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 and core values

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

FINMA supervises banks, securities firms, insurance companies, financial market infrastructures, collective investment scheme products and institutions, entities under the Financial Services Act and the Financial Institutions Act, in addition to insurance intermediaries. FINMA acts independently and consistently while its staff combine experience with responsibility, integrity and the ability to deliver results. In its role as supervisor, FINMA adopts a risk-oriented approach. Its activities cover the following areas.

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

Supervision
FINMA monitors permanent compliance with statutory regulations and licensing requirements. It is also responsible for combating money laundering. In addition it supervises the disclosure of shareholdings at listed companies as well as public takeover offers under the Financial Market Infrastructure Act.

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 restructuring proceedings and bankruptcies.

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 international tasks that are related to its supervisory activity. It represents Switzerland in international fora and cooperates with foreign regulators.

2020 in milestones

JANUARY

The Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) come into force. (1 January)
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FEBRUARY

The Ordinance to the Financial Market Supervision Act (FINMASA) comes into force. (1 February)
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FINMA grants first FinTech licence to Yapeal AG by recognising it as a person as defined by Article 1b of the Banking Act (FinTech licence). (4 February)
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FINMA identifies serious anti-money laundering failings at Julius Baer. (20 February)
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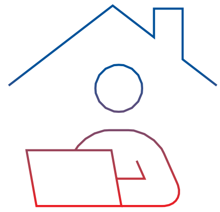
FINMA issues a report on the status of the recovery and resolution plans of the systemically important Swiss financial institutions. (25 February)
p. 66

MARCH



The Federal Council appoints Marlene Amstad Chair of FINMA's Board of Directors effective 1 January 2021. (13 March)
p. 84

FINMA employees are instructed to work from home. (20 March)
p. 18

FINMA grants specific regulatory exemptions, for example regarding the calculation of the leverage ratio, thereby supporting the Federal Council's liquidity package for the real economy. (25 March)
p. 12

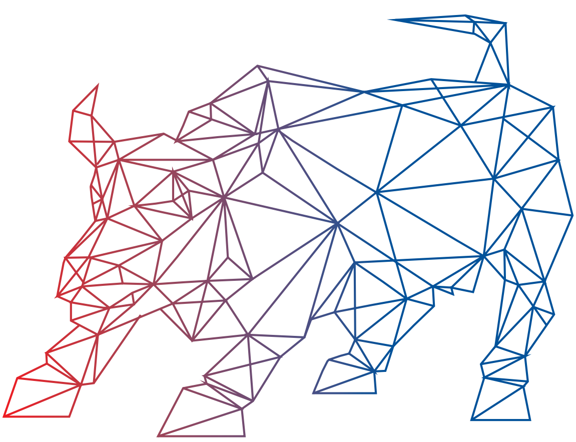
The global spread of the coronavirus causes significant turbulence on the international financial markets.

The Federal Council declares an "extraordinary situation" (the highest threat level) under the Epidemics Act. (16 March)

The Federal Council approves the deactivation of the countercyclical capital buffer. (27 March)

APRIL

Libra (now Diem) submits an application for a payment system licence. (16 April)
p. 28



Reviewing bodies for prospectuses are authorised pursuant to FinSA. (1 June)
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The deadline expires for registering portfolio managers and trustees. (30 June)
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FINMA authorises the first portfolio managers and supervisory organisations under FinIA. (6 July)
p. 34

The first registration body for client advisers is authorised pursuant to FinSA. (20 July)
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FINMA's Board of Directors holds a regulatory roundtable on the disclosure of climate risks. (11 August)
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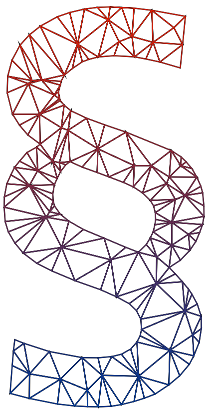
MAY | **JUNE** | **JULY** | **AUGUST**



FINMA recommends applying the new fallback documents issued by the International Swaps and Derivatives Association (ISDA) for a successful transition from LIBOR for derivatives. (16 October)
p. 36

FINMA's Board of Directors adopts regulation implementing FinSA and FinIA. (4–5 November)
p. 71

FINMA opens consultation on the review of circulars regarding the disclosure of climate-related financial risks. (10 November)
p. 37

FINMA publishes its annual Risk Monitor. (11 November)
p. 49

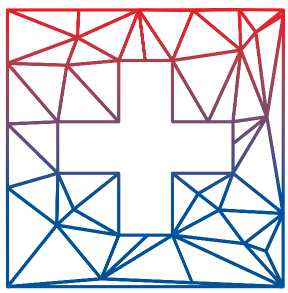
The Federal Council approves FINMA's strategic goals for 2021 to 2024. (18 November)
p. 78

FINMA publishes its LIBOR transition roadmap. (4 December)
p. 36

FINMA informs the public of the need for comprehensive action regarding service settlements in the supplementary health insurance sector. (17 December)
p. 50

SEPTEMBER | **OCTOBER** | **NOVEMBER** | **DECEMBER**

The Federal Council decides on the further development of financial market policy. (4 December)



Stability in the crisis

Risks with a low probability of occurring but an extreme impact are referred to as tail risks. The coronavirus pandemic, which in the spring of 2020 triggered a global health emergency, plunging the world economy into deep recession and sparking turmoil on the financial markets, was a classic tail risk. The Swiss financial industry has of course not escaped the pandemic and its repercussions dominated FINMA's year.

Well prepared for a crisis

The coronavirus crisis is the first major test of the regulatory changes introduced since the 2008 financial crisis. The higher capital buffers that have been built up in recent years have proved to be extremely effective in maintaining stability and trust. In those instances where upheavals on the financial markets put financial institutions under strain, swift action by those firms as well as authorities in Switzerland and abroad quickly defused problems.

The regulatory toolkit also benefited from its inbuilt flexibility. FINMA was able to use the leeway provided by the law to grant temporary exemptions from certain regulatory requirements and thus offer supervised firms time-limited relief in specific areas. At the same time, FINMA called on the financial industry to adopt a cautious distribution policy to ensure room for manoeuvre and flexibility given the highly uncertain outlook.

By its nature the coronavirus crisis not only necessitated good financial risk management, but also stress tested the business continuity plans of the financial industry and FINMA as a supervisory authority. Here too detailed preparation in recent years paid off. FINMA also probed vulnerabilities through its own stress tests and systematically examined control systems and potential problems via (increasingly virtual) on-site reviews. The upsurge in instability on the global financial markets also underlined the urgent need to complete the remaining work to mitigate the "too big to fail" problem.

As in the aftermath of the last financial crisis, one key aim must be to learn lessons for the future. Hence FINMA's 2020 Annual Report devotes a separate chapter to the economic and financial challenges of the coronavirus crisis and the measures taken in response.

Risks on the increase since crisis

FINMA published its first-ever Risk Monitor, an overview of the key risks to Swiss financial markets, at the end of 2019. While the coronavirus crisis did not materially alter the landscape, it accentuated a number of the risks.

Awareness of long-term trends

Good crisis preparedness and warding off the immediate risks in a crisis are critical tasks of financial market supervisors. But FINMA also believes it has a responsibility to highlight longer-term challenges and encourage supervised institutions to incorporate them in their decision-making. In 2020 FINMA focused particularly on the risks associated with climate change, at the same time broadening its expertise in this field.

High-profile innovations such as the Diem (formerly Libra) project, as well as a host of smaller innovative projects pose a challenge to regulatory policy and in day-to-day supervision. They are also, however, an opportunity to demonstrate that Switzerland offers an attractive and robust framework for innovative business models. This is essential to the future of the Swiss financial centre. FINMA therefore again devoted considerable attention to the FinTech market in 2020.

Strategic continuity

As a year of crisis, 2020 brought major challenges for the Swiss financial markets and FINMA as a supervisory authority. Nevertheless, the crisis also underscored the achievements of recent years. Overall, the focus and calibration of regulation and the strategic direction of financial market supervision have been shown to be on the right track. FINMA therefore emphasised continuity in setting its new strategic goals for the period 2021 to 2024. The change at the helm of FINMA's Board of Directors will also provide both continuity and renewal, as the former Vice-Chair of the board, Professor Marlene Amstad, takes over the position of Chair at the beginning of 2021.

Finally, we would like to pay tribute to the work of FINMA staff at all levels in these challenging times. In our experience it has been exceptionally effective, as has been the cooperation with partner authorities at home and abroad. High levels of commitment, flexibility and creativity by all concerned have been the hallmark of 2020. At the end of a difficult year, this allows us to look to the future with optimism.

We hope you enjoy reading the report.

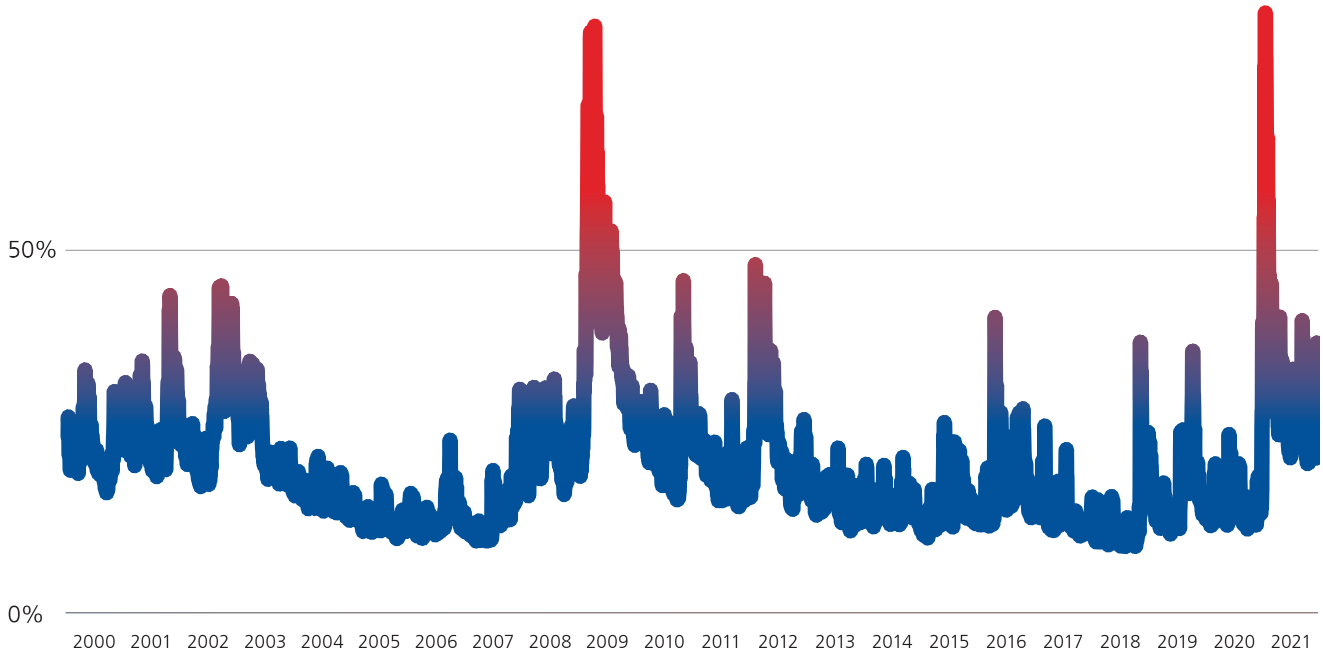
Dr Thomas Bauer – Chair

Mark Branson – CEO

Contents

Pandemic drives acute uncertainty on financial markets

The unfolding pandemic sparked acute uncertainty on financial markets in spring 2020. In March, the Volatility Index (VIX) on the Chicago Board of Exchange (CBOE) futures market – measuring implied volatility on the S&P 500 – hit a historic high amid extreme investor anxiety. Calm only began to return with broad-based monetary and fiscal intervention. FINMA adapted its supervisory activities to these extraordinary conditions by supporting the financial services industry where needed and adopting an extremely prudential approach.



Financial market supervision against the backdrop of the pandemic

The Swiss finance industry during the pandemic

In 2020 the coronavirus pandemic presented major challenges for the Swiss financial market, too. FINMA adapted its supervisory activities to these extraordinary circumstances by adopting an extremely prudential and risk-focused approach, supporting the financial services industry where needed and helping to keep the real economy on track, in fulfilment of its mandate. Changes to capital and liquidity requirements in recent years had stood financial institutions in good stead to weather the crisis.

The pandemic had a massive impact on the financial markets and market participants. As the coronavirus spread around the world in March 2020, international financial markets experienced significant upheavals. A first phase saw substantial demand for safe-haven assets such as government bonds issued by specific countries, alongside large-scale shedding of riskier investments such as equities and corporate bonds. This resulted in high volatility in capital markets and, at times, sharp price falls. In derivatives markets, requirements in terms of collateral for open positions increased markedly. A second phase saw liquidity from investments and markets regarded as safe (such as US money market funds and the USD repo market respectively) dry up, with investors looking solely to hold cash. The supply overhang in fixed income could not longer be absorbed by the market. Only at the end of March, when the central banks responded with broad-based and at times unprecedented intervention, did a measure of calm return to the markets. This intervention included a further loosening of the monetary reins and extensive securities purchases.

Although Switzerland, too, was impacted by the sharp declines in the financial markets, Swiss financial institutions were well prepared for the crisis. In operational terms, both financial market infrastructure providers and the financial institutions themselves were able to continue offering their services without interruption during the extraordinary situation in the spring. In financial terms, too, these institutions were well prepared for the crisis. Having implemented the Basel III reforms in the aftermath of the 2008 financial crisis and given the strict capital requirements for global systemically important banks (G-SIBs), Swiss banks had built up substantial capital and liquidity buffers in the preceding years. Insurers' key ratios were also well above FINMA's minimum requirements at the beginning of the pandemic. This contributed significantly to the financial system's resilience and prevented any immediate spread of the crisis to the financial sector. Some banks, moreover, posted large profits on account of the high volatility and were thus actually able to strengthen their capital base during the pandemic. Nor were there any major incidents in the asset management field as a result of the pandemic. The liquidity of Swiss investment funds was maintained at all times.

The consequences of the emergency health measures were acutely felt by the real economy, leading to significantly negative repercussions for the balance sheets of banks and insurance companies. Depending on the future course of the pandemic and attendant economic developments, this risk remains.

The Federal Council reacted swiftly in spring 2020, implementing far-reaching measures to support the real economy. FINMA, too, introduced a number of regulatory countercyclical measures and adjusted the focus of its supervisory activities accordingly.

FINMA's regulatory measures

FINMA supported the Federal Council's package of measures on 25 March 2020, which provided for a swift and unbureaucratic supply of liquidity to the real economy via the banking system. FINMA also welcomed the deactivation of the countercyclical capital buffer in relation to the mortgage market, suspended in late March by the Federal Council at the request of the Swiss National Bank (SNB). At the time, all the authorities concerned were expecting the real estate market to cool substantially.

Despite their sound capital base, FINMA called upon banks and insurers to exercise restraint in their dividend policies and to refrain from any share buyback programmes. It regarded this as a preventive measure at a time of extreme uncertainty in order to maintain the companies' resilience if a lengthy downswing were to set in. Subsequently, the financial institutions discontinued their share buyback programmes. With regard to dividends, various banks, including UBS and

Credit Suisse, decided to postpone half their dividend payments for 2019 until a later point in time. FINMA welcomed this decision.

FINMA's regulatory measures were aimed on the one hand at preventing any unwanted procyclical effects. These would have narrowed the supervised institutions' scope for action to a disproportionate extent, thus possibly also having an adverse effect on the real economy. One of these measures concerned the banks' reserves with central banks and calculation of the leverage ratio. As a regulatory benchmark, the leverage ratio seeks to ensure that all balance sheet items have to be underpinned with capital regardless of risk. Since many of their customers hold their assets as cash for safety reasons, numerous banks held unusually large cash balances with central banks during the crisis. This caused the leverage ratio to fall and hence potentially reduced the banks' lending capacity without their level of risk having substantially risen. Consequently, FINMA allowed the banks to temporarily calculate their leverage ratio without central bank reserves. Additional regulatory measures to avoid undesirable procyclical influences related primarily to the banks' risk diversification rules, a smoothing of the yield curve in connection with the Swiss Solvency Test (SST) to reduce volatility, a relaxation of the rules for banks with the model approach to market risk in connection with backtesting results, and more detailed instructions regarding value adjustments for default risks under international financial reporting standards.

FINMA also instituted measures to facilitate operational procedures for financial intermediaries that were being hampered by the pandemic. This included simplifying the client identification procedure. Anti-money laundering rules require new clients to be identified by having them present an identity document. FINMA issued a temporary exemption to this rule. It was now only necessary to verify a client's identity within 120 days (rather than 30 days), and it was already permissible for certain clients to make use of the business relationship even before this period had elapsed.

And finally, FINMA granted exemptions and extended deadlines for reporting in the insurance field as well as extending the grace period before the introduction of new obligations in derivatives trading.

All FINMA's interventions were of a temporary nature and were communicated in various guidance notices. Moreover, they were in keeping with the measures taken by supervisory authorities in other countries with significant financial centres. As the year went on, as markets returned to normal, these measures – apart from simpler identification of clients abroad – were reversed.

Supervisory activity at times of crisis

FINMA adapted its supervisory activity in line with the pandemic. In operational terms, this resulted in changes to face-to-face meetings and on-site supervisory reviews, which owing to the lockdown were kept to a minimum. Instead, an intensive dialogue with supervised institutions was maintained via digital channels. It is precisely such times of major market fluctuations and increasing risk that call for a strengthened presence of FINMA and greater interaction with the sector.

In recent years, FINMA had invested considerable resources in digitalising its processes, and these have borne fruit in the pandemic. Staff were easily able to perform centralised functions such as supervisory and licensing activities while working from home. This has enabled the supervisory teams to maintain a constant dialogue with supervised institutions during the coronavirus pandemic.

Stepping-up of bank monitoring

Owing to market upheavals and the uncertain economic outlook, FINMA stepped up its monitoring of the banking sector in the year under review. At the major banks, it focused in particular on their international activities. In higher-risk areas of business, such as international lending to highly indebted companies (leveraged lending), a number of losses occurred. The positive aspect of this was that the business has been scaled back considerably since the last financial crisis while it has been possible, thanks to hedging transactions, to mitigate some of the losses. Owing to the market upheavals, the higher liquidity requirements of corporate clients (which were making use of open lines of credit) and increased demand for collateral for transacting derivatives business resulted in a shortage of liquidity in international business. Interventions by the Federal Reserve took some of this pressure off the markets, however.

FINMA stepped up its monitoring activities in the Swiss lending business too. It concentrated on particularly exposed segments such as corporate loans (especially in sectors badly hit by the crisis, such as transport, hospitality and tourism) and on the financing of commodity trading. It also kept an eye on possible risks in the mortgage market. Here it concentrated mainly on commercial properties and investment properties. In doing so, FINMA maintained a steady focus on vulnerable institutions. In the event of imminent undercapitalisation or liquidity shortfalls, it would have had to intervene swiftly. The loan-granting capacity of the banking sector as a whole was also of significance. Keeping the real economy supplied with loans and liquidity during a crisis is of crucial systemic importance. At no time, however, was this in danger. In this respect, too, the creation of capital buffers over the past years had a positive impact. These buffers improve the banks' ability to absorb losses and can be used to back new lending. Built up at times of relative prosperity, these buffers enable the banks to absorb shocks. In FINMA's view, however, the use of the buffers even during a crisis must comply with the financial institutions' risk management criteria.

Supervisory activities in the insurance field

In the insurance sector, FINMA required the larger institutions in particular to report more frequently on their SST calculations and on the coverage of tied assets. For FINMA it was crucial to be promptly informed of any changes so as to be able to respond swiftly whenever the need arose. The financial market shock in spring led to short-term reductions in SST ratios that were in some cases significant. As in the case of tied assets, there were only isolated cover shortfalls. Due to existing capital buffers, insurance companies were able to take suitable measures.

Survey on pandemic exclusions

In May 2020 FINMA conducted a survey on "products and the pandemic" among selected insurance companies. For this it chose 44 insurers that operate in the Swiss direct insurance business in the relevant branches of the insurance industry. Based on this survey, the total for insured gross claims in Switzerland during the coronavirus pandemic was put at CHF 1.1 billion. This amounted to just under 4% of the gross premiums earned in Swiss business in the 2019 financial year. 72% of these gross claims related to epidemic and hygiene insurance with additional coverage for business interruption. Next largest by a wide margin was travel and assistance insurance (12%), followed by insurance policies for event cancellations (9%).

Stress testing at banks and insurance companies
Another aspect of FINMA's supervisory work is its regular performance of loss-potential analysis for large insurers and banks (stress testing). FINMA developed – alongside its existing scenarios – a specific adverse coronavirus pandemic scenario, which it applied to both the banking and insurance sectors. The scenario is based on assumptions of renewed draconian measures. The stress test was performed by all banks and insurance companies in categories 1 and 2.

The results for both banks and insurers showed their capital adequacy to be sufficient even for severe economic crisis scenarios, though the capital base of certain institutions would be seriously weakened. FINMA discussed this matter in depth with the supervised institutions and, where necessary, instituted preventive measures.

FINMA's internal organisation and cooperation in the crisis

As soon as the financial markets began suffering upheavals in March 2020, FINMA set up an internal project organisation to coordinate the various supervisory activities and measures relating to the supervised institutions. The project organisation would ensure that FINMA's Executive Board and Board of Directors are kept informed – promptly and sufficiently – about the latest developments and that important decisions are taken swiftly and duly communicated.

FINMA was also in close touch with national and international authorities. Within Switzerland, an intensive dialogue was conducted at various hierarchical levels with the Swiss National Bank (SNB) and the State Secretariat for International Finance (SIF), in which these authorities reported their respective assessments of the situation to each other. The main focus was on the current state and stability of the financial sector, maintaining the supply of credit to the real economy and preparing possible measures to be taken. This cooperation at the national level functioned very well. One reason was that these authorities also maintain a regular dialogue in normal times. In crisis situations, moreover, the responsible bodies and processes are clearly defined.

Dialogue was also intensified at the international level. The relevant standard-setters and multilateral organisations, such as the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO), reported on recent developments and offered platforms on which the various authorities could exchange information. FINMA took part in these virtual meetings, conveying its standpoint on topics such as dividend payments and the use of the capital buffers as support for the real economy. Where the major banks were concerned, contacts with the supervisory authorities of other major financial centres – notably the US Fed and the UK's Prudential Regulatory Authority (PRA) – were intensified. Here, too, the fact that dialogue had already become institutionalised in normal times through the setting-up of "colleges" proved beneficial.

Outlook

It is difficult to predict how the pandemic will develop. The same observation applies to the medium-term development of the economy, and hence the consequences for financial services and FINMA's supervised institutions. Economic recovery depends on various factors: firstly the future course of the pandemic, then the extent and duration of the government's assistance programmes, the ordering of further restrictive measures and the success of global vaccination campaigns. Moreover, the pandemic's repercussions on the economy and the markets will take some time to materialise. Loan defaults are to be expected, and it is possible that real estate markets will undergo corrections. Neither can renewed turbulence on financial markets be ruled out. This may impact the solvency or liquidity of the supervised institutions. FINMA will closely monitor these developments and take action to protect clients, investors and insured persons wherever necessary.

FINMA in the lockdown

The coronavirus pandemic also presented FINMA with considerable operational challenges. Since it already possessed well-developed digital infrastructures and processes, a properly functioning security organisation and flexible, self-disciplined employees and managers, it was largely able to overcome these challenges. Operational measures were always closely aligned to the recommendations and stipulations of the responsible authorities.

Sudden and far-reaching changes

Like many other organisations, FINMA was faced with an abrupt changeover to an operation run almost entirely remotely. Between mid-March and the beginning of June, all FINMA employees – with the exception of a few functions whose physical presence was vital – were obliged to work from home.

Staff already had the necessary equipment for mobile working: They had been provided with laptops equipped with secure mobile access to the inhouse networks. The entire telephone system had also been switched to internet-based voice communication some time previously, and a number of virtual collaboration tools had been introduced. The underlying IT infrastructure was able at all times to deliver the necessary data transmission capacity. Moreover, a high proportion of staff already had electronic signatures for the legally binding signing of documents, and FINMA was able to benefit from the digitalisation of numerous processes that had been driven forward in the preceding years.

Precautionary measures and plan for phased return

During the lockdown, FINMA drafted a comprehensive set of precautionary measures in line with the specifications and recommendations of the Federal Office of Public Health (FOPH). It made arrangements for employees to return to their workplaces and for face-to-face meetings to resume as of the beginning of June in a number of phases. Initially, the return to FINMA premises was permitted on a voluntary basis. Subsequently, the number of face-to-face meetings was also increased.

In October 2020, however, FINMA followed the Federal Council's renewed strong recommendation to reduce employees' in-person presence to a minimum.

Extraordinary staff survey

In August 2020, an extraordinary staff survey was conducted to find out what employees thought of FINMA's handling of the coronavirus pandemic and to encourage them to make suggestions. The response rate was a gratifyingly high 91%, and feedback from employees was very positive overall.

- 91% of staff felt that their working situation had not worsened despite the coronavirus pandemic, and for 49% it had actually improved.
- At an average of 88 out of 100 points, the (virtual) cooperation, the flow of information and the successful accomplishment of core tasks during the coronavirus crisis were rated as very good.
- The work done by FINMA management as well as by its crisis task force also obtained a very high average rating of 92 out of 100 points.
- At the same time, management staff expressed a high degree of confidence in the efficiency and commitment of their employees during the obligatory working-from-home phase, awarding them 94 out of 100 points.
- Despite the generally good ratings (75 out of 100 points), employees saw potential for optimisation, especially in terms of technical equipment – for example with respect to virtual communication and collaboration with internal and external stakeholders.
- Whereas before the coronavirus pandemic staff had on average not worked from home for more than one day per week, most of them now expressed the wish to continue working from home on at least two to three days a week after the

pandemic. At the same time, employees emphasised that regular face-to-face meetings are an important and desirable element of effective collaboration.

Accelerated digitalisation
During the year under review, FINMA accorded a high priority to optimising the hardware used for virtual collaboration. A particular focus was placed on technological tools to facilitate virtual interaction with the supervised institutions and auditors, for example in the context of virtual on-site supervisory reviews.

Further enhancements and upgrades are being systematically tested and successively implemented. At the same time, FINMA constantly strives to ensure the security of data transmissions. Overall, it considers that its targeted strategy of digitalising its activities has been vindicated.

Shaping the “new normal”
Based on the experience gained during the lockdown and the results of the staff survey, FINMA addressed the issue of how working conditions should be structured in the “new normal” phase following the coronavirus pandemic.

It decided that staff should be given additional options for working from home and be provided with the necessary support. Since 2021, FINMA employees have been free to spend up to half of their contractual working hours at home. At the same time, weekly mandatory “presence days” will be established, on which staff are to be physically present in their teams so that direct and informal interaction can also be strengthened. To support future cooperation in the “new normal” era, management processes and rules governing staff have been adapted.

The extensive transformation of future working arrangements at FINMA will also result in changes to the physical and technological working environment. For example, new breakout rooms and collaboration zones will be needed. Depending on their particular situation, moreover, employees will have to be equipped with new technological tools. FINMA will have to plan and systematically move forward with the necessary investments and projects in the coming years.

FINMA oversees more than 29,000 financial institutions and products

Four divisions – Banks, Insurance, Markets and Asset Management – carry out forward-looking, prudential supervision. Private audit firms also conduct regulatory audits on FINMA's behalf. Only those institutions that have been granted a licence to operate in the financial market are monitored.

140 financial market infrastructures

170 securities firms

200 insurers and general health insurers

520 banks

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

9,900 collective investment schemes

17,710 financial intermediaries (self-regulatory organisations, anti-money laundering supervisory bodies, insurance intermediaries)

29,040 institutions and products overseen

Market developments and innovation

Market developments

Financial markets in 2020 were strongly influenced by the coronavirus pandemic, which in March gave rise to major volatility and losses on the stock markets. This placed a further burden on market participants in addition to the continuing low interest rates. Nevertheless, banks, insurance companies and asset managers held their own well in this challenging environment.

The economic environment for the Swiss financial centre was very challenging in the year under review. The coronavirus pandemic caused repeated and extraordinary stress on the market (see section "The Swiss finance industry during the pandemic", page 12). At the same time, as in the preceding years, the ongoing low interest rate environment served to uphold the pressure on margins and exerted a negative impact on the profits of market participants. Lenders in particular came under pressure. Digitalisation also accelerated, thereby placing the sector before additional challenges and new sources of competition. Despite these challenges, no net consolidation trend could be observed within the banking sector during the year under review. Particularly thanks to the licensing of banks and securities firms with digital business models, the numbers of companies entering and leaving the market practically balanced each other out.

Market developments among banks and securities firms

Swiss banks and securities firms were altogether sufficiently armed for the coronavirus crisis and coped well with the manifold challenges, in particular the market shock in the spring, the additional tasks in connection with the credit programmes introduced by the federal government and the changeover to working from home, due in part to the temporary regulatory relief (see section "Financial market supervision against the backdrop of the pandemic", pages 12–17).

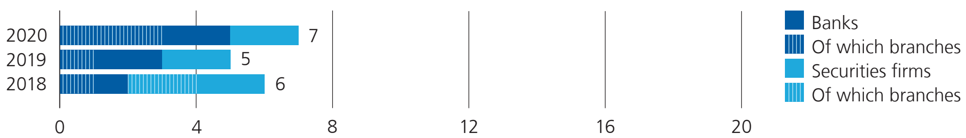
The following developments were at the fore for Swiss institutions in 2020, above and beyond the issues connected with the coronavirus:

The ongoing and more pronounced low interest environment increased pressure on margins again, especially among institutions whose business model is heavily dependent on lending. Interest income was in many cases only kept stable thanks to quantitative growth in new loans and/or adjustments to hedging strategies for interest rate risks. The expansive monetary policy in the key markets is set to continue in 2021 and further accentuate margin pressure.

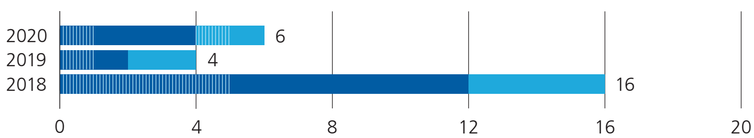
Following the turbulence in spring, the capital markets recovered and performed positively, with many revisiting the levels seen in 2019. Many supervised institutions active in the trading sector benefited from above-average volatility at times during the year and achieved correspondingly positive results.

Trends already observed for some time continued in the real estate market. Investment properties re-

New licences



Market exits



mained highly sought after among investors due to the lack of alternative investment opportunities, although vacancy rates had increased further. Prices in the owner-occupied sector rose at a similar rate as in the previous years. The tightened self-regulation in the funding of investment properties displayed little impact on the overall growth of the volume of mortgages, which amounted to 3% and was therefore only slightly down on the previous year.

The economic downturn in combination with the market price performance of commodities caused some distortion in the commodity trade sector in 2020. Among the financing banks, some institutions also had to form larger reserves for fraud. Owing to the increased risks and lower profitability, banks active in funding the commodity trade are partly reviewing their business strategy and considering a temporary or longer-term reduction of their commitment.

Another general issue was the activities of banks and securities dealers with regard to environmental, social and governance issues (ESG). The theme of sustainability has moved up on the list of priorities of many supervised institutions. Related activities such as setting CO_2 targets or introducing negative lists were observed above all in the investment and asset management business. ESG topics could in future also lead to permanent changes in the lending business and investment banking.

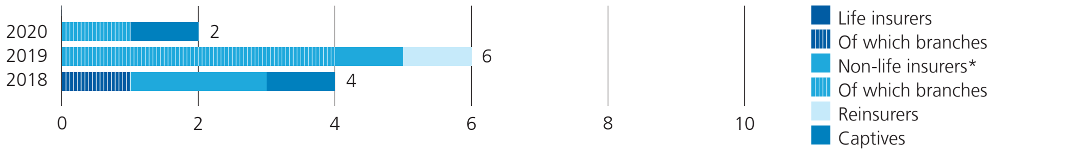
Furthermore, many innovations in the field of digitalisation were pursued in the year under review. Several institutions introduced new digital products and services and successfully placed some of them on the market. The spectrum ranges from new banking apps, cooperation with or shareholdings in FinTech companies, brokerage platforms (such as for mortgages) and the opening of interfaces (open banking) through to the market entries of a securities dealer active in the area of blockchain financial services and a digital bank (see also the section “Innovation”, page 28). These developments were accompanied by isolated market exits in traditional private banking, particularly in western Switzerland.

The 2020 financial statements were largely sound owing to the absence of any major value adjustments and provisions. The reasons for this include monetary and fiscal support measures and increased commission income as a result of volatile capital markets. Regarding lending, the level of insolvencies was remarkably low, although the situation is set to get worse in the years to come. Owing to the low interest rates and the growing competition from the non-banking sector, the pressure on banks’ income will also increase. Initiatives to increase profitability and reduce costs were pursued by various supervised institutions in the year under review. Noteworthy in this respect are an increase in outsourcing and branch closures. In some cases, small institutions sustained losses even for the year under review.

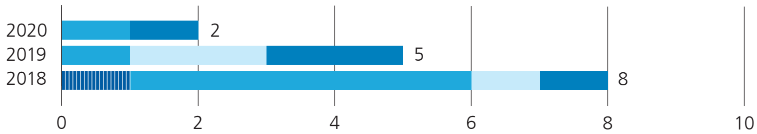
Market developments among insurance companies

Owing to the risk resistance built up in previous years under the impetus of the Swiss Solvency Test (SST), the insurance sector was able to cope well with the financial market shock in March 2020. The at least partial recovery in financial markets during the year had a positive effect on the results, although increased uncertainty in connection with the coronavirus pandemic remained. A further challenge that will continue to impact risks and profitability in the future is the ongoing low interest rate environment. Life insurers were particularly affected by this.

New licences



Market exits



In group life insurance in the occupational pension sector there was continued demand for semi-autonomous and full-coverage insurance solutions. In order to counter the rising conversion rate losses in accordance with the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (OPA) there were further reductions of the conversion rate for supplementary retirement savings. In individual life insurance the range of endowment products was increasingly limited to unit-linked life insurance and hybrid products[1] in order to avoid long-term guarantee commitments and because there were no signs of interest rates recovering.

Market developments in non-life insurance were strongly shaped by the coronavirus pandemic in many different ways: On the one hand, claims payments from business interruption and travel insurance had a negative impact on the results. On the other hand, the lower accident numbers during the lockdown had a slightly positive effect. Uncertainties concerning the applicability of exclusion clauses occasionally gave rise to reputation problems, goodwill payments and settlement offers. New business was down in 2020, partly due to the restricted opportunities for the external sales force and partly due to the significantly lower numbers of newly registered motor vehicles. An overall economic downturn would exert a further negative impact on non-life insurers.

Many non-life insurers attempted partially to offset the sharp fall in investment income by expanding to new business areas or insurance-related additional business (fee business).

There was a marked drop in benefits paid under private supplementary health insurance in accordance with the Insurance Contract Act (ICA) due to the suspension by the Federal Council of non-urgent medical interventions and therapies in March and April. FINMA will know whether this effect has been fully offset at the end of 2020 once the invoices of the service providers as at 31 December 2020 have been received by the supplementary health insurers.

The reinsurance sector bore losses from disasters in 2020 that lay above the average of the past ten years and increased sharply compared with the previous year. According to a study by Swiss Re, losses from natural and human-induced disasters amounted to around USD 83 billion.[2] However, these figures do not include insured losses from the coronavirus pandemic, for which estimates still varied widely for the reinsurance industry at the end of 2020.

[1] Hybrid products are combinations of unit-linked life insurance, for which the policyholder bears the investment risk, and traditional life insurance.

[2] Swiss Re press release published on 15 December 2020.

FINMA conducted a survey among reinsurance companies in Switzerland (excluding reinsurance captives), which also covered the estimated extent of losses due to the coronavirus pandemic. The reported loss estimates were significant, including those for reinsurance companies in Switzerland. The losses from insurance business with clients domiciled in Switzerland were greater than expected compared with the overall losses. Rising excesses for primary insurers and higher premium rates in reinsurance policies were generally expected as a result of the coronavirus pandemic.

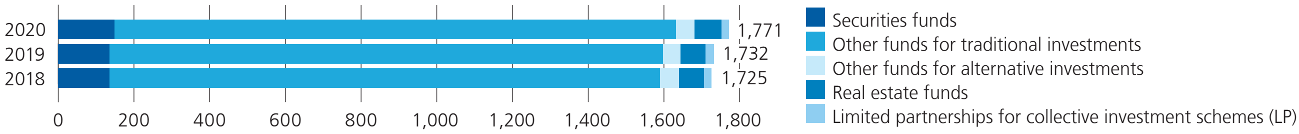
Owing to the restrictions resulting from the pandemic, some companies postponed planned entries to the Swiss insurance market or halted projects underway. There were also delays in the submission of intended applications during the lockdown. Altogether only two new entries – one branch and one reinsurance captive – were recorded in the year under review. The few market exits concerned a smaller non-life insurer and a reinsurance captive.

Market developments in the Swiss fund market

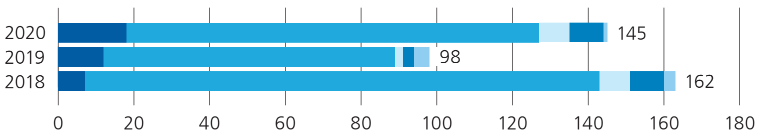
After benefiting from a consistently positive market environment with rising prices and capital inflows at the start of the year, Switzerland at times also sustained severe market fluctuations in the course of the coronavirus crisis and the associated uncertainties. This confronted the asset management sector with further challenges in addition to the ongoing cost and margin pressure. Particularly the high volatility and limited liquidity had to be adequately taken into account. Some market participants therefore suffered a loss of income.

However, in 2020 as a whole the asset management industry did not sustain any significant cash outflows and coped well with the market uncertainties. In contrast, further capital inflows and demand for new products were apparent. For the first time, the threshold of 10,000 Swiss and foreign collective investment schemes approved in Switzerland was exceeded in the year under review, with innovative special products gaining in importance. In addition,

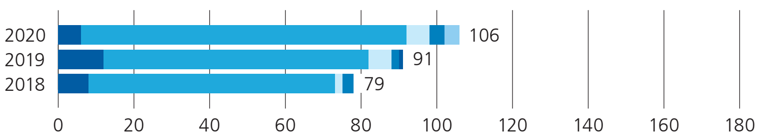
Total Swiss funds



Market entries of Swiss funds

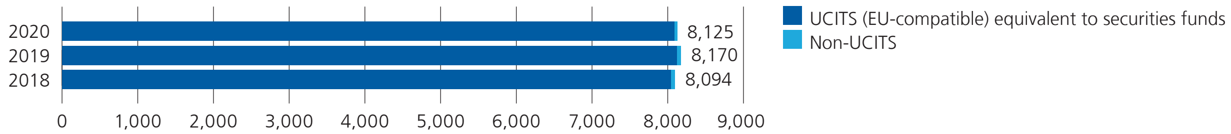


Market exits of Swiss funds

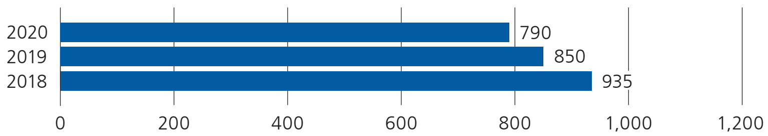


the trend towards sustainability funds and investment strategies focussing on ESG principles (environmental, social and governance) was confirmed.

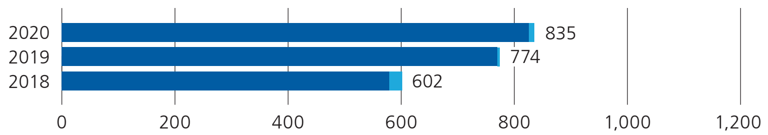
Total foreign funds



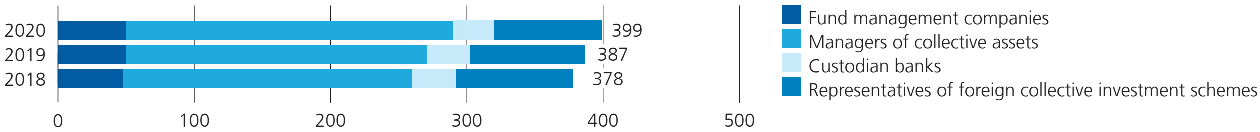
Market entries of foreign funds



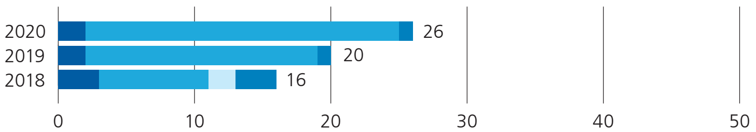
Market exits of foreign funds



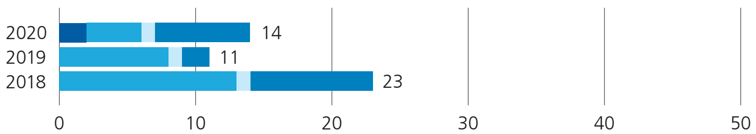
Total institutions



Market entries of institutions



Market exits of institutions



Innovation

The potential for technological innovation in financial markets is significant. FINMA actively contributed to shaping the regulatory conditions for innovative technologies, particularly distributed ledger technology, in the year under review. FINMA also granted the first FinTech licence in 2020 and received the licence application from Diem (formerly Libra) as a payment system in accordance with the Financial Market Infrastructure Act.

Innovation remained a key topic in the finance industry last year. The restrictions caused by the pandemic revealed the possibilities and drove demand for technological innovation such as in the field of payments. FINMA also addressed further blockchain technology applications in financial services, innovations in the trading of financial products, and the licensing of such projects.

FinTech licence

The FinTech licence allows providers of financial services to accept public deposits of up to CHF 100m, provided that these deposits are not invested and no interest is paid on them. The licence is available for all business models in connection with the acceptance of public deposits. However, the enquiries received by FINMA in 2020 showed that it was primarily of interest for business models related to payments. FinTech licensees that operate a significant payments business in Swiss francs also have the opportunity to request access to the Swiss Interbank Clearing system (SIC system) from the Swiss National Bank (SNB). FINMA granted the first FinTech licence in the first quarter. The licensed start-up company plans to offer comprehensive payment services to its customers based on an innovative technological platform. Further licence applications were received by FINMA in the year under review, which it will decide on in 2021.

Diem (formerly Libra)

In its press release of 16 April 2020, FINMA made public the receipt of the licence application from the Libra Association, renamed the Diem Association in December, based in Geneva. The applicant is seeking a licence as a payment system operator in accordance with the Financial Market Infrastructure Act (FMIA). The application is based on the information contained in the updated white paper published in April 2020, which differs considerably from the originally envisaged project. In particular, it proposes that the Diem payment system will support single-currency stable coins.

The submission of the revised application marked the start of the formal licensing process under Swiss supervisory law. The outcome and duration of the procedure remain open. FINMA will analyse the application thoroughly and request amendments in the event of any outstanding issues. As provided by the FMIA, FINMA will impose additional requirements for any aspects that pose increased risks such as bank-like activities. FINMA will also examine whether national and international standards for payment systems and for combating money laundering are upheld.

The planned scope of the project requires an internationally coordinated approach. Besides the SNB, FINMA is in close and regular contact with more than 30 supervisory authorities and central banks. Furthermore, it is also actively contributing to various international working groups and collaborating on the development of international standards on stable coins.

Collaboration on regulatory project for improving the statutory framework

In 2020 the legislative proposal for improving the statutory framework for blockchain and distributed ledger technology (DLT) was addressed by the Swiss Parliament. Work on the necessary ordinance amendments commenced simultaneously. FINMA actively collaborated with the responsible federal offices on this project, while focusing on the dual goals of legal certainty and technology neutrality. The comprehensibility of the highly technical provisions was an additional objective of FINMA's work. Furthermore, some important and complex questions arose in connection with bankruptcy law.

The requirements placed on the new trading systems for distributed ledger technology (DLT) securities were a further core issue. It is FINMA's intent to find the right balance between facilitating technological innovation and ensuring stringent supervision in order to safeguard the credibility of the Swiss financial centre. Accordingly, expanding access to DLT-based trading systems for retail customers and the closely related topics of anti-money laundering, investor protection and market conduct were addressed in detail.

Enquiries about blockchain-based business models

Numerous interested parties contacted FINMA in 2020 with enquiries concerning the authorisation requirement of blockchain-based business models. These concerned initial coin offerings (ICOs), stable coins and the operational phase of some complex business models. Following the publication of guidelines on stable coins in 2019, FINMA continued to address the further development of its own practice regarding authorisation requirements in the year under review.

A prevailing topic among the authorisation enquiries in 2020 were decentralised business models. Frequently, these are business models that enable end customers to contact each other directly and to engage in activities that may be governed by financial market law. The particular challenge is that technological developments are increasingly giving rise to operating models that divide activities into several different components, which makes classification of the service requiring a licence difficult. Instead of a financial service from a single provider, largely traditional financial market offerings are replicated via software applications and open-access DLT systems on a decentralised basis. Examples include custody, exchange and trading of digital assets in the form of tokens. For such innovative applications FINMA remains focused on the economic functions of the projects (substance over form) and gives due consideration to the proven principle of same business, same risks, same rules as prescribed by law.

Wide public interest in FINMA's work

Over 7,000 clients, investors, lawyers and other interested parties contact FINMA by phone or by email 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.

7,471 enquiries

1,116 supervisory-related enquiries

2,895 enquiries about authorised institutions (banks, insurers, etc.)

1,734 unauthorised institutions reported

1,726 regulatory enquiries

FINMA's core tasks

Focus of prudential supervision

By means of its forward-looking prudential supervision activity, FINMA monitors how financial institutions are dealing with current and future risks and whether clients are adequately protected. During the course of the year under review, FINMA's supervisory activity focused on the effects of the coronavirus pandemic and the persistent low interest rate environment.

During the year under review, the economic environment was characterised by the pandemic-induced recession and continuously low interest rates, which have intensified the challenges and risks faced by the financial system. In addition, ongoing operational risks, such as cyber attacks, threatened financial sector stability. These, as well as certain other major risks, lay at the centre of FINMA's prudential supervision across all of its supervisory areas.

Low interest rate environment

FINMA's position on interest rate risks affecting supervised institutions has hardly changed since 2019. The same applies to the basic operating conditions on the money and capital market where lower interest rate expectations accelerated further during the coronavirus crisis. Market interest rates within Switzerland were negative over the full maturity range and mortgage rates remained at record lows. March 2020 was the sole month in which market interest rate levels on the money and capital markets rose temporarily as a consequence of the turmoil in the financial markets. The monetary policy and fiscal measures introduced subsequently have clearly demonstrated that interest rate levels are unlikely to change significantly in the foreseeable future. The resulting downward trend in interest margins reduced the profitability of the supervised institutions operating in the lending business. The low interest rate environment has also increased the risk of asset price bubbles and thus of a sudden correction, and potentially casts doubt on the future sustainability of certain traditional business models employed by supervised banks and insurance companies.

It remains possible that the low interest rate environment may prompt banks to increasingly pass negative interest rates on to their customers. It is difficult to predict how customers will respond to such a move, which would also entail hidden risk potential in terms of the refinancing options available to the banks. Hence, FINMA is also continuing to pay close attention to interest rate risks. If interest rates continue to decline or remain generally highly volatile, this will entail the risk, in particular, that the measures introduced by the financial institutions to stabilise profitability or limit interest rate risks will prove to be inadequate. While it is possible that mitigating measures such as increased business volumes or consolidations may create opportunities, they may also give rise to risks.

Trends in the real estate market

The risks that had built up in the real estate market as a result of the developments in recent years were amplified due to the impacts of the coronavirus crisis. Occupier and investor markets continued to diverge, particularly in the area of residential investment property financing. Due to the persistent low interest rate environment, investors increasingly sought out higher-yielding investments. Hence, they invested in residential investment properties, despite rising vacancy rates and falling rents. At the end of 2020, it was apparent that the effect of the low interest rate environment on the real estate market had, until then, been greater than that of the economic downturn. Consequently, the cooling of the real estate market that had been expected at the start of the coronavirus crisis has not yet materialised. Vacancy rates rose moderately until mid-2020, at which point 78,800 residential units in Switzerland were vacant. These high vacancy rates exerted downward pressure on residential investment property prices. This led to an increased risk that property values would fall sharply in the event of a rise in interest rates and that loan-to-value guidelines for debt financing would be breached. This would, in turn, have an adverse impact on the capital adequacy of lenders. In the office and retail premises segment, weakening demand increased downward pressure on prices. In view of the above, the deactivation of the countercyclical capital buffer by the Federal Council in March 2020 should not be perceived as an all-clear signal, but rather as a short-term countercyclical capital measure to cushion uncertainty about further economic developments.

Due to the heightened risk in relation to investment properties, FINMA has been advocating stricter lending criteria in this segment for several years. In 2019, it recognised the correspondingly adjusted Swiss Bankers Association guidelines as a new minimum standard under supervisory law. These stricter criteria entered into force on 1 January 2020 and, with respect to investment property financing, they require borrowers to contribute a higher share from their own funds and stipulate a shorter repayment period. During the year under review, FINMA closely monitored compliance with these stricter standards and their effects on mortgage lending. In doing so, it focused particularly on the buy-to-let financing sub-segment,[3] which was not explicitly brought within the scope of the stricter self-regulation requirements. FINMA also utilised its regular supervisory instruments, such as on-site supervisory reviews and stress tests, to identify elevated risks affecting individual supervised institutions in connection with the real estate and mortgage market and take appropriate measures to reduce these risks.

In the longer term, implementation of the final Basel III standards will mean that investment properties must, as a general rule, be backed by a higher ratio of capital than required for owner-occupied residential properties. As the adjusted standards are not expected to enter into force before 2024, ongoing supervision of the mortgage business will remain a central focus.

Governance and supervision

In the year under review, FINMA commenced operational implementation of the new supervisory approach aimed at strengthening corporate governance within large banks and insurance companies. Based on key areas of concern, it periodically assesses the effectiveness of corporate governance and displays the values on a heat map. This reveals potentially relevant issues, indicates outliers and provides an overview of potential action areas.

After the first cycle, FINMA identified five banks and three insurance companies with significant weaknesses. It immediately initiated corrective measures in these cases. No urgent action requirements were identified for the remaining supervised companies, even if potential for improvement was apparent in the case of numerous institutions.

FINMA identified further action areas across the institutions that are being addressed systematically with the banks and insurance companies concerned. With respect to banks, it is placing its initial focus on ensuring that cantonal banks' boards have a balanced composition in terms of expert knowledge and that the members are as independent as possible. Furthermore, the workload of governing officers with multiple mandates and the approach to handling conflicts of interest requires closer scrutiny with respect to both banks and insurance companies. Lastly, FINMA intends to examine the balance of power at the operational level and the position of the second line of defence within the companies in greater detail.

Implementation of FinIA

The Financial Institutions Act (FinIA) entered into force on 1 January 2020. FinIA stipulates a new licensing requirement for portfolio managers, trustees, and managers of collective assets as well as for branches and representative offices of corresponding foreign financial institutions. The licence is issued by FINMA. Pursuant to Article 74 para. 2 FinIA, the institutions subject to the new licensing requirement were required to register with FINMA by 30 June 2020. The Precious Metals Control Act (PMCA) specified the same registration deadline for trade assayers.

[3] Residential units let by private owners (e.g. privately owned flats and single family houses).

Intended applications as per reports made under Article 74 FinIA (as at 31.12.2020)	Reports made under para. 2	Reports made under para. 3
Portfolio managers	2,041	83
Trustees	353	34
Managers of collective assets[4]	48	n/a
Trade assayers[5]	11	n/a
Branches of foreign portfolio managers	4	n/a
Branches of foreign trustees	5	1
Branches of foreign managers of collective assets	1	n/a
Discontinuation of the business activity	37	n/a

[4] Particularly occupational pension scheme managers.

[5] The registration requirement for trade assayers under Article 42bis PMCA is stipulated in the Final Provision to the Amendment of the PMCA of 15 June 2018.

Pursuant to Article 74 para. 3 FinIA, portfolio managers and trustees who commenced their activity during 2020 were required to register with FINMA without delay and, upon commencing their activity, to ensure compliance with the licensing requirements, except for affiliation to a supervisory organisation (SO).

According to reports under Article 74 para. 2 FinIA, there were a total of 2,403 intended applications as portfolio managers and trustees: 284 portfolio managers and trustees indicated their intention to apply for a licence as early as 2020; 685 portfolio managers and trustees indicated they would apply for a licence for 2021, while 1,434 stated that they intended to apply for a licence in 2022; 135 institutions notified FINMA that they would not be submitting a licence application, as they are either discontinuing their business or planning to merge with other entities. According to reports under Article 73 para. 3 FinIA, 118 portfolio managers and trustees commenced their activity during 2020 and must be affiliated to an SO by 6 July 2021 at the latest and submit a licence application.

For the purposes of licensing such entities operating within the Asset Management division, FINMA has created the new Portfolio Managers and Trustees organisational unit. Its staff numbers will be aligned to reflect the actual time and effort involved. In this respect, temporary staff will also be hired. A fully electronic, risk-based and standardised procedure should make it possible for licences to be granted efficiently and cost-effectively. In 2020, FINMA already granted licences to 20 portfolio managers, but has not yet licensed any trustees. The 20 portfolio managers granted licences were group companies belonging to a financial group supervised by FINMA.

When granting licences to portfolio managers and trustees, FINMA's primary concern is the protection of investors and clients. During the licensing procedure, it therefore pays close attention to business conduct. This includes the suitability of the products and services for clients, the risk management measures for cross-border business activities, and compliance with the obligations under the Anti-Money Laundering Act (AMLA) as well as market conduct. The risks arising in these areas must be limited and monitored by means of appropriate processes and controls. Where necessary, applicants will need to adapt high-risk business models or organisational structures or, for example in risk management or compliance, engage third-party support services.

FinIA also includes a new requirement for "managers of collective assets" to be authorised. These include collective investment scheme managers previously authorised under the Collective Investment Schemes Act (CISA) and, from now on, managers of pension scheme assets (see "Pension fund administrators", page 58).

The FinIA also stipulates that the financial institutions operating in the asset management industry which are already subject to supervision by FINMA must comply with the requirements of the FinIA. To achieve this, it was necessary for them to implement organisational adjustments.

Upon entry into force of the FinIA, securities dealers (as they were previously named) will from now on be designated as securities firms and must comply with the requirements for securities firms specified therein. The FinIA distinguishes between account-holding and non-account-holding securities firms, which are subject to different capital and liquidity requirements. According to the FinIA, a "securities firm" means an entity trading for the account of clients, for its own account, or as a market maker. By contrast, operating as an issuing house or derivatives house will from now on be permissible only in conjunction with an activity as a securities firm or bank. Furthermore, a banking licence will, from now on, also include authorisation to operate as a securities firm.

New cyber supervisory approach and guidance

Dependency on information and communications technologies continued to rise in 2020. This was driven by the digitalisation strategies pursued by the supervised institutions and was intensified even further by the pandemic-driven extensive shifts towards home-office working. This dependency has rendered financial institutions increasingly vulnerable to cyber attacks. FINMA therefore assessed this risk to be even higher than in the previous year. It considers it to be one of the seven top risks faced by the Swiss financial centre.[6]

Consequently, FINMA further augmented its resources in this area in 2020. They will be deployed on the basis of a supervisory approach whereby institutions will be monitored across three areas: analysis of the threat, ongoing supervision and incident management or, as the case may be, crisis management. This approach was introduced at the start of the year under review and allows for consistent FINMA-wide monitoring of the cyber risks faced by all of the supervised institutions.

In terms of operational implementation of the supervisory approach, the focus was directed at establishing the threat, conducting expert assessments of the licence applications – particularly in the area of FinTech – and performing on-site supervisory reviews of financial institutions.

For FINMA, it is a matter of vital importance to be informed as early as possible when supervised institutions experience critical cyber incidents. This enables it to assist the supervised institutions during crisis situations and, where necessary, to take steps to ensure that other institutions are warned of identical or similar attacks. Accordingly, supervised institutions are required to report any major cyber attacks on their critical functions to FINMA. The requirements in connection with this reporting obligation under Article 29 para. 2 of the Financial Market Supervision Act (FINMASA) were specified in close consultation with the supervised institutions and notified in FINMA Guidance 05/2020.

Moreover, FINMA is actively participating in the establishment of a Financial Services Information Sharing and Analysis Center (FS-ISAC) under the direction of the federal Cyber Security Delegate for the Swiss financial centre. One of the FS-ISAC's central roles will be to ensure coordination between the authorities and the financial sector and the implementation of targeted measures, such as strategic exercises. It is expected that this will further strengthen the cyber resilience of the Swiss financial centre.

[6] FINMA Risk Monitor 2020.

LIBOR

Discontinuation of the LIBOR reference interest rate is drawing closer and is due to take place at the end of 2021. A survey conducted by FINMA in June 2020 showed that, at that point, there were still more than CHF 14 trillion invested in LIBOR-based contracts extending beyond 2021. FINMA therefore considers the replacement of LIBOR to be one of seven top risks.

To ensure an orderly transition, it will be necessary that LIBOR-based contracts are either migrated into contracts with alternative reference rates or supplemented with robust fallback clauses in order to avoid any future legal disputes. Following the publication of the interbank offered rate (IBOR) fallback documents by the International Swaps and Derivatives Association (ISDA) in October 2020, there are no longer any major obstacles impeding the migration of the over-the-counter derivatives, which represent the largest volume requiring replacement.

As FINMA considers the new ISDA IBOR fallback documents to be essential for the purposes of successfully managing the transition from LIBOR, it published FINMA Guidance 08/2020 on LIBOR replacement for derivatives in October 2020. In this document, FINMA advised the affected supervised institutions to sign the new ISDA Fallbacks Protocol in good time and, wherever possible, before the date of its entry into force.

During the year under review, FINMA observed the risks associated with the discontinuation of LIBOR by calling upon banks and securities firms that had been selected on the basis of their respective risk exposure to conduct quarterly self-assessments. Institutions subject to the FinIA (previously the Collective Investment Schemes Act) and managing products carrying significant exposure were also required to conduct a one-time self-assessment. In addition, the largest banks and securities firms were sent guidance notes in which FINMA set out its expectations for 2020. These included, in particular, a substantial reduction in LIBOR-based cash products denominated in CHF (such as loans and mortgages) and lacking robust fallback clauses, as well as their proactive migration to products based on alternative reference rates.

The self-assessments revealed that, in certain cases, the volumes of LIBOR-based contracts had continued to rise rather than fall during the course of 2020. This means that there is still a need for substantial further action in terms of migrating or adjusting the contracts. Furthermore, the supervised institutions need to identify contracts for which they are unlikely to achieve a satisfactory migration by the end of 2021 ("tough legacy"), in order to implement protective measures in good time.

In December, FINMA published a LIBOR transition roadmap. This recommended that the affected supervised institutions should use the remaining time until the end of 2021 to prepare for a discontinuation of LIBOR. This is considered crucial as LIBOR in CHF is expected to be discontinued and it will not be possible for it to be kept alive in the future by artificial means.[7] The supervised institutions and individuals should not rely on LIBOR in CHF without robust fallback clauses in place.

FINMA therefore advised the supervised institutions:
- to ensure that, when entering into new business transactions, no new "tough legacy" transactions that do not contain robust fallback clauses are added to their existing inventory of LIBOR contracts after the end of January 2021 at the latest,
- to define a detailed project plan to reduce the number of "tough legacy" contracts to a minimum by the end of 2021,
- to ensure that, as of the end of 2021, all new business transactions with a variable interest rate are based only on alternative reference rates. The relevant FINMA Guidance also addressed LIBOR in euros, British pounds, Japanese yen and US dollars.

[7] Financial Conduct Authority statement of 18 November 2020.

During the year under review, FINMA coordinated its activities regularly with the Swiss National Bank (SNB) and the Financial Conduct Authority in the UK, which is responsible for supervising LIBOR. FINMA is a member of the National Working Group on Swiss Franc Reference Rates (NWG) as well as the Benchmark Taskforce of the International Organization of Securities Commissions (IOSCO) and assisted with the work on the Benchmark Rate Reforms by the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).

Climate risks

The financial risks associated with climate change may be significant for Swiss financial institutions. These financial risks affecting banks, asset managers or insurers generally have their origins in the physical risks of climate change or climate-related transition risks stemming, by way of example, from interventional climate-policy measures. Assets in affected industry sectors that are listed on the balance sheets of financial institutions may therefore become illiquid or be exposed to increased valuation risks.

Measures

FINMA is monitoring the situation to ensure that financial institutions are taking the necessary action to adequately identify and address these risks. Under the applicable law, financial institutions are subject to a general obligation to identify, assess and adequately address significant climate-related financial risks and, where necessary, further develop their instruments and processes accordingly. During the year under review, FINMA expanded its supervisory activity in relation to the major climate-related financial risks affecting Swiss financial institutions with the aid, inter alia, of a heat map (see page 39). In collaboration with the SNB, FINMA also implemented a pilot project to measure the transition risks of UBS and Credit Suisse.

FINMA issued specifications setting out the disclosure obligations for banks and insurers in order to promote transparency with respect to climate-related financial risks on the balance sheets of the supervised institutions. For the first time, FINMA's Board of Directors held a regulatory roundtable with stakeholders and opened a consultation in this regard in November (see page 70). If major financial market operators disclose their own climate-related financial risks in a more comprehensive and standardised manner, it is expected that this would lead to improved transparency and market discipline, while also boosting awareness of such risks among supervised institutions. In this respect, FINMA deemed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as appropriate reference frameworks.

With the growing demand for sustainable investments, FINMA considers there is a potentially higher risk of "greenwashing" in connection with the provision of financial services or sales of financial products. From FINMA's point of view, this risk lies in the potential for clients to be deceived regarding the (alleged) sustainability of products or financial services. FINMA is already exercising vigilance in relation to this risk – e.g. when licensing Swiss funds.

FINMA is involved in work being carried out by the federal authorities responsible for sustainability in the financial economy and is providing its technical expertise to support the analyses being conducted by the working group on sustainable finance, headed by the State Secretariat for International Finance (SIF).

For the Swiss financial market, FINMA has prepared an initial qualitative assessment of the climate-related financial risks and placed these in relation to each other based on their probability of occurrence and the financial impacts they would have in the event of an occurrence. The results were used to generate the following heat maps for the banking and insurance sectors, which FINMA will refine further in the future. FINMA uses these heat maps as a basis for addressing the issue of climate-related financial risks with the representatives of the supervised institutions.

Climate-related financial risks affecting Swiss banks

The climate-related financial risks affecting Swiss banks can be divided into physical risks and transition risks.

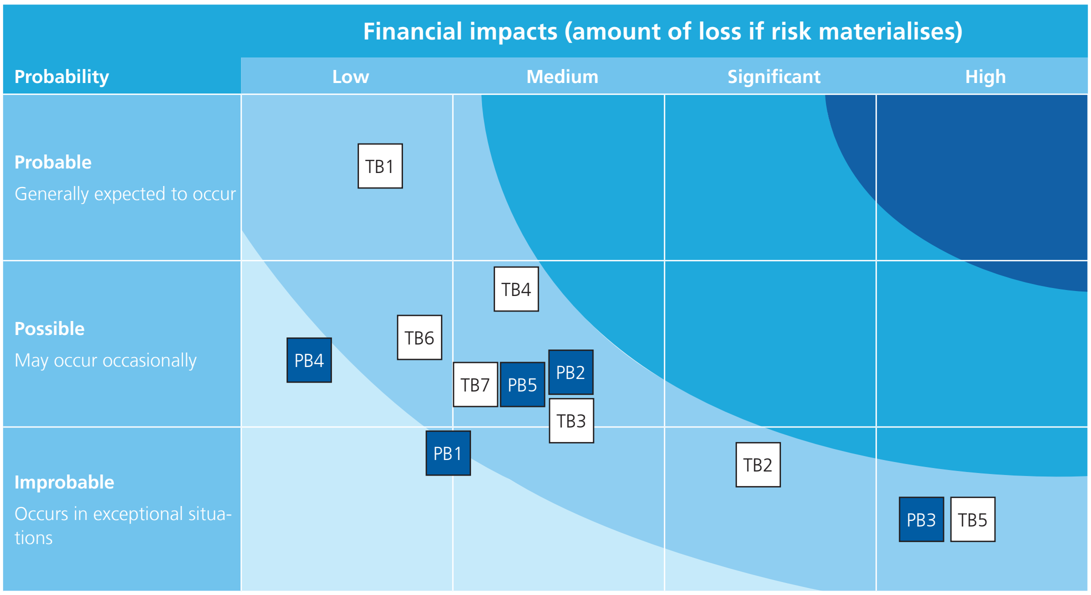
Physical risks

From the perspective of the banks, physical climate risks (PB) are to be expected in the area of credit risks (PB1, PB2 and PB3), market risks (PB4) and operational risks (PB5). In the case of corporate loans, the geographic distribution of the clients' production plants and supply chains is a key factor; in this respect, the probability of occurrence for risk exposures abroad (PB2) may generally tend to be higher due to greater physical risks (e.g. coastal sites) and the comparatively solid adaptation measures in Switzerland. In the case of mortgage risks (PB3) the probability of serious adverse effects on banks is kept at a low level by means of excellent insurance cover for natural disasters or property damage. Market risks (PB4) are therefore possible in particular, as individual firms may experience value losses due to extreme weather events and regional concentrations. However, as a large portion of the assets will be managed on behalf of clients, this entails only an indirect business risk for the banks. Lastly, the operational risk (PB5) affecting banks is driven primarily by banks' own units abroad (e.g. service centres) and dependencies on outsourcing partners in areas that are potentially at risk. As with corporate loans, the comparatively higher physical risks abroad apply also in this case.

Transition risks

Climate-related transition risks to banks are primarily to be expected in the area of credit risks (TB1 to TB5). Banks are exposed to a range of counterparties, which may potentially be among the losers of the transition towards a low-carbon economy. This includes, for example, corporate clients in the energy sector (fossil fuels, TB1), whose earnings capacity may be impaired by political decisions or market developments, commercial deep-sea shipping (TB4) as well as companies engaged in commodity trading (TB3). Even in the context of financing corporate clients in the industry and transport sectors (TB2), the range of potentially affected subsectors and companies leads to an increased risk, which may be significant for larger volumes. In this respect, however, a fairly slow transition process and a correspondingly lower risk is currently assumed. In the mortgage market (TB5), the business volume means that the impacts would suddenly become great if the risks were to crystallise. However, disruptive political measures that would have a significant impact on real estate seem fairly unlikely. Losses due to market risks (TB6) would appear to be entirely possible in the event of radical changes in CO_2-intensive sectors; in this respect the exposure to risk lies, once again, mainly with the clients. The business risk to banks in the asset management sector (TB7) is potentially higher overall for individual institutions. The market positioning of the financial institutions in relation to the issue of sustainability, including corresponding adjustments to their product ranges, may be of vital importance.

Heat map for Swiss banks



The physical climate risks and transition risks are not directly comparable, in particular due to their different time horizons.

Physical risks
PB1 Credit risk domestic companies
PB2 Credit risk foreign companies
PB3 Mortgages (corporate/private clients)
PB4 Market risk
PB5 Operational risk

Time horizon: long-term

Transition risks
TB1 Credit risk energy sector
TB2 Credit risk industry/transport
TB3 Financing commodities trading
TB4 Credit risk commercial shipping
TB5 Mortgages
TB6 Market risk
TB7 Business risk in asset management sector

Time horizon: short- to medium-term

Climate-related financial risks affecting Swiss insurers

The climate-related financial risks affecting Swiss insurers can be divided into physical risks and transition risks.

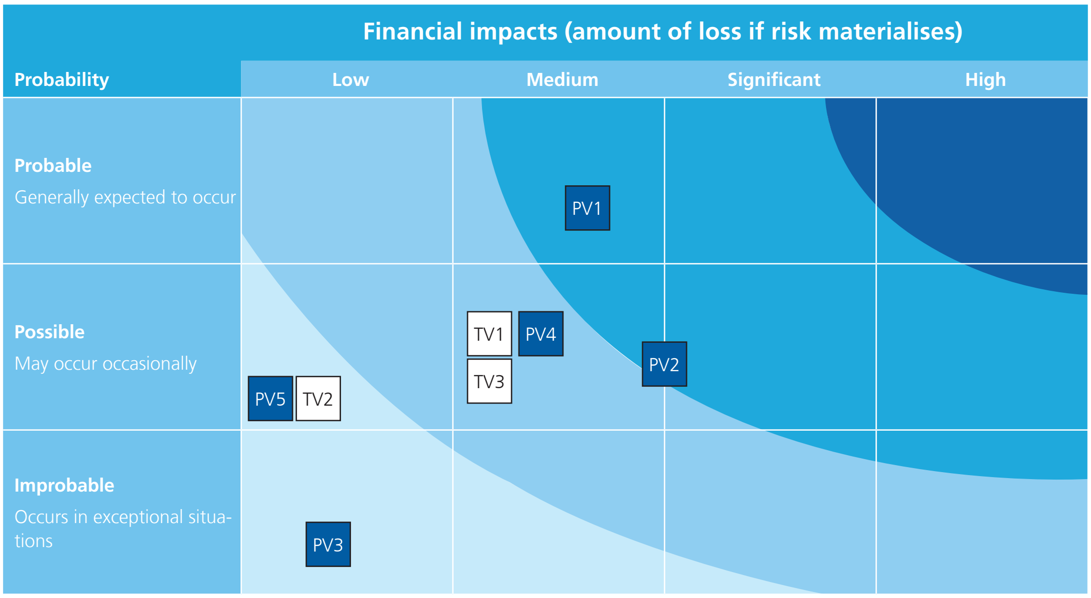
Physical risks

As a consequence of changing climatic conditions, more extreme weather events can be expected. This results in the two most important physical climate risks for insurance companies (PV) which also insure, in particular, the risks of international natural disasters: higher loss experience due to an increasing frequency and severity of particularly large loss events (PV1), and unexpectedly high loss experience in comparison to the premiums paid, as a consequence of inadequate or outdated modelling of the risks (PV2). The lack of insurance cover for a large portion of the losses caused by natural disasters outside of industrialised nations leads to indirect risks, particularly in the context of business interruptions and breakdowns in supply chains (PV4). A potential failure of a (Swiss) specialised monoline insurer that is not a beneficiary of the Swiss natural disasters pool mechanism is also conceivable, although rather unlikely. In the event of very high losses caused by natural disasters in Switzerland over several years (PV3), the private-sector natural disasters pool could fail. This is because insurance companies are no longer able to demonstrate readiness to cover these losses jointly and severally. This risk is however assessed as low. Other secondary risks, such as higher sickness and mortality rates (PV5), are low in the case of insurance companies, or may even have a positive financial effect. In general terms, it can be stated that the societal risks (e.g. increased premiums and insurance excesses or limitations on the insurance cover) are significantly higher than the direct physical risks for insurers. Each insurance company should be in a position to mitigate the existing risks by means of premium adjustments, forward-looking risk management and adjustments to their business models.

Transition risks

The most significant transition risk for insurers stems from their involvement on the capital markets (TV1). This includes potentially substantial credit risks (defaults on bonds) and market risks (e.g. depreciation in the value of shares or government bonds), in the event of a drastic repricing of CO_2-intensive assets. As a result of the growing attention being paid to ESG criteria in investment schemes, particularly among large insurers, this risk can be mitigated to some extent. However, a high level of exposure among the potential "losers" from the transition may significantly increase the risk in individual cases. The liability-side transition risk (TV2) appears to be relatively moderate, except in the case of highly specialised insurers. The transition risk for real estate and mortgages (TV3) is estimated to be somewhat lower. This is firstly because the risk is highly unlikely to crystallise suddenly (slow implementation of new sustainability standards) and, secondly, because insurers generally have the financial capacity to renovate their real estate in good time so as to comply with the relevant standards and thus counteract climate-related value losses.

Heat map for Swiss insurers



The physical climate risks and transition risks are not directly comparable, in particular due to their different time horizons.

Physical risks
PV1 Higher loss experience
PV2 Model weaknesses
PV3 Natural disasters pool
PV4 Business interruptions
PV5 Higher sickness and mortality rates

Time horizon: long-term

Transition risks
TV1 Capital market
TV2 Liability-side transition risk
TV3 Real estate/mortgages

Time horizon: short- to medium-term

Focus of conduct supervision

Effective conduct supervision builds trust in Switzerland as a financial centre. Although progress has been achieved, FINMA once again set its focus on combating money laundering and terrorist financing during 2020, particularly in connection with blockchain-based transactions. An additional focal point was the code of conduct set out in the new Financial Services Act, which financial institutions must observe in relation to their clients.

Although many institutions further improved their money laundering prevention measures, and succeeded in spotting a greater number of suspicious assets, which they then reported to the Money Laundering Reporting Office Switzerland (MROS), the risks faced by financial institutions operating in the cross-border asset management business remained high. Client relationships with wealthy politically exposed persons as well as state or quasi-state organisations and sovereign wealth funds involve a risk of corruption and embezzlement. Complex structures may entail an increased risk of money laundering, particularly when domiciliary companies are used.

Preventive money laundering supervision

In previous years, some wealth management banks were heavily embroiled in notorious money laundering scandals involving funds originating from emerging markets. Numerous enforcement cases (notably in connection with 1MDB, Petrobras, Odebrecht, Petróleos de Venezuela S.A. and FIFA) were concluded during this period and many institutions improved their anti-money laundering mechanisms in the course of this review. However, the risk situation remained unchanged. Even in 2020, FINMA encountered supervised institutions that were failing to exercise the appropriate due diligence when dealing with high-net-worth clients from emerging markets.

FINMA ordered several internationally operating banks to ensure that incomplete explanations from clients regarding the origin of funds or assets were followed up on and clarified. This applies in particular to high value assets from emerging markets that purportedly originate from inheritances, extremely fortunate investments or high-value cash gifts. Where such representations were made, the institutions were required to determine the precise origin of the assets and check, inter alia, whether the client could be acting as a front for another person.

FINMA also determined during 2020 that banks, in particular, were taking the reporting obligation seriously and reporting suspicious relationships to the MROS. In isolated cases, however, certain institutions had taken the view that a decision by the criminal prosecution authorities to discontinue legal proceedings meant that the assets could then be regarded as being of legal origin. FINMA reminded these institutions that the actions of the criminal prosecution authorities have no bearing on the origin of assets and that the relationships must continue to be monitored closely for any suspicious circumstances.

If the contracting partner of a financial intermediary is itself subject to an adequate level of prudential supervision and regulation in relation to combating money laundering and terrorist financing, the financial intermediary need not identify the beneficial owner. Regulations operate on the assumption that, in such cases, the prudentially supervised institution itself will comply with the obligations under anti-money laundering law. From time to time, FINMA determined that certain financial intermediaries were making excessive use of this option. In this respect, certain individual banks had entered into relationships with institutions registered in offshore jurisdictions, whose status as a bank was questionable. On several occasions, the clients of such institutions were found to be involved in suspected cases of fraud, insider trading and tax evasion. The Swiss banks were subsequently unable to provide the criminal prosecution authorities with the identities of the beneficial owners. FINMA reminded the institutions that they need to clarify, in each individual case, whether a specific foreign financial intermediary requires prudential monitoring measures or holds the necessary licence, particularly when such intermediaries are based in smaller countries. It does not suffice to simply rely on the general money laundering supervision arrangements that are in effect within a foreign jurisdiction. Similarly, regulations provide only for an exemption from the requirement to systematically identify the beneficial owner. So that high-risk transactions can be investigated, for example, it may still be necessary to obtain information about the beneficial owners.

FINMA investigates tip-offs concerning violations of the Anti-Money Laundering Act (AMLA), irrespective of whether they are received from the institution itself, other authorities or whistleblowers. It therefore remains in regular contact with exposed institutions, even during periods when audits and on-site supervisory reviews are not being conducted. In previous years, there was a rise in the number of tip-offs from the media, particularly from reports generated by investigative journalists. The "FinCEN Files" are a prominent example from 2020. This concerned over 2,000 reports of suspicions made to the USA's anti-money laundering authority, the Financial Crimes Enforcement Network (FinCEN), which became public due to a data breach. In this regard, many financial intermediaries conducted extensive investigations, in some cases on their own initiative and in other cases at the request of FINMA. In doing so, the familiar pattern emerged, whereby a series of institutions were providing services to a high-risk customer base. A large number of the institutions handled the associated risks in a manner consistent with the regulatory requirements, made the necessary enquiries and reported suspicious clients to MROS long before publication of the FinCEN Files. Other such institutions will need to further improve their compliance framework.

Combating money laundering on the blockchain

Effective monitoring of compliance with the regulations poses a new challenge in terms of combating money laundering and terrorist financing in cases where transactions are executed on the blockchain. The usual monitoring principles that apply to combating money laundering continue to apply in these cases too. Hence, the standard Know Your Customer regulations must be complied with and the mandatory enquiries into the transaction must be carried out. In 2020, the Financial Action Task Force on Money Laundering (FATF) assessed the Swiss anti-money laundering regulations for virtual asset service providers and found them to be mostly compliant.

With respect to the rules governing payment transactions, FINMA is continuing to apply the approach set out in its FINMA Guidance 02/2019 "Payments on the blockchain". According to this, the applicable Swiss provisions governing the exchange of information during payment transactions (also referred to as the "Travel Rule") must be applied equally to blockchain transactions. Unless and until a technical solution is found that guarantees compliance with the "Travel Rule", financial intermediaries subject to FINMA supervision may only send or accept cryptocurrencies to or from the external wallets of their own customers. In order to execute compliant transfers, financial intermediaries must verify, by appropriate technical means, their client's power of disposal over the external wallet.

FINMA audited a number of financial service providers to ascertain how they are implementing these requirements. A frequently encountered solution involves the financial intermediary agreeing with its client, in advance, on the amount (e.g. a micro-payment) and time of execution of a transfer. A second solution involves asking the client to send a clear message to the blockchain within a specified time period. This procedure must be performed at the time of the first transfer. The address can then be added to a "White List" so that a corresponding check need no longer be carried out for subsequent transfers with the same address. This procedure is then repeated at regular intervals specified by the institution and, for example, following high-risk transactions so that there are no doubts concerning the power of disposal over the external wallets. In the case of transactions where the counterparty is a service provider using collective wallets, it is not technologically possible to implement this procedure. In such cases, FINMA will accept a verification of the power of disposal by means of a screenshot: The recipient financial intermediary must demand a screenshot of the transaction announced by the client. The provided document serves as proof that the client has power of disposal over the debited account held with the virtual asset service provider (VASP).

Findings from suitability supervision

During 2020, FINMA also examined, by means of on-site reviews, off-site reviews, supervisory discussions and annual data collection, whether the institutions were prepared for the new rules of conduct set out in the Financial Services Act (FinSA) that must be observed in relation to investment clients. In doing so, it determined that the provisions were still not being implemented uniformly across all of the institutions.

For example, less stringent rules of conduct apply to transaction-related advice than to portfolio-related investment advice. FINMA took steps to ensure that the affected institutions were providing clear information to their clients about the services being provided. The institutions may dispense with the more stringent rules of conduct applicable to portfolio-based advice only if they inform the individual clients that the advice they are being given relates solely to the recommended financial instrument itself and does not take account of their respective individual situation (e.g. portfolio or financial standing).

On-site supervisory reviews demonstrated that some institutions were demanding high fees for providing information about withheld retrocessions. This can have the effect of deterring clients from requesting the relevant information and undermines the statutory right to receive information. FINMA therefore made it clear to these institutions that it regards a moderate flat-rate fee to be the maximum permissible fee for providing information about retrocessions.

In the area of risk diversification, which financial service providers are required to recommend, FINMA identified significant differences in some cases. It called upon financial service providers whose thresholds differ significantly from the customary values within the industry to inform their clients of their resulting cluster risks.

FINMA assessed a series of CFD providers to determine how they are implementing the rules of conduct. CFDs are contracts for differences that carry particular risks for investors, since the risk of loss can exceed the value of the amount invested. FINMA called upon the relevant CFD providers to provide better information on the risks generally arising from these products.

Licensing of reviewing bodies for prospectuses and registration bodies for client advisers

FINMA issued licences for two reviewing bodies for prospectuses, with effect from 1 June 2020. The reviewing bodies are tasked with checking, prior to publication, the prospectuses to be published in connection with a public offer of securities, or the admission of securities to trading on a stock exchange, with regard to their completeness, coherence and clarity, and approving them.

During the year under review, FINMA also licensed three registration bodies. The registration bodies are responsible for maintaining the register of advisers provided for under the Financial Services Act (FinSA). Client advisers of financial service providers must register with them if they are not subject to supervision and provide their services in Switzerland. In this respect, the registration bodies verify, in particular, that the applicants have the required knowledge of the code of conduct as well as the necessary expertise.

During the course of the procedure for licensing the reviewing bodies and registration bodies, FINMA considered it important, inter alia, to ensure coordination between the reviewing bodies as well as between the registration bodies.

Market integrity

Effective market supervision increases the market participants' trust in the proper functioning of markets and ensures fair and transparent pricing. Effectively combating market abuse simply requires that securities firms ensure transactions are reported to the reporting offices fully and without qualitative defects together with an in-depth analysis of these data by the trading surveillance units responsible for the trading venues, as well as targeted enforcement by FINMA.

Organisational impacts of the pandemic on trading

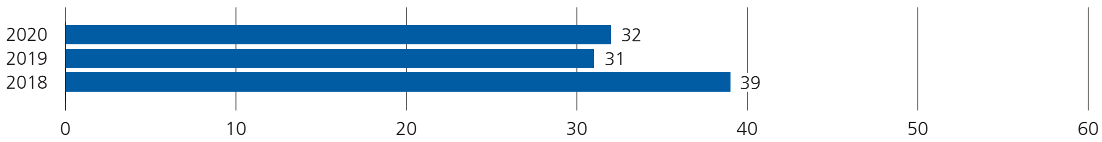
The outbreak of the coronavirus pandemic has presented organisational challenges to the finance industry, including in the area of securities trading. On the one hand, employees working on the trading floors had to be protected against the health risks and, on the other hand, operational trading had to be maintained without interruptions. Despite significant market turbulence with record-high levels of volatility the securities firms were able to continue the trading activities without interruptions or appreciable losses. To mitigate the risks of staff being unable to work, many institutions distributed their trading organisation across different sites. In addition, a significant number of trading staff were ordered to work from home. In view of this new operational situation, FINMA temporarily relaxed the specific rules governing trading floors and engaged in constructive discussions with the supervised institutions during the process of implementing the organisational adjustments. Home-based trading carries new conduct-related risks; in particular, it is easier for traders to misuse private and unauthorised means of communication and, by way of example, exploit trade secrets. The institutions addressed these risks by means, in particular, of technical monitoring and targeted control measures.

Data-based investigations

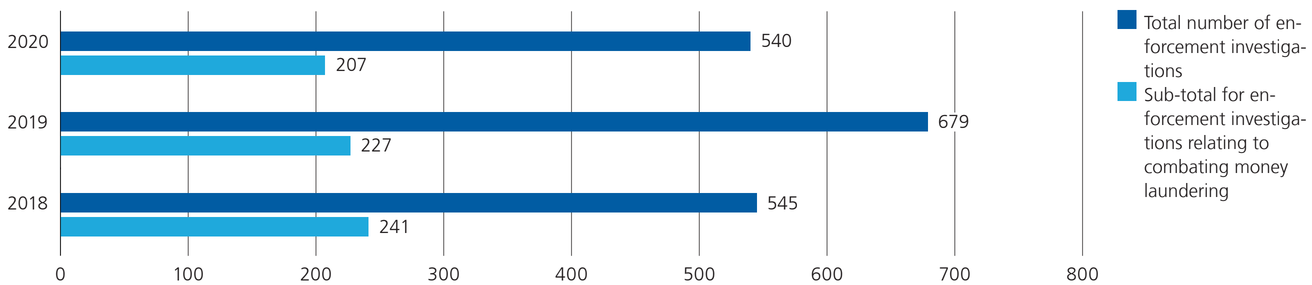
Swiss trading venues are obliged to systematically assess the completion notifications sent to their reporting offices by securities firms. Alongside transaction notifications, their monitoring systems must also evaluate, inter alia, order book data and provide a complete picture of the market activities. The trading surveillance units responsible for the various trading venues are furthermore required to share data and information in such manner that any market abuse spanning multiple trading venues can be identified. If any irregularities are detected, the trading surveillance units must report these to FINMA and the Office of the Attorney General.

Each year, FINMA and the Office of the Attorney General receive several dozen tip-offs from Swiss trading venues concerning potential market abuse. In most cases, FINMA will, at first, address the initial grounds of suspicion autonomously and independently. The data contained in the reports received from the trading venues are used as the primary source of information. Whereas trading surveillance units are required to conduct their analyses using anonymised personal keys, FINMA re-identifies the relevant data for the purposes of its enquiries with the securities firms involved. FINMA is therefore aware of the true identities of the individual persons behind the transactions. In the case of certain types of events, such as corporate takeovers, the persons who had knowledge of the insider event will then be identified in cooperation with the relevant listed companies. On a case-by-case basis, FINMA will then obtain secondary trading data from the respective securities firm. This trading data often spans several years and relates to specific individual persons. It is therefore possible to establish a typical, individualised trading pattern for an individual person. FINMA uses specific technologies to perform these data analyses and data visualisations. In doing so, internal and external data sources are integrated, and the personal networks between the suspiciously acting persons and the primary insiders are determined and graphically processed. A decision on the further course of action to be pursued is taken only once these initial analytical steps have been completed. In this respect, the potential further steps primarily include closing the case, supervisory or enforcement measures, and coordination with the Office of the Attorney General.

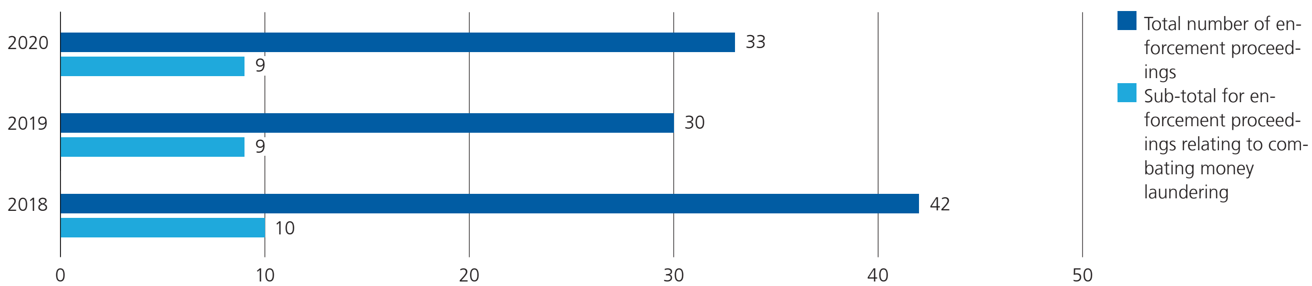
On-site supervisory reviews



Enforcement investigations



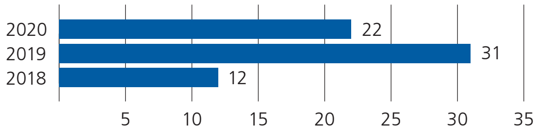
Enforcement proceedings



Money laundering supervision in numbers
Preventing money laundering plays an important role in the prevention of crime. A well-functioning anti-money laundering mechanism is also essential to the success of the financial centre. As part of its supervisory activity, FINMA strives intensively to prevent money laundering.

Enforcement investigations and proceedings
A significant part of FINMA's enforcement activities involves combating money laundering. FINMA is entitled to conduct enforcement investigations if it has reason to believe that supervisory law may have been breached. If FINMA considers that supervisory law has been breached, and there is no other way to restore a normal state of affairs, it will initiate enforcement proceedings.

Criminal charges based on violation of the Anti-Money Laundering Act (AMLA)
FINMA will file criminal charges for criminal breaches of supervisory law (especially breaches of the reporting obligation under Art. 9 AMLA or activities without required authorisations).



Supervisory activity by sector

FINMA's level of supervision is most intensive in areas in which the risks for the Swiss financial centre are greatest. At the same time it remains committed to a proportional approach. The four supervisory divisions closely monitor developments in the relevant sectors. Key supervisory instruments include on-site supervisory reviews, stress tests, specific surveys and high-level meetings.

In its capacity as an integrated supervisory authority, FINMA observes general developments in all areas of the Swiss financial centre and monitors the risks associated with the supervised institutions' activities in the financial market. This risk-based, comprehensive perspective ensures that similar or identical situations receive the same supervisory treatment across all supervised institutions. Sector-specific issues are dealt with by the responsible supervisory divisions. Close cooperation between the divisions ensures knowledge management at all times within the entire authority.

Banking supervision

FINMA's supervisory activities were once again conducted in a risk-oriented and proportional way in the year under review. Regular audit work was supplemented by on-site supervisory reviews. For the first time, institution-wide stress tests were conducted for all systemically important banks. The focus was on the risks caused by the coronavirus pandemic. The introduction of the new expected credit loss approach (ECL approach) in banks' accounting in the midst of the pandemic proved to be a challenge. The approach aims to support the early detection of emerging credit risks. The small banks regime came into force at the start of 2020 with 64 institutions approved to take part. The banks participating in the small banks regime are exempt from certain supervisory requirements in the interests of proportionality.

Expected credit loss

Complex accounting issues emerge in times of crisis. Despite the high level of uncertainty affecting changes in the environment, accounting's objective in particular is to deliver as accurate a picture as possible about the current state of a company's financial health. Both the International Financial Reporting Standards (IFRS) and also – since 2020 – US GAAP use an ECL approach for recognising credit loss allowances. Implementing these requirements represented a significant challenge in the coronavirus crisis. A positive effect of the new ECL approaches is that they allow emerging credit risks to be identified at an early stage. This helps banks avoid any accumulation of loss allowances at a later time in a crisis.

The IFRS ECL approach is multi-stage. As a general principle, exposures are initially allocated to Stage 1, where loss allowances are based on 12-month expected credit losses. If credit risk has increased significantly, the financial instruments are transferred to Stage 2, where loss allowances are calculated based on lifetime expected credit losses. This transfer can therefore materially impact the level of the loss allowances. For this reason, like many other supervisory authorities, FINMA provided information about the application of the ECL approach in IFRSs in the current crisis in its Guidance 02/2020.

Stress testing

Institution-wide stress tests have been conducted for several years now with the two Swiss global systemically important banks (G-SIBs). For the first time, these stress tests were also established for systemically important banks (D-SIBs) not considered internationally active in 2020. The results of the stress tests were calculated by the banks themselves. FINMA assessed these stress tests based on comparative analyses and defined add-ons if necessary.

The underlying scenarios are a key element of stress tests. Their content (narrative) as well as their duration and severity significantly impact the results. Following the rapid global spread of the coronavirus pandemic in early 2020, FINMA started focusing on the issue of potential negative effects on the resilience of the institutions it supervises as a matter of urgency. In addition to the proven standard scenario (global recession / euro crisis), it therefore promptly defined a very severe coronavirus-specific stress scenario and deployed it at institutions selected on the basis of their risk profile. In cases where the institution's financial resources did not prove to be adequate across the entire scenario horizon, this situation was discussed with the supervised institution and further measures were initiated where considered necessary.

Additionally, FINMA conducted stress tests at further institutions selected on the basis of their risk profile – initially on topics that it has already been investigating for several years with these tests:[8] namely in the risk area of the low interest rate environment (interest rate risk stress test) and also with regard to a real estate market correction with a focus on investment property (stress test for buy-to-let mortgages).[9] This allows FINMA to compare the results over time and provides a valuable basis for developing the regulatory framework further and for assessing banks' internal risk modelling approaches.

Small banks regime comes into force / Small Bank Symposium

The small banks regime exempts Category 4 and 5 banks that fulfil qualified requirements from certain supervisory requirements. FINMA approved 64 institutions to participate in the regime when it came into force on 1 January 2020. The high degree of interest in the small banks regime shows that this further reinforcement of the risk-based supervision of smaller institutions meets a genuine need. FINMA expects that the institutions covered by the small banks regime will save costs in the medium term because of the exemptions and relief relating to quantitative and qualitative requirements. They will do so, for example, thanks to the waiver on calculating risk-weighted assets and the structural liquidity ratio, or due to reduced requirements in the course of implementing future regulatory amendments. Strict compliance with the authorisation criteria continues to guarantee the soundness of the Swiss financial centre.

The completion of the successful, rapid development phase of the small banks regime was addressed in depth at the third Small Bank Symposium in January 2020. FINMA's annual meeting with the representatives of Category 4 and 5 banks was also a valuable opportunity for a lively exchange of views with the participants on the potential risks to the Swiss financial centre from the perspective of the small banks.

On-site supervisory reviews: banks

In line with its risk-based supervisory approach FINMA uses on-site supervisory reviews to supplement its regular supervisory activities. The former encompass longer supervisory reviews and deep dives (shorter on-site supervisory reviews of topically less extensive issues).

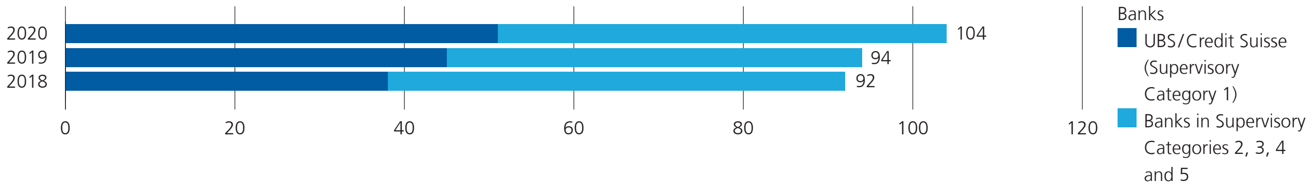
The themes of the on-site supervisory reviews[10] conducted in 2020 were diverse. Consistent with the Risk Monitor published by FINMA and FINMA's annual targets for 2020, the focus was on combating money laundering, the mortgage lending business and rules of conduct in the investment business. Reviews were also conducted in the large banking groups' investment banking divisions, focusing on liquidity risk management and interest rate risk, as well as operational risk management in the areas of outsourcing, cloud risk management and cyber risks. In addition, FINMA conducted an on-site supervisory review of the internal single-entity financial statements based on recognised international standards at UBS and Credit Suisse. These internal financial statements form the basis for calculating eligible and required capital at the single-entity level. The two on-site supervisory reviews should also be seen in connection with FINMA's stronger focus on supervisory aspects of financial reporting. In total, FINMA conducted 104 regular on-site reviews in the year under review, including 55 longer supervisory reviews and 49 deep dives, of which 3 were outside Switzerland. This represents an increase of approximately 11% compared with the previous year. In addition to these regular reviews, FINMA subsequently conducted intensive on-site supervisory reviews at a total of three institutions. Because of the

[8] See "Mortgage market measures", FINMA Annual Report 2018, page 36 f.

[9] See Risk Monitor 2019 for further details.

[10] From 2020, on-site supervisory reviews will include both deep dives and longer supervisory reviews. This will increase the number of on-site supervisory reviews in comparison with previous reports.

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

	2020	2019	2018
Category 1	25.50 (51)	22.50 (45)	19.00 (38)
Category 2	4.67 (14)	3.33 (10)	3.00 (9)
Category 3	1.00 (27)	1.23 (32)	1.00 (26)
Category 4	0.18 (10)	0.09 (5)	0.19 (11)
Category 5	0.01 (2)	0.01 (2)	0.04 (8)
All institutions	**0.39 (104)**	**0.35 (94)**	**0.34 (92)**

coronavirus pandemic, 71 on-site reviews were conducted remotely in full or in part. Some planned on-site supervisory reviews had to be cancelled entirely because it would not have been feasible to conduct them remotely.

Insurance supervision

In particular the positive developments on the financial markets in 2019 led to an almost market-wide improvement in solvency figures at insurance companies in the year under review. This positive effect was offset in the reinsurance sector, because this sector saw an expansion of business into areas with a high loss potential. Not a single insurance company had an SST ratio below 100% as at 1 January 2020.

Review of supplementary health insurance benefits

FINMA is responsible for approving the tariffs for supplementary health insurance products, which are governed by the Insurance Contract Act (ICA). When FINMA reviews the tariff adjustment of a product, it takes into account how much service providers have charged in the past for benefits which are covered by the insurance product. In order to achieve fair pricing, it must be ensured that only additional benefits over and above the benefits provided under compulsory health insurance are charged in supplementary health insurance. Therefore, the insurance companies must have in place an effective system of controls to ensure that the compensation paid to service providers for such additional benefits is reasonable and plausible. Such controls protect insured persons from abuse and help guarantee that their premiums only pay for benefits which are covered by their products. FINMA conducted on-site supervisory reviews at five supplementary health insurance companies in 2020 to verify that they had complied with the supervisory requirements. The selection and overall market share of these five institutions indicate that the results of the reviews are representative for the market as a whole.

The supplementary health insurance companies are faced with conflicting objectives. On the one hand, the policyholders trust that the supplementary health insurance companies will provide them with the benefits promised in the insurance contract and will settle all services billed by the hospitals that are not covered by compulsory health insurance. On the other hand, the charges billed by the hospitals to the supplementary health insurance companies are based on contracts in which the supplementary benefits (both hotel and medical services) are often inadequately defined. In particular it is often not clear which of these services should already be covered by compulsory health insurance. This makes it impossible to conduct an actual economic assessment of the supplementary benefits, and hence to verify the corresponding service charges from a business management perspective. In the case of hotel services, there are significant differences in the compensation paid without any clarity about which supplementary benefits justify these price differences. For example, the difference in charges for benefits between semi-private and private insured persons are difficult to explain. There is evidence that the actual hotel costs in hospitals are often much lower than what they charge.

In the course of its on-site supervisory reviews, FINMA identified medical services that were based on tariffs under the Insurance Contract Act, which are now obsolete. In some cases these obsolete tariffs also cover services that are part of compulsory health insurance under the Health Insurance Act (HIA) introduced in 1996. This could therefore lead to double billing. FINMA views these tariffs as problematic.

Many of these findings are attributable to shortcomings in the contracts between the service providers and the insurance companies. It appears that supplementary health insurance policyholders generally pay excessive premiums or do not receive appropriate benefits for the premiums they pay, and hence are not adequately protected from abuse. FINMA therefore decided to deal comprehensively with this issue. It is stepping up its dialogue with stakeholders, including industry associations, the Federal Office of Public Health (FOPH) and the price supervisor, and will take appropriate supervisory measures. FINMA also communicated its position to the public in a press release on 17 December 2020.

Model maintenance in the Swiss Solvency Test

The revision of the Insurance Supervision Ordinance (ISO) in 2015 gave preference to the use of standard models over internal models for insurance companies. Since then, the proportion of insurance companies that still need an internal model has fallen from half to around one quarter. Around half of these insurers use an internal model solely to model natural catastrophe risks for which FINMA does not provide a standard model.

Accordingly, FINMA's responsibility to ensure the appropriateness of the standard models it provides has grown. In particular FINMA needs to address changes in the risk environment of insurers on an ongoing basis. One focus in 2020 was on the reparameterisation of the non-life insurance standard model. Thanks to the involvement of the industry, this process was implemented on the basis of data that can be considered to be representative for the market.

Another focus was on developing and testing a revised stochastic standard model for modelling credit risk. FINMA achieved this in a very short time, with the result that the model can already be used by insurance companies in the 2021 Swiss Solvency Test (SST). The mandatory introduction is planned for the 2022 SST.

SST figures by insurance sector

Insurance sectors	SST 2020 SST ratio	SST 2020 Number of insurers with SST ratio below 100%	SST 2019 SST ratio	SST 2019 Number of insurers with SST ratio below 100%
Life	201%	0 (16)	193%	1 (16)
General health insurers	302%	0 (19)	272%	0 (19)
Non-life insurers	263%	0 (52)	247%	1 (51)
Reinsurers	194%	0 (24)	198%	0 (26)
Reinsurance captives	299%	0 (26)	275%	0 (27)
Total	**226%**	**0 (137)**	**218%**	**2 (139)**

The number before the brackets refers to the number of companies with an SST ratio below 100%, while 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%.

Low interest rate environment: provisions in life insurance

Technical provisions form the core component of liabilities in the balance sheets of life insurance companies. FINMA therefore comprehensively assesses these provisions based on extensive annual reporting. Because of the persistently low interest rates, on-site supervisory reviews conducted in 2020 placed an additional focus on technical provisions.

Life insurance policies guarantee benefits that often accrue over a long time horizon. The technical interest rate corresponds to the return that has to be generated to meet these benefit obligations. Life insurance companies are exposed to interest rate risk from the standpoint that their investments might not generate the required return. For example, if a person aged 25 takes out a Pillar 3a policy with a 40-year term, it is difficult to find an investment security with a corresponding term and yield.

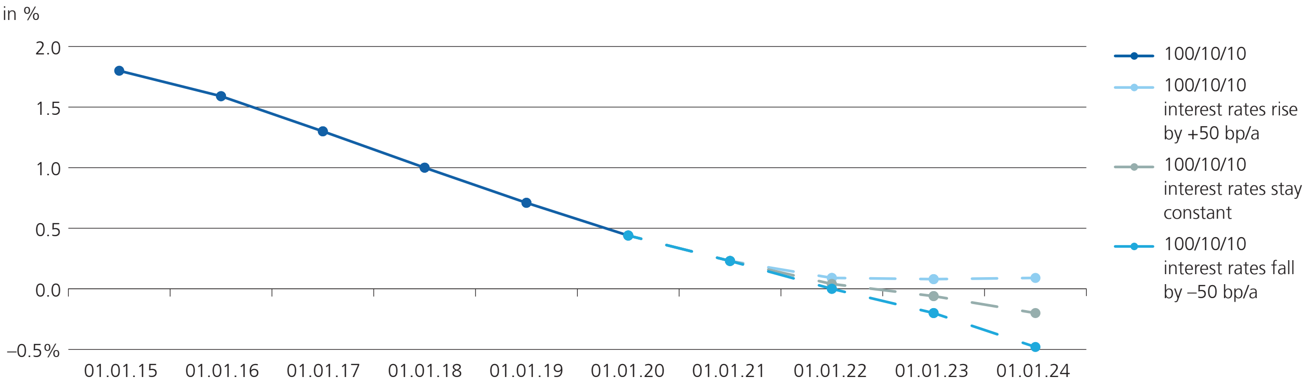
In practice, life insurance companies invest a significant proportion of their assets in interest rate sensitive investment instruments in order to address interest rate risk. The chart on page 53 illustrates the 10-year rolling average of 10-year Swiss Confederation bonds (100/10/10) and three different forecast scenarios for an investment portfolio (interest rates continue to fall, interest rates stay constant, and interest rates rise).

The 100/10/10 yield is shown from 2015 to 2020, from 2020 with the forecast scenarios (dotted).

As can be seen from the chart, the 100/10/10 yields continue to decline in all of the scenarios, and there is only a gradual recovery starting in 2022 in the "interest rates rise" scenario.

Each life insurance company applies a prudent discount rate to ensure that adequate provisions are set aside. The prudent discount rate is used to discount the promised benefits and must therefore reflect potential future returns on the corresponding investments, including any necessary reinvestments. In addition, it needs to include an appropriate safety margin. FINMA's task is to assess the interaction between the obligations entered into and potential future returns, and to intervene in the event of any deficiencies in the resulting technical provisions.

Average rolling returns for Swiss Confederation bonds (100/10/10)



On-site supervisory reviews: insurance companies

FINMA regularly conducts on-site supervisory reviews at insurers. Charges billed by medical service providers was an issue at several supplementary health insurance companies (see also "Review of supplementary health insurance benefits", page 50). The focus was on the contractual arrangements with the service providers and on the governance with regard to the controls on billing by the service providers.

In light of the persistently low interest rates, on-site supervisory reviews of life insurers' provisions were another focus. Actuarial principles for provisioning, the processes for reviewing provisions and established controls were analysed in this context.

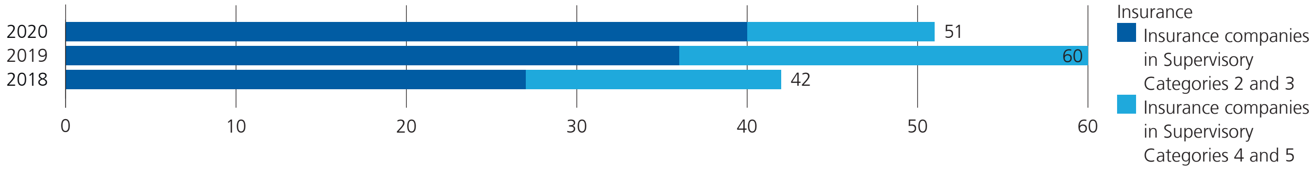
For the first time, management of cyber risks was the subject of on-site supervisory reviews at insurers in 2020. The focus was on governance relating to the management of cyber risks and cyber security as well as measures to protect data, infrastructures and applications from cyber threats.

FINMA sent ad hoc surveys to insurers in connection with developments surrounding the coronavirus pandemic. Specialists from the on-site supervisory review teams participated in the evaluation of these surveys and further clarifications.

Markets supervision

In the year under review, the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA) came into force. Accordingly, implementing this legislation for the first time required substantial work. FINMA licensed several supervisory organisations which oversee independent portfolio managers and trustees. In relation to the Financial Market Infrastructure Act (FMIA), FINMA developed criteria for assessing the authorisation requirement for new, easily accessible digital retail payment systems. The focus was on protecting market participants and the functioning of the market. FINMA also required operators of organised trading systems (OTSs) which trade contracts for difference to explain how they meet their supervisory duties.

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

	2020	2019	2018
Category 2 and groups	1.36 (15)	1.36 (15)	0.75 (9)
Category 3	0.68 (25)	0.57 (21)	0.43 (16)
Category 4	0.11 (7)	0.19 (12)	0.11 (6)
Category 5	0.04 (4)	0.13 (12)	0.11 (11)
All institutions	**0.25 (51)**	**0.30 (60)**	**0.21 (42)**

Licensing and supervision of supervisory organisations

Following the entry into force of the FinIA and the FinSA, and the corresponding revision to the Financial Market Supervision Act (FINMASA), FINMA must authorise the supervisory organisations (SOs). The mission of the SOs is to continuously supervise independent portfolio managers and trustees. In turn, FINMA supervises the SOs. In the course of this, it examines in particular whether the licensing requirements are permanently met and how the SOs supervise compliance with the statutory requirements by portfolio managers and trustees. FINMA stipulates uniform concepts and rating systems for the supervision of portfolio managers and trustees, issues new licences to financial institutions and retains responsibility for enforcement.

Within six months of the new legislation coming into force, a total of five organisations applied to FINMA for authorisation as an SO. As part of the licensing procedure, FINMA reviewed the requirements for a guarantee of irreproachable business conduct and independence, an adequate organisation and the necessary human resources, as well as whether the minimum financial requirements were met. To do this, FINMA entered into a regular, in-depth exchange of information with the individual applicant. Within the deadline of six months after submission of the application, FINMA authorised two SOs in July and one each in August, September and October (see table on page 55).

Qualification as a payment system

Under the Financial Market Infrastructure Act (FMIA), payment systems are subject to an authorisation requirement if this is necessary for the proper functioning of the financial market or the protection of financial market participants. In the case of retail payment systems, FINMA defined criteria to be used for verifying these requirements in 2020.
Payment systems are commonly divided into large value payment systems, which are typically used to process time-critical interbank payments, and mass (or retail) payment systems, which are characterised by a large number of low-volume transactions. In line

with FINMA's practice, both large value and retail payment systems may be subject to the authorisation requirement if they reach a relevant volume. Technological change has given rise to innovative retail payment systems that are easily accessible and not classified as systemically important by the Swiss National Bank (SNB). FINMA developed criteria to expand on the authorisation requirement for these types of payment systems. The annual transaction volume and the number of end customers are key indicators in this context, although there are no fixed thresholds. Rather, all circumstances applicable to the individual case must be taken into account. On the one hand, this approach ensures that financial market participants are protected when they use retail payment systems, and on the other, very small providers are exempted from the authorisation requirement, in line with the lawmakers' intention.

OTS market overview

FINMA surveyed Swiss operators of organised trading systems (OTSs) in the year under review. CFD and FX derivatives trading systems (contracts for difference and foreign exchange transactions) are also generally classified as OTSs.

FINMA considered that OTSs with CFD and FX derivatives trading were also involved in secondary market activities, which is why they had to be classified as operating an OTS. The reason for this is the systematic provision of closing prices in the trading systems by the operator so that buyers can close out their positions at any time; this is a typical feature for secondary trading of derivatives.

From the investor protection perspective, OTSs on which CFDs can be traded constitute the greatest risk, not least because of the widespread high leverage and the risk of loss associated with these platforms, which are mostly also accessible by retail investors. FINMA expressed its expectation to the operators of CFD OTSs that CFD traders must inform their clients at the latest after the end of the FinSA transitional periods about the proportion of clients who lose money with CFDs at the institution or even have to pay additional amounts (see "Findings from

Supervisory organisation	Legal form	Applicant	Authorisation date
Organisme de Surveillance des Instituts Financiers (OSIF), Geneva	Association	OAR ARIF	6 July 2020
Organisation de surveillance financière (OSFIN), Neuchâtel	Association	SRO PolyReg and OAD FCT	6 July 2020
Organisme de Surveillance pour Intermédiaires Financiers & Trustees (SO-FIT), Geneva	Association	OAR-G	11 August 2020
FINcontrol Suisse AG, Zug	Limited company	SRO VQF	29 September 2020
Schweizerische Aktiengesellschaft für Aufsicht (AOOS), Zurich	Limited company	SRO VSV	27 October 2020

suitability supervision" section, page 44). Additionally, the OTS operators concerned must explain how they comply with their supervisory obligations.

On-site supervisory reviews: self-regulatory organisations

FINMA performs annual on-site supervisory reviews at self-regulatory organisations (SROs) and financial market infrastructures. In 2020, FINMA determined the focus of SRO audits to be the implementation of risk-based supervisory approaches. The authorisation and monitoring of the SROs and SOs is performed by the same people within FINMA. Due to the demands on these resources for processing authorisation applications received from SOs, FINMA decided to postpone the majority of on-site supervisory reviews at SROs to 2021. The focus of financial market infrastructure audits was on trading surveillance.

Asset management supervision

Corporate governance and supervision of real estate funds were a key focus in asset management. Demand for the latter was uninterrupted and growth of aggregate assets under management was only slowed temporarily by the coronavirus crisis. For the first time FINMA approved a limited partnership for collective investment schemes (LP) for ship mortgages and a mortgage fund that allows investments in subordinated mortgage loans in the year under review. Furthermore, numerous institutions were allowed to have a reduced audit frequency under the Financial Institutions Act (FinIA). In the course of progressive digitalisation, FINMA gradually transferred the supervisory reporting by audit firms to the survey and application platform (EHP) to facilitate the data-driven evaluation of supervisory information.

Liquidity management / stress test

Liquidity management in the management of collective investment schemes is a key area of FINMA's supervisory work. In the case of open-ended funds, liquidity is understood to mean the capacity of the market to absorb the securities held in the fund and, linked to this, the ability of the fund management to pay these out in the event that fund units are redeemed by the investors. Discrepancies between the liquidity of the assets of open-ended collective investment schemes and the redemption profiles can lead to forced sales in stressed markets. This can lead in turn to large losses, and there is a risk that redemptions cannot be settled within the contractually agreed period. The growing role of funds in the markets can therefore amplify any future financial crisis by increasing the pressure to sell. Fund contracts must thus provide for liquidity management mechanisms that are aligned with the investment strategy, such as deferred repayment, gating[11] or swing pricing[12]. Effective liquidity management should safeguard investor protection even when the markets are stressed and hence support the robustness of the markets and mitigate systemic risk. Funds with increased liquidity risk must have available additional liquidity management tools, and they must be able to demonstrate to the supervisory authorities that they would be in a position to maintain their investment strategy and make redemptions even under stressed market conditions. FINMA monitored these issues using desk reviews and on-site supervisory reviews during the year under review, and

[11] Gating refers to the introduction of provisions in the fund contract that allow the proportionate reduction of redemption requests if a certain percentage or threshold is reached for a certain point in time, if there are exceptional circumstances and if this is in the interests of the remaining investors. It is designed to reduce the probability that the fund management company will have to dispose of investments of the fund at possibly unfavourable conditions in a fire sale.

[12] Swing pricing protects a fund's investors who are already invested from dilution because of transaction costs triggered by high subscription and redemption activity. This is achieved by adjusting the net asset value of the fund, and hence the unit prices, up or down (the swing).

On-site supervisory reviews: self-regulatory organisations, directly subordinated financial intermediaries and financial market infrastructures

called for improvements at certain funds or financial intermediaries. The situation in the Swiss fund market has improved substantially since the 2008 financial crisis. As a minimum, all funds now provide for deferral of redemption. In dialogue with the institutions, FINMA also increased awareness of liquidity risk so that they can be better prepared for crisis situations and market stress.

Product-related developments

The focus on special products in the Swiss market continued in the year under review. For example, for the first time FINMA approved a limited partnership for collective investment schemes (LP) that offers a qualified group of investors an opportunity to invest in holding companies for river cruise ships (shipping fund).

FINMA also approved a mortgage fund that invests in subordinated mortgage loans. The mortgage loans are subordinated by means of mortgage notes issued for the short-term financing of real estate projects and properties in Switzerland (subordinated mortgage business). FINMA's approval focused on the multi-stage due diligence and selection process at the parties involved, specifically the criteria and risk assessment models used by the lending institution. An independent external real estate appraiser was engaged to ensure the appropriate valuation of the real estate serving as collateral for the loans. Additionally, the fund is structured as an alternative fund and is only open to qualified investors.

Real estate funds: general trends

The growth in real estate funds that has been evident for many years was only slowed temporarily by the coronavirus crisis, with investor demand seemingly uninterrupted.

Assets under management by Swiss real estate funds came to around CHF 73.2 billion as at 30 September 2020. Their growth over the last five years has been a striking 70%. Average listed real estate fund premiums[13] are now approaching their all-time highs again. There was a sharp, short-term drop in listed real estate fund premiums in the wake of the coronavirus crisis. These fell from 32% at the end of 2019 to less than 20% at mid-March 2020. They recovered over the course of the year and were around 40% as at 31 December 2020, although growth was mixed depending on the investment focus of the funds. Funds with a significant proportion of commercial real estate or special properties benefited less from the recovery than pure-play residential real estate funds. The number of funds trading on the stock exchange at a discount to their net asset value rose from two to five since the beginning of the coronavirus crisis. Overall, real estate funds exhibited strong resilience up to now, both with regard to the valuation of real estate and with regard to profit.

As part of its supervisory activities, FINMA continues to closely monitor the development of real estate funds, including any effects of the coronavirus crisis.

[13] Percentage difference between the stock exchange price and the net asset value (after deferred taxes) of the fund units; a positive premium means that the market considers the product to be attractive and investors are prepared to pay more.

New reduced audit frequency at FinIA institutions

When the FinIA came into force, FINMA was able to approve the first applications for a reduced audit frequency at FinIA institutions in 2020.

In the course of the revision of FINMA Circular 2013/3 "Auditing" in 2018, a new option for a reduced audit frequency (regulatory audits only every two years) was introduced for smaller licence holders under the Collective Investment Schemes Act (CISA) and the FinIA. Following the entry into force of the FinIA effective 1 January 2020, this option is now available to FinIA institutions for financial years beginning on 1 January 2020 or later.

The boards of directors of 34 FinIA institutions (approximately 15% of the entire supervised community) filed a corresponding application in the course of 2020. FINMA assessed the application on the basis of the individual institution's risk situation and approved 33 applications. FINMA decides annually on whether to continue the reduced audit frequency in an evaluation process based on the institutions' risk situation. In those years in which no regular regulatory audit is performed, the institutions submit a report to FINMA on the compliance of their business activities with the statutory requirements.

Digital submission of audit reports

To simplify the data-driven evaluation of supervisory information, the gradual transfer of supervisory reporting by audit firms to the survey and application platform (EHP) started in 2020. The audit report for custodian banks under the CISA served as a pilot project in 2019 and was successfully implemented. In the course of 2020, the audit reports of the other licence holders (fund management companies, managers of collective assets, SICAVs, LPs) as well as representatives of foreign collective investment schemes were also migrated to the EHP.

Pension fund administrators

The FinIA introduced a new requirement for the authorisation and supervision of asset managers in the occupational pensions business. Managers of pension scheme assets now have to be authorised by FINMA and supervised either by a supervisory organisation or directly by FINMA.

Managers of pension scheme assets who are now subject to an authorisation requirement under FinIA must comply with the FinIA requirements and file an authorisation requirement with FINMA by no later than 31 December 2022. They can continue operating until their application is decided, provided they are affiliated with an SRO under Article 24 AMLA.

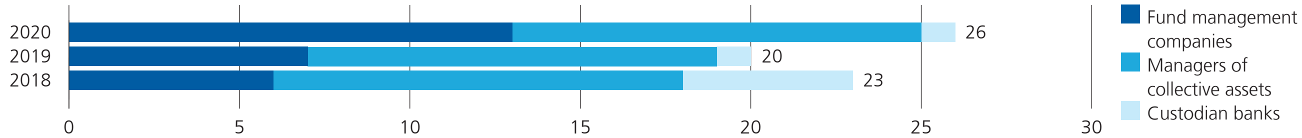
When processing licensing applications from managers of pension scheme assets, FINMA pays particular attention to the risks that may be associated with this business activity. For example, there may be personnel who work at both the mandated asset manager and the pension scheme itself, which could lead to conflicts of interest. As a result, it is important to ensure that the specific risks arising from the management of pension scheme assets are adequately taken into account in the asset management institution's risk management system.

Pension schemes that outsource asset management to an occupational pension scheme manager supervised by FINMA must comply with the statutory provisions governing occupational pensions. The Occupational Pension Supervisory Commission (OPSC) and the regional and cantonal OPA supervisory authorities are responsible for supervising compliance with these statutory provisions by the pension schemes. FINMA monitors compliance with supervisory law by the managers of collective investment schemes and is therefore in regular contact with the OPSC about the authorisation and supervision of managers of pension scheme assets.

On-site supervisory reviews: asset management institutions

FINMA focused on the risk management of products in 2020: The handling of liquidity risks and the application of stress scenarios in particular were studied in depth against the backdrop of the new regulatory requirements. Furthermore, on-site supervisory reviews were conducted in the areas of compliance with rules of conduct (suitability of products and services, market integrity and preventing money laundering) and cyber risk. A new topic in 2020 was the asset management of pension fund assets.

On-site supervisory reviews: asset management institutions



Enforcement

In 2020, FINMA conducted numerous investigations and many proceedings against companies and individuals. These included proceedings that were complex and international in scope.

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

The enforcement proceedings end with a decision in the form of a ruling from FINMA. These can be contested before the courts by the parties involved. This resulted in a total of 41 court rulings in 2020. The statistics show that the appeals bodies upheld 88% of FINMA's enforcement rulings, meaning the majority were upheld wholly or predominantly.

Enforcement proceedings due to major shortcomings in combating money laundering

In recent years, the Swiss financial centre has regularly been exposed in connection with international corruption cases, which has led to a number of enforcement proceedings – some lasting several years – against supervised institutions and individuals involved. After more than 20 cases against institutions and responsible managers such as those related to 1MDB, Petrobras and FIFA were concluded between 2016 and 2019, FINMA issued two rulings in 2020 relating to business relationships associated with Petróleos de Venezuela S.A. (PDVSA).

In the case of the bank Julius Baer, FINMA uncovered systematic failings to comply with legal obligations to combat money laundering. Specifically, the bank failed to sufficiently establish the purpose and background of its business relationships. For example, information was frequently missing as to how individual clients had come by their wealth, why they wanted to open an account with Julius Baer and what business they were planning to transact. Suspicious transactions were not systematically monitored and insufficiently queried. FINMA proceedings also showed that organisational failings and misplaced incentives encouraged breaches of the legal obligations to combat money laundering. The bank's remuneration system at the time focused almost exclusively on monetary aspects and paid scant regard to compliance and risk management. All in all, the bank had a poor compliance and risk culture in which legal obligations to combat money laundering were not given the required degree of importance. The bank was prohibited from carrying out transactions that significantly increase operational risks (namely money laundering risks) as well as the level of complexity of the organisation, such as significant acquisitions of companies, until compliance with the law was restored. In addition, FINMA ordered measures regarding the assessment and containment of client adviser risks, the remuneration policy and the organisation of the board of directors.

In the case of Banca Credinvest, in the context of business relationships linked to the PDVSA cases, FINMA also found that the bank's anti-money laundering processes and risk management were inadequate. In particular, the bank breached its duty of due diligence in relation to combating money laundering between 2013 and 2017. Specifically, the bank failed to adequately identify its clients and beneficial owners, failed to sufficiently monitor its clients' transactions, documented the processes incompletely and reported suspicious activities to the Money Laundering Reporting Office Switzerland (MROS) too late. In order to restore compliance with the law, besides a series of organisational measures FINMA ordered that the bank may not accept any new high-risk clients (e.g. politically exposed persons) for three years or until all measures have been implemented and reviewed at a later stage.

Update on industry bans – standard practice and stock-take

In 2017, FINMA ordered a two-year industry ban for a serious breach of supervisory law against a general counsel of a bank in the context of the 1MDB money laundering scandal. On 11 March 2020, the Federal Supreme Court confirmed this order, in the light of its landmark ruling BGE 142 II 243, while also specifying the requirements for the order of an industry ban pursuant to Article 33 FINMASA.[14] The general counsel, who was heavily involved in the business relationships and transactions in question, tried to exonerate himself inter alia by putting forward arguments regarding internal responsibilities of the executive board of which he was not a member. The Federal Supreme Court held in that regard that the sanction of imposing an industry ban was not supposed to be circumvented by referring to the internal division of responsibilities or the failure to establish proper organisational structures. According to the Federal Supreme Court, organisational deficiencies cannot remove the individual responsibility for a breach of supervisory law. In addition, the Federal Supreme Court dismissed an appeal against a five-year industry ban imposed by FINMA on the former chair of the board of directors of a private bank for serious breaches of supervisory law.[15] In its ruling, the Federal Supreme Court clarified important procedural issues and upheld the actions taken by FINMA. In particular, it reiterated that an industry ban pursuant to Article 33 FINMASA does not constitute a criminal sanction, which is why the procedural guarantees of Article 6(1) ECHR do not apply to it.

Industry bans were introduced into Swiss supervisory law on 1 January 2009. If it finds that a serious breach of supervisory law has been committed, FINMA can ban individuals responsible for such breach from acting in a senior role at an organisation supervised by FINMA for up to five years. In accordance with its enforcement policy of September 2014, FINMA takes targeted action against individuals responsible for serious breaches of supervisory law. In order to impose an industry ban, FINMA has to prove that the individual concerned has causally and culpably caused the serious breach of supervisory provisions through their individual misconduct. In recent years, FINMA has repeatedly taken this measure in serious cases and imposed a total of 38 industry bans between 2014 and 2020. The duration of the industry bans imposed ranged from several months to the maximum five years. Despite the generally limited scope of application, an industry ban under supervisory law is a severe sanction, which has both a preventive and punitive effect. An industry ban is often perceived as more severe than organisational measures or even a confiscation of unlawfully earned profits. Most of the industry bans imposed by FINMA to date have been upheld by the courts or accepted by the parties. A number of proceedings are still pending before the courts. In FINMA's experience to date, the measure has proven to be an effective tool for enforcing and upholding supervisory law and achieving supervisory goals.

As of 1 January 2020, with the introduction of Article 33a FINMASA, the legislator has extended the ban on traders practising their profession, which to date applied under the Stock Exchange Act, to client advisers of supervised institutions. Accordingly, FINMA may prohibit such individuals from trading in financial instruments or acting as client advisers for a limited period of time, or permanently in the event of a repeat offence, if they seriously breach the provisions of the financial market legislation, the implementing provisions or internal company regulations.

FinTech: progress and status report

In the past few years, a key priority for FINMA has been dealing with enquiries in connection with FinTech-based business models. In 2020 alone it conducted around 100 preliminary investigations in this context. A substantial driver for this was the large number of initial coin offerings (ICOs) in Switzerland.

[14] Federal Supreme Court ruling 2C_192/2019 of 11 March 2020.

[15] Federal Supreme Court ruling 2C_771/2019 of 14 September 2020; see also Federal Supreme Court ruling 2C_790/2019 of 14 September 2020.

In an ICO, investors typically transfer assets to an ICO organiser and receive newly created blockchain-based tokens in return. FINMA recently noticed a certain decrease in the number of such offers. In addition, it tended to receive fewer reports of FinTech service providers who might be operating without authorisation. This decreasing trend is probably due not least to the fact that those active in the FinTech sector are now more familiar with the legal parameters for such offerings. FINMA was therefore able to complete the majority of outstanding investigations. To ensure that the requirements of financial market law are met in the FinTech sector, FINMA closely supported the providers concerned in implementing measures or ordered such measures as part of enforcement proceedings.

Business models involving blockchain technology still attract considerable interest among investors. Dubious financial market players continue to take advantage of this by launching corresponding offers and often recruiting customers via an internet presence. Typically, they try to mislead investors into investing in cryptocurrencies under false pretences involving companies and products that do not exist. If such financial market players are known to FINMA, it includes them on its warning list and thereby alerts investors. It also consults with domestic criminal authorities and foreign supervisory authorities in this regard. In the year under review, 140 financial market players were placed on the warning list.

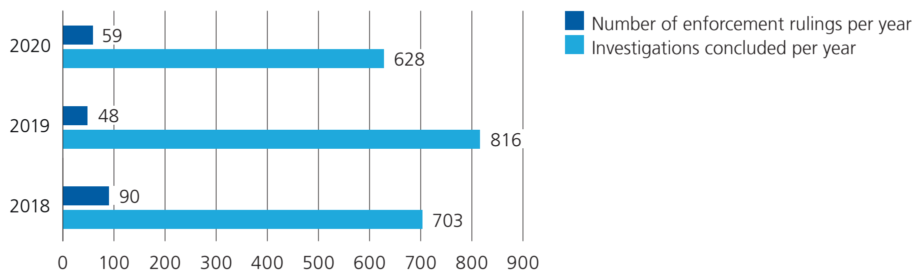
Enforcement proceedings for serious corporate governance failings

By law, a bank must organise its management in a way that is appropriate to its business operations. On 1 July 2017, FINMA specified the requirements regarding the internal organisation and the internal control system in the FINMA Circular 2017/1 "Corporate governance – banks". Shortcomings in corporate governance have led to various breaches of supervisory law in recent years; in particular a lack of checks and balances has been a contributory cause of misconduct in terms of supervisory law.

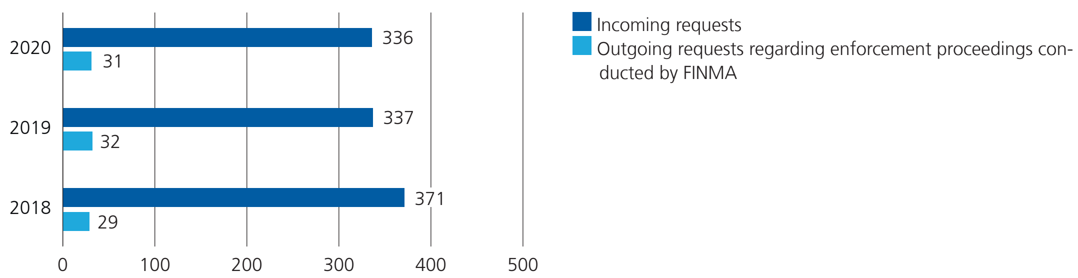
In a case concluded in June 2020, the principal shareholder of a bank, who was neither a member of the executive board nor of the board of directors, interfered too deeply in the bank's operational matters. Specifically, conflicts of interest arose in individual investments in the private equity sector that were not adequately resolved. FINMA accused the bank of allowing the principal shareholder to influence the bank and of failing to regulate the relationship with him. Given the present shareholder structure, according to which the principal shareholder controlled a large part of the voting rights, it would have been appropriate to put in place a clear demarcation and provisions regarding the relationship with the principal shareholder. The requirements under supervisory law for corporate governance and risk management were thus breached.

In the course of the proceedings, the bank had already taken a range of measures to strengthen corporate governance. In its final ruling, FINMA appointed an audit mandatary to review the measures taken and placed the bank under additional reporting obligations to its board of directors for a minimum period of three years from the date the audit report was available.

Investigations and enforcement rulings



International cooperation



Recovery and resolution

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

In the course of its annual assessment, FINMA again subjected the emergency plans of UBS and Credit Suisse to close scrutiny in 2020. These were deemed to be implementation-ready for the first time at the end of 2019. Moreover, FINMA guided the domestic systemically important banks (D-SIBs) in their ongoing efforts to close the remaining gaps in their emergency plans. The global resolvability of UBS and Credit Suisse also progressed further as scheduled. In addition, FINMA worked actively alongside Swiss authorities to tie up loose ends in the "too big to fail" legislation. At international level there was a renewed focus on possible resolution strategies and instruments for central counterparties (CCPs) and FINMA further developed its approach to Swiss CCPs in response. It also monitored a large number of ongoing liquidation and bankruptcy proceedings. A further important part of FINMA's work was overseeing supervised entities that had become destabilised and recognising foreign bank insolvency proceedings. During the year under review, no bankruptcy or formal restructuring procedure under the Banking Act had to be ordered for any licensed bank or insurance company.

Emergency planning for systemically important banks

FINMA assessed the two large banks' 2020 emergency plans as ready to implement. As in the previous year, Credit Suisse met the statutory requirements in full. At UBS, the Swiss entity continued to have a material contingent liability for third-party debt of the parent bank. This liability was further reduced in the year under review in line with the agreed schedule for eliminating the liability by the end of 2021. The UBS emergency plan is therefore effective with this proviso.

The three domestically focused banks also submitted updated emergency plans during 2020. In FINMA's view they all still fell short of the requirements for effectiveness based on the current status of the discussions with the D-SIBs as at the end of 2020. Zürcher Kantonalbank (ZKB) and Raiffeisenbank met the liquidity requirements, but are only planning to have built up the required gone concern funds in full by 2026. PostFinance was still lacking the required gone concern funds. The Federal Council's decision to propose, as part of the draft partial revision of the Postal Organisation Act, an assurance whereby the Confederation will cover the remaining equity shortfall as the (indirect) owner of PostFinance in the event of its bankruptcy, is to be seen in this context. This assurance would be limited in time and amount and would be remunerated at a fair market rate. FINMA will closely monitor the three domestically-focused banks in their further work.

Review of capital rebates

The amendments to the Capital Adequacy Ordinance announced by the Federal Council in 2019 mean that a limit on the current rebate potential will enter into force from 1 January 2022. The annual process of evaluating and granting rebates is therefore drawing to a close. Both UBS and Credit Suisse received additional rebates of 5% each during the year under review. This meant that at the end of 2020 UBS had obtained 47.5% of the maximum rebate and Credit Suisse 45.0%. Further improvements are expected by the end of 2021.

Crisis management colleges

As the home supervisor of two global systemically important banks (G-SIBs), FINMA is responsible for coordinating the cross-border resolution of these institutions in the event of a crisis and ensuring cooperation between the competent authorities. In normal business periods the crisis management group (CMG) focuses first and foremost on resolution planning to ensure the resolvability of the institutions. Senior policy makers from the various authorities in the CMG carry out an annual assessment of resolvability as part of the FSB Resolvability Assessment Process (RAP). In 2020 FINMA again convened several colleges with the most important foreign supervisory and resolution authorities for the banks concerned. Until now these included authorities from the US, the UK (crisis management college [CMC]) and the Asia-Pacific region (APAC college). The European Central Bank and the Single Resolution Board also joined the CMG of one of the Swiss G-SIBs in 2020 after taking over responsibility for supervising an EU-based subsidiary in 2019.

After the central counterparty SIX x-clear was designated as systemically important in more than one jurisdiction in 2017, FINMA also established a CMG for SIX x-clear. FINMA has thus been holding a further annual CMC for SIX x-clear since 2018, in which 13 domestic and foreign authorities currently take part. Its work focuses on assessing resolvability as well as cooperation and coordination both for recovery and resolution planning and the eventuality of a crisis at SIX x-clear.

Recovery and resolution for financial market infrastructures

SIX x-clear and SIX SIS submitted revised versions of their recovery plans in the spring of 2020. As systemically important financial market infrastructures, they are required to show how they would stabilise their businesses in a crisis to enable systemically important business processes to continue. FINMA reviewed and evaluated the revised recovery plans in consultation with the Swiss National Bank (SNB). Both financial market infrastructures have made further improvements in their plans compared with the previous versions. However, they still fall short of the expectations communicated to the two companies by FINMA as a result of the last assessment. FINMA therefore continues to view the work as not yet complete.

Alongside general preparatory work for both financial market infrastructures, the focus in resolution planning in 2020 was on the conceptual approach to a resolution strategy for SIX x-clear. This involved identifying potential resolution scenarios and thoroughly examining the applicability of the various resolution instruments discussed at international level for central counterparties to SIX x-clear. The resolution plan, which is a FINMA responsibility, has to show how a restructuring or liquidation of the systemically important financial market infrastructure could be carried out if FINMA were to order one. This work also forms the basis for identifying any need for additional regulation in this area.

Significant insolvencies

FINMA is responsible for initiating bankruptcy and liquidation proceedings for licensed financial institutions. External liquidators are often deployed to conduct the proceedings under FINMA's oversight. Important milestones were again reached in most of these bankruptcy and liquidation proceedings during the year under review. We set out the progress that has been made in a number of particularly important cases below.

Banque Privée Espírito Santo

The claims of first- and second-class creditors are fully covered in the bankruptcy proceedings of Banque Privée Espírito Santo (BPES). In 2020 the liquidator made further disbursements to first- and third-class creditors who had so far not taken part in the first instalment payment determined in 2017. A series of transaction agreements and the completion of pending legal cases also helped to move the liquidation forward. The negotiations with the other companies in the group to resolve intra-group claims continued. Progress was also made in realising inventory positions.

Hottinger & Cie AG in liquidation

Around 1,600 claims totalling CHF 380 million were submitted in the bankruptcy proceedings that opened in 2015. There were six appeals lodged against the schedule of claims published in 2017, of which two cases amounting to around CHF 16 million are still pending. The realisation of the disputed and illiquid assets is continuing. The liquidators were authorised to enforce potential claims of around CHF 14.4 million through the courts. Civil, criminal or administrative cases relating to further assets of around CHF 55 million are ongoing. First- and second-class claims have been met in full out of the realised assets and an instalment of 38% has been paid on the third-class claims. Apart from this, the work in administering the estate comprised the remaining client positions (around CHF 11.8 million), the fulfilment of tax and reporting obligations and money laundering checks.

Lehman Brothers Finance AG in liquidation

After important court cases were concluded in 2019, the last unresolved foreign court case pertaining to the realisation of assets was settled during the year under review. Additionally, the realisation of illiquid assets (e.g. the winding-down of special purpose vehicles as issuers of structured securities) progressed. An instalment totalling 67.57% had been paid on the recognised third-class claims by September 2020 out of the assets realised by that date. A further CHF 36.7 million was thus paid out for third-class claims compared with FINMA's last annual report. One appeal against the schedule of claims is still pending.

Strengthening the governance of depositor protection

Deposits of up to CHF 100,000 per client are covered by the depositor protection scheme in the event of the failure of a bank or securities firm in Switzerland. The esisuisse association is responsible for raising the funds required for this through contributions from its members and making these funds available to the bankruptcy liquidator appointed by FINMA. esisuisse is a self-regulatory organisation (SRO) of the banks and securities firms and fulfils a public function in deposit protection. FINMA approves the self-regulation.

FINMA actively promotes independent governance of esisuisse to strengthen public confidence in its deposit insurance function. For several years now, the board of esisuisse has thus included independent members alongside representatives of the financial industry. The powers of these independent board members have been strengthened over the last year, so that in future they would be responsible for running esisuisse in cases where it is required to conduct a pay-out to protect deposits. This is intended to prevent any conflicts of interest for members of the financial industry in dealing with sensitive institution-specific and client data.

Dealing with destabilised institutions

FINMA works with licence holders who are at serious risk of becoming destabilised. Such a risk is often associated with breaches of financial market law by the licence holder. A destabilisation can be financial in nature and be caused by non-compliance with regulatory key figures and indicators laid down for the licence holder or by looming over-indebtedness or illiquidity. Alternatively, serious corporate governance or conduct problems and failures in risk management can also be destabilising. In all of these cases FINMA attempts to stabilise the licence holder sustainably and to work towards restoring full compliance with regulatory requirements. If this is impossible, it will support licence holders in exiting the market voluntarily, or alternatively facilitate as orderly a liquidation as possible. In all situations the focus is on the legally protected interests of clients and creditors alongside the public interest in the proper functioning of the financial markets.

During the year under review FINMA was involved in stabilising several smaller insurers and one small bank. In the case of the small bank, FINMA oversaw the sale of the bank and its subsequent merger with the institution that acquired it.

Regulation

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

Where expressly provided for in a law or ordinance, FINMA may issue ordinances in specified areas of supervision covering technical details and topics subject to rapid change. It also publishes circulars, in which it sets out its supervisory practice and how it proposes to interpret laws and ordinances. By deploying these tools and in dialogue with other public bodies and interest groups, FINMA further enhanced the proportionality of regulation during the year under review. This included the ongoing implementation of Basel III in the amended Capital Adequacy Ordinance, the issue of the implementing provisions for the new Financial Services and Financial Institutions Acts and the draft for the new disclosure rules for climate-related financial risks.

Implementation status of final Basel III reforms

The Basel III finalisation package published by the Basel Committee on Banking Supervision (BCBS) in December 2017 was the concluding part of the catalogue of measures to address shortcomings in banking regulation highlighted by the financial crisis of 2007 to 2009. The final package contains revised rules on determining the capital requirements for credit, market and operational risk, the output floor for modelled approaches and the leverage ratio. Switzerland's Capital Adequacy Ordinance is being amended under the lead of the State Secretariat for International Finance (SIF) to implement these regulations. At the same time FINMA is incorporating its relevant circulars into a new FINMA Capital Adequacy Ordinance. Both projects are being carried out in close conjunction with the Swiss National Bank (SNB) and various industry representatives. The amendments are based on a guidance document agreed jointly by the authorities and industry representatives in March 2019. Due to the impact of the coronavirus pandemic, the BCBS and the SIF decided in March 2020 to defer the implementation date by one year to 1 January 2023.

Climate risks

Climate change could give rise to significant long-term risks for financial institutions. Transparency by supervised entities about their climate-related financial risks is a first important step towards identifying, measuring and managing these risks. FINMA has identified a need for regulatory intervention on the disclosure of climate-related financial risks and updated the disclosure rules for large market participants during the year under review. More uniform and comprehensive disclosure of the large financial market players' climate-related risks promotes greater transparency and market discipline and will also improve comparability over time.

FINMA's aim is to have a proportional and principles-based approach to this disclosure. Banks and insurers in categories 1 and 2 will be required to make their climate-related risks transparent alongside the financial risks they already disclose. The regulatory approach being taken by FINMA is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which are widely recognised internationally. A number of category 1 and category 2 banks and insurers have already committed to disclosing their climate-related financial risks on the basis of the TCFD principles.

FINMA carried out a pre-consultation on the proposals for a change in disclosure practice. It therefore invited representatives from the banking, insurance and asset management sectors, various NGOs, academics and officials to a regulatory roundtable in the summer of 2020. This is a format available to the Board of Directors. FINMA's regulatory approach met with broad agreement at the roundtable.

After carrying out the interdepartmental consultation, FINMA launched the public consultation in November 2020. The publication and entry into force of the revised disclosure circular is planned for mid-2021.

Implementing provisions for FinSA and FinIA

The Financial Services Act (FinSA) and Financial Institutions Act (FinIA) along with the implementing ordinances enacted by the Federal Council entered into force on 1 January 2020. This legislation obliges FINMA to issue implementing regulations in certain selected areas, mostly of a technical nature, and hence a number of existing FINMA ordinances and circulars needed to be amended. FINMA published a new, streamlined Financial Institutions Ordinance (FinIO-FINMA) in 2020, amended some existing ordinances and circulars and repealed three circulars completely. A consultation was carried out on this implementing regulation between February and April 2020. FinIO-FINMA regulates the details of professional indemnity insurance for portfolio managers, trustees and managers of collective assets, threshold values for authorisation as a portfolio manager and risk management and internal control systems for managers of collective assets.

In the FINMA Money Laundering Ordinance the threshold for client identification in exchange transactions involving cryptocurrencies was reduced from CHF 5,000 to CHF 1,000. This put international standards into effect and reflected the elevated money laundering risks in this area. The new rules took effect on 1 January 2020.

Amendments to FINMA circulars

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

Ex-post evaluation of "Direct transmission" Circular

The "Direct transmission" Circular entered into force on 1 January 2017. It deals with the direct, legally sanctioned and timely exchange of information between supervised entities and foreign public authorities. At the time of its adoption, FINMA announced that it would review the circular two years after it entered into force. It therefore carried out an ex-post evaluation from July to September 2019. Interested parties shared their experiences with the circular and made suggestions for improvement. FINMA evaluated the responses it received and then carried out a partial revision of the circular. After the interdepartmental consultation, a public consultation was carried out from August to October 2020. The revised circular is due to be published and enter into force in the first half of 2021.

Revision of "Video and online identification" Circular

From the time of its first publication in 2016, the circular was expected to be updated regularly in line with technological developments. After the partial revision in 2018, the circular is scheduled to be partly revised again in 2021 to keep it up to date with changes in the marketplace. This revision is expected to take account of the criticism by some market participants of the use of bank transfers as part of the identification process. Furthermore, parts of the circular will be rewritten to make it easier to understand and implement. After carrying out a pre-consultation and the interdepartmental consultation, FINMA launched the public consultation in November. The revised circular is set to enter into force in mid-2021.

Revision of "Health insurance under the ICA" Circular

Preventing unfair practices in supplementary health insurance is particularly important, as it is often difficult or impossible for older people or those with chronic conditions to switch their insurance cover, which limits competition in this segment. In a ruling of November 2019 the Federal Supreme Court endorsed parts of FINMA's current practice towards combating abuse in this area. This led FINMA to integrate its supervisory practice of protecting policyholders from unfair discrimination and excessive profit margins in supplementary health insurance into its Circular 2010/3 "Health insurance under the ICA". After the interdepartmental consultation, a public consultation was carried out from September to November 2020. Publication and entry into force are planned in the first quarter of 2021.

Revision of "Liquidity risks – banks" Circular

In November 2019 the Federal Council decided to introduce the net stable funding ratio for banks in mid-2021 and to amend the Liquidity Ordinance accordingly. This necessitated changes in FINMA's supervisory practice, which are set out in Circular 2015/2 "Liquidity risks – banks". After the interdepartmental consultation, a public consultation was carried out from May to June 2020. The draft was finalised in November 2020. The amended circular will enter into force in mid-2021, at the same time as the Federal Council's revised Liquidity Ordinance.

Format compliance of FINMA regulations

FINMA aims to ensure that its regulations are issued in the appropriate format. Hence the provisions on banks' accounting that entered into force on 1 January 2020 were raised from circular to FINMA ordinance level. A number of circulars could also be repealed in their entirety as part of the implementing regulation for the Financial Services and Financial Institutions Acts. FINMA has reviewed the format compliance of all of its regulation. The review concluded that its regulation has largely been issued in the correct format, but that transferring circular content to ordinance level would make sense in certain areas. This applies in particular to the technical details on banks' capital and liquidity requirements when implementing the Basel standards and the technical details on insurers' capital requirements. FINMA will make these adjustments organically, i.e. in the course of regulatory projects that are required for other reasons. The work has already begun in the banking field. In the insurance sector it will be tackled as part of the regulatory work required following the upcoming revision of the Insurance Supervision Act (ISA). FINMA will report on progress in improving the format compliance of its regulations in its annual report.

Total length of regulations in 2020

In terms of pages, the total length of FINMA's ordinances and circulars fell by 7% in 2020 compared with the prior year. The number of pages in circulars fell by 11% to 1,057 (2019: 1,195), while ordinances increased by 16% to 243 pages (2019: 208). These changes were largely due to the reorganisation of the regulatory architecture in financial accounting.

International affairs

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

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

Financial Stability Board

The Financial Stability Board (FSB) is responsible for monitoring financial stability globally and acts as the link between the G20 and the standard-setting bodies in coordinating financial market regulation. Monitoring implementation of the standards introduced after the financial crisis at a national level and analysing their impact on the financial markets are further important areas of work. In 2020 the FSB focused from March onwards on monitoring and assessing the risks to global financial stability deriving from the coronavirus pandemic. It also continued workstreams that were already in progress.

The Swiss National Bank (SNB) and the State Secretariat for International Finance (SIF) represent Switzerland in the FSB Plenary, the FSB's decision-making body. FINMA is a member of the Standing Committee on Supervisory and Regulatory Cooperation and chairs the Resolution Steering Group. FINMA has also joined the Steering Committee on NBFI, which is tasked with organising and completing the international work on non-bank financial intermediation. During the year under review FINMA's main focus in these groups and committees was on the projects relating to the coronavirus pandemic. It was also involved in the projects on the adequacy of a central counterparty's (CCP) financial resources in the event of resolution, general principles for global stable coins and questions relating to the replacement of LIBOR. The review of the implementation of resolution standards in banking, particularly the TLAC (Total Loss-Absorbing Capacity) standards, was also an area of emphasis for FINMA. Rigorously monitoring implementation in this area not only remains critical to the effective resolution of global systemically important banks (G-SIBs) and mitigating systemic risk, but also to ensuring a level competitive playing field for global banks.

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. The overarching aim of the BCBS is to enhance the stability and resilience of the international banking system. In recent years the BCBS finalised the last important components of its post-financial crisis Basel III reforms. Hence other issues moved centre stage during the year under review, especially the promotion of effective banking supervision, monitoring the final Basel III implementation in member jurisdictions, evaluating the impact of reforms and assessing emerging risks. Issues such as climate risks, the prudential treatment of crypto-assets and the replacement of LIBOR also remain on the agenda.

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) promotes effective and globally consistent supervision of the insurance industry with a view to protecting policyholders and contributing to financial stability. The IAIS' main focus during the year under review was the work towards implementing the holistic framework to assess and mitigate systemic risk, which was launched in 2019. The IAIS surveyed member supervisors in jurisdictions with large international insurance groups, including Switzerland, on the progress made in implementing the holistic framework. As expected, there are still a number of gaps in Switzerland's implementation. The planned partial revision of the Insurance Supervision Act (ISA), on which the Federal Council published its dispatch on 21 October 2020, will update the legal framework for the specific supervision of international insurance groups along with other changes.

2020 was also the start of the five-year monitoring period for the Insurance Capital Standard (ICS), which is intended to become a group solvency standard for internationally active insurance groups. A number of insurers in Switzerland (Baloise, Helvetia, Swiss Life, Swiss Re and Zurich) meet the IAIS criteria for an internationally active insurance group. The IAIS also responded to the coronavirus pandemic in a number of specific ways. There was increased exchanging of information between the member authorities and surveys were carried out during the course of the year, for example on the impact of the coronavirus pandemic on solvency, profitability and liquidity, to obtain an up-to-date picture of the insurance groups and IAIS member jurisdictions.

International Organization of Securities Commissions

As a member of the Board and various groups in the International Organization of Securities Commissions (IOSCO) for many years, FINMA again participated in a number of technical projects in 2020 and maintained important contacts with other supervisory authorities. IOSCO's objectives include investor protection, ensuring fair, efficient and transparent markets, mitigating systemic risk, developing and monitoring the implementation of internationally consistent standards of securities market regulation and promoting effective international cooperation.

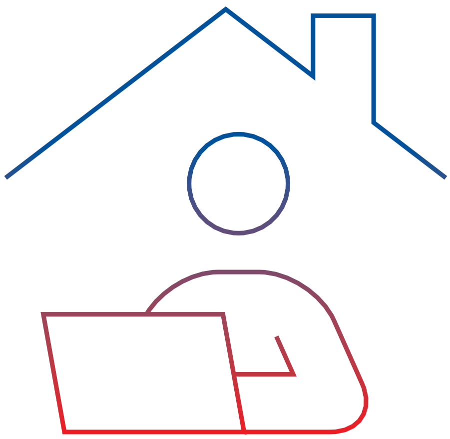
Important results in the year under review included the publication of reports on the regulation of crypto-asset trading platforms and on how IOSCO principles and standards should apply to stable coins. IOSCO also published recommended practices on processes for deference with the aim of preventing regulatory duplication and overlap in cross-border transactions. IOSCO also looked into the causes and impact of the market stress triggered by the coronavirus pandemic. FINMA contributed relevant expertise to these projects.

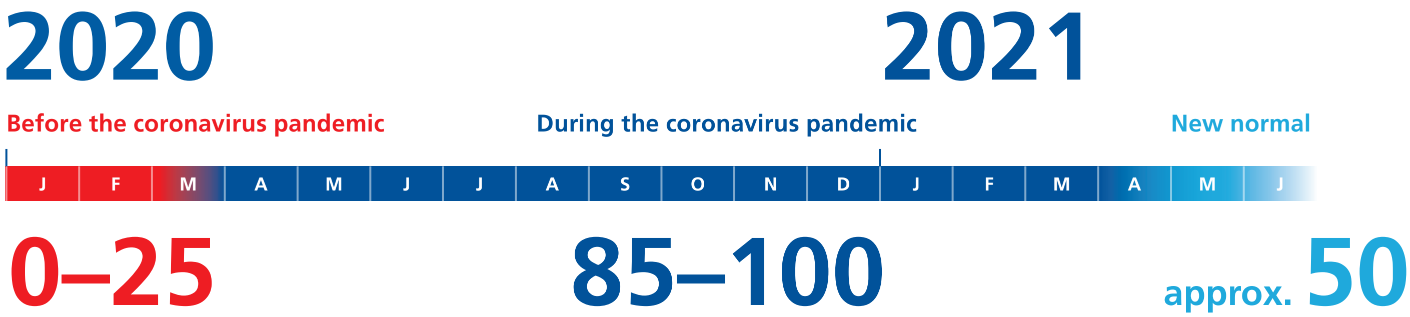
Network for Greening the Financial System

Within the scope of its mandate, FINMA participates actively in international discussions on improving sustainability in the financial sector. Together with the SNB, it has joined the Network for Greening the Financial System (NGFS), a group of central banks and supervisors committed to better understanding and managing environmental and climate risks in the financial sector. The NGFS published a number of reports in 2020, including on environmental risk analysis by financial institutions and climate scenario analysis in the financial sector. FINMA was involved chiefly in the work on integrating climate-related financial risks into prudential supervision, which led among other things to the publication of a non-binding NGFS guide for supervisors.

Experiences from the lockdown influence the workplace of tomorrow

Due to the coronavirus pandemic, FINMA employees worked largely from home in 2020. While continuous improvements were made to the technical equipment and processes during this phase to overcome the challenges of working together entirely virtually, lessons were also drawn for future cooperation. FINMA employees will be permitted to spend up to half of their contractual working hours at home in the “new normal”.





Days spent working from home relative to the average FINMA-wide degree of employment (4.5 days per week) in %

FINMA as an authority

FINMA in dialogue

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

FINMA maintains a dialogue with politicians, supervised institutions and individuals, the public and other interest groups. In the year under review, FINMA engaged in exchanges on numerous topics relating to its responsibilities and its role in government policy, such as the challenges posed by the pandemic, the accentuated risks in the fields of the mortgage market, cyber security and climate change and the "Blockchain Act". FINMA held various discussions with associations and other stakeholder groups and participated in topic-specific working groups. It informed the public by means of a range of press releases and publications and by responding to more than 7,000 enquiries.

In November 2020, the Federal Council approved FINMA's new strategic objectives for the period 2021 to 2024. Their focus lies on the topics of capitalisation and liquidity of financial institutions, mitigating the "too big to fail" problem, combating money laundering, technology-neutral regulation and adapting to the reality of new business models.

Renewal of the strategic goals

The year 2021 marks the start of a new strategy period for FINMA. In accordance with FINMA's legal mandate and Article 9 FINMASA, the Board of Directors defined the strategic goals for 2021 to 2024 and submitted them to the Federal Council for approval. The strategic goals show how FINMA intends to fulfil its legal mandate and where its focus will lie. Its work is geared to current economic developments and the corresponding risks so that the Swiss financial services industry remains robust and resilient.

With its strategic goals for the period 2017 to 2020, FINMA has taken important steps in the areas of capitalisation and liquidity, mitigating the "too big to fail" problem, combating money laundering, technology-neutral regulation and adapting to new business models. From this perspective and taking into account that the coronavirus crisis has exacerbated existing risks and increased the uncertainty of future developments, the strategic goals for 2021 to 2024 have been formulated in a way that is open to future developments as well as being a continuation of the previous strategy period. At the same time the new strategic goals underline FINMA's now greater focus on forward-looking risk management and sound corporate governance, on money laundering risks in the context of digitalisation and on climate-related financial risks. As an authority, FINMA will also continue to develop its data strategy and maintain its attractive and flexible working environment to equip employees for future challenges (see chart on the back cover of the report).

Annual accountability

Each year, the Chair of the Board of Directors and Chief Executive Officer meet the parliamentary supervisory committees, i.e. the Control Committees (CCs) and the Finance Committees (FCs) of the Federal Assembly, to fulfil their accountability obligation. In the year under review, questions were asked about the most significant risks for the financial market and issues relating to FINMA's management. The impact of the coronavirus pandemic on the Swiss financial centre received special attention in this year's consultations. The accentuated risks in the fields of mortgage market, cyber security and climate change were discussed.

The annual meeting with the Federal Council, as provided for by the Financial Market Supervision Act (FINMASA), takes place every autumn. At this meeting, FINMA provides an update on its progress in achieving its strategic goals. The 2020 meeting also included a discussion of FINMA's strategic goals for 2021 to 2024 with the Federal Council, which the latter subsequently approved.

Provision of expert information to parliamentary committees

In the year under review, FINMA also provided information on specific topics to parliamentary committees. In meetings of the Commission for Economic Affairs and Taxation (EATC), it provided information on its assessment of economic and financial conditions during the coronavirus pandemic, on regulatory relief during the crisis and on risks in the non-banking sector. In addition, FINMA attended two meetings of the EATC on bringing federal legislation into line with developments in distributed ledger technology, on the "Blockchain Act" and on the revision of the Banking Act, as well as two meetings of the Committee for the Environment, Spatial Planning and Energy of the National Council on the complete revision of the CO_2 Act.

Discussions with important stakeholder groups

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

As in previous years, FINMA also organised a round table for a number of organisations involved in client protection. The event was attended by consumer protection organisations (Foundation for Consumer Protection, Konsumentenforum), the Health Insurance Ombuds Office, the Private Insurance Ombuds Office and the price supervisor. Various topics related to supplementary health insurance were discussed, for instance transparency in cost settlements of medical service providers and the revision of FINMA Circular 2010/3 "Health insurance under the ICA".

Expert panels and symposia with market participants

Dialogue with supervised institutions is encouraged, particularly through subject-specific expert panels made up of high-level representatives from the supervisory and private sectors. The panels enable a direct and open exchange between the parties responsible for making decisions at the supervisory and financial market level. Their discussions look at specific supervisory and regulatory issues and the current market situation. In the banking sector, the expert panels in the fields of asset management, retail banking, capital markets, private banking and small banks proved their worth and were continued in the year under review. In the insurance sector, equivalent bodies for non-life, health and life insurance were the forum for discussions between FINMA and supervised parties in the year under review.

Enquiries

In the year under review, over 7,000 financial market clients, investors, lawyers and other interested parties contacted FINMA. This means that the volume of enquiries again increased compared to the previous year. Enquiries often provide FINMA with valuable information on individual players in the financial services industry, which can be specifically targeted in its supervisory activities.

In the year under review, FINMA fielded a total of 2,437 telephone enquiries and 5,034 written enquiries. The enquiries concerned licensed institutions, licensing requirements and queries of a regulatory nature. More than 1,730 enquiries were received in relation to unauthorised financial market participants who frequently misled their clients about being located in Switzerland or about possessing a FINMA licence. Every year, these enquiries prompt FINMA to conduct several hundred in-depth investigations and to take measures which, depending on the outcome of the review, may lead to enforcement proceedings or an entry on the warning list. The objective is to draw investors' attention to possible dangers in the financial services industry.

The number of questions about authorisations for Switzerland increased sharply in 2020. These were related in particular to the Financial Services Act (FinSA) and Financial Institutions Act (FinIA) which entered into force at the beginning of the year. The notification procedure and the handling of the transitional periods for submitting an application to become licensed as a portfolio manager or trustee led to numerous queries that had to be clarified with the financial intermediaries and their advisers.

Despite the omnipresence of the coronavirus pandemic since the beginning of 2020, this topic gave rise to enquiries to FINMA in isolated cases only, which can be taken as a sign of confidence in the stability of Swiss financial and insurance institutions. No fewer than 1,700 enquiries concerned queries of a regulatory nature.

Public reporting

The majority of public reporting takes place via FINMA's website. Additional transparency is created via specific publications regarding regulatory activities and the way in which FINMA fulfils its statutory responsibilities. The Risk Monitor summarises the most important risks for supervised institutions and provides an overview for the public of the supervisory work carried out. In the Resolution Report, FINMA discloses the progress made in its work on recovery and resolution planning for systemically important Swiss financial market players and thus provides information on the status of their emergency planning. By publishing its strategic goals (see section "Renewal of the strategic goals", page 78), FINMA demonstrates its priorities in fulfilling its legal mandate.

In the year under review, FINMA actively provided information regarding developments and topics relevant to the financial centre in 10 news articles and 34 press releases. A total of 805 press enquiries were received by the FINMA press office. More than 10,000 interested parties are currently taking advantage of the option of receiving tailored information from FINMA by subscribing to news and document updates. The numbers are rising. The same applies to the number of FINMA followers on social media.

In addition to up-to-date information, FINMA's website provides comprehensive information on issues dealt with by the supervisory authority and its regulatory principles. There are lists of all authorised financial actors and databases on enforcement proceedings and the related court rulings. In addition, specific publications are available – the annual reports of course – but also the insurance report, which sheds light on that specific market segment. Various statistics are also available regarding FINMA itself, enforcement and the insurance market. FINMA also compiles the most information on relevant topics in web dossiers, such as on the mortgage market, FinTech, cyber risks, combating money laundering and "too big to fail".

Audits on behalf of FINMA

FINMA calls on the support of third parties in all aspects of its supervisory work. Its key focus in this context is on effectiveness and efficiency of the agents and mandataries. The latest figures show for the first time the signficant cost savings that have been made thanks to a sweeping revision of the regulatory auditing process.

FINMA is a lean organisation by international standards, considering the size of the Swiss financial centre. This is possible not least because FINMA calls on support from third parties in fulfilling its supervisory remit. FINMA appoints audit firms to extend its reach in its supervisory activities. It can also commission mandataries for specific cases relating to aspects of ongoing supervision, enforcement or restructuring and liquidation proceedings.

Audit firms play a key role

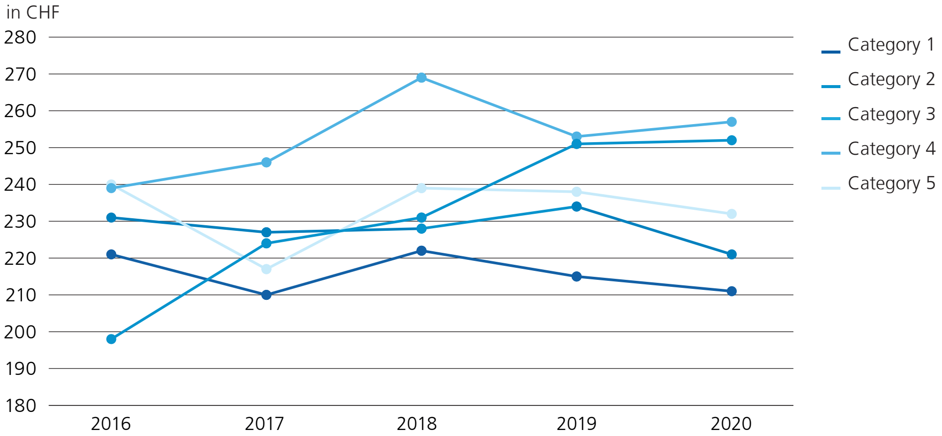
The appointed audit firms produce a risk analysis and audit strategy for their assigned financial institution. FINMA amends the audit strategy if necessary. In the insurance sector FINMA defines the audit strategy and the audit programme. Audit firms report their findings to FINMA on the basis of their auditing activities. They must maintain their independence. In addition, they must take a critical approach and guarantee an objective assessment. The Federal Audit Oversight Authority (FAOA) issues regulatory auditor authorisations.

The costs of regulatory audits conducted by audit firms are borne by the supervised institutions. Audit firms report their invoiced fees to FINMA on an annual basis. The average hourly rate for a regulatory audit is CHF 230 and CHF 154 for a financial audit. In the year under review, the use of audit firms 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 are used in the Swiss financial market varied considerably from sector to sector. In banking supervision, they account for 45% of costs, with average hourly rates for regulatory audits varying according to the size of the bank (see chart "Average hourly rates for regulatory audits of banks"). Since FINMA undertakes most of the supervisory work in the insurance sector itself, costs attributable to audit firms in this sector were just 14%.

Significant cost savings thanks to revised regulatory auditing process

In order to optimise the cost-benefit ratio in regulatory auditing, FINMA employed specific measures towards an increased risk orientation. With the revision of FINMA Circular 2013/3 "Auditing", the supervisory reporting templates were significantly streamlined, multi-year audit frequencies (two and three years) were introduced and the audit intervals were consistently scheduled according to risk. Since the

Average hourly rates for regulatory audits of banks



Fees charged by audit firms for regulatory audits

Annual fees per supervisory area in CHF millions[16]

	2020	2019	2018	2017	2016
Banks and securities firms	55.1	76.9	81.4	86.7	89.4
Insurance	6.8	7.7	7.2	6.3	6.6
Markets	0.8	1.6	1.9	2.3	1.3
Asset management	9.9	13.1	13	12.4	12.6
Total	**72.6**	**99.3**	**103.5**	**107.7**	**109.9**

[16] 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.

costs of regulatory auditing by audit firms can only be fully reported in the following year, the figures from the 2019 audit year are disclosed in this annual report. They show that the increase in efficiency achieved through the measures taken led to considerable savings in the ongoing costs of the supervised institutions. The costs for the basic and additional audits for banks and securities firms were able to be reduced by just over 30%. FINMA will conduct an impact analysis after three full audit years to examine the cost-benefit ratio. The desired goal of permanently reducing audit costs by 30% seems achievable.

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

Mandataries are an important supervisory instrument for FINMA. In contrast to auditors, mandataries are not usually commissioned for recurring audits with a predefined audit programme; instead they are deployed to look into specific issues relating to supervision and enforcement. FINMA's mandates are as varied as the areas they cover and thus require different types of specialisation. Their costs are borne by the supervised institutions. The following are the five types of mandatary and the areas they operate in:

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

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

FINMA has defined requirement profiles for its standard mandates. Candidates who meet the requirement profile are accepted onto the list. There were 88 mandataries on the FINMA list at the end of the year. When selecting a mandatary, FINMA refers to this list on a case-by-case basis. 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). Qualification, i.e. the ability to carry out a mandate, and independence are the central factors for the appointment of a mandatary in a specific case. Other selection criteria are language skills or the area of activity as well as expertise in the specific field. Depending on the mandate, sufficient resources may also be required. In addition, the proposed fees are a deciding factor when awarding the contract.

FINMA assigned 25 mandates during the year under review. As part of its selection process it ensures that, if possible, mandates are not awarded overly frequently to one single mandatary.

FINMA monitors the status of mandates at all times and checks that the costs borne by supervised institutions are proportionate. Costs for all FINMA mandataries commissioned in 2020 came to CHF 20.4 million.[17]

[17] Invoices received as of mid-February in each case.

[18] Subsequently corrected.

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

Category of supervised institution	2020		2019		2018	
	Fee volume 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	12.8	8	8.9	12	3.8	13
Investigations of authorised financial intermediaries	2.1	4	3.9	6	1.8	4
Investigations of unauthorised activities	0.6	7	0.6	8[18]	0.7	10
Liquidation proceedings	0.2	1	0.4	1	0.3	2
Bankruptcy liquidation proceedings	4.7	5	4.3	5	6.6	13
Total	**20.4**	**25**	**18.1**	**32**	**13.2**	**42**

Board of Directors and Executive Board

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

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

The Board of Directors

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

Members of the Board of Directors (31 December 2020)[19]

Dr Thomas Bauer	Chair
Prof. Dr Marlene Amstad	Vice-Chair
Prof. Dr Ursula Cassani Bossy	Member
Benjamin Gentsch	Member
Bernard Keller	Member
Dr Andreas Schlatter	Member
Dr Renate Schwob	Member
Martin Suter	Member
Franz Wipfli	Member

The Federal Council appoints the members of FINMA's Board of Directors. On 13 March 2020, the Federal Council appointed the previous Vice-Chair Prof. Dr Marlene Amstad as Chair of FINMA's Board of Directors effective 1 January 2021. She succeeds Dr Thomas Bauer, who left the Board of Directors at the end of December 2020. On 28 October 2020 the Federal Council appointed Martin Suter, who was already a member of the Board of Directors, as successor for the office of Vice-Chair. At the same time, it elected Prof. Dr Susan Emmenegger, professor of private and banking law at the University of Bern, onto FINMA's Board of Directors effective 1 January 2021. Dr Renate Schwob left the Board of Directors on 31 December 2020.

Committees of the Board of Directors

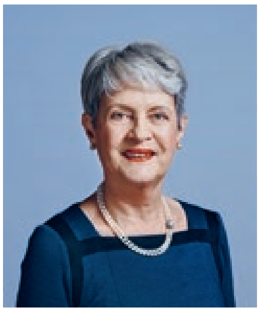
The Board of Directors has three committees, formed from among its members: the Audit and Risk Committee, the Appointments Committee and the Takeover and State Liability Committee. The Takeover and State Liability Committee is the complaints body with which appeals against rulings by the Swiss Takeover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

[19] To ensure transparency, FINMA maintains a public list of the interests of members of the Board of Directors.

Dr Thomas Bauer

Martin Suter

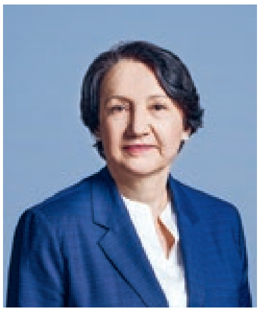
Dr Andreas Schlatter



Dr Renate Schwob

Prof. Dr Marlene Amstad

Franz Wipfli



Prof. Dr Ursula Cassani Bossy

Benjamin Gentsch

Bernard Keller

The standing committees of the Board of Directors and their members (31 December 2020)

	Audit and Risk Committee	Appointments Committee	Takeover and State Liability Committee
Dr Thomas Bauer		Chair	
Prof. Dr Marlene Amstad		X	
Prof. Dr Ursula Cassani Bossy			X
Benjamin Gentsch		X	
Bernard Keller	X		
Dr Andreas Schlatter			X
Dr Renate Schwob			Chair
Martin Suter	X		
Franz Wipfli	Chair		

The Executive Board

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

Members of the Executive Board (31 December 2020)

Mark Branson	CEO
Birgit Rutishauser Hernandez	Head of Insurance division
Jan Blöchliger	Head of Banks division
Léonard Bôle	Head of Markets division
Patric Eymann	Head of Enforcement division
Thomas Hirschi	Head of Asset Management division
Alexandra Karg	Head of Operations division
Johanna Preisig	Head of Strategic Services division
Rupert Schaefer	Head of Recovery and Resolution division

The Board of Directors transfers the role of Deputy CEO on a rotating basis to a member of the Executive Board for a period of two years. It appointed Birgit Rutishauser to act as Deputy CEO for the period beginning 1 June 2019.

Thomas Hirschi has been a member of the FINMA Executive Board since 1 January 2020 and is in charge of the Asset Management division. In this role he succeeds Michael Loretan, who passed away in 2019. From 2015 to 2019, Thomas Hirschi was responsible for the supervision of banks and insurance companies licensed by the Financial Services Regulatory Authority of the Abu Dhabi Global Market and before that he held various senior positions at FINMA.

Johanna Preisig has been a member of the Executive Board with responsibility for the Strategic Services division since 1 July 2020. She previously held a managerial role within FINMA's Recovery and Resolution division.

Rupert Schaefer has headed the Recovery and Resolution division since 1 July 2020. He previously led the Strategic Services division. Rupert Schaefer has been a member of the Executive Board since 1 January 2015.

Enforcement Committee

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

Permanent members of the Enforcement Committee (31 December 2020)

Mark Branson, Chair
Patric Eymann
Johanna Preisig

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

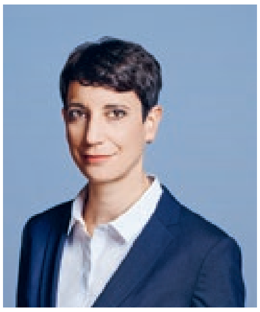
Léonard Bôle

Rupert Schaefer

Mark Branson

Alexandra Karg

Patric Eymann



Johanna Preisig

Jan Blöchliger

Birgit Rutishauser Hernandez

Thomas Hirschi

Staff

FINMA is committed to a personnel policy which emphasises efficiency, sustainability and transparency. A particular focus in 2020 was the promotion of internal mobility and professional adaptability among the workforce.

Two personnel topics that shaped 2020 were the implementation of the measures defined in 2019 in connection with FINMA's gender diversity targets, and the implications of the coronavirus pandemic for staff. The latter are described in detail in the section "FINMA in the lockdown" (page 18). In addition, FINMA's HR activities in 2020 focused on better supporting employees with their own professional development and helping them better adapt to change in the workplace.

Enhanced promotion of internal mobility and employee adaptability

To fulfil its duties FINMA relies on staff who are as well qualified and high-performing as possible. In its field of activity – which is changing constantly and ever more rapidly due to internal and external influences – it is important for FINMA that its staff remain flexible and can readily be deployed to other tasks. To ensure this, they should receive the necessary support from FINMA to enable them to develop and maintain the qualifications they require now and in the future. This is why FINMA has always attached great importance to staff development and the promotion of lifelong learning.

To further strengthen this commitment, and to offer staff additional incentives to engage in continual training, FINMA launched a twelve-month pilot project in 2020 entitling all employees to at least three days of paid training a year. Employees were free to use these guaranteed days of training for all forms of continual training on any relevant topic. As part of the pilot project, all employees were given free and unrestricted access to an online learning platform covering a broad range of topics. Overall, 1,229 days of internal and external paid training were facilitated in 2020 (2019: 1,217) despite a considerably more complicated training environment due to the coronavirus pandemic. This equates to some 2.5 days of paid training per full-time equivalent (2019: 2.5). FINMA considers these results a success. The entitlement to paid days of training was thus increased to five at the beginning of 2021, and permanently incorporated into HR policy. The offers for online learning will be continued.

FINMA also intends to enable more employees to voluntarily swap their current role for another internal position after a certain period of time. It has therefore further developed its job rotation models. A systematic exploratory survey was carried out in 2020 for the first time among employees who have already worked in the same position for a number of years to gauge the level of interest and willingness to make a voluntary job swap. This scheme offers employees additional horizontal development paths and opens up new career opportunities. In turn, FINMA benefits from having employees who can make broad use of their experience across sections and divisions. In 2020, the percentage of vacant senior specialist and management positions filled from within the organisation was 65% (2019: 43%).

Finally, to offer those in the last phase of their careers before retirement the greatest possible flexibility and appropriate professional opportunities, FINMA also extended its options for older employees. A systematic planning meeting will be held every three years for employees aged 55 and over to discuss individual career paths, the options available and any resulting measures.

Alongside the existing options for early or delayed retirement, rainbow career positions will now be selectively created for employees aged 58 or over. The purpose of these positions is to offer highly experienced staff and managers an additional way of stepping back from an operational full-time position. With a reduced workload, they can then dedicate a few years to handing over their valuable knowledge and expertise, and mentoring younger specialists and managers. Employees in a rainbow career position can continue to contribute to their occupational pension scheme as if they were in a full-time position if they so wish. The salary is adjusted according to the position so that the employer pension fund contribution is paid by FINMA at the same level as for the previous full-time position.

Update on gender diversity targets and measures

One of FINMA's key personnel policy objectives is to ensure that the proportion of women at all management levels is approximately the same as in the overall workforce. In the year under review, 28.9% of all management positions were held by women (2019: 29.3%); overall, women accounted for 41.2% of the workforce (2019: 39.5%).

In order to achieve this goal, FINMA has defined maintenance and development targets for equality of opportunity for men and women.

The purpose of the maintenance targets is to ensure that good outcomes in terms of equal pay and employment conditions are maintained into the future. To this end, FINMA has its salary policy reviewed annually by an independent body using "Logib", the Federal Government's equal-pay tool. In the year under review, the wage differential measured in this way amounted to 1.9% (2019: 1.7%). The slight deterioration can be attributed to fluctuations resulting from the statistical method used that are not significant. The result was still well within the permitted 5% tolerance band.

The gender diversity development goals are defined in terms of phased targets which over time will deliver appropriate and sustainable gender distribution at each management level. Based on the 2020 workforce, the indicative figures and percentages achieved are as follows:

- at least 35% of lower specialist management positions to be filled by women by 2022
  2020: 32.5% (2019: 32.7%)
- at least 35% of lower management positions to be filled by women by 2024
  2020: 21.4% (2019: 23.8%)
- at least 33% of higher specialist and management staff and executive management to be filled by women by 2026
  2020: 24.2% (2019: 21.7%)

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

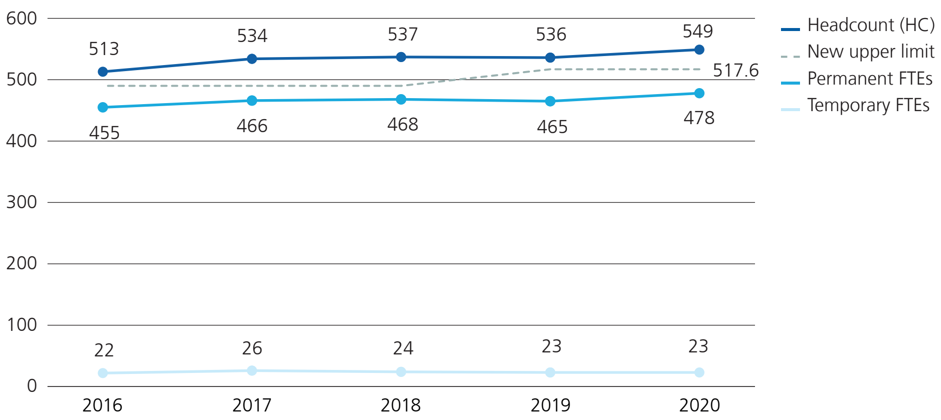
Staff expansion is still modest

Given the additional responsibilities that FINMA is assuming in connection with the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA), the Board of Directors increased the maximum number of full-time positions by 36.6 to 517.6 full-time positions with effect from 1 January 2019. This specifically includes all of the personnel resources that will be required in the coming years, mainly for the authorisation, supervision and enforcement of financial market participants that are now subject to supervision by FINMA.

Given the implementation timeline for FinSA and FinIA, the additional resources will only become necessary in the medium term and the actual number

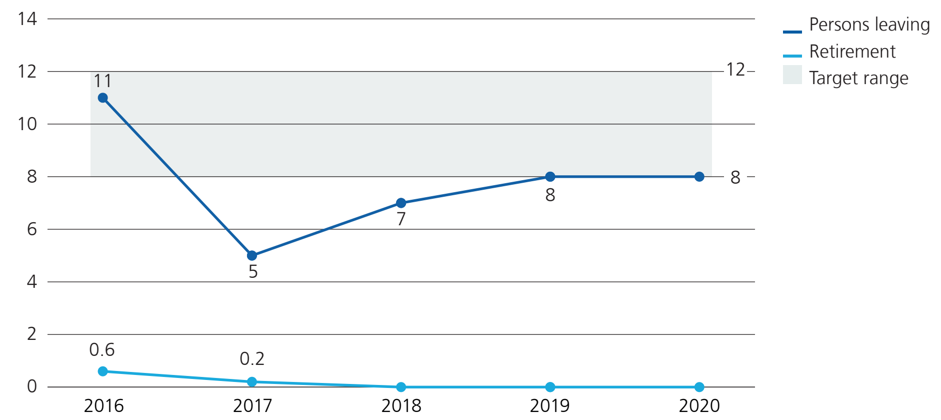
FINMA publishes detailed personnel data annually on its website.

Average headcount



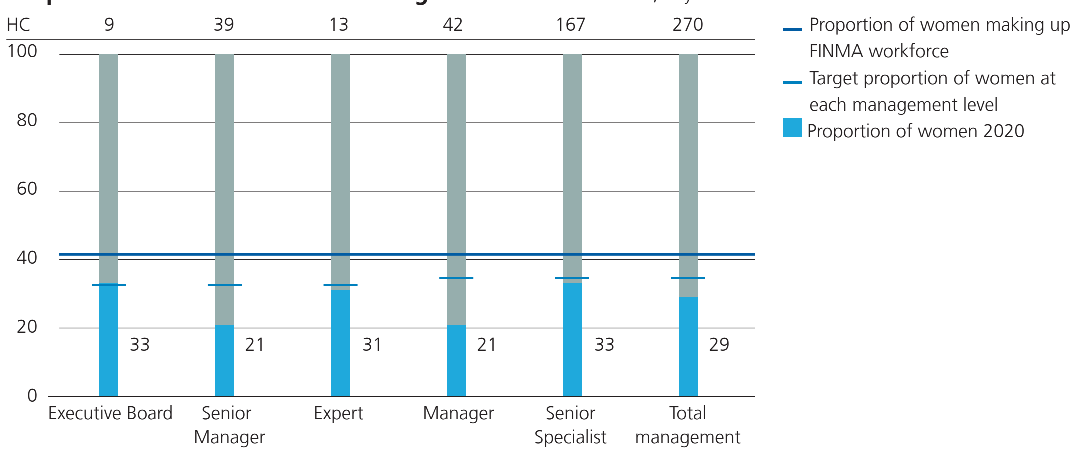
Staff turnover

in %, at year end



Proportion of women at each management level

in %, at year end



of full-time positions will therefore rise gradually towards the new upper limit. In the year under review, therefore, only 5 new permanent full-time positions were actually created and filled (2019: 11.9).

FINMA had an average of 549 employees in permanent and temporary employment in 2020 (2019: 536). Around 25% of employees worked part-time, i.e. less than 90% (2019: 27%).

Staff turnover within defined limits

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

The analytical rigour of FINMA's supervisory activities will be enhanced by the influx of know-how from the financial sector and the fresh perspectives provided by new employees. In addition, a healthy dynamism in the personnel structure offers existing employees greater opportunities to take on additional responsibilities and explore new roles.

At 8% (2019: 8%), staff turnover in 2020 was again at the lower end of the FINMA target range.

Operations

In keeping with FINMA's data strategy, nearly all data collection was processed entirely via the central survey platform in the year under review. Greater use was also made of the distribution platform. The decreased total energy consumption was partly a result of the pandemic, and partly the result of energy efficiency measures. The implementation of the FinIA and FinSA legislation and the reorientation of regulations on auditing led to a slight increase in operating costs.

Following the successful launch of the survey and application platform (EHP) in 2019, in the year under review FINMA focused on increasing the usage rate, expanding the range of functions by integrating further business cases, and optimising user friendliness. As the central platform for exchanging information with supervised institutions and audit firms, EHP is also a key component of FINMA's data strategy. FINMA made significant progress in implementing EHP in the year under review.

EHP as an information hub

Almost all data collection within the framework of ongoing supervisory activities was processed electronically via EHP in 2020. It is also possible to submit applications via EHP. In certain areas, applications can only be submitted via EHP. Some reports can also be submitted via EHP, such as the reporting of cyber attacks.

Furthermore, institutions that are not authorised by FINMA can submit applications for various licences via the newly-established self-registration process and therefore apply for access to EHP. As a result, FINMA expanded its user base by 3,193 institutions in the year under review. The majority of these new registrations concerned portfolio managers and trustees, which have been subject to FINMA supervision since the FinIA entered into force on 1 January 2020. FINMA reviewed 83 such applications in the year under review.

Key figures for EHP 2020

2019 figures in brackets

4,009 (+3,139)
registered supervised institutions and audit firms

10,831 (+7,231)
registered users

9,948 (+9,919)
surveys conducted

659 (+509)
applications submitted per month

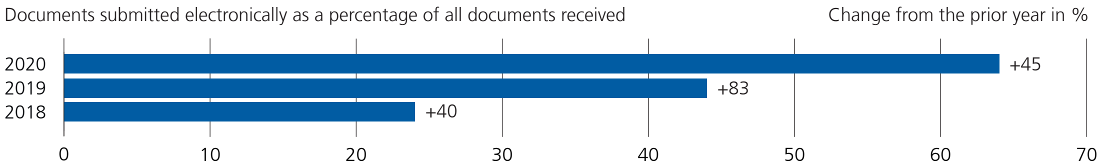
7,912 (+6,142)
total applications submitted

In 2020, new functionalities were also introduced that make EHP more transparent and user-friendly. A support page with frequently-asked questions was set up on the FINMA extranet web page, and support capacity for external enquiries was increased to provide timely responses of appropriate quality.

Electronic correspondence trends

FINMA's digitalisation measures are increasingly bearing fruit and received extra impetus from the coronavirus pandemic. An increasing amount of mail is handled electronically. In the year under review,

Digital information submission trends



64% of incoming mail was in electronic format. Meanwhile, 23% of outgoing mail was sent electronically. This represents a year-on-year increase in electronic correspondence of over 35%.

Implementation of FINMA's data strategy

As supervised institutions and audit firms increasingly submit information electronically, the efficient and automated processing of this information is a key challenge, but also an opportunity for FINMA. It intends to process the information in as uniform and standardised a manner as possible, with a view to further increasing the efficiency and effectiveness of core processes.

High-quality data forms the basis of the data-based approach to supervision. FINMA guarantees this through various measures, including (partially) automated data quality checks and reconciling with reference registers. Building on this, it began the fundamental optimisation of internal analysis tools in the year under review. It deploys the appropriate technology as needed, alongside conventional databases and analysis tools. To achieve further progress towards more effective risk-based supervision, FINMA established a Data Innovation Lab within the Banks division. Based on current challenges in ongoing supervision, the Data Innovation Lab realises practice-related pilot projects. In the year under review these included the use of machine learning to enhance time series analyses and forecasts as well as the automatic processing of relevant text information such as annual reports or press articles using natural language processing.

FINMA also exchanged information continuously with domestic and foreign authorities and experts about the latest developments in the field of modern analysis methods. There are plans to expand self-service offerings for automated use by supervised institutions.

Adequate consideration will be taken of the applicable information security requirements in all projects. FINMA will also continue to adapt the data strategy published in 2019 to the current situation and to apply it in a consistent manner.

FINMA's key environmental indicators
The positive trends of recent years continued and FINMA was able to significantly improve its overall energy efficiency. This was largely to do with the exceptional coronavirus situation. Improved energy efficiency and reduced staff presence in the office greatly reduced year-on-year energy consumption at both FINMA locations (Bern –13.7%, Zurich –23.6%).

Figures were available for the first time on heat generation in the Zurich office for the period 2018 to 2020. The heating system in Zurich uses natural gas, which is not renewable. Only the Bern office is able to use district heating, where 74.0% of heat generation come from renewable energy sources. If both locations are considered together, the proportion of renewable energy fell slightly in 2020 (–1.9%).

FINMA's paper consumption also fell significantly (–47.1% year-on-year). This was driven by the instruction to work from home due to the pandemic, and accelerated digitalisation.

In addition, various specific measures in buildings focused on sustainability. In all tender processes – including the one regarding the secure disposal of business documents – FINMA took account of sustainability criteria. In addition, the operator of the staff canteen in Bern switched its takeaway packaging to sustainable products that are biodegradable and fairly produced.

FINMA's costs
FINMA's operating costs were stable for several years. In the year under review, they rose by CHF

Key environmental indicators

	Unit	2017	2018	2019	2020	Change from prior year in %
Power consumption, Bern	kWh	949,695	866,062	823,274	710,892	–13.7
Power consumption, Zurich	kWh	102,282	100,758	107,006	81,804	–23.6
Consumption of district heating, Bern	kWh	1,186,540	948,928	1,056,248	1,004,466	–4.9
Consumption of heating energy, Zurich (natural gas)	kWh	–	436,832	456,605	438,125	–4.0
Total energy consumption	kWh	2,238,517	2,352,580	2,443,133	2,235,287	–8.5
Proportion of total energy needs met by renewable energy sources	%	86.6	71.2	70.2	68.9	–1.9
Paper consumption per FTE	kg	26.4	21.8	16.7	8.8	–47.1

3 million due to implementation of FinIA and FinSA. FINMA's annual financial statements showed operating costs of CHF 126 million (2019: CHF 123 million). Together with the statutory reserves, this amounted to CHF 138 million (2019: CHF 135 million). These expenses were covered by income from supervisory fees and levies.

Annual financial statements for 2020

The 2020 Annual Financial Statements, which set out FINMA's results in detail, are published separately.

Abbreviations

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)
APAC college Asia-Pacific college
Art. Article
BCBS Basel Committee on Banking Supervision
bp/a basis points/year
BPES Banque Privée Espírito Santo
CBOE Chicago Board Options Exchange
CC Control Committees of the Federal Assembly
CCP Central counterparty
CFD Contract for difference
CHF Swiss francs
CISA Swiss Federal Act of 23 June 2006 on Collective Investment Schemes (Collective Investment Schemes Act; SR 951.31)
CMC Crisis management college
CMG Crisis management group
D-SIB Domestic systemically important bank
DLT Distributed ledger technology
EATC Economic Affairs and Taxation Committees
ECL Expected credit loss
EHP FINMA survey and application platform
ENA FINMA Enforcement Committee
ESG Environmental, social, governance
EU European Union
FAOA Swiss Federal Audit Oversight Authority
FATF Financial Action Task Force on Money Laundering
FC Finance Committees of the Federal Assembly
FDF Federal Department of Finance
FIFA Fédération Internationale de Football Association
FinIA Swiss Federal Act of 15 June 2018 on Financial Institutions (Financial Institutions Act; SR 954.1)
FinIO-FINMA FINMA Financial Institutions Ordinance
FINMA Swiss Financial Market Supervisory Authority
FINMASA Swiss Federal Act of 22 June 2007 on the Swiss Financial Market Supervisory Authority (Financial Market Supervision Act; SR 956.1)
FinSA Swiss Federal Act of 15 June 2018 on Financial Services (Financial Services Act; SR 950.1)
FMIA 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)
FOPH Federal Office of Public Health
FS-ISAC Financial Services Information Sharing and Analysis Center
FSB Financial Stability Board
FTE Full-time equivalent
G-SIB Global systemically important bank
HC Headcount
HIA Swiss Federal Act of 18 March 1994 on Health Insurance (Health Insurance Act; SR 832.10)
IBOR Interbank Offered Rate
ICA Swiss Federal Act of 2 April 1908 on Insurance Contracts (Insurance Contract Act; SR 221.229.1)
ICO Initial coin offering
ICS Insurance Capital Standard
IFRS International Financial Reporting Standards
IOSCO International Organization of Securities Commissions
ISA Swiss Federal Act of 17 December 2004 on the Supervision of Insurance Companies (Insurance Supervision Act; SR 961.01)
ISDA International Swaps and Derivatives Association
ISO Swiss Federal Ordinance of 9 November 2005 on the Supervision of Private Insurance Companies (Insurance Supervision Ordinance; SR 961.011)
IT Information technology
kg kilogram
kWh kilowatt hour
LIBOR London Interbank Offered Rate
Logib Federal government's equal-pay tool
LP Limited partnership for collective investment schemes
m million
MROS Money Laundering Reporting Office Switzerland
n/a not available
NGFS Network for Greening the Financial System
Non-UCITS Non UCIT-compatible collective capital investments
OPSC Occupational Pension Supervisory Commission
OTC Over-the-counter
OTF Organised trading facilities
p. Page
para. Paragraph
PB Physical climate risks for banks
PDVSA Petróleos de Venezuela S.A.
PMCA Swiss Federal Act on the Control of the Trade in Precious Metals and Precious Metal Articles of 20 June 1933 (Precious Metals Control Act; SR 941.31)
PRA Prudential Regulation Authority (UK)
PV Physical climate risks for insurance companies
RAP Resolvability Assessment Process
SIC Swiss Interbank Clearing system
SICAV Investment company with variable capital
SIF State Secretariat for International Finance
SNB Swiss National Bank
SO Supervisory organisation
SR Classified Compilation of Federal Legislation
SRO Self-regulatory organisation
SST Swiss Solvency Test
TB Transitory climate risks for banks

TCFD Task Force on Climate-related Financial Disclosures
TLAC Total loss-absorbing capacity
TV Transitory climate risks for insurance companies
UCITS Undertakings for Collective Investment in Transferable Securities
US GAAP United States Generally Accepted Accounting Principles
VASP Virtual Asset Service Provider
VIX Volatility Index
ZKB Zürcher Kantonalbank

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Published by
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Annual financial statements
FINMA's annual financial statements for 2020 are published separately.

Photography
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Design and layout
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Printing
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Unless stated otherwise, the statistical data in this report originates from internal FINMA sources. FINMA publishes various statistics on its website.

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Enforcement
Patric Eymann *

Division Operating Office
Danielle Schütz
Sarah Bienz

Investigations
Philipp Lüscher

Proceedings
Anton Brönnimann
Christoph Kuhn

International Cooperation
Dominik Leimgruber

Recovery and Resolution
Rupert Schaefer *

Division Operating Office
Marcel Walthert

International Affairs and Policy Issues
Reto Schiltknecht

Recovery and Resolution Planning
Swen Wyssbrod-Hässig

Restructuring and Insolvency
Rupert Schaefer

Organisation chart

(31 December 2020)

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

Strategic Services
Johanna Preisig *

- Division Operating Office – **Florian Roth**
- Regulation – **Noël Bieri**
- International Affairs – **Franziska Löw**
- Legal and Compliance – **Renate Scherrer-Jost**, **Kathrin Tanner**
- General Secretariat and Communications – **Edith Honegger**

Operations
Alexandra Karg *

- Division Operating Office – **Niko Kehm**
- Facility Management and Procurement – **Albert Gemperle**
- Finance – **Thomas Flückiger**
- Human Resources – **Adrian Röthlisberger**
- Information and Communication Technologies – **Christoph Hunziker**

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, but also operational topics (see page 78).

Goals for client and system protection

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

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

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

4 – Too big to fail
The plans provided for by law will be drawn up in order to mitigate the "too big to fail" risk.

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

6 – Innovation
FINMA will promote innovation in the Swiss financial centre.

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

8 – International cooperation and regulation
FINMA will seek to ensure that Swiss financial regulation is in line with international standards. It will represent Swiss interests in international fora and make the case for credible international standards. FINMA is a recognised, cooperative and reliable partner for foreign supervisory authorities.
FINMA is committed to financial regulation that achieves targeted reductions of 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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