with regard to pure cyber cover, FINMA concentrated on the pricing and underwriting processes for cyber risks. It also analysed the handling of claims in connection with cyber incidents in established business ("silent cyber").

Supervision of financial market infrastructures

FINMA also made efforts to protect investors in the supervision of financial market infrastructures. For example, it obtained amendments to the stock exchange rules and regulations governing the treatment of exchange-traded products. In order to improve the quality of data on securities transactions, FINMA amended the FINMA Financial Market Infrastructure Ordinance. FINMA actively cooperated with the relevant international partner authorities as part of its cross-border cooperation.

Requirements for trading crypto ETPs and approval of rules and regulations

In 2023, FINMA obtained amendments to the stock exchange rules and regulations governing the treatment of exchange-traded products (ETPs), thereby enhancing investor protection.

ETPs can be traded on the Swiss market as financial products. They are admitted as tradable securities on the Swiss stock exchanges in accordance with the self-regulation by the stock exchanges. ETPs are issued by an issuer and track the performance of an underlying, while cryptocurrencies can also serve as underlyings.

FINMA noted that the segment of cryptocurrency-based ETPs has grown strongly. It also identified weaknesses in the quality of the collateralisation of such products, which do not meet the requirements for structured products under the Financial Services Act (see FINMA Annual Report 2022, page 19). Many jurisdictions do not currently have adequate regulation and supervision of crypto custodians, and there is legal uncertainty regarding the treatment of virtual assets under bankruptcy law. This can lead to high risks for investors, particularly if the custodian of the crypto collateral goes bankrupt. Following FINMA's intervention, one exchange is already planning to amend its rules and regulations at the beginning of 2024. This ensures in particular that either the issuer of the authorised crypto ETP is a bank, an insurer or a securities firm, or that the institution entrusted with the safe custody of the collateral is subject to adequate prudential supervision and holds the crypto collateral for the issuer at all times. FINMA was able to enhance investor protection in the crypto sector through this measure.

International cooperation in the supervision of financial market infrastructures

As service providers, financial market infrastructures (FMIs) generally have a cross-border footprint. The need for close cooperation with foreign supervisory authorities has grown. As part of this dialogue, the authorities address direct cross-border activities, such as clearing services for trading platforms in the UK or the European Union. This leads to recognition and equivalence procedures with subsequent cooperation obligations. FINMA is also working more closely with the Spanish supervisory authority (CNMV) following the acquisition of the Spanish BME Group by the SIX Group and its consolidated supervision.

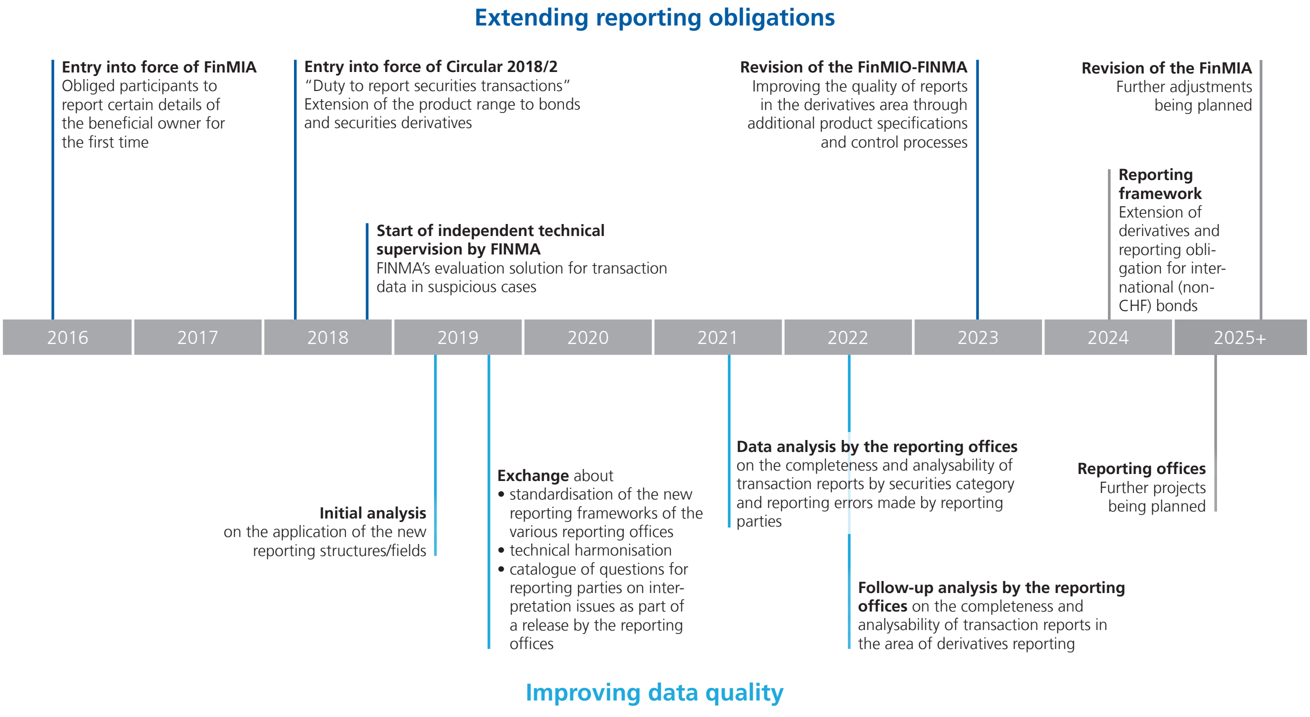
Active cooperation takes the form of regular written reports and face-to-face discussions. The coverage of cross-border cooperative supervisory solutions for financial market infrastructures and major IT projects are also discussed and finalised by the supervisors. Equally, the recovery and resolution plans of foreign supervisory authorities regarding systemically important central counterparties operating in Switzerland are monitored and analysed in order to ensure alignment with FINMA's planning for Swiss FMIs.

Improving data quality and analysis in derivatives trading

The automated analysis of securities transaction reports and the evaluation of this data to monitor market integrity have repeatedly revealed gaps in data usability in recent years. This concerned certain derivatives reports in particular. To close these gaps, FINMA amended the requirements under the FINMA Financial Market Infrastructure Ordinance (FinMIO-FINMA) at the beginning of 2023.

Changes in transaction reporting obligations under Article 39 FinMIA

Reporting obligations relating to derivatives trading under Title 3 of FinMIA are not covered here.



A technical solution was found with the disclosure offices that serves the primary objectives of derivatives reporting. This also enabled the reporting framework to be harmonised. The design of validation processes and control mechanisms to verify the completeness and coherence of reports was implemented as planned at the disclosure offices. FINMA held information events for the parties subject to reporting obligations together with the self-regulatory organisation. Implementation of the new requirements is expected to be completed by the end of April 2024. In addition, the trading venues were instructed to report shortcomings in the reporting behaviour of conspicuous parties subject to reporting obligations directly to FINMA.

Three on-site supervisory reviews of financial market infrastructures

In 2023, FINMA performed three on-site supervisory reviews of financial market infrastructures. The first involved the area of business continuity management, i.e. ensuring the continued operation of critical business processes in a crisis situation. The second related to the outsourcing of services. And the third centred around corporate governance. On-site supervisory reviews are carried out by FINMA taking a risk-based approach, and are an important tool for supervising financial market infrastructures.

Supervision of self-regulatory and supervisory organisations

By supervising self-regulatory organisations (SROs) and supervisory organisations (SOs), FINMA monitors multi-level supervision in the "parabanking" sector. Under the Anti-Money Laundering Act, SROs supervise professionally active financial intermediaries (such as exchange offices, money transmitters and other payment service providers, virtual asset service providers, governing bodies of domiciliary companies, lenders and lessors, and investment companies). If necessary, SROs must ensure that the financial intermediaries restore compliance with the law. FINMA approves SROs' regulations and monitors their implementation.

Under the Financial Market Supervision Act, SOs supervise portfolio managers and trustees authorised by FINMA in accordance with the Financial Institutions Act, the Financial Services Act and the Anti-Money Laundering Act, as well as FINMA's requirements. Ongoing supervision by SOs is in turn subject to monitoring by FINMA. FINMA intervenes in the event of serious violations of supervisory law that cannot be resolved by SOs. The multi-level, complex supervisory system is a challenge both for market participants and for SOs. In the build-up phase, the five SOs must develop the resources and tools they need for adequate ongoing supervision. These include five IT systems that FINMA evaluated in terms of their suitability for supervision, in particular for the risk rating of institutions under supervision (see next page).

At the same time, the five SOs are in competition with each other, and the market participants are not as numerous as originally expected. The consequences are increased costs for the system, particularly in the build-up phase, which must ultimately be borne by the institutions supervised by SOs according to the "user pays" principle.

On-site supervisory reviews: self-regulatory organisations

In 2023, FINMA carried out on-site supervisory reviews at eight self-regulatory organisations (SROs). It examined how SROs handle changes to the affiliation requirements of their members (e.g. change of persons responsible for proper business conduct, organisational structure). It also reviewed whether SROs have an obligation to report changes, what controls they have implemented, and what measures they take if required. With regard to virtual asset service providers (VASPs), FINMA investigated which SROs accept such service providers and how they classify their different business models. In the case of SROs that already had VASP members at the time of the on-site supervisory review, FINMA examined their supervision.

In the context of both review topics, FINMA also examined whether SROs recognise "empty shells" and sales of shell companies by SRO members, and how they approach such changes. The reason for this is that VASPs in particular often seek affiliation with an SRO due to the progressive regulation in Switzerland, but then choose not to carry out operational activities or do so outside Switzerland.

Round table with self-regulatory organisations on the supervision of money transmitters

In the first quarter of 2023, FINMA held a round table discussion with the criminal prosecution authorities of the Canton of Zurich and the SROs involved to discuss their supervision of money transmitters. The insights gained by the criminal authorities helped to illustrate the money laundering risks and raise risk awareness among SROs. FINMA used this opportunity to describe its expectations and the measures to be taken. Its goal in doing so was to have SROs strengthen their supervision, in order to avoid regulatory arbitrage. FINMA called on the SROs to define the necessary measures and implement them consistently in their supervision. It will examine this implementation on a cross-SRO basis, in particular through on-site supervisory reviews.

Round table with self-regulatory organisations on the supervision of virtual asset service providers

FINMA again held a round table discussion with the SROs on virtual asset service providers (VASPs) in 2023. In addition to SROs, the SIF and the Money Laundering Reporting Office Switzerland (MROS) also took part in the round table. The key points were the implementation of due diligence under the Anti-Money Laundering Act (AMLA) when VASPs affiliated with SROs issue stablecoins, and under the FINMA Anti-Money Laundering Ordinance (Art. 51a AMLO-FINMA). FINMA highlighted the increased money laundering and reputational risks that may arise when stablecoins are issued on a transaction system with open access. All persons holding stablecoins must be identified by regulated VASPs to ensure compliance with the AMLA due diligence requirements and with the ban on bearer accounts. This applies in particular to intermediate buyers and sellers (see FINMA Annual Report 2021, page 19). When addressing definition issues in this context, FINMA particularly described the difference between crypto exchanges for occasional clients, crypto trading in the context of permanent business relationships, and the transfer of cryptocurrencies to third parties.

Proper functioning of the supervisory organisations' IT systems reviewed on site

FINMA carried out its first on-site supervisory reviews at the five authorised supervisory organisations (SOs) in 2023. It concentrated mainly on reviewing the implementation and proper functioning of IT systems. The results varied considerably for the five SOs. Two SOs were largely compliant in their implementation of the prescribed system to assess the risk of entities under their supervision (portfolio managers and trustees). Three SOs revealed weaknesses.

From its findings, FINMA derived targeted measures to restore compliance with the law.

Audit requirements regarding organisational measures in the area of sanctions

Based on an initial analysis, FINMA issued audit requirements for SOs in the area of sanctions. A more in-depth analysis revealed that greater attention had to be paid to monitoring organisational measures to ensure that certain portfolio managers (e.g. in the case of unlimited powers of attorney, services to domiciliary companies or cooperation with custodian banks in jurisdictions that do not apply equivalent sanctions) and trustees are compliant with sanctions. It then became obvious that targeted supervisory measures were required. As an urgent measure, FINMA decided to impose additional audit requirements on SOs regarding organisational measures in the area of sanctions for the first time for the audits to be carried out in 2024.

Asset management supervision

In the area of asset management, FINMA approved a loan-originating fund for the first time, as well as an application to create a side pocket for investments that have become illiquid. Due to the increasing delegation of control functions, FINMA analysed the situation at fund institutions, portfolio managers and trustees, and paid particular attention to ensuring that the persons entrusted with risk management have appropriate knowledge and experience.

Product-related developments: application for loan originating funds and one for side pockets approved for the first time

FINMA approved the first loan-originating fund in 2023. The fund focuses on unsecured lending to SMEs located in Switzerland. This means that qualified investors can now invest in this asset class for the first time through a supervised fund under Swiss law. The special risks involved are taken into account appropriately. These risks include in particular the inherently low liquidity of the asset class and the crucial issue of asset valuation, specifically in the event of foreseeable or actual payment arrears of borrowers. Accordingly, as part of the approval process, FINMA focused on addressing potential liquidity risks in a forward-looking approach, and on a robust valuation and recovery process at fund management company level. For the first time, it has linked the progressive requirements to be satisfied to the fund size in the fund contract, thereby adopting a risk-based, innovation-friendly approach in this area. The fund is classed as an "Other fund for alternative investments" for qualified investors.

FINMA also approved an application to create side pockets for the first time. Alongside regular liquidity management measures, side pockets are another tool that collective investment schemes can use to safeguard their liquidity. This tool is used to segregate investments that have become illiquid for an indefinite period from liquid investments. This means that the liquid portion can continue to be managed normally. In 2022, FINMA reported on the general conditions to be met in this respect, and drew particular attention to the approval requirement (see also FINMA Annual Report 2022, page 54 f.). It reviewed and approved the first application to create side pockets in the year under review. In the case in question, a sub-fund of an umbrella fund was invested in financial instruments that had become illiquid due to the sanctions imposed on Russia. The unambiguously identifiable illiquid financial instruments were segregated from the liquid investments following an amendment to the fund contract and the creation of a new unit class explicitly designated for this purpose.

Growing delegation of control functions

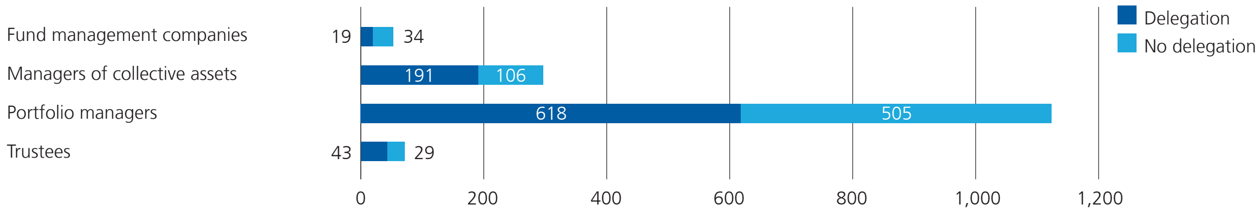
FINMA is increasingly assessing the adequacy of organisational structures in the context of authorisations. This is because fund management companies, managers of collective assets, portfolio managers and trustees are required by law to have an adequately resourced risk management system and effective internal controls. Among other things, these are intended to ensure compliance with legal and internal requirements. The organisational structure, such as staffing and professional expertise, as well as the internal controls in the area of risk management and compliance, must be approved in advance by FINMA when granting licences and amended licences.

In 2023, FINMA analysed the delegation of control functions such as risk management and compliance at supervised fund management companies, man_ agers of collective assets, portfolio managers and trustees. The analyses revealed that 63% of managers of collective assets delegate at least one of these control functions, compared with 37% of fund management companies. It also emerged that smaller institutions delegate more frequently than larger ones. Some functions are delegated within the group, but in the majority of cases they are delegated to external specialised service providers. More than 50% of portfolio managers and trustees delegate at least one of their control functions to external service providers (see chart below for details). FINMA also observed that many new smaller service providers are offering their services on the market in the area of risk management and compliance. Only a small number of service providers have more than ten mandates.

Adequately resourced risk management and effective internal controls are essential for the effective monitoring of operational business units and risks. For this reason, FINMA increased its reviews of the adequacy of the organisational structures of these supervised institutions, particularly in the context of licensing procedures, paying special attention to any delegated control functions in the areas of risk management and compliance. It specifically ensured that the persons responsible for risk management had appropriate knowledge and experience. FINMA also discussed its expectations directly in meetings with larger service providers.

Number of institutions with and without delegation of control functions to external entities

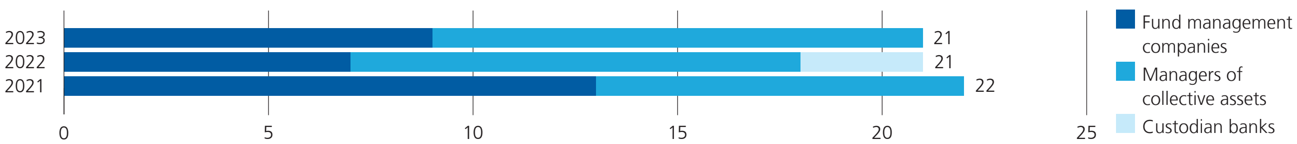
As at 31 December 2023



On-site supervisory reviews: asset management institutions

In 2023, FINMA conducted on-site supervisory reviews at asset management institutions, primarily focused on the topics of ESG investments (see subsection "Supervisory measures to prevent greenwashing in asset management" in "Greenwashing", page 56).

On-site supervisory reviews: asset management institutions



FINMA reviewed the recovery and emergency plans of the systemically important financial institutions and requested improvements where necessary. To ensure the global resolvability of UBS, FINMA evaluated the bank's preparations with regard to the integration of Credit Suisse, maintaining close contact with the relevant foreign supervisory authorities on this issue.

Recovery and resolution

In 2023, the annual assessment of the crisis preparedness of the global systemically important banks was dominated by UBS's takeover of Credit Suisse. Raiffeisen's emergency plan was deemed to be effective for the first time.

The systemically important banks and FMIs are required to demonstrate to FINMA once a year how they would stabilise their operations in the event of a crisis without outside intervention. Systemically important banks also have to show how they would maintain their systemically important functions if they were at risk of insolvency. They do so by drawing up a recovery plan and an emergency plan. FMIs are required to prepare a recovery plan. Moreover, as the sole remaining systemically important Swiss bank with large international activities, the UBS Group is required to maintain its resolvability both within Switzerland and abroad. FINMA evaluates these plans and preparations in accordance with the statutory requirements, exercising its discretion in doing so.

In the year under review, FINMA also calibrated the requirements for the systemically important banks' liquidity holdings in accordance with the Federal Council's new Liquidity Ordinance (see "Stability of the supervised institutions: liquidity", page 42 ff.). These requirements, which apply from 1 January 2024, include surcharges designed to provide additional liquidity buffers in the event of resolution.

Resolvability of UBS and its recovery and emergency plans

UBS has had to assume responsibility for Credit Suisse's crisis planning since the takeover, while at the same time ensuring the resolvability of the entire group. It therefore submitted separate plans for the two institutions during the ongoing integration containing both strategic and tactical measures to enable recovery or resolution in a crisis. In addition, the bank continued its conceptual work on the UBS Group's resolution planning after the integration was completed.

Reviewing these plans and the resolvability of the UBS Group was still work in progress during the period under review. A key focus was the tactical measures designed to ensure that collating the data required in a crisis runs as smoothly as possible.

Recovery and emergency plans of the domestic systemically important banks

Raiffeisen became the first domestic systemically important bank to have an emergency plan that is effective and ready to implement. It has set aside sufficient eligible funds in recent years by issuing equity capital and loss-absorbing (bail-in) bonds to meet the requirements. The emergency plan of Zürcher Kantonalbank (ZKB) was not yet effective. However, the bank is in the process of building up the required funds by issuing bail-in instruments. PostFinance continued to have an emergency plan that was not ready to implement, but did make progress on gone concern funds in 2023 and plans to increase these further. If PostFinance does not fulfil these requirements, FINMA can order measures in accordance with Article 62 of the Banking Ordinance.

Recovery and resolution plans of the systemically important financial market infrastructures

After being approved subject to conditions in the prior year, the recovery plans of the central counterparty SIX x-clear and central custodian SIX SIS were endorsed without any further conditions in 2023. Both financial market infrastructures were therefore able to credibly demonstrate how they would stabilise their operations without outside assistance in the event of a severe crisis.

International cooperation on resolution planning

FINMA has maintained close contact with foreign supervisory authorities on resolution for many years. This collaboration proved its worth during the events surrounding Credit Suisse and was indispensable in dealing with the crisis.

FINMA is the home supervisory authority of the global systemically important bank UBS (previously also of Credit Suisse) and the systemically important financial market infrastructures SIX SIS and SIX x-clear. As such, it is responsible for cooperating with the competent foreign supervisory authorities and coordinating a cross-border recovery or resolution in the event of a crisis. It performs these tasks by leading crisis management groups (CMGs), which bring together the most important foreign supervisory and resolution authorities for each global systemically important financial institution.

The events surrounding Credit Suisse in the autumn of 2022 and spring 2023 were a real-life test of how well the affected CMG worked in practice. FINMA intensified its cooperation within the CMG at all levels with regard to the required recovery measures. The transparency with which the various authorities kept each other informed paved the way for an effective collaboration. This meant that all parties had sufficient certainty about the operational feasibility of the recovery measures that were being considered. The Financial Stability Board (FSB) published a report on these events, setting out its analysis of the lessons to be learned. In addition, the CMG for the merged UBS met for the first time as a crisis management college in November 2023. The main issues discussed were the progress in integrating Credit Suisse and an assessment of UBS's resolvability.

The annual crisis management college for the central counterparty SIX x-clear focused on ensuring operational continuity in a crisis.

Significant insolvencies

There are three pending insolvency proceedings with a high volume of admitted claims and a large number of creditors. Further progress was made in these important insolvency cases in the year under review.

Banque Privée Espírito Santo SA in liquidation

In the bankruptcy proceedings against Banque Privée Espírito Santo SA in liquidation (BPES), the liquidator has estimated the full bankruptcy dividend at around 5% of third-class claims. In 2023, the liquidator focused on representing the interests of the bankrupt estate in the legal cases in Luxembourg and on negotiating with the administrators of Espírito Santo Group's subsidiaries over the treatment of intra-group claims. In this regard, FINMA authorised the liquidator on several occasions to enforce contested claims in court.

Lehman Brothers Finance AG in liquidation

In the Lehman Brothers Finance AG bankruptcy, an appeal against the schedule of claims remained pending during the year under review. The Federal Supreme Court ruled in favour of the liquidator in this case, quashed the lower court's ruling and sent the case back to the lower court for reconsideration. The liquidator also continued to realise illiquid assets and to investigate potential claims and how to realise them. The payout ratio on admitted third-class claims stood at 67.83%.

Hottinger & Cie in liquidation

In the Hottinger & Cie case, the two actions taken by the liquidators to the Zurich Commercial Court relating to liability and insurance claims were both settled in 2023. As a result, around CHF 4 million was paid into the bankrupt estate. An appeal concerning a dispute over the schedule of claims was still pending at the Higher Court of Zurich. The realisation of disputed and illiquid assets progressed further. In particular, further steps were taken to realise items that had been pledged as security. Around CHF 50 million of liquid assets remained blocked due to a variety of civil and criminal proceedings. Therefore, it was not possible to pay a further instalment to creditors.

FINMA continued to use its enforcement powers consistently and effectively in 2023 against unauthorised legal entities, supervised institutions and individuals to tackle breaches and misconduct. To protect clients, policyholders and investors, FINMA ordered supervised institutions to make additional capital available to cover additional risks and demanded measures to address any shortcomings in their business conduct.

Enforcement

Enforcement focuses on enforcing the business conduct rules of supervised institutions. FINMA also enforces prudential rules and takes action against entities operating without the necessary licence.

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 service providers and against any participants in the Swiss financial market. An important aspect of enforcement is the provision of administrative and/or legal assistance between FINMA and domestic prosecution authorities or foreign supervisory authorities.

FINMA's decisions can be contested before the courts. FINMA enforcement proceedings resulted in a total of 31 court rulings in 2023, compared with 15 in 2022. The statistics show that the appeals bodies upheld all of FINMA's enforcement rulings in 2023. In 2022, that share was 93%.

Courts support FINMA's action against bank managers

In its enforcement activities, FINMA again placed an emphasis on proceedings against individuals. The competent courts issued two important rulings in this regard in 2023 and confirmed FINMA's practice.

Participation in serious breaches of the Anti-Money Laundering Act leads to industry ban

In its ruling 2C_747/2021 of 30 March 2023, the Federal Supreme Court dismissed an appeal against an industry ban imposed by FINMA, which was upheld by the Federal Administrative Court. In doing so, it confirmed FINMA's practice with regard to industry bans, particularly when it comes to combating money laundering. According to FINMA's findings, the appellant, as Head of Legal & Compliance at a bank, had played a key role in the bank's serious breaches of supervisory law in connection with relationships involving a sovereign wealth fund, in particular breaches of anti-money laundering rules that had been ongoing for years. Despite clear warning signs and the absence of investigations required under anti-money laundering laws, he authorised the opening of new accounts on several occasions over a long period of time and was responsible for risk assessments that were unjustified given the context.

FINMA has jurisdiction for the actions of a CEO in Asia

In its ruling B-4750/2019 of 16 May 2023, the Federal Administrative Court also confirmed a four-year industry ban imposed by FINMA in the area of money laundering. The complainant had worked as CEO of a subsidiary of the Swiss bank in Asia. The enforcement proceedings centred on the extent to which, given his actual actions and omissions within the scope of his specific area of responsibility and activity, he was responsible for breaches of supervisory law by the Swiss parent bank on whose executive board he sat. The Federal Administrative Court confirmed that this case fell within FINMA's jurisdiction. In terms of substantive law, the court found, among other things, that the complainant had been aware of specific suspicious circumstances under anti-money laundering law and therefore should not have trusted that further transactions by these clients would not give rise to any concerns. The judgment is not final.

FINMA enforces prudential rules

FINMA's central task is the forward-looking supervision of the financial sector, known as prudential supervision. The aim of supervision is to protect creditors (protection of individuals) and to ensure the stability of the financial system (protection of market functioning). Among other things, FINMA ensures that supervised institutions are adequately capitalised, have a good risk management system in place and are appropriately organised. In the year under review, FINMA identified deficiencies at several supervised financial institutions in the context of its enforcement proceedings and ordered appropriate measures to restore compliance with the law.

Appetite for risk in mortgage lending requires additional equity capital

As part of its ongoing supervision, at the end of 2022 FINMA required Bank X AG to immediately increase its Common Equity Tier 1 (CET1) capital by CHF 30 million. At the bank's request, FINMA ordered the measure in 2023 by way of a formal ruling. This was based on Article 45 of the Capital Adequacy Ordinance and was necessary for a certain period of time due to the bank's high risk appetite in the area of residential property financing. During this period, the bank achieved significantly higher growth in the area of mortgage financing than the market did. When granting mortgage loans, it applied less restrictive affordability criteria compared to standard market practice, namely an imputed mortgage interest rate of 3.75%. Moreover, one fifth of the mortgage loans granted did not comply with regulations.

PostFinance requires equity capital commensurate with the risk

In its ruling B-4004/2021 of 30 March 2023, the Federal Administrative Court confirmed a FINMA ruling from 2021, in which it instructed PostFinance to reserve additional equity capital due to increased interest rate risks. The court agreed with FINMA's reasoning on all disputed points. The court found, in particular, that FINMA had provided evidence that PostFinance was an outlier in terms of its interest rate risks. The external perspective adopted by FINMA, which is intended to enable a comparison between the banks by means of objective criteria, means that certain internal parameter estimates and calibrations can be dispensed with. At the same time, this methodology would mitigate any potential modelling risks of the bank's internal analyses and guidelines. PostFinance lodged an appeal against the judgment with the Federal Supreme Court.

Remuneration policy must take account of risks for the bank

FINMA's enforcement proceedings against Credit Suisse in connection with the Archegos family office revealed serious shortcomings in the bank's organisation and risk management (see FINMA press release "Archegos: FINMA concludes proceedings against Credit Suisse"). FINMA ruled that Credit Suisse, and therefore also UBS as its legal successor, must provide criteria for the bonus allocation in the remuneration policy for the entire financial group that take into account the risks taken. For employees with a particular level of risk exposure, a control function must assess the risks taken before the bonus is determined.

Proceedings due to shortcomings in business conduct

In the year under review, FINMA identified serious breaches against the rules of conduct by supervised institutions in various cases and ordered measures to restore compliance with the law. FINMA monitors whether institutions comply with the rules of business conduct (conduct rules) on the basis of four thematic focal points: anti-money laundering, suitability, market integrity and cross-border activities. In this way, it promotes integrity, transparency and client protection in business conduct.

A bank exceeding its own risk appetite leads to breaches of the Anti-Money Laundering Act

In FINMA's opinion, operating the business model of an asset management bank with a compliance system of a regional bank was not a viable option. When a regionally-based bank committed serious breaches of the provisions of the Anti-Money Laundering Act in its relationships with high-risk foreign clients, FINMA demanded a decision by the board of directors: either the bank withdraws from risky foreign markets, or it significantly extends its compliance system.

FINMA investigates unauthorised market conduct

FINMA found that a company, mainly used by its foreign parent company for the purposes of asset management in Switzerland, had committed serious breaches of regulatory provisions through conduct that manipulated the market. It instructed the company to refrain from such prohibited activities in future. The company attracted attention at the end of 2018 and 2019 as well as at the end of each quarter of 2019 by purchasing a large number of shares in a real estate company. Through the strategic placement of purchases at the end of each month to drive up the price, the company caused the share price to rise by up to 292.2%. The share purchases had no commercial basis, and they did not constitute genuine economic supply and demand-related conduct.

FINMA expects the most senior managers to deal with an institution's riskiest business relationships. In the enforcement proceedings against Credit Suisse in the "Greensill" case (see FINMA press release "FINMA concludes "Greensill" proceedings against Credit Suisse"), it concluded that Credit Suisse had been seriously breaching its supervisory obligations for years. Credit Suisse had failed to adequately identify, limit and monitor risks, and had serious deficiencies in its organisational structures. FINMA therefore ordered the banking group to assess its significant business relationships according to risks. The bank's approximately 500 most important business relationships are to be reviewed periodically and holistically for counterparty risks at executive board level. In addition, the areas of responsibility of the bank's approximately 600 highest managers must be recorded in a document of responsibility. If managers do not organise and manage their business area in such a way that misconduct is prevented as far as possible, they must be penalised by the bank, for example through a reduction of their variable compensation.

Unauthorised activities in the insurance sector

FINMA enforces the licensing requirement in the insurance sector to protect policyholders. In the year under review, it dealt with various cases of unauthorised insurance activity and insurance intermediation without the required FINMA registration.

Comparison portals for insurance quotes may be subject to supervision as intermediaries

In the course of enforcement proceedings in 2023, FINMA found that offering insurance quotes via comparison portals can qualify as activity by an insurance intermediary. The proceedings concerned Comparis, the operator of a comparison portal, which must register as an insurance intermediary (see FINMA press release "Comparis is deemed an insurance intermediary"). Comparis operates an online portal where users can compare insurance policies from various providers on the basis of individual information and also obtain corresponding insurance quotes. Comparis has adapted its original business model by making its sister company, which is registered as an insurance intermediary, responsible for ordering quotes. However, the process remains essentially the same in that quotes can still be requested on the Comparis website on the basis of an insurance comparison. The decisive function for the intermediation of a product – namely the insurance comparison – remains with Comparis. Therefore, the company still qualifies as an insurance intermediary. Comparis has appealed against the ruling to the Federal Administrative Court.

Legal protection subscriptions qualify as unauthorised insurance activity

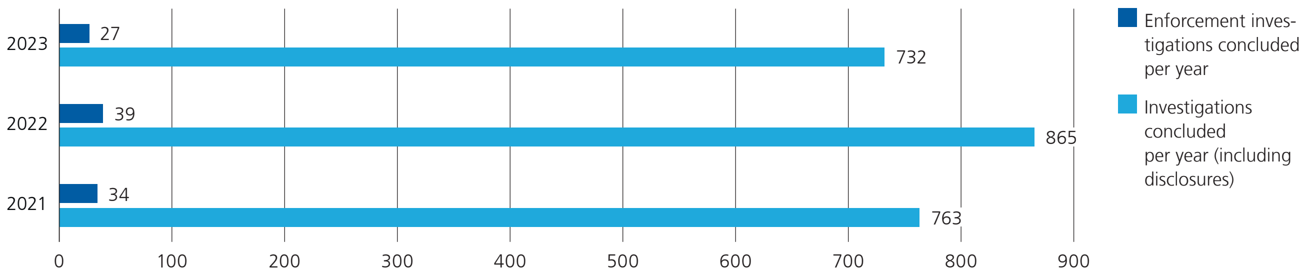
In proceedings conducted in the year under review, FINMA found that legal protection subscriptions can qualify as unauthorised insurance activity. In the case in question, legal services were offered in return for payment of an annual premium. This also included the granting of a loan to cover court costs and lawyers' fees. These subscriptions were thus aimed at protecting customers against future loss events. All the elements that make up insurance activity were therefore present.

Insurance intermediaries as financial intermediaries

The collection of premiums by insurance intermediaries constitutes financial intermediation activity. Insurance intermediaries who accept insurance premiums from policyholders and pass them on to insurance companies are engaged in what is known as premium collection. If they do this in a professional capacity, they are financial intermediaries and are subject to the Anti-Money Laundering Act. Consequently, they are obliged to join a self-regulatory organisation (SRO) recognised by FINMA. An entry in FINMA's register of insurance intermediaries is not sufficient. In the year under review, FINMA consistently opened investigations into unauthorised activities in cases where there was suspicion of professional premium collection without affiliation to an SRO. FINMA will continue to pursue this issue as part of the registration process.

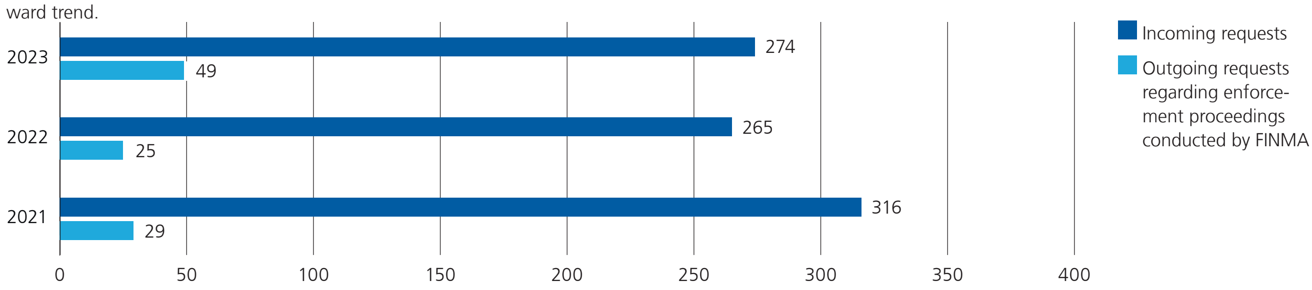
Enforcement investigations and enforcement proceedings

Most tip-offs concerning breaches of financial market laws are resolved during the investigation stage.



International cooperation

As a major international wealth management centre, Switzerland receives significantly more requests for administrative assistance than it sends abroad. The complexity of administrative assistance requests is increasing, while at the same time the number shows a downward trend.



FINMA refined its regulation for the protection of consumers and investors, which supports the proper functioning of the financial markets. Specifically, FINMA made progress in regulating technical issues relating to the final version of Basel III and the revised Insurance Supervision Act and Ordinance. It also articulated its supervisory practice on managing nature-related financial risks and implementing the Financial Services Act. In order to ensure its regulation undergoes a process of continuous improvement, FINMA carried out several ex-post evaluations of existing circulars.

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 empowered to do so by legislation or ordinance, FINMA regulates second-order technical details in certain defined areas of supervision. It also publishes circulars which set out its supervisory practice and how it proposes to interpret laws and ordinances. In the year under review, FINMA promoted risk-oriented and proportional regulation which is equivalent to international standards. The credible implementation of these standards in Switzerland is essential to safeguard the financial system, protect the good reputation enjoyed by the financial centre and ensure market access for export-oriented Swiss banks.

Format compliance of regulation

FINMA is mandated by Article 16 of the Ordinance to the Financial Market Supervision Act to review the format compliance of its regulation by the end of January 2025 and make appropriate changes, provided these are within its area of responsibility. A comprehensive review in 2022 established that 19 out of a total of 45 circulars are format-compliant. A further 21 were in the process of being revised at the end of 2022 as part of the work on implementing the final Basel III rulebook and the regulation following on from the revision of the Insurance Supervision Act, or will be reviewed as part of the amendments to the Financial Market Infrastructure Act. The circulars and FINMA ordinances relating to the final Basel III and insurance will enter into force in a format-compliant manner in the course of 2024. However, due to their dependence on the timetable for the legislation in this area, the amendment of the circulars on financial market infrastructures will run beyond the February 2025 deadline. It will not be possible to amend the circulars before this, owing to the simultaneous amendments that need to be made to the Financial Market Infrastructure Act and the Financial Market Infrastructure Ordinance.

The review process identified four more circulars that are not yet format-compliant and do not depend on any other regulatory projects: the FINMA Circulars 2019/01, "Risk diversification – banks", 2013/07 "Limits on intra-group positions – banks", 2015/02 "Liquidity risks – banks" and 2012/01 "Rating agencies". Circular 2013/03 "Auditing" joined this list after its ex-post evaluation was completed. Apart from Circular 2012/01 "Rating agencies", which will be repealed after the final Basel III regulations enter into force and integrated in the Capital Adequacy Ordinance, the above circulars will be amended in the course of 2024 or raised to ordinance level. Format compliance will thus be achieved for these final five circulars by the beginning of 2025.

FINMA circulars and ordinances

FINMA regulates through ordinances of its own only where it is explicitly authorised to do so by law, for example to determine technical details. FINMA's circulars set out how it applies financial market legislation in practice. They 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. FINMA carried out work on the following ordinances and circulars in 2023:

Implementation of the final Basel III standards

The process of implementing the Basel III finalisation package from the Basel Committee on Banking Supervision made further progress in 2023. The finalisation package contains revised standards on capital requirements for credit, market and operational risks, the output floor for internal models, and the leverage ratio. Following the consultations on the Capital Adequacy Ordinance (CAO) and the implementing FINMA ordinances, further roundtables were held on this topic during the year under review, particularly between the official bodies (State Secretariat for International Finance, Swiss National Bank and FINMA) and the banking sector. The Federal Council formally approved the amended CAO on 29 November 2023. The FINMA ordinances are expected to be approved by the FINMA Board of Directors in the first quarter of 2024. The new rulebook is due to enter into force on 1 January 2025.

The implementation of the final version of Basel III will also entail amendments to two Swiss Bankers Association (SBA) guidelines on mortgage lending, which are recognised by FINMA as minimum supervisory standards. The amendments primarily relate to the criteria under which loans secured against property qualify for preferential capital treatment (in particular affordability tests and conservative property valuations). The SBA is taking the lead in this amendment process, and FINMA is authorised to recognise the new guidelines as minimum supervisory standards.

FINMA Insurance Supervision Ordinance and insurance circulars

The partial revision of the Insurance Supervision Act and the amendments to the Insurance Supervision Ordinance entered into force on 1 January 2024. These will also entail amendments to the FINMA Insurance Supervision Ordinance (ISO-FINMA) and various FINMA circulars. The changes are designed primarily to strengthen consumer protection. The changes to ISO-FINMA are set to be approved and enter into force on 1 September 2024.

Circular on nature-related financial risks

FINMA launched the regulatory process for a new circular on managing nature-related financial risks in March 2023. The intended audience for the circular is banks and insurers. The circular transposes the developments made by international standard-setters – in particular the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors – into Swiss supervisory law. The aim is to transparently set out FINMA's supervisory practice on the governance and risk management of nature-related financial risks and bolster supervised institutions' awareness and management of these risks. The new circular represents an important contribution by FINMA to the federal government's strategy for the financial centre, which aims to position Switzerland as a leading financial hub.

FINMA conducted a pre-consultation on the circular with participants from all relevant industry and public bodies, NGOs and academia in May 2023. The majority of the participants welcomed the proposed approaches that were presented. The public consultation is set to start in the first quarter of 2024. The new circular is slated to enter into force at the beginning of 2025 at the earliest.

Circular on the Financial Services Act

Given the growing number of enquiries of an often fundamental nature about FINMA's practice and interpretation of the rules of conduct in the Financial Services Act (FinSA) and Financial Services Ordinance (FinSO), FINMA intends to publish a short circular to create transparency about its supervisory practice. It carried out its first pre-consultation on a circular on the Financial Services Act in September 2022. A further pre-consultation was held in May 2023 based on a concrete draft, when a wide range of views on the draft were discussed. FINMA will hold a public consultation on the draft circular in 2024. Entry into force of the new circular is planned in 2025.

FINMA Insolvency Ordinance

The revised Banking Act took effect on 1 January 2023. The revision necessitated changes to the FINMA Banking Insolvency Ordinance (BIO-FINMA), as certain provisions of BIO-FINMA have been included in the new legislation. In addition, a resolution regime for insurance companies has been established in the revised Insurance Supervision Act. FINMA is taking this opportunity to transfer BIO-FINMA, the FINMA Insurance Bankruptcy Ordinance and the FINMA Collective Investment Schemes Bankruptcy Ordinance to a new overarching insolvency ordinance, which will comprehensively regulate insolvency procedures under FINMA's responsibility. The ordinance is scheduled to enter into force in the autumn of 2025.

FINMA Auditing Ordinance

Following the ex-post evaluation of Circular 2013/3 "Auditing", the Circular will be transferred to a FINMA ordinance. A minority of the material will remain at circular level. The Circular is not expected to be amended materially, but its annexes will not form part of the ordinance. Instead they will be maintained as templates on FINMA's website. FINMA carried out the work to transfer the Circular in 2023 and held a pre-consultation. The interdepartmental consultation is planned for early 2024. The plan is for the ordinance to enter into force at the beginning of 2025.

FINMA Ordinance on Data Processing

The FINMA Ordinance on Data Processing, which was completely revised following amendments to the Swiss data protection legislation, entered into force on 1 September 2023. It sets out how FINMA processes personal data while fulfilling its statutory responsibilities. The revised Ordinance did not result in any material change in FINMA's existing data processing practice.

Ex-post evaluations

The Ordinance to the Financial Market Supervision Act obliges FINMA to review its existing regulation periodically to determine whether it remains necessary, appropriate and effective. It is required to consult parties affected by the regulation and publish the results of the review. FINMA has set out the principles that apply in its Guidelines on Financial Market Regulation. Reviews are either carried out regularly as part of the cycle of revisions in the normal regulatory process, or alternatively the FINMA Board of Directors commissions an ex-post evaluation, usually when a new regulation is approved or an existing one revised. The ex-post evaluation is usually carried out separately from a scheduled regulatory project and can be limited to a specific topic or provision.

The following ex-post evaluations were completed in 2023:

Ex-post evaluation of auditing

FINMA conducted an ex-post evaluation of the partially revised Circular 2013/3 "Auditing" with the involvement of industry representatives. The evaluation report, which was published on 31 May 2023, found that audits are now conducted in a more risk-oriented manner. This has increased the efficiency of audits and made them more useful for FINMA. The improved efficiency has led to savings of around one third of the external audit costs for supervised institutions, particularly in banking and asset management, which account for over 90% of the costs of basic and supplementary regulatory audits. The savings allowed some of the funds to be reinvested by FINMA in other important and effective supervisory instruments, such as data-based supervision and on-site supervisory reviews.

In a new revision of Circular 2013/3 "Auditing", FINMA will transfer large parts of it to an ordinance. This will implement the increased flexibility in determining the audit strategy requested by participants in the evaluation.

Ex-post evaluation of value adjustments

FINMA published its report on the ex-post evaluation of the provisions on recognising value adjustments for default risks on non-impaired loans (not available in English) on 1 March 2023 (see press release "Ex-post evaluation: no need for adjustments in the area of accounting requirements"). Overall, FINMA concluded that the provisions are effective and do not need to be amended. In particular, the requirement for banks to recognise value adjustments earlier has contributed to banking stability. Going forward, FINMA will continue to closely monitor this important topic for the banking industry. The information gleaned from this analysis will be an important component feeding into banking supervision.

Ex-post evaluation of occupational pension tariffs

FINMA carried out an ex-post evaluation of Circular 18/4 "Pricing of occupational pension funds", publishing the evaluation report on 7 July 2023 (see press release "Ex-post evaluation of 'Pricing of occupational pension schemes' circular completed"). The evaluation concluded that restrictions on unjustified discounts are necessary, appropriate and effective, and will be upheld. However, a review of the way in which the restrictions are implemented is planned based on the feedback from the external evaluation. FINMA also decided to evaluate the level and scale of the new restrictions on unjustified discounts after a transitional period.

Self-regulation

Regulation that is issued by financial market participants themselves is referred to as self-regulation. It can be carried out independently by private sector financial services companies in the form of "voluntary" self-regulation. If FINMA supports self-regulation, it is permitted under its supervisory powers to recognise and implement self-regulation as a minimum standard. If it does so, the minimum standard no longer applies only to the members of the self-regulatory organisation, but is also binding on the other members of the industry. Finally, there is compulsory self-regulation that is stipulated by law or an ordinance. This is authorised by FINMA if the regulatory requirements for compulsory self-regulation are met.

Guidance on recognising and revoking self-regulation

FINMA published a new guidance on the recognition of self-regulation (not available in English) in December 2021. The aim was to implement the new requirements for recognising self-regulation in the Ordinance to the Financial Market Supervision Act that entered into force in February 2020. Hence the Guidance sets out the process that the self-regulatory organisations and associations need to follow in order for the self-regulation they have developed to be recognised as a minimum standard. FINMA's initial experience was that not all of the trade bodies and self-regulatory organisations were familiar with the guidance and needed to be made aware of it in various ways.

The new requirements in the Ordinance to FINMASA have made the procedure for issuing self-regulation longer and more complex. For example, an interdepartmental consultation now needs to be carried out, and self-regulation must enjoy broad support among those covered by it. The Ordinance to FINMASA has also clarified that FINMA can only recognise self-regulation where this lies within its area of competence. For example, self-regulation can no longer be recognised by FINMA in sectors where the Swiss parliament or Federal Council have not issued any regulations but the sector itself believes there is a need for regulation. This means that in the last two years, various guidelines that were previously regarded as recognised self-regulation have been transferred to the status of voluntary self-regulation.

The Ordinance to FINMASA does not stipulate what should happen when recognised self-regulation is abolished or recognition is withdrawn. FINMA has therefore developed guidelines for these eventualities modelled on the recognition process. They differ depending on the way in which recognition is withdrawn. If possible, FINMA favours a joint approach with the self-regulatory organisation (SRO) to cancel the recognition as a minimum standard. If this is not possible, FINMA can withdraw the recognition where this is justified. If an SRO decides itself to cease recognised self-regulation, the recognition by FINMA lapses automatically, as the conditions for recognition are no longer met. In such cases, FINMA does its best to ensure that this does not create a gap in regulation. To prevent such situations, FINMA will seek to ensure, when recognising new self-regulation, that there is a process in place for abolishing self-regulation at a future date if needed.

Quantitative developments in regulation

The total number of pages in FINMA's ordinances and circulars in 2023 was virtually identical to the prior year. There were 1,031 pages in circulars in the year under review. The number of pages in FINMA ordinances increased by 1 compared to the prior year, to 264. Due to the work on the amendments relating to insurance and banks (see "Implementation of the final Basel III standards", page 83), there is likely to be a sharp increase in the number of pages in FINMA ordinances in 2024, while pages in FINMA circulars will decline.

In 2023, FINMA again benefited from its standing as an internationally respected supervisory authority and its strong international relationships, particularly in dealing with the Credit Suisse crisis. It participated internationally in projects on cryptoassets, cyber risks, outsourcing, sustainable finance and macroprudential risks, and thus contributed to the coordinated and forward-looking oversight of risks on the financial markets, including new and emerging risks.

To improve market access for Swiss financial institutions, FINMA contributed its expertise to projects such as the Mutual Recognition Agreement with the UK and the cooperation agreement with the Italian financial markets regulators CONSOB and Banca d'Italia.

International relations

Internationally binding standards are of great importance for Switzerland as an export-oriented financial centre. 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.

FINMA contributes to international standard-setting through its international policy and regulatory cooperation. It is a member of 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 basic positions taken when representing Switzerland in these bodies are determined in conjunction with the Federal Department of Finance. FINMA's international responsibilities are set out in Articles 2 to 4 of the Ordinance to the Financial Market Supervision Act.

MRA with the United Kingdom

During the year under review, FINMA again assisted the State Secretariat for International Finance (SIF) in the negotiations with the United Kingdom on a Mutual Recognition Agreement (MRA) in financial services. FINMA particularly worked on issues relating to the supervision of investment services, insurance, financial market infrastructures and asset management, and cooperation between the supervisory authorities.

Financial Stability Board (FSB)

The Financial Stability Board is responsible for monitoring financial stability globally and acts as the link between the G20 and the international standard-setting bodies in coordinating financial market regulation.

The Swiss National Bank (SNB) and the 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 (SRC) and the Resolution Steering Group (ReSG). It is also a member of the Steering Committee on Non-Bank Financial Intermediation (NBFI), which coordinates the policy work relating to NBFI. During the year under review, cryptoassets, cyber risk, outsourcing and liquidity risks in open-ended funds were the main issues FINMA focused on in these bodies. FINMA also contributed actively to the first lessons drawn by the FSB from the turmoil in the banking sector in spring 2023.

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 continued to work towards strengthening the stability and resilience of the international banking system in 2023 through its active involvement in various BCBS committees. After completing its Basel III post-financial crisis reform agenda, the BCBS has turned its attention back to monitoring and assessing risks and vulnerabilities in the global banking system. During the year under review, one of the main areas of focus was the revision of the Core Principles for Effective Banking Supervision. A further focus was on developing standard drafts for the disclosure by banks of climate-related financial risks and risks relating to cryptoassets. In addition, the quality of implementation of the Basel III minimum standards at national level was reviewed in additional member countries in the areas of liquidity and risk diversification. FINMA led the review team responsible for assessing US regulation on behalf of the BCBS. Switzerland's implementation was also reviewed and assessed as "largely compliant" both in the area of liquidity (Net Stable Funding Ratio, NSFR) and in the area of risk diversification.

International Association of Insurance Supervisors

FINMA has been a member of the International Association of Insurance Supervisors for many years and sits on the Executive Committee and various subgroups. The IAIS promotes effective and globally consistent supervision of the insurance industry with a view to protecting policyholders and contributing to financial stability. In the strategy period 2025 to 2029, the IAIS will focus on the implementation of the existing standards and the introduction of the Insurance Capital Standard (ICS) for international insurance groups.

The application of the Holistic Framework for the assessment and mitigation of systemic risk was a priority in the year under review, following the FSB's decision to abolish the designation of global systemically important insurance companies in 2022. FINMA leads the working group monitoring potential macroprudential risks. Changes to the life insurance business as a result of rising interest rates, the reinsurance of large run-off portfolios, and investments in alternative assets were among the leading issues discussed during the year. The IAIS published a report assessing the implementation of its insurance standards in ten countries including Switzerland. Overall, the evaluation of Switzerland was positive. Gaps were identified in the standards on recovery and resolution. The revised Insurance Supervision Act and Insurance Supervision Ordinance that entered into force on 1 January 2024 have closed some of these gaps.

International Organization of Securities Commissions

The International Organization of Securities Commissions (IOSCO) pursued its central objectives again in 2023: investor protection, ensuring fair, efficient and transparent markets, mitigating systemic risk and promoting effective international cooperation. IOSCO's endorsement of the sustainability-related financial disclosure standards of the International Sustainability Standards Board (ISSB) was an important step. These will have a significant impact on the development of sustainability-related financial information globally. FINMA supported the significant progress being made here as a longstanding member of the IOSCO Board and played an active part in technical work and implementation reviews. By incorporating international discussions and developments on the securities markets into its supervisory practice, FINMA made an important contribution to international cooperation and ensuring investor protection and market stability at a global level.

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. FINMA participated actively in workstreams with direct relevance for its supervisory practice. Among other activities, it contributed to analysing the interrelationships between financial institutions' transition plans and the responsibilities of supervisory authorities, and to developing an initial conceptual framework for the supervision of nature-related financial risks.

Further international activities

FINMA has relationships with numerous foreign supervisors around the world and works closely with them in its supervision of financial institutions with international activities. It also signs cooperation agreements to underpin these relationships.

In the year under review, the negotiations on a Memorandum of Understanding (MoU) between FINMA and Italy's CONSOB and Banca d'Italia, which have been going on for several years, were completed, and the cooperation agreement was signed on 11 August 2023. In line with the 2015 roadmap of the Federal Department of Finance (FDF), the MoU improves market access for Swiss financial institutions to Italian retail and professional clients in accordance with the EU's MiFID II and MiFIR legislation. In addition, it strengthens supervisory cooperation between FINMA and the Italian supervisory authorities CONSOB and Banca d'Italia.

FINMA also lent its expertise to the SIF in market access negotiations. As in recent years, in 2023 it again participated in financial dialogues and market access negotiations between the SIF and third countries.

Maintaining bilateral relationships

During the year under review, FINMA had numerous courtesy meetings with relevant partner authorities, with the aim of continuing the good cooperation at board or management level. These personal contacts with foreign decision-makers are key to ensuring rapid and effective international cooperation. Maintaining good relationships proved indispensable in the year under review, particularly during the Credit Suisse crisis.

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.

150.4
supervision

59.8
risk management

186.6
licensing, legal, regulation, enforcement

51.7
digital
(data analysis, data science, IT)

136.8
operations, support, central specialist functions

total full-time equivalents (FTEs)
593.3

young talent
(apprentices, interns, career starters, trainees)
27.6

Figures at year-end

FINMA as an authority

FINMA once again communicated its supervisory, enforcement and regulatory activities in a transparent manner and addressed to specific target groups. It engaged in dialogue with supervised institutions, associations and experts on topics including money laundering, insurance intermediaries, FinTech and artificial intelligence. It took part in meetings of parliamentary committees, answered over 7,000 enquiries from citizens and kept the media and the public informed by means of press releases and news articles.

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.

As an independent authority, FINMA communicates as transparently as the law permits, and engages in dialogue with stakeholders. In the year under review, it informed the public by means of press releases and publications and by responding to around 7,000 enquiries. FINMA also maintains a dialogue with politicians, other authorities, the supervised institutions and other interest groups. During the period under review, exchanges took place on numerous topics. These included questions relating to supervisory practice, legislative projects, the Anti-Money Laundering Act, small banks and small insurers, the new regulation of insurance intermediaries, self-regulation in the FinTech sector, and climate-related financial risks.

Annual accountability to Parliament

At least once a year, as part of the publication of the annual report, the Chair of the Board of Directors and the CEO of FINMA account to the two supervisory committees of the Federal Assembly, i.e. the Control Committees and the Finance Committees.

The focus of the accountability obligation in the year under review lay on the work relating to UBS and Credit Suisse. FINMA reported on its role in the bank takeover on the one hand, and the implementation of its strategy in 2022 on the other. Further topics included supervision in the context of the war in Ukraine, crypto-based financial services and the use of artificial intelligence by supervised institutions, in connection with which FINMA has created a specialist unit.

Provision of expert information for parliamentary committees

As in previous years, FINMA informed the expert committees of the Federal Assembly on issues relating to supervisory practice and legislative projects at their invitation. In the year under review, hearings were held on the revision of the Ordinance on the Supervision of Private Insurance Companies, the amendments to the Capital Adequacy Ordinance as part of the implementation of the final Basel III standards, and the amendment of the Banking Act due to the introduction of a public liquidity backstop.

Symposia with market participants

In 2023, FINMA once again organised major symposia concerning small banks and the Anti-Money Laundering Act. It also held the first symposia for small insurers and insurance intermediaries, given the revised insurance legislation.

Symposium on the Anti-Money Laundering Act

On the occasion of the 19th symposium on the Anti-Money Laundering Act, around 100 representatives from the industry and from authorities and super_visory bodies discussed current developments in combating money laundering.

Small bank symposium

At the sixth small bank symposium, artificial intelligence and sustainability were the focus of the approximately 175 representatives of small banks and the FINMA participants.

Small insurer symposium

All primary insurers in supervisory categories 4 and 5 that are eligible to participate in the future small insurers regime in accordance with the new Article 1c of the draft of the revised Insurance Supervision Ordinance were invited to the first small insurer symposium. The event, which was attended by around 80 participants, focused on the conditions for entry into the new regime and the associated relaxation of the rules.

Symposia for insurance intermediaries

FINMA held four symposia for insurance intermediaries to provide information on the new rules that will apply to them from January 2024. Intermediaries who offer insurance in Switzerland were invited to these presentations and discussions in Bern, Lausanne, Zurich and Lugano.

Round table discussion with associations from the FinTech sector and the SROs concerned
Finally, FINMA held its second round table discussion with associations from the FinTech sector and the self-regulatory organisations concerned. It used these events to present current international developments that are critical for the crypto sector. It also communicated various policy issues and FINMA's expectations concerning these issues. Participants also had the opportunity to raise questions and concerns regarding the FinTech sector.

Discussions with other stakeholder groups
FINMA again held annual or semi-annual discussions with key associations of supervised institutions in 2023 and encouraged regular exchanges through topic-specific working groups.

The "climate risks" expert panel, which is held intermittently, was continued in 2023. It again facilitated a direct professional exchange with experts from banks, insurance firms and asset managers on relevant topics with respect to managing climate-related financial risks. In 2023, approaches and challenges relating to the materiality assessment of climate risks and the handling of climate risks in assets under management were discussed in particular.

As in previous years, FINMA also organised a round table discussion with a number of stakeholders committed to client protection. The event was attended by consumer protection organisations (Foundation for Consumer Protection, Konsumentenforum, Fédération romande des consommateurs, Associazione consumatrici e consumatori della Svizzera italiana), the health insurance ombudsman, the private insurance ombudsman and the price supervisor. Various topics relating to the supervision of private insurance policies were discussed, in particular current developments in the supplementary health insurance sector. With the revision of the Insurance Supervision Act and the Insurance Supervision Ordinance, which came into force on 1 January 2024, agenda items also included changes to the supervision of insurance intermediaries and the transparency and information obligations of life insurers.

Responding to over 7,000 enquiries
In 2023, FINMA processed more than 7,000 enquiries from financial market clients, investors, lawyers and other interested parties. This means that FINMA received almost 1,000 more enquiries than in the previous year. They concerned licensed and unlicensed institutions, licensing requirements and regulation. This provided FINMA with valuable information on how to improve its supervisory activities. Of key significance were more than 1,600 reports and complaints received in relation to unauthorised financial market participants, who had frequently misled their investors about being located in Switzerland or about possessing a FINMA licence. Investigations by FINMA based on these reports often led to proceedings or entries being made on the warning list. The latter remained one of the most widely used sources of information that FINMA makes available on its website with the aim of protecting investors.

From the end of 2022, Credit Suisse clients increasingly turned to FINMA with questions about depositor protection, alarmed by the media coverage of the bank's problems. After the decision by UBS to take over Credit Suisse was announced on 19 March 2023, the number of these enquiries decreased rapidly. Subsequently, shareholders and investors approached FINMA with other concerns, particularly relating to the legal basis of the merger.

Public reporting
FINMA communicates transparently to the public in accordance with the legal requirements. The majority of public reporting takes place via FINMA's website, where all the basic information on FINMA's supervisory and regulatory activities is available. More than one million users accessed the website in 2023.

In addition to the FINMA report on the Credit Suisse crisis, important publications included the Annual Report, the Risk Monitor, the report on recovery and resolution, and various statistical data. FINMA published 12 news articles and 28 press releases on topics relevant to the financial centre. More than 10,000 interested parties subscribed to the FINMA newsletter to receive information about the latest news on the FINMA website. On social media, the number of FINMA followers rose to more than 41,000. On LinkedIn alone, almost 40,000 interested parties followed FINMA posts.

FINMA continued to rely on external experts for its risk-oriented supervisory and enforcement activities in 2023. Audit firms carried out recurring audits of supervised institutions on behalf of FINMA and reported on their findings. FINMA also appointed mandataries to clarify specific supervisory and enforcement issues. This enabled FINMA to mobilise resources quickly and deploy them in a targeted manner in order to implement its mandate to protect clients efficiently and effectively.

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 the effectiveness and efficiency of the audit firms and mandataries.

Audit firms are mainly used in supervisory audits, where they serve to extend FINMA's reach, and must maintain their independence. They must take a critical approach in the fulfilment of their duties and guarantee an objective assessment. They 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, it 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.

Audit firms extend FINMA's reach

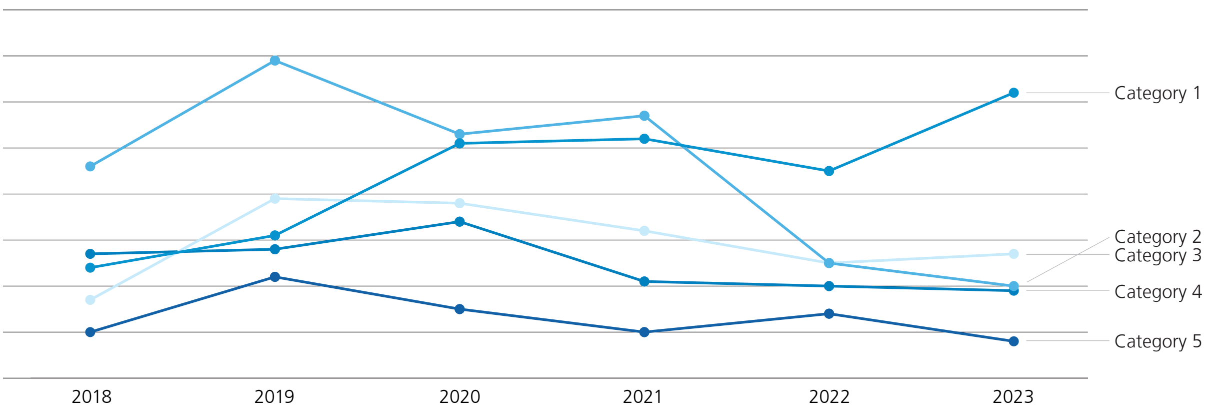
For audits completed in 2023, audit firms charged an average hourly rate of CHF 226 for a regulatory audit and CHF 158 for a financial audit. The costs of regulatory audits conducted by audit firms are borne directly by the supervised institutions. Audit firms report their invoiced fees to FINMA on an annual basis. Audit costs accounted for 35% 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). Particularly in supervisory categories 1 and 2, the hourly rates may be subject to stronger fluctuations due to the small number of institutions. The varying degrees of complexity of the audit fields, which are subject to rotation over several years, as well as the different business models and audit methods, have an influence on the rates. Since FINMA undertook most of the supervisory work in the insurance sector itself, the costs attributable to audit firms in this sector were just 12%.

FINMA mandataries for specific supervisory and enforcement issues

In the year under review, FINMA awarded 29 mandates to mandataries, compared with 22 in 2022. As part of its selection process, it ensured that, if possible, mandates were not awarded disproportionally

Average hourly rates for regulatory audits of banks

in CHF



Fees charged by audit firms for regulatory audits

Annual fees per supervisory area in CHF million[8]

	2023	2022[9]	2021	2020	2019	2018	2017
Banks and securities firms	56.0	55.9	54.5	55.3	76.9	81.4	86.7
Insurance companies	5.9	6.2	7.1	6.8	7.7	7.2	6.3
Markets	0.9	0.9	1	0.8	1.6	1.9	2.3
Asset management	11.0	10.7	9.3	9.8	13.1	13	12.4
Total	**73.8**	**73.7**	**71.9**	**72.7**	**99.3**	**103.5**	**107.7**

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. The costs for FINMA mandataries commissioned in 2023 came to CHF 16.4 million (invoices received as of mid-February 2024).

Mandataries are an important supervisory instrument for FINMA. In contrast to auditors, mandataries are not usually commissioned for recurring audits with a 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. There are five types of mandatary:

– 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 respective profile are accepted onto the list. When selecting a mandatary, FINMA refers to this list on a case-by-case basis. There were 96 mandataries on the 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 two 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.

Making auditing more effective

In 2023, FINMA continued to play an active role in further enhancing the quality of regulatory auditing. To this end, it shared information with EXPERTsuisse

[8] The 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.

[9] Deviations from the figures published in the 2022 Annual Report are due to audit costs retrospectively reported or adjusted.

and the audit firms on the one hand, and with the Federal Audit Oversight Authority on the other. In addition to combating money laundering, the independence of audit firms was also discussed. Questions about the independence of nominated audit firms arose frequently, particularly in connection with the change of audit firms at supervised institutions, for example in the case of previous audit mandates, the provision of personnel, or support in company takeovers.

The ex-post evaluation highlighted the existing progress in auditing as a result of the revision of the FINMA Circular (see "Ex-post evaluations", page 85). The broader question of the potential for improvement of the current statutory system arose in particular in connection with the possible direct mandating of the audit firms by FINMA to strengthen the independence of the audit, as recommended, for example, by the International Monetary Fund. FINMA would welcome an investigation into this issue. To this end, it submitted its position to the State Secretariat for International Finance as part of the preparation of the report on Article 52 of the Banking Act.

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

Category of supervised institution	2023		2022		2021	
	Fee volume[10] 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	9.6	10	6.4	6	7.9	10
Investigations of authorised financial intermediaries	4.0	8	13.8	6	10.6	11
Investigations of unauthorised activities	0.4	6	0.7	6	0.3	4
Liquidation proceedings	0.2	3	0.1	0	0.2	1
Bankruptcy liquidation proceedings	2.2	2	2.1	4	2.4	3
Total	**16.4**	**29**	**23.1**	**22**	**21.4**	**29**

[10] Invoices received as of mid-February 2024.

FINMA's Board of Directors and Executive Board worked to protect clients during the Credit Suisse crisis and guided the supervisory authority through a challenging year.

The Board of Directors significantly increased the frequency of its meetings, while the Executive Board intensified its efforts to prepare decision-making materials. At the same time, the day-to-day business and the handling of future issues such as supervisory technology were progressed further. FINMA thereby fulfilled its legal mandate to protect clients and investors despite the Credit Suisse crisis.

Board of Directors and Executive Board

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

The Board of Directors is FINMA's strategic management body and is responsible for overseeing and controlling the Executive Board. The Executive Board leads FINMA in operational terms and implements the resolutions passed by the Board of Directors and its committees. It is responsible for the supervision of Swiss financial market participants in accordance with statutory and strategic provisions.

The Board of Directors

On 6 September 2023, the Federal Council re-elected Marlene Amstad as Chair of the Board of Directors, Martin Suter as Vice-Chair and the six current members of the Board of Directors for the term of office from 2024 to 2027.

As a result of the Credit Suisse crisis, a large number of extraordinary meetings of the Board of Directors were held in 2023 in addition to the regular eight meetings per year. Credit Suisse had already become a focal topic for the Board of Directors back in June 2022, and a large number of extraordinary meetings of the Board of Directors had therefore already taken place in addition to the regular meetings.

In 2023, the Board of Directors also held a closed meeting on the topic of "supervisory technology". At this meeting, the Board of Directors received advice about current developments in this area by renowned experts and FINMA's own specialists.

The Board of Directors 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 cast.

Members of the Board of Directors (31 December 2023)[11]

Prof. Marlene Amstad	Chair
Martin Suter	Vice-Chair
Prof. Ursula Cassani Bossy	Member
Prof. Susan Emmenegger	Member
Dr Alberto Franceschetti	Member
Benjamin Gentsch	Member
Marzio Hug	Member
Dr Andreas Schlatter	Member

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.

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

Prof. Marlene Amstad

Martin Suter

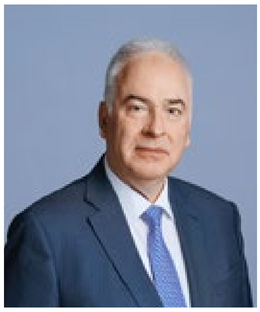
Prof. Ursula Cassani Bossy

Prof. Susan Emmenegger

Benjamin Gentsch

Dr Andreas Schlatter

Dr Alberto Franceschetti



Marzio Hug

The standing committees of the Board of Directors and their members (31 December 2023)

	Audit and Risk Committee	Appointments Committee	Takeover and State Liability Committee
Prof. Marlene Amstad		Chair	
Martin Suter	Chair		
Prof. Ursula Cassani Bossy			Chair
Prof. Susan Emmenegger			X
Dr Alberto Franceschetti	X		
Benjamin Gentsch		X	
Marzio Hug	X		
Dr Andreas Schlatter		X	X

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. The Executive Board normally meets weekly.

Members of the Executive Board (31 December 2023)

- Birgit Rutishauser, CEO ad interim
- Thomas Hirschi, Deputy CEO ad interim and Head of Banks division
- Léonard Bôle, Head of Markets division
- Marianne Bourgoz Gorgé, Head of Asset Management division
- Vera Carspecken, Head of Insurance division ad interim
- Patric Eymann, Head of Enforcement division
- Dr Alain Girard, Head of Recovery and Resolution division
- Alexandra Karg, Head of Operations division
- Dr Annemarie Nussbaumer, Head of Supervisory Policy and Legal Expertise division[12]

Changes

In the year under review, there were several changes to the Executive Board. Urban Angehrn, formerly CEO, left FINMA at the end of September. Until a final decision was made regarding his successor, the Board of Directors appointed Birgit Rutishauser as CEO ad interim. She was previously Head of the Insurance division and Deputy CEO. Vera Carspecken, who previously held various management positions in the Insurance division, most recently as Division Operating Officer, has been in charge of the Insurance division on an interim basis since 1 October. Thomas Hirschi, Head of the Banks division, was appointed Deputy CEO ad interim by the Board of Directors.

Johanna Preisig, Head of the Strategic Services division, also left FINMA at the end of October. Annemarie Nussbaumer succeeded her as head of the division and as a member of the Executive Board. She holds a doctorate in law and is an attorney and has held various positions at FINMA since 2012, most recently as Head of the Supervision of Small Banks and Securities Firms section within the Banks division.

Enforcement Committee

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

Permanent members of the Enforcement Committee (31 December 2023)

Birgit Rutishauser, Chair
Patric Eymann
Annemarie Nussbaumer

Recovery Resolution Planning Committee

The Recovery Resolution Planning Committee is a standing committee of the Executive Board and responsible for decisions in the area of recovery and resolution planning. The Committee was established in the year under review and approves the emergency and recovery plans of systemically important banks, systemically important financial market infrastructures, and insurance groups and conglomerates, among other things.

Permanent members of the Recovery Resolution Planning Committee (31 December 2023)

Birgit Rutishauser, Chair
Alain Girard
In addition, at least one other head of a division affected by the business matter in question.

[12] Formerly "Strategic Services division".

Thomas Hirschi

Léonard Bôle

Birgit Rutishauser

Marianne Bourgoz Gorgé

Patric Eymann

Alexandra Karg

Vera Carspecken

Dr Annemarie Nussbaumer

Dr Alain Girard

Good corporate governance

FINMA ensures good corporate governance through ordinances, regulations, internal controls and training. Codes of behaviour, in particular on how to deal with conflicts of interest, are laid down in FINMA's Code of Conduct. The Board of Directors is informed annually about the implementation of the Code of Conduct at FINMA.

In a challenging year, FINMA's staff successfully worked to protect customers and to ensure the proper functioning of the financial markets. They did so throughout the Credit Suisse crisis, in ongoing supervision, in the new insurance intermediaries supervision, in handling complex FinTech enquiries, and in digitalisation.

Staff

FINMA is committed to a sustainable personnel policy with an emphasis on efficiency, transparency and a long-term approach. 2023 saw an increase in headcount. The intensive and extremely demanding work related to the Credit Suisse crisis was a significant test of the effectiveness of employees' cooperation and resilience, and one which they passed successfully.

Motivated and competent employees are essential for FINMA to protect customers and the functioning of the financial markets, and therefore to fulfil its legal mandate. The organisation therefore places great value on good internal cooperation and continuing professional development. A high level of job satisfaction and equal opportunities are also key aspects of FINMA's personnel policy.

Additional responsibilities require more staff

At the beginning of 2023, FINMA increased its headcount limit by 44 permanent FTEs to 561.6 FTEs (2022: 517.6). By the end of the year under review, all these additional roles had been filled on a net basis. The main reasons behind the increase in headcount were the additional responsibilities that FINMA was assigned by the legislator. In particular, this concerns the revised Insurance Supervision Act and the implementation of the supervisory tasks as part of the updated Financial Services Act and Financial Institutions Act. Some of the additional roles relate to the further digitalisation of FINMA and the promotion of sustainable finance.

A number of the additional roles were already deployed in early 2023 to bolster the supervision of the large banks as internal resources were shifted. The targeted headcount increase was carried out to assist with the integration of Credit Suisse into UBS, to address the relevant risks and to draw lessons from the Credit Suisse crisis (see "Credit Suisse crisis", page 11 ff.).

Targets regarding key personnel data on track

FINMA had an average of 638 staff members in permanent and temporary employment in 2023 (2022: 594). Around 26% of employees worked part-time, i.e. less than 90% (2022: 26%).

As part of its personnel strategy, FINMA aims for a medium-term average staff turnover rate of 6% to 10%. The optimum staff turnover rate for FINMA is higher than in the Federal Administration as a whole or in the public sector. 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. In addition, healthy dynamism in the personnel structure 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% (2022: 8%), staff turnover in 2023 was below the defined target range. In addition, 0.9% (2022: 0.4%) of the workforce retired.

The internal mobility figures are encouraging. In the year under review, 59% (2022: 95%) of vacancies for permanent positions were filled internally in the first instance. The talent management and succession planning processes allowed internal hires to be carried out across sections and divisions in many cases. A vacant post can thus result in several internal transfers. To additionally promote the internal sharing of knowledge, nine internal and three outbound secondments also took place. In 2023, the percentage of vacant senior specialist and management positions filled from within the organisation was 63% (2022: 68%).

FINMA had its salary policy reviewed again in 2023 by an independent body using "Logib", the Federal Government's equal-pay tool. The gender pay gap measured in this way was within the target range defined by FINMA of +/–2.5%. Equal pay in the strict sense is still guaranteed.

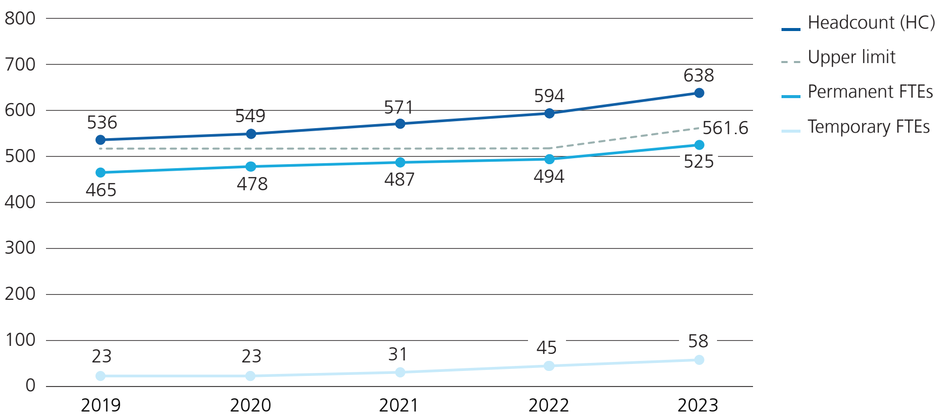
One of FINMA's self-declared goals is to ensure that the proportion of women as a whole at all management levels is approximately the same as in the overall workforce. While 28.9% of all management positions are currently held by women (2022: 30.7%), the proportion of women in the workforce as a whole is 42.1% (2022: 41.3%). FINMA's gender diversity goals are defined in terms of concrete targets which over time will deliver appropriate and sustainable gender distribution at each management level (see "Proportion of women at each management level" in the chart below).

The newly created roles in 2023 were heavily focused on technical-scientific profiles,[13] where the proportion of women in the applications received and in the existing workforce is low. Accordingly, FINMA recorded a decline in the number of women in management roles for the first time in four years in the year under review. This, in combination with the current situation on the labour market and the skills shortage, is going to make it difficult for FINMA to achieve the gender diversity targets, which were set before the pandemic, by 2026.

[13] For example, for positions in risk management, data analysis and information technology.

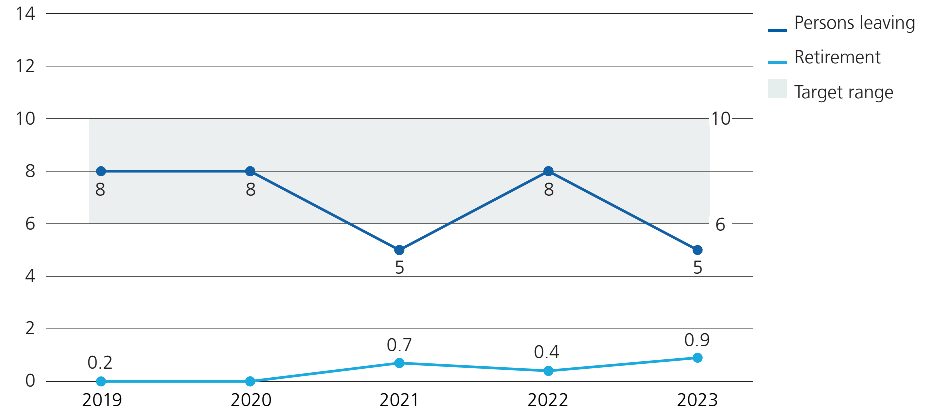
FINMA publishes detailed personnel data annually on its website.

Average headcount



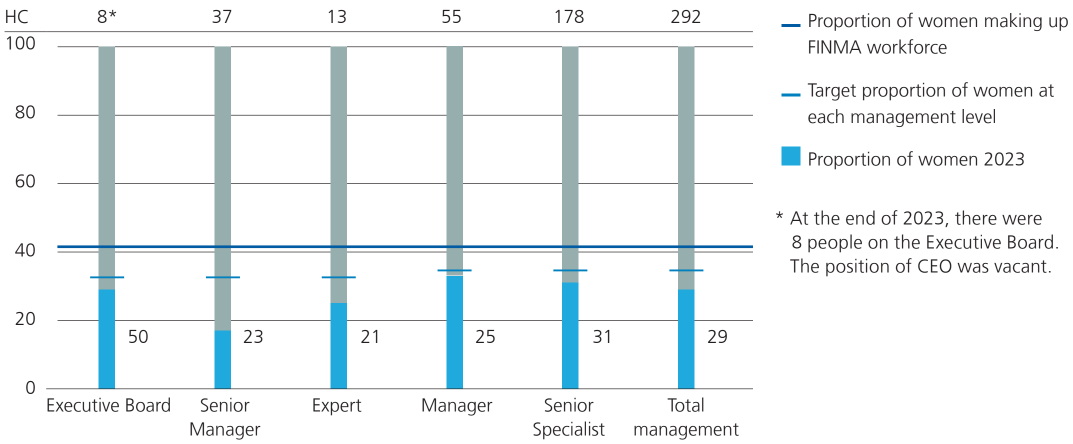
Staff turnover

in %, at year-end



Proportion of women at each management level

in %, at year-end



* At the end of 2023, there were 8 people on the Executive Board. The position of CEO was vacant.

Once again in 2023, FINMA looked to the future and pushed forward the automation and digitalisation of its processes. As part of its digital strategy, it enhanced and simplified digital exchange with supervised institutions. By using robotic process automation, FINMA automated working processes in a targeted way, thereby increasing its efficiency as an authority.

Digitalisation and operations

As part of its digital strategy, FINMA continued to automate and optimise processes, therefore increasing employee efficiency. In cyber security, too, it continued to make progress and was able to adapt to changing threats. FINMA also made progress in sustainability and operational environmental management.

Once again in 2023, FINMA successfully introduced new digital tools, both in its supervisory activity and as an organisation to make processes and work steps more efficient and effective. At the same time, it extended the use of existing digital platforms. In parallel and also as a result of global events, cyber risks grew. Protection against these risks and ongoing development of the relevant measures remain a key priority. An important cornerstone of the cyber security strategy was also raising awareness and training staff.

Digital strategy is being implemented

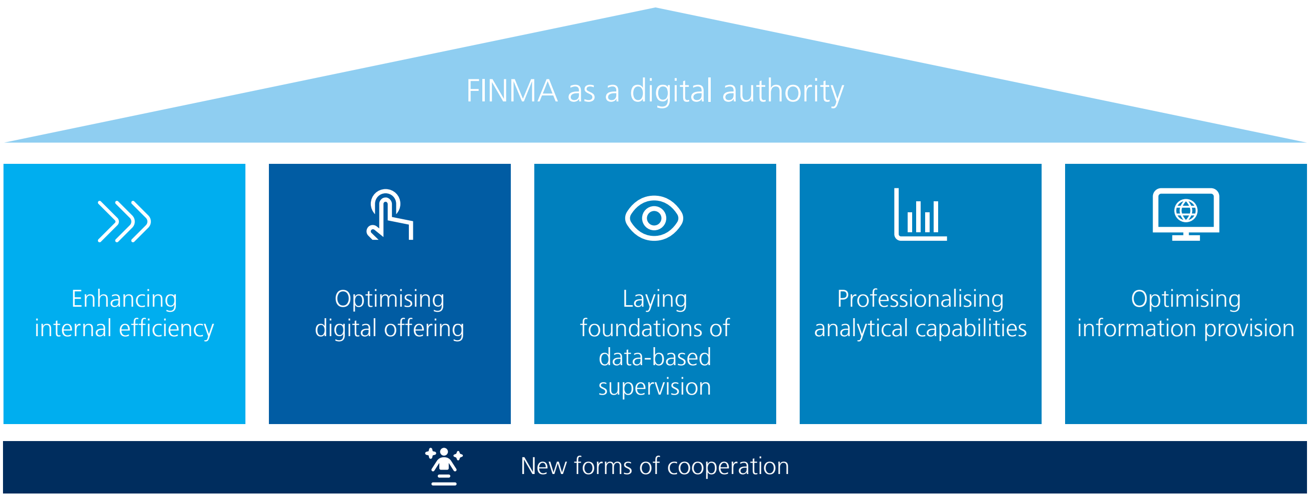
FINMA continued to actively press ahead with the implementation of its digital strategy in 2023 (see chart below). Besides the roll-out of various digital applications in supervision (SupTech, see "Digitalisation of supervisory activity (SupTech)", page 37 ff.), progress was made in optimising and automating processes. FINMA also set up a centre of competence in robotic process automation, which actively helps the specialist units automate processes. "Software robots" take on repetitive tasks for staff, thereby relieving them of administrative duties.

The survey and application platform (EHP) was again upgraded and enhanced in 2023. This has allowed more use cases to be processed entirely electronically via the platform through digital exchanges with supervised institutions. Regarding the necessary legal basis in relation to the binding nature of electronic correspondence, FINMA worked closely with the State Secretariat for International Finance.

Cyber security is becoming increasingly important

In light of the increasing digitalisation, the topic of cyber security continued to gain in prominence in

The five pillars of FINMA's digital strategy



2023. The primary objective is to protect infrastructure and information, and the integrity, confidentiality and availability of FINMA's systems and data. This requires an ongoing assessment of the threat situation. FINMA employs a holistic cyber security strategy, which is based on a recognised standard that covers the various fields of cyber security. Continually developing this strategy and adapting it to the constantly changing threat landscape are top priorities.

There was a significant increase in phishing attacks in 2023. They included smishing (phishing via SMS), the use of QR codes, or nested emails containing links to external websites. Some politically-motivated ("hacktivism") attacks were recorded, often influenced by current geopolitical events. Cases of fraud were also reported in which FINMA's name was fraudulently used to add credibility. In some cases this was done using faked documents, emails or social media profiles. The statistics of the National Cyber Security Centre (NCSC) also bear out the increase in cases of fraud in general. FINMA works closely with the NCSC and other relevant institutions in this context.

Once again in 2023, a key pillar of FINMA's cyber security strategy was raising employee awareness. It ran an awareness campaign that used modern tools and realistic simulations. Regular phishing tests, training sessions and events were held with internal and external speakers.

Commitment to sustainability as part of RUMBA and the 2030 Agenda

FINMA is committed to the continual reduction of its environmental footprint through corresponding policies and objectives within the framework of RUMBA, the Federal Administration's programme for managing resources and environmental issues. It is also committed to 3 of the 17 goals of the 2030 Agenda for sustainable development. They are goal 7 "affordable and clean energy", goal 12 "responsible consumption and production" and goal 13 "climate action".

FINMA took action in the following areas in 2023:

Clean energy

As part of its environmental management, FINMA is improving its energy efficiency on an ongoing basis. The conversion of the lights in the Bern offices to LED bulbs was completed in 2023. Also in Bern, four charging stations for electric vehicles were put into operation. They will support employees in switching to electromobility.

Reducing power consumption became an even greater focus of attention. The roll-out of a software application allows FINMA to track its power consumption in real time and, in the event of quantitative restrictions, to monitor the efficiency of its measures.

Buildings

The cleaning of FINMA buildings also has a direct impact on the environment and on the health of FINMA's employees and cleaning staff. In the WTO tender process for the cleaning of buildings that was conducted in 2023, requirements were therefore included on protection of the environment and health and on the resource-efficient use of cleaning products, techniques and methods.

Transport

FINMA recorded higher greenhouse gas emissions from air travel in 2023 than in the previous year. This is due to the fact that, post-pandemic, more in-person meetings are taking place again at an international level. However, emissions were still much lower in 2023 than before the pandemic, despite an increase in headcount.

Sustainable consumption

Through a disposal concept introduced in the year under review, FINMA produced significantly less waste at its offices in Bern and Zurich. The waste was also sorted as efficiently as possible and fed back into the materials cycle.

FINMA fleshed out its sustainability criteria in its procurement strategy. In the tender process for catering in Bern and Zurich, sustainability was one of the award criteria. Three examples include measuring and preventing food waste, avoiding single-use cutlery and plates, and using up leftovers. Thousands of single-use cups were saved last year thanks to a pilot project involving reusable cups at both FINMA locations.

Target of reducing greenhouse gas emissions by 2030 is achievable

The environmental indicators developed positively again last year. Electricity consumption continued to fall, and paper consumption per FTE was also low compared with the pre-pandemic period. Absolute heating consumption per m² of energy reference area remained volatile as it depends on the number of heating days and therefore cannot be influenced. As a result, FINMA is well on track to meet its target of reducing greenhouse gas emissions by over 30% by 2030 compared with the 2019 baseline.

Operating costs

The new statutory duties arising from the implementation of the FinIA and FinSA, the supervisory requirements for insurance intermediaries resulting from the revision of the Insurance Supervision Act (ISA), new supervisory topics relating to sustainability, cyber security and FinTech, the digital transformation and the effects of the Credit Suisse crisis are all leading to rising expenses. This is reflected in the operating costs. FINMA's annual financial statements therefore showed operating costs of CHF 142 million (2022:

Evolution of environmental indicators

	Unit	2019	2020	2021	2022	2023	Change from prior year in %
Power consumption, Bern	kWh	823,274	710,892	596,769	574,425	520,291	–9.4
Power consumption, Zurich*	kWh	107,006	81,804	68,428	229,377	218,071	–4.9
Consumption of heating energy, Bern (district heating)	kWh	1,056,248	1,004,466	992,893	822,461	841,142	2.3
Consumption of heating energy, Zurich (natural gas)	kWh	456,605	438,125	508,144	380,009	388,032	2.1
Total energy consumption	kWh	2,443,133	2,235,287	2,166,234	2,006,272	196,536	–1.9
Proportion of total energy needs met by renewable energy sources	%	70.2	68.9	80.2	86.7	87.2	–0.6
Consumption of photocopier paper per FTE	kg	16.7	8.8	3.6	4.1	4.2	3.0

* Power consumption Zurich 2022 includes general electricity for the building for the first time

CHF 133 million). Together with the statutory reserves, this amounted to CHF 156 million (2022: CHF 146 million). These expenses were covered by income from supervisory fees and levies.

FINMA's total reserves amounted to CHF 144 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. FINMA's expenses will continue to rise for the reasons mentioned above. An allocation to the total reserves is therefore to be anticipated in 2024.

FINMA meets increasing requirements with risk-based reprioritisation and, where possible, with efficiency gains in processes. In view of the additional statutory duties and in order to deal with key future issues as well as the effects of the Credit Suisse crisis, FINMA's Board of Directors decided to increase the headcount limit by a further 52 positions in the year under review. The maximum headcount is a planned figure. The actual number of full-time positions will therefore increase organically over the following two years, depending on demand, and will be controlled through the annual budget planning.

Annual financial statements for 2023

The 2023 Annual Financial Statements, which set out FINMA's results in detail, are published separately.

Abbreviations

AI Artificial intelligence
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 955.033.0)
Art. Article
AT1 Additional Tier 1
BA Swiss Federal Act of 8 November 1934 on Banks and Savings Banks (Banking Act; SR 952.0)
BCBS Basel Committee on Banking Supervision
BIO-FINMA Ordinance of the Swiss Financial Market Supervisory Authority on the Insolvency of Banks and Securities Firms (FINMA Banking Insolvency Ordinance; SR 952.05.1)
BPES Banque Privée Espírito Santo
CA Cryptoassets
CAO Swiss Federal Ordinance of 1 June 2012 on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (Capital Adequacy Ordinance; SR 952.03)
CEO Chief Executive Officer
CET1 Common Equity Tier 1
CHF Swiss francs
CMG Crisis management group
CONSOB Commissione Nazionale per le Società e la Borsa
CS Credit Suisse
D-SIB Domestic systemically important bank
DeFi Decentralised finance
DLT Distributed ledger technology
EHP FINMA's survey and application platform
ESG Environment, social, governance
ETP Exchange traded product
EU European Union
f. and the following (page)
FATF Financial Action Task Force on Money Laundering
FDF Federal Department of Finance
ff. and the following (pages)
FinIA Swiss Federal Act of 15 June 2018 on Financial Institutions (Financial Institutions Act; SR 954.1)
FINMA-GebV Ordinance of 15 October 2008 on the Levying of Supervisory Fees and Charges by the Swiss Financial Market Supervisory Authority (FINMA Ordinance on the Levying of Supervisory Fees and Charges; SR 956.122)
FINMA Ordinance on Data Processing Ordinance of the Swiss Financial Market Supervisory Authority on Data Processing
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)
FinSO Ordinance of 6 November 2019 on Financial Services (Financial Services Ordinance; SR 950.11)
FMI Financial market infrastructure
FSB Financial Stability Board
FTE Full-time equivalent
G20 Group of the 20 leading industrialised and developing economies
GPR Geopolitical risk
HC Headcount
HIBO Ordinance of the FDHA on benefits under compulsory health insurance (Health Insurance Benefits Ordinance; SR 832.112.31)
IAIS International Association of Insurance Supervisors
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)
ISSB International Sustainability Standards Board
IT Information technology
kg Kilogram
kWh Kilowatt hour
LCR Liquidity coverage ratio
LED Light-emitting diode
Logib Federal government's equal pay instrument
m Million
Margin no. Margin number

MiFID II Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173, 12.6.2014, p. 349–496
MiFIR Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173, 12.6.2014, p. 84–148
MoU Memorandum of Understanding
MRA Mutual Recognition Agreement
MROS Money Laundering Reporting Office Switzerland
NBFI Non-bank financial intermediation
NCSC National Cyber Security Centre
NGFS Central Banks and Supervisors Network for Greening the Financial System
No. Number
NSFR Net stable funding ratio
Ordinance to FINMASA Swiss Federal Ordinance of 13 December 2019 to the Financial Market Supervision Act (Ordinance to FINMASA, SR 956.11)
OTF Organised trading facility
p. Page
para. Paragraph
PInC Parliamentary Investigation Committee
ReSG Resolution Steering Group
RUMBA Federal Administration's programme for managing resources and environmental issues
SARON Swiss Average Rate Overnight
SBA Swiss Bankers Association
SIA Swiss Insurance Association
SIF State Secretariat for International Finance
SIX SIS Securities Services client AG
SIX x-clear SIX x-clear AG
SMEs Small and medium-sized enterprises
SMS Short Message Service
SNB Swiss National Bank
SO Supervisory organisation
SR Classified Compilation of Federal Legislation
SRC Standing Committee on Supervisory and Regulatory Cooperation
SRO Self-regulatory organisation
SST Swiss Solvency Test
SupTech Supervisory technology
UBS UBS Group AG
UCITS Undertakings for Collective Investment in Transferable Securities
USA United States of America
VASP Virtual asset service provider
WTO World Trade Organization
ZKB Zürcher Kantonalbank

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Data sources
Unless stated otherwise, the statistical data originates from internal sources. FINMA publishes various statistics on its website.

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- Division Operating Office — **Heribert Decorvet**
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- Supervision of D-SIB and Medium-Sized Banks — **Cindy Berthou-Landmann**
- Supervision of Small Banks and Securities Firms — **Karl Rappl a.i.**
- Risk Management — **Christian Capuano**
- Authorisation — **Kenneth Ukoh**

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- International Relations — **Judit Limperger**
- Risk Management — **Michael Schmutz**
- Supervision of Swiss Re Group — **Dietrich Schardt**
- Supervision of Zurich Insurance Group — **Andreas Widmer**
- Personalised Supervision of Insurance Companies — **Camille Bosgiraud**
- Digital Supervision of Insurance Companies and Intermediaries — **Markus Geissbühler**
- Legal Expertise, Authorisation and Registration — **Philipp Lüscher**

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- Financial Market Infrastructures and Derivatives — **Andreas Bail**
- Market Analysis — **Matthias Obrecht**
- Accounting — **Stephan Rieder**

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Marlene Amstad
Chair

- Secretariat of the Board of Directors
- Internal Audit

CEO
Birgit Rutishauser a.i.

- CEO Office
- Communication

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Division Operating Office
Martin Meier

Portfolio Managers and Trustees
Laura Tscherrig

Authorisation
Philippe Ramuz

Supervision
Daniel Bruggisser

Legal Expertise
Noélie Läser

Enforcement
Patric Eymann *

Division Operating Office
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Proceedings
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Marc Mauerhofer

International Cooperation
Dominik Leimgruber

Recovery and Resolution
Alain Girard *

Division Operating Office
Marcel Walthert

Crisis Management and Legal Expertise
Franziska Balsiger-Geret

Planning, Coordination and Institutions
Roman Jucker

Technical Expertise, Policy and International Affairs
Michael Piller

Organisation chart

(31 December 2023)

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

Supervisory Policy and Legal Expertise
Annemarie Nussbaumer *

- Division Operating Office – **Florian Roth**
- Regulation – **Tobias Weingart**
- International Affairs – **Garry-Philippe Obertin a.i.**
- Legal and Compliance – **Renate Scherrer-Jost**, **Kathrin Tanner**

Operations
Alexandra Karg *

- Division Operating Office – **Christoph Hunziker**
- Facility Management and Purchasing – **Albert Gemperle**
- Finance – **Thomas Flückiger**
- Human Resources – **Adrian Röthlisberger**
- Information and Communication Technologies – **Niko Kehm**
- Risk, Security and Governance – **Ramona Strassberger**

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 95 ff.).

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 that 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 a 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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