

# Strengthening Austria as a Financial Centre

Initiative for the Austrian Financial and Capital Market





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# Strengthening Austria as a Financial Centre

Growth, innovation, and full employment are the main objectives of Austria's economic policy and build upon its stability-oriented policies. The growing internationalisation of the economy and the high degree of integration within the European Union (EU) require the active participation of Austria in European and global institutions to take advantage of opportunities and overcome challenges.

The initiative for the Austrian financial and capital market is in line with relevant international and national discussions and comprises 27 measures under the guidance of the Federal Ministry of Finance and in accordance with the work programme of the Austrian Federal Government. They will have a positive impact on competitiveness and employment on the national level. The focus is on structural, sustainable, and effective measures that respect the harmonised legal framework of the EU.

The initiative for the Austrian financial and capital market contributes to sustainable economic growth and thus secures business branches and jobs in Austria. The starting point of the initiative was an analysis of potential weaknesses in the Austrian financial and capital market. This process resulted in measures to boost the supply and demand sides.

The following considerations guided the approach to developing the initiative for the Austrian financial and capital market:

- Well-functioning, stable conditions, effective incentives, and appropriate controls are the basis for a good economic and investment climate. Examples of such conditions are a stable public household, free, open, and competitive markets, high legal certainty, functioning trade within Austria but also with foreign countries, functioning financial,

capital, and labour markets, effective and transparent fiscal policies, high-quality education, training, and research systems, a functioning infrastructure, and an effective social and healthcare system.

- Public services are developed further in accordance with current conditions and lifestyles, reflecting the needs of individuals and society. The demand of individuals and society for public goods and services must be appropriately met. However, the Federal Ministry of Finance must also contribute to a high level of legal certainty through transparency and ensure the protection of fundamental rights. Financial stability has to be safeguarded in the financial and capital market. Controls, appropriate standards, and restrictions have to balance potential weaknesses in the system so that effective economic action coexists with the necessary protection of deposits and investments. A further objective is to enable market competition to provide a wide range of goods and services that are fairly priced and meet consumer needs.
- Direct measures that contribute to achieving these goals can take the form of targeted fiscal and semi-fiscal incentives for entrepreneurial and individual activities through information and advice. Structural measures can often be far more effective than fiscal incentives if they ensure further development of the system and adequate stability.

The development of the initiative for the Austrian financial and capital market took place in close cooperation with the directorates general of the Federal Ministry of Finance and involved stakeholders with a wide variety of approaches to the Austrian financial and capital market. With its 27 measures, the initiative provides a building block for sustainably improving the effectiveness and manageability of the financial and capital market.

### Spotlight on the Initiative for the Austrian Financial and Capital Market

The initiative for the Austrian financial and capital market focuses on safeguarding Austrian competitiveness and jobs and pursues these objectives through measures that affect the Austrian capital and financial market in accordance with international and EU guidelines. The 27 measures of the initiative are intended to affect the following five areas:

**Trust in the financial market:** Strengthen the confidence of companies and civil society in Austria as a financial centre.

**Safeguarding Austrian competitiveness:** Make Austria more attractive for establishing companies and long-term investments. Identify and eliminate obstacles to growth and employment.

**Increasing effectiveness:** Improve the functioning of the credit, money, and capital markets.

**A level playing field:** Ensure fair conditions for financial and capital market participants.

**Better regulation:** Improve transparency and reduce administrative costs.



Top Management

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.2
Profit	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2
Assets	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5
Liabilities	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3
Equity	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Regional Distribution

Region	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
North America	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Europe	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Asia	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Africa	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
South America	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%



# 1 General Considerations

Financial and capital markets help to ensure that the economy efficiently produces the goods and services that society needs. A key task of financial and capital markets is to strike a balance between short-term investment intentions and long-term borrowing intentions, e.g. by refinancing long-term loans with short-term deposits. However, functioning financial and capital markets also enable reductions in individual and societal risks.

Efficient financial and capital markets are created through the interaction of companies, individuals, institutions, and markets. Banks and insurance companies reduce the risk for their customers against payment of a deposit or insurance premium and must, in turn, limit their risks in suitable ways. Capital markets match supply and demand for securities. They provide liquidity to companies and they are used for medium- and long-term asset building.

The great importance of financial and capital markets to society is safeguarded by the state: Through the supervision of banks, insurance companies, and other financial market participants, through provisions that ensure proper risk assessment, risk management, and risk mitigation, as well as through the protective function of deposit guarantee schemes. The state provides a tight safety net to maintain financial stability.

## Spotlight on the Banking Union

Within the banking union, increased integration of Eurozone member states (and non-Eurozone member states) occurs in particular through a **uniform supervision and resolution framework** and uniform application of the supervisory framework for significant institutions and to a lesser extent also for less significant institutions. The banking union is intended to improve **financial stability** and **creditor protection** and to ensure effective supervision of banks. Another important goal is the protection of public finances from the financial distress or the resolution of banks. The banking union has its foundation in **EU supervision and resolution law** and shall be further strengthened.

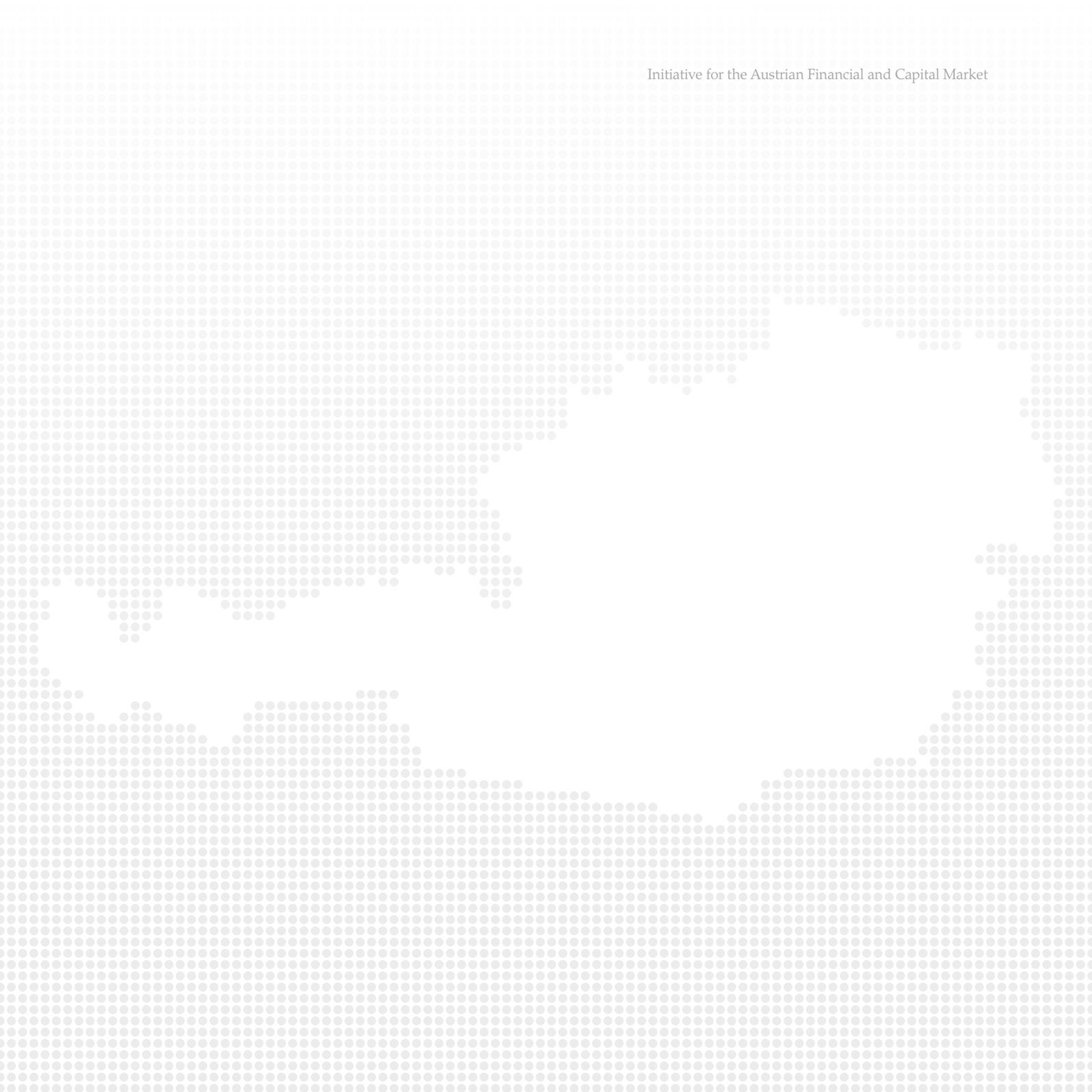
## Spotlight on the Capital Markets Union

The European Commission (EC) wants to eliminate obstacles in the internal market and implement an integrated EU capital market by 2019 to stimulate economic growth and create jobs. Launched in 2015, the EC programme “**Capital Market Union**” with **33 measures** is designed to improve the liquidity and capitalisation of companies, to provide consumers with access to a wide range of financial products, and to lower administrative costs. Austria supports the objectives of the Capital Market Union and ensures the effectiveness of the measures on the national level. The objectives of the Capital Market Union are as follows:

- Companies will have access to a wider variety of suitable financing options,
- individuals and investors will have access to further suitable investment opportunities,
- capital market financing will complement traditional bank-based financing,
- administrative costs will be reduced, and
- infrastructure projects will be implemented with more favourable conditions.



Policy effectiveness is tightly circumscribed in the financial sector, as the financial and capital markets are closely interwoven on a global scale and react sensitively to changes in the market environment. Global challenges can only be overcome by international solutions. Membership in the EU, which is influential on a global scale, gives Austria a good starting position, as Austria has a voice, access to information, and the possibility of active and effective participation. Therefore, Austria does not solely have to react to decisions made by others.





## 2 Initiative for the Austrian Financial and Capital market

Functioning, efficient, and stable financial and capital markets are the foundation for a functioning real economy and thus prosperity for society. They provide important functions for the real economy by taking on the risks of companies in exchange for a risk premium and reducing them through diversification and hedging. A stable, safe, functioning financial and capital market is therefore essential for stable economic performance and enables economic growth.

An effective financial and capital market delivers important services for companies and individuals by providing capital and liquidity as well as by diversifying and hedging the risks absorbed. Financial market participants match supply and demand for funding and thus play an important role in mediating between entrepreneurs, private individuals, and investors. Hence, banks, insurance companies, the stock market, and other financial market participants fulfil important tasks in safeguarding economic prosperity and jobs in Austria.

### Guidelines of the Initiative for the Austrian Financial and Capital Market

- Austria as a financial centre contributes to **sustainable economic growth**.
- Austria as a financial centre contributes to **Austria as a business location** that is attractive for company founders, entrepreneurs, and investors and thus protects jobs in Austria.
- Austria as a financial centre enables **optimal risk diversification** for all players in the financial and capital markets, whether they seek or provide equity or loans, and thus **promotes** efficient capital allocation for **growth-intensive initiatives**.



# 3 Ensuring Prosperity Together

The state plays an important role, as it ensures long-term good and stable conditions for economic activity and provides a good economic and investment climate. In addition, individuals, institutions, and companies interact to ensure that Austria preserves its prosperity and its robust, stable economic performance in the medium and long term.

In addition to the central state, federal states, and municipalities, contributions come amongst others from universities, universities of applied sciences, scientific research, educational institutions, authorities, agencies, publicly-owned companies, the Financial Market Authority and the Austrian National Bank, the Austrian Treasury, the Austrian Control Bank, and the Chamber of Commerce, the Chamber of Labour, the Federation of Austrian Industries, and the trade unions. Success ultimately depends on effective support from industries, businesses, and civil society.

## Spotlight on the shareholding policy of the Federal Ministry of Finance

The Republic of Austria holds shares in a number of companies, which are managed by the respective

ministries. The companies provide specialised services for state actors, fulfil governmental tasks on behalf of the federal government or implement international guidelines. The Federal Ministry of Finance holds long-term investments in privately organised companies in its asset base and is in this context an investor and actor in the capital market as well. Via the Austrian State and Industrial Holding Limited, the Austrian taxpayers own shares with a total value of € 5.82 bn in companies, including listed ones.

The Federal Ministry of Finance sees itself as the guardian of the taxpayers' assets. The aim is therefore the long-term increase in the value of the portfolio in the interests of Austria as a business and research location as well as the creation and preservation of jobs. With regard to the listed companies, an optimal contribution of the investment portfolio to the federal budget shall therefore be generated in close coordination with Austrian State and Industrial Holding Limited's management.

The shareholding policy of the Federal Ministry of Finance is based on three principles:

- Legality
- Transparency
- Active participation

The state's shareholding policy aims to separate the interests of the management of state shareholdings and the interests of the enforcement of the relevant laws pertaining to these companies ("legal unbundling"). This policy avoids conflicts of interest. A transparent investment policy ensures a level playing field for all companies active on the market.

Through strategic partnerships with syndicate partners, the active state shareholding policy, taking into account public interests, develops the long-term value and growth of the public stakes in these companies. The Federal Ministry of Finance considers syndicate partners as strategic partners with high added value, as they support publicly held companies with essential professional know-how in their core business and, together with the Austrian State and Industrial Holding Limited, form a stable core shareholder base that is oriented towards the long term. The Republic of Austria shall be perceived as a financial centre that implements international standards to further encourage investments.



The financial and capital market shall contribute to sustainable economic growth in Austria. This shall to ensure that Austria as a business location remains attractive for establishing companies, businesses, and investors, safeguards existing jobs in Austria, and creates new ones. The central task of financial and capital markets is to ensure optimal risk diversification and efficient capital allocation for growth-intensive initiatives for all players on the financial and capital markets, regardless of whether they seek or offer equity or loans.

## EU Responses to the Financial Crisis

- A **resolution regime for banks** that allows the business operations of banks to be terminated in an economical, orderly manner and provides better protection for deposits and financial stability. Bank owners and investors shall be obliged to bear the burden if necessary.
- A **deposit guarantee scheme** that protects citizens' savings and deposits if necessary.
- A **supervisory system** that ensures that banks become more robust, better detect, handle, and mitigate risks, and manage crises on their own.
- A high level of **consumer protection** that ensures that consumers are adequately protected and properly advised.
- **Transparency requirements** to provide consumers and other market participants with the necessary information.

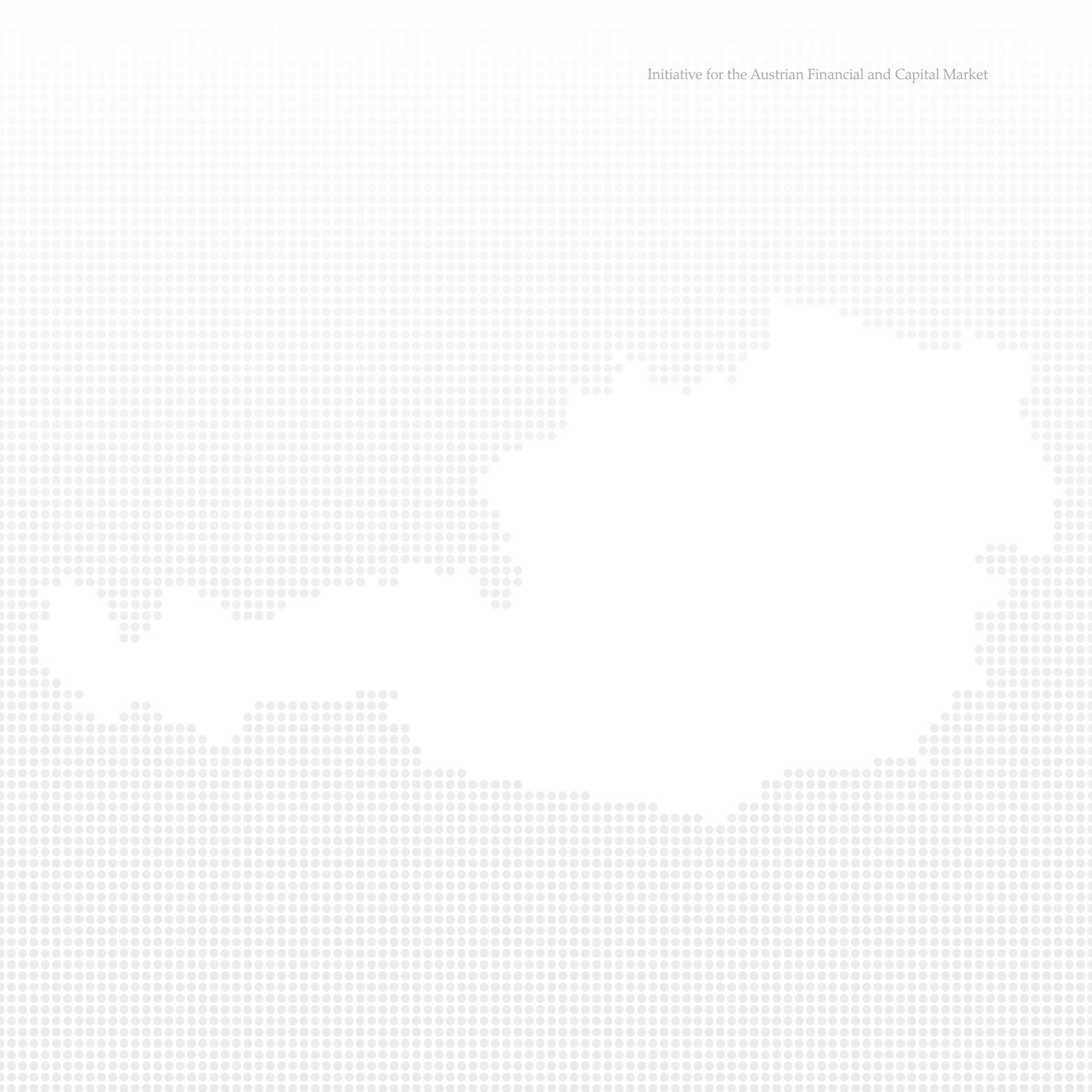
- **Requirements** to ensure that capital markets fulfil their tasks more effectively.
- A **macro-prudential set of rules** to detect early warning signs of financial crises and counteract the accumulation of risks for the economy.
- Improved **national and European cooperation** and strong European institutions that secure the fair distribution of burdens and responsibilities among Member States.

## Spotlight on E-Government Services for Entrepreneurs

The steadily growing e-government services of the Federal Ministry of Finance help to exploit synergies, increase efficiency, and strengthen the economy. The Federal Ministry of Finance is therefore developing modern and future-oriented IT solutions for public administration. The aim is to provide the best possible service to citizens and companies. More and more administrative procedures are available online and thus simple, fast and efficient. The Austrian financial administration is also expanding its range of services for companies:

- With an online **one-stop shop**, the procedural steps for the **foundation of companies** will be simplified and the required time shortened. To this end, as a first step, online company foundation in the Business Service Portal will be available for one-person companies, processes between authorities will be optimised, and the online foundation of one-person limited liability companies will soon be possible.
- In the future, citizens will be able to complete all paper-based procedures by means of **online forms**.

- In the future, companies will be able to search **tender notices** via the **Business Service Portal** free of charge and throughout Austria on the basis of specific procurement procedure data. Participation in tenders will also be simplified.
- By further developing the **Federal Digital Service Platform**, the digital services available to citizens, businesses, and administrations are available in a user-friendly, personalised, regionalised, and structured form.
- A single **one-stop shop** solution for **reporting, publication, information, and notice obligations** of companies shall be implemented to avoid redundant input. Deadlines for reporting obligations will be standardised and uniform formats for notifications implemented.
- The opening up of data and services (**open data**) of the public sector as well as facilitating further use of this data by third parties in compliance with the legal framework for the protection of personal data shall provide more transparency.
- The expansion of **digital delivery** is expected to lead to efficiency improvements and savings and strengthen the right to digital relations with authorities.





Sector 1	Sector 2	Sector 3	Value	Change
\$ 31,565.00	\$ 82,710.00	\$ 36,338.00	\$ 1,122.00	\$ 3,463.00
\$ 56,032.00	\$ 43,685.00	\$ 37,129.00	\$ 14,023.00	\$ 6,905.00
\$ 60,728.00	\$ 34,648.00	\$ 52,121.00	\$ 19,228.00	\$ 22,758.00
\$ 27,882.00	\$ 15,001.00	\$ 7,807.00	\$ 28,784.00	\$ 5,790.00
\$ 21,764.00	\$ 9,822.00	\$ 6,498.00	\$ 38,803.00	\$ 50,000.00
\$ 53,225.00	\$ 35,359.00	\$ 29,305.00	\$ 12,731.00	\$ 16,415.00
\$ 16,477.00	\$ 27,178.00	\$ 42,545.00	\$ 50,928.00	\$ 48,100.00
\$ 47,572.00	\$ 15,918.00	\$ 42,797.00	\$ 79,164.00	\$ 79,949.00
\$ 41,374.00	\$ 36,266.00	\$ 119,200.00	\$ 82,933.00	\$ 71,526.00

Bar chart showing data for Sector 1, Sector 2, and Sector 3. The chart has three bars of increasing height, representing the values in the table above.

## 4 Market Capitalisation and Investment Culture

Austria is ranked 19<sup>th</sup> out of 138 in the 2017 Global Competitiveness Report of the World Economic Forum (WEF). The WEF therefore rates Austria's competitiveness and attractiveness as a place for business highly. However, Austria must strive to maintain its position and improve continuously. Switzerland comes out on top of the ranking, followed by Singapore and the USA. The Netherlands, Germany, and Sweden are the best performers within the EU.

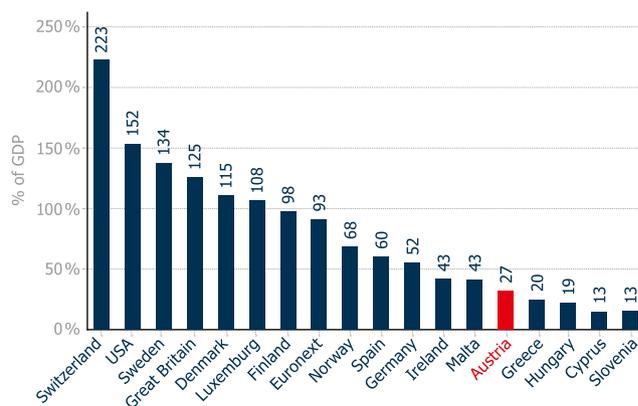
The Austrian economy is characterised by a predominantly small-scale corporate structure: 99% of all companies are small and medium-sized enterprises (SMEs), supplemented by some large corporations.

### Market Capitalisation

The European stock market landscape is characterised by many individual stock exchanges, with most of the stock market capitalisation concentrated among five to six major financial centres. In recent years, however, the fragmentation of capital markets and the competition between operators of various trading platforms have intensified.

Market capitalisation and liquidity on the capital markets are traditionally low in Austria compared to the EU; but in terms of manifestation and trends, it is comparable to other Central European 'niche players' of smaller member states or regions.

### MARKET CAPITALISATION



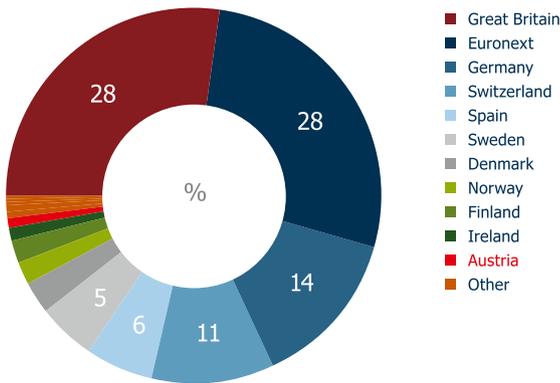
Source: World Federation of Exchanges, International Monetary Fund (Macrobond)

Compared to national economic output in terms of gross domestic product (GDP), Switzerland has the highest market capitalisation in the world, followed by the United States and Great Britain. The relative market capitalisation of Austria is below that of directly comparable countries like Sweden, Finland, and Denmark.

Within Europe, the UK has the highest market capitalisation, followed by the pan-European Euronext exchange (France, Netherlands, Portugal, and Belgium), Germany, and Switzerland.

Austrian companies, by contrast, mostly finance themselves through retained earnings, loans, and other banking products. Relevant studies, however, point to a lack of private venture capital.

### MARKET CAPITALISATION

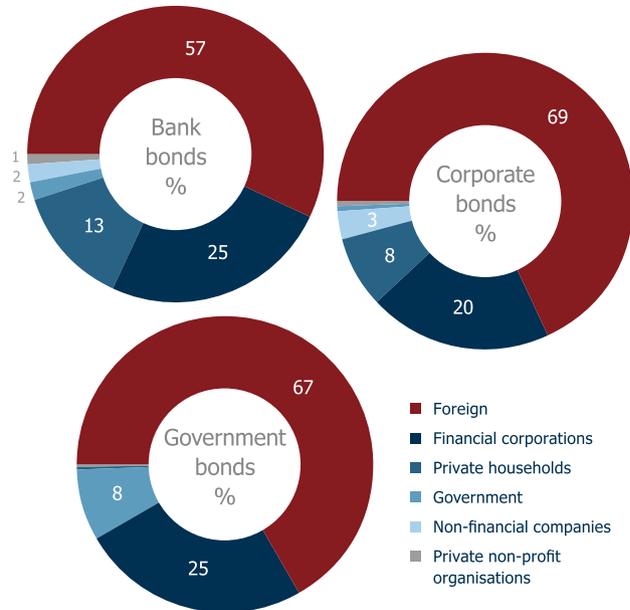


Source: Macrobond

### Investment Culture

Although Austrian savings are high overall, consumers are more likely to invest in savings products rather than in bonds or shares. The key players, who also finance themselves on the capital market, are therefore the state, state-owned companies as well as banks and insurance companies. Investment capital often comes from abroad.

### CREDITORS' STRUCTURE of Austrian bonds per issuer



Source: OeNB per 2016

Foreign creditors are the largest group of Austrian bond holders for all sectors. This distribution has the advantage of a diversified group of buyers, but the disadvantage of increased dependence on external factors.

### CREDIT GROWTH



Source: European Central Bank (Macrobond)

European Central Bank (ECB) data confirm that the growth of credit to non-financial companies, after a few significant short-term fluctuations, has been low since early 2015.

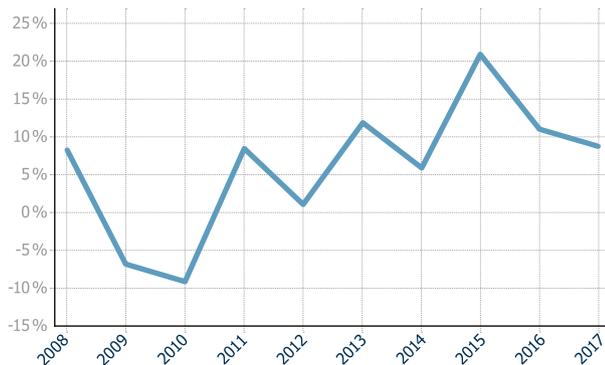
### NO ACCESS TO CREDIT



Source: European Central Bank (Macrobond)

In a survey conducted by the ECB, almost 7.5% of SMEs recently reported that access to credit is their most pressing problem. In recent years, stagnant to declining investment rates have also been discernible, although in Austria they remain well above European reference values.

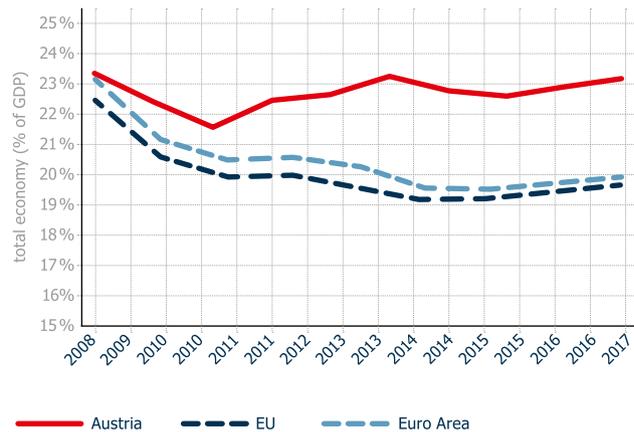
## INVESTMENT PLANS OF AUSTRIAN COMPANIES



Source: EC (Investment Survey)

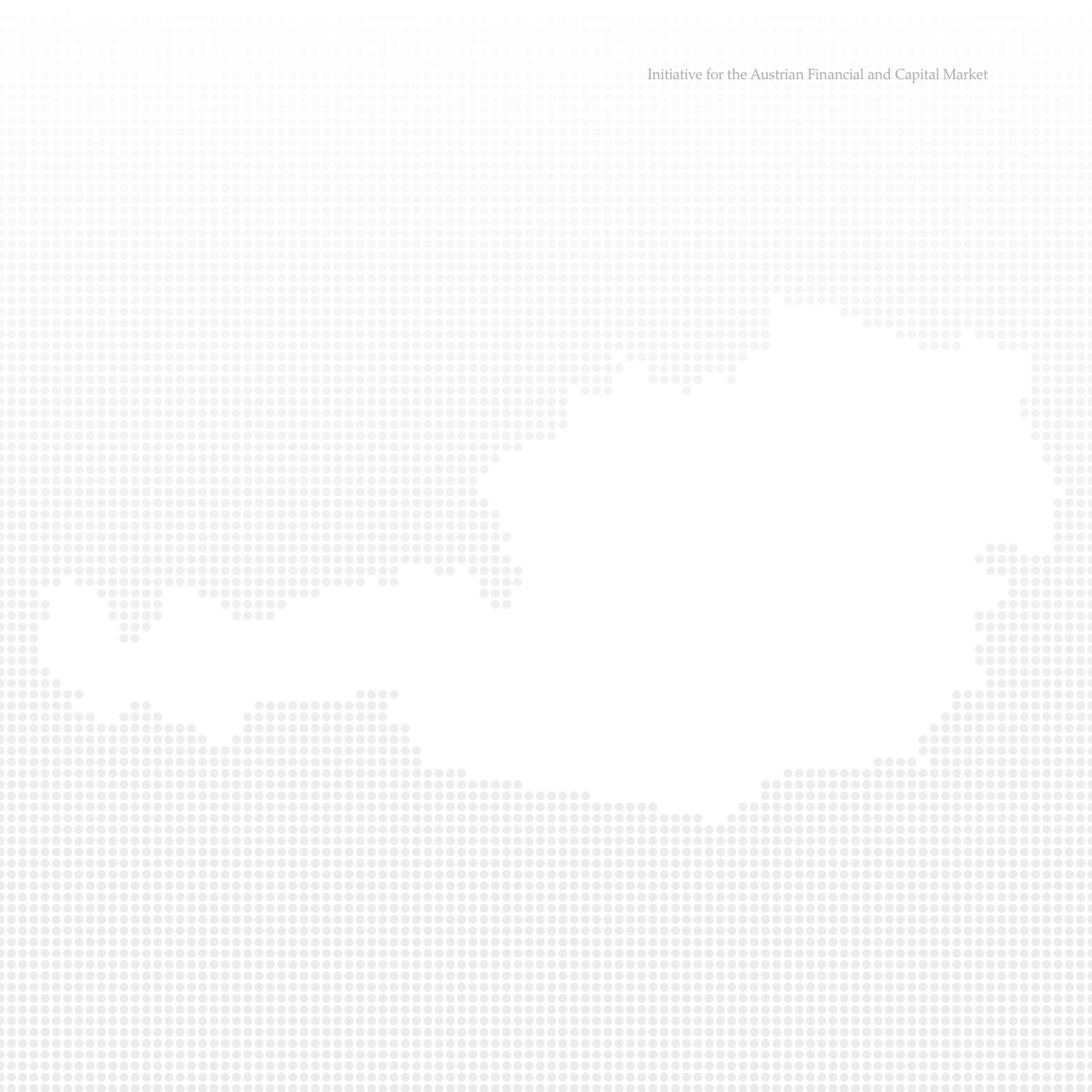
The EC regularly collects data in all EU countries on companies' investments and investment plans for the next year. The graph shows the inflation-adjusted development for Austria.

## GROSS CAPITAL FORMATION



Source: EC (AMECO)

According to EC estimates, investment activity will continue to rise slightly in 2017 and further approach the pre-crisis level. For Austria, it assumes constant and proportionally significantly higher investment activity.





## 5 Measures of the Initiative for the Austrian Financial and Capital Market

The initiative for the Austrian financial and capital market includes measures that contribute effectively to the long-term financing of the economy and thereby strengthen Austria's competitiveness while ensuring financial stability.

In analysing the initiative's challenges, the low demand for capital market products by private households was striking. The demand for asset diversification to create a low-risk, sustainable asset portfolio seems to be underdeveloped. All in all, credit provision in Austria continues to work well. However, a need to catch up is particularly evident in the areas of risk capital and equity financing. Alternative financing platforms are available, but they tend to serve short-term, project-related financing needs.

Supply-side problems become evident where the risk and the investment needs are high (e.g. market launch, company founding, restructuring, corporate succession) and equity and alternative forms of financing and solutions are required. Structurally, the subdued investment activity appears to be demand-induced and less connected to supply-side factors. Thus, the investment behaviour may be attributable to confidence and investment losses as a consequence of the financial crisis, to risk-averse investors, and to the comparatively low level of financial literacy in Austria. The mitigation of individual risks through high-quality public services also reduces incentives to

build up assets and adequately secure them through diversification.

The 27 measures presented in the following section, which the Federal Ministry of Finance is implementing to strengthen the Austrian financial and capital market, contribute to

- strengthening confidence in the financial market and Austria's economic attractiveness,
- increasing the effectiveness of the financial and capital market,
- providing a level playing field,
- increasing transparency, and
- reducing administrative costs.

# Overview of the 27 Measures of the Initiative for the Austrian Financial and Capital Market

## 1. Strengthening Confidence in the Financial and Capital Market

- National action plan for financial education
- Reliable, transparent, standardised, private pension scheme product
- Enhancing the efficiency of financial market supervision
- Supervision of high-frequency trading
- Further improvement of investor protection

## 2. Making the Establishment of Companies and Long-Term Investments More Attractive

- Attracting companies, international and EU institutions
- Fiscal incentives for investments in SMEs
- More attractive framework conditions for employee participation foundations
- Expansion of the range of investment opportunities for private customers
- Extending the financing options of banks
- Enabling SME growth markets

### 3. Enhancing the Effectiveness of the Financial and Capital Market

- Reducing the requirements of prospectus law for SMEs
- Improving access to venture networks
- Implementation of an attractive, internationally applicable covered bond framework
- Improving the tradability of high-quality securitisation and supervision of their providers

### 4. A Level Playing Field

- Enabling de-listings on regulated markets
- Eliminating competitive disadvantages of the Vienna Stock Exchange
- Video-assisted electronic procedures for customer identification
- Inclusion of payment initiation and account information services providers into the legal framework for payment services
- Improving the proportionality and effectiveness of administrative sanctions

### 5. Better Regulation

- Participation strategy for Austrian State and Industrial Holding Limited-held interests in companies that compete on the market
- Guidelines for the granting of guarantees by the aws
- Completely online process for tax exemption declarations
- Central register of beneficial owners
- Central IT platform for publication obligations of capital market-oriented companies
- Improving the proportionality of banking supervision
- Integrated, standardised reporting system

## 5.1 Strengthening Confidence in the Financial and Capital Market

Austria weathered the 2007/08 financial crisis. The capital and financial market has seen many changes, through the turmoil following the financial crisis on the one hand and political responses as well as market reactions to the crisis on the other. Supervision and resolution authorities have gained a great number of competences; financial market participants are obliged to more effectively detect, manage, and hedge risks. Investors and other creditors will have to shoulder losses in cases of distress and resolution.

Endowed by the financial sector, the Single Resolution Fund and national deposit guarantee funds provide a safety net that helps to avoid recourse to national budgets in case of need. With its strong central institutions, the banking union ensures harmonised application of the supervision and resolution framework within the EU. The regulated market and other markets for securities are working. Bank lending remained subdued after the financial crisis, but it was constantly available. Austria scores well in international business rankings and economic indicators are positive.

Nevertheless, only cautious confidence in the financial and capital markets and in financial and capital market participants is perceptible. In addition, private individuals only rarely demand medium- to long-term investment and hedging strategies. The demand for capital market-based products is tepid. In order to strengthen confidence in the

Austrian financial and capital market and in the institutions active on these markets, and to help investors to better hedge their capital and individual risks through medium- and long-term investment and hedging strategies, several measures are being implemented.

### **National Action Plan for Financial Education**

Austrians' financial literacy will be improved. Multiple activities by various actors already contribute to increasing financial literacy. In addition to some banks and insurance companies, the Austrian National Bank, the Austrian Control Bank, the Vienna Stock Exchange, the Chamber of Labour, the debt counselling offices and the Consumer Information Association provide relevant offers and information. Furthermore, a National Action Plan for Financial Education in accordance with international standards is being drawn up.

The National Action Plan for Financial Education will enable the identification and implementation of financial education objectives along the OECD/INFE (Organisation for Economic Co-operation and Development/International Network on Financial Education)/High-Level Principles on National Strategies for Financial Education. As a result, the relevant actors shall cooperate closely to improve financial education in Austria and support citizens' financial literacy.

## **High-Quality Standards for Pension Schemes**

In addition, private provision and pension schemes will be reformed, taking into account current deliberations at EU level and relevant research. General high-quality standards will be developed for a sponsored private pension scheme product and a label for a “reliable, transparent, standardised, private pension scheme product” (STS-PVP).

The private pension scheme product is intended to contribute to old-age support, to improve confidence in private pension scheme products, and to provide uniform quality standards for products and vendors. As there are currently some initial considerations at EU level on common principles for pension products (Pan-European Personal Pension Product – PEPP), further developments at EU level need to be monitored. Where appropriate, they will be taken into account when implementing the STS-PVP to ensure harmonised implementation on the Single Market and to allow STS-PVPs to be offered on a cross-border basis.

## **Enhancing the Efficiency of Financial Market Supervision**

Enhancing the efficiency of financial market supervision by taking into account the new framework conditions of the Single European Supervisory and Resolution Mechanisms



shall ensure financial stability and strengthen confidence in the proper functioning of the Financial Market Authority. The supervision of financial market participants will become more efficient and cost-effective. Enhancing the efficiency of financial market supervision involves close cooperation with the Financial Market Authority, the Austrian National Bank and the Austrian Federal Chancellery. Financial market supervisors will continue to be free of instructions and independent in the discharge of their duties. The objective is to avoid unnecessary bureaucracy and to increase the transparency of supervisory action for Parliament and the public.

## **Supervision of High-Frequency Trading**

Modern technologies in the financial services sector (FinTech, InsurTech) can have far-reaching consequences for banks, but also enable novel solutions and more cost-effective offers closer to customer needs. In order to mitigate any negative impacts and to ensure consumer protection accordingly, various measures will be implemented uniformly throughout the EU.

Investment firms that engage in algorithmic trading should have effective systems and risk controls in place to prove the resilience of their trading systems. In addition, high-frequency trading is defined and supervised as a form of algorithmic trading to prevent disruption to the functioning of the markets. Extended requirements on existing multilateral trading facilities (MTFs) will close supervisory gaps in the regulation of trading venues, the regulation of data provision services will increase transparency, and the introduction of position limits and position controls will reduce operational risks in the case of commodity derivatives.

## **Improvement of Investor Protection**

In addition, there is further improvement in investor protection. On the one hand, the organisational requirements for investment firms and investment services providers will be adapted, while on the other hand, the codes of conduct applicable to credit institutions, investment firms, and investment services providers will become more stringent. There will be greater transparency and information requirements, and better monitoring and intervention powers of the supervisory authorities, among others the possibility of product monitoring and product bans. In addition, greater transparency will be ensured by extending number of financial instruments affected by publication obligations as well as by standardisation and tightening of the possibilities for sanctions in accordance with the scope foreseen by EU law.

## 5.2 Making the Establishment of Businesses and Long-Term Investments in Austria More Attractive

Austria generally scores well in international business rankings. However, it is important to take further measures to secure existing advantages for Austria as a business location and to use potentials for further improvement. Ultimately, these measures will also remove potential obstacles to growth and employment.

### **Attracting Companies and Institutions**

Companies, international and EU agencies and institutions contribute to investment and job creation. Austria will therefore continue to market itself actively as a location



for companies as well as international and EU authorities and agencies. In addition to the companies themselves, many institutions and organisations are already contributing to the creation and maintenance of business locations in Austria, in particular the federal states with their regional economic agencies, the Austrian Economic Chamber with foreign trade offices, the Federation of Austrian Industries as well as federal and regional policymakers. As a result, Austria's advantages as a business location will continue to be actively promoted, and in cooperation with relevant institutions, effective strategies for establishing business locations will be implemented.

### **Fiscal Incentives for Investments in MiFiGs**

Tax incentives for investments in SME funding companies stimulate the provision of risk capital (private equity, PE, and venture capital, VC) and contribute to an increase in risk and equity capital for companies. Ultimately, these measures will invigorate investment in Austrian companies and generate growth. However, this risk capital measure still requires the approval of the EC under state aid provisions and can therefore only enter into force after the Official Journal of the EU has published the state aid decision.

### **Promotion of Employee Participation**

Employee participation foundations will become more attractive and grant more flexible conditions, thereby boosting competitiveness and safeguarding businesses and jobs. Already existing employee participation foundations will be placed under the new regime. The fundamental objective of such foundations is the creation of a stable core of shareholders as well as increased participation of employees in the company's success.

### **Investment Opportunities for Private Customers**

In order to be able to implement economically viable medium- and long-term investment strategies and to expand the range of venture capital, private investors will now also have appropriate investment opportunities. In addition, it will also be possible for private customers to acquire shares in SME funding companies and alternative investment funds in the context of promoting the financing of SMEs.

### **Financing Possibilities of Banks**

The levy on Austrian based banks has been reduced. This measure strengthens the banks' equity base, extends lending capacities, and eliminates competitive disadvantages vis-à-vis banks from other Member States. Ultimately, this creates leeway for expanding the funding activities of banks to finance the economy.

### **Enabling SME Growth Markets**

A legal amendment to the Austrian Stock Exchange Act enables multilateral trading facilities to apply for registration as SME growth markets. This will facilitate access to financial resources for SMEs in a less stringent regulatory environment compared to official trading.

## 5.3 Improving the Effectiveness of the Financial and Capital Market

The functioning of the credit, money, and capital markets for depositors and investors is vital for financial stability and market efficiency. Over the last few years, many national and EU initiatives have sought improvements. In particular, the EU's Financial Services Action Plan with its 33 initiatives (including Basel II, Solvency II, MiFID/MiFIR), the EU's regulatory responses to the financial crisis (including Basel III, bank resolution, adjustments to Solvency II, reform of deposit guarantee schemes), and the banking union have made positive contributions. The reforms will take some years to become fully effective.

Borrowers and investors must have access to the information that is necessary to take the financing and investment decisions best suited to their own needs under business-specific conditions and according to their own risk appetite. Capital and financial markets must be accessible and sufficiently liquid; awareness about the consequences of business decisions must either exist or be sufficiently available. Entrepreneurs, but also capital and financial market participants, need a business environment that allows them to identify and use the most appropriate financial instruments.



### **Creating a Prospectus Format for SMEs**

The creation of a special prospectus format for SMEs in prospectus law will facilitate access to the capital market for SMEs. The resulting reduction in the requirements of prospectus law decreases administrative overheads and facilitates access to the capital market for SMEs.

### **Access to Venture Networks**

Access to venture networks will be improved in line with international examples. Venture networks are platforms that match supply and demand for private equity and venture capital. This measure makes the range of financial

instruments visible and improves pre-market liquidity. In addition, such networks provide information on alternative pre-market financing options, but also about the possibility of initial public offers, and enable the transfer of expertise. The access of companies to a venture network shall be implemented either nationally by a suitable provider or at EU level.

### **Modernisation of the national covered bond framework**

An attractive, internationally applicable covered bond law will replace the current Austrian one, which is fragmented into a number of different legal bases and partially linguistically and substantially obsolete. This will make this important financing instrument more attractive for private and institutional investors, reduce administrative burdens, and increase legal certainty. However, the covered bond will continue to be a non-complex, low-risk investment product that meets conservative investment needs.

As the development of common standards on 'covered bonds' is currently being contemplated at EU level, some EU requirements may need to be integrated.

### **Tradability of High-Quality Securitisations**

In order to reduce the tradability of high-risk securitisations (e.g. re-securitisations), very restrictive requirements were implemented in the EU a few years ago. However, these changes also had a negative impact on the tradability of high-quality securitisations. High-quality securitisations (so-called "STS securitisations") shall become tradable across the EU again. In addition to due diligence and transparency obligations, recognition requirements (safety, transparency and standardisation) are enshrined in EU law. To support this, measures will be adopted at national level to ensure supervision of such products and the competent supervisory authority will be determined.

## 5.4 A level playing field for Financial and Capital Market Participants

A level playing field is necessary for companies active in the financial and capital market. The environment for market participants has to provide the right incentives for differentiation and diversification in order to provide a corresponding range of financing options under market conditions.

### **Delisting on Regulated Markets**

New delisting rules for regulated markets will enable companies to withdraw in a flexible, orderly manner from the Vienna Stock Exchange, eliminate competitive disadvantages of the Vienna Stock Exchange, encourage incentives for listing on the Vienna Stock Exchange, and improve transparency and legal certainty for companies.

### **Strengthening the Vienna Stock Exchange**

To avoid administrative costs and competitive disadvantages of the Vienna Stock Exchange compared with other stock exchanges, admission will expand in the future. Persons acting on behalf of exchange members based on a different legal relationship, but who are subject to the instructions of the exchange member and for whom the exchange member is liable in the same way as for his/her employees, will be admitted as settlement-authorized persons.

### **Online Identification of Customers**

To avoid competitive disadvantages compared with financial market participants from other EU Member States and to reduce administrative costs, it is now also possible to identify customers via video-based electronic procedures (online identification).

### **Fair Competition among Payment Service Providers**

Innovative payment instruments and services, the so-called "payment initiation and account information services providers" will be included in the legal framework for payment services in the context of implementing the EU Payment Services Directive (PSD II). A clear legal framework, which also protects consumers appropriately, contributes to a fair competitive environment, with technological innovations being allowed.

### **Proportionality and Effectiveness of Administrative Criminal Law**

Austria has to put in place effective measures and sanctions for actual and possible breaches of the law. However, the proportionality and effectiveness of the administrative sanctions – also by comparison with other legal instruments – will be improved.

## 5.5 Improving Transparency and Reducing Administrative Costs

The Austrian administration is among the most modern in Europe. International comparison and numerous awards provide a very positive testimony. Current trends and societal changes require adequate, timely responses from the public administration as well. The question of how Austria and its public service, in cooperation with its national and international stakeholders, are going to meet these challenges in view of declining resources will crucially influence the role our country is going to play in the future global competition. Only if the public service exerts its role as a driver of innovation in an active and creative way can it sustain quality of life, quality of the business location,



competitiveness and prosperity in Austria and Europe. The public service must act in an appropriately transparent manner and provide high-quality services to the public. In this context, the technical possibilities of e-government are particularly important. Proportionality is also of great importance.

### **State Shareholding Strategy**

The reorientation through the 2015 Austrian State and Industrial Holding Limited Act set the stage for further action in the best interest of the taxpayers and thus to contribute to safeguarding Austrian competitiveness. The Austrian State and Industrial Holding Limited pursues an active state shareholding policy, which is laid down in the investment guidelines of the Federal Ministry of Finance for stakes held close to the market by the Austrian State and Industrial Holding Limited. This investment guideline specifies the basic strategic orientation of the Austrian State and Industrial Holding Limited's holding policy, equity management, and controlling based on the Austrian State and Industrial Holding Limited Act 2015, the Government Agreement, the OECD Guidelines on Corporate Governance of State-Owned Enterprises as well as the recommendations of the Court of Auditors.

The investment guideline of the Federal Ministry of Finance is based on three principles: legality, transparency, and an

active shareholding policy, thus ensuring that the Federal Ministry of Finance, as a principles-based guardian, transparently represents the owners' interests in public shareholdings to the advantage of the taxpayer as shareholder.

### **Granting of Guarantees by the aws**

The federal government supports entrepreneurial activities through a range of measures. Guarantees by the aws with federal counter-guarantees constitute a special instrument. They promote investment by providing access to favourable financing options by means of risk transfer, thus allowing implementation of higher-risk projects as well, which contribute to the sustainable and long-term strengthening of the Austrian economy. In addition, the Federal Ministry of Finance will set up guidelines for the granting of guarantees by aws. They are publically available on the aws website and are therefore accessible to all interested parties.

### **Online Tax Exemption Declaration**

For a tax exemption declaration, the recipient notifies the withholding agent in writing, with proof of his/her identity, that capital income is to be reported as operating income of a domestic or foreign enterprise, with the exception of a public service undertaking. Therefore, no capital returns tax shall be deducted from the withholding agent. The declaration, which is to be forwarded to the tax office,

is going to be carried out online in the medium term. In the area of the exemption declaration (income tax law), a completely online customer – bank – tax office process will therefore be established.

### **Register of Beneficial Owners**

A central register of beneficial owners that serves to prevent money laundering is under implementation at national level. It will facilitate the identification and verification of the beneficial owners of customers of companies that are subject to special due diligence obligations for the prevention of money laundering and terrorist financing. This reduces administrative costs for these companies and improves anti-money laundering prevention.

### **IT-Platform for Publishing Obligations**

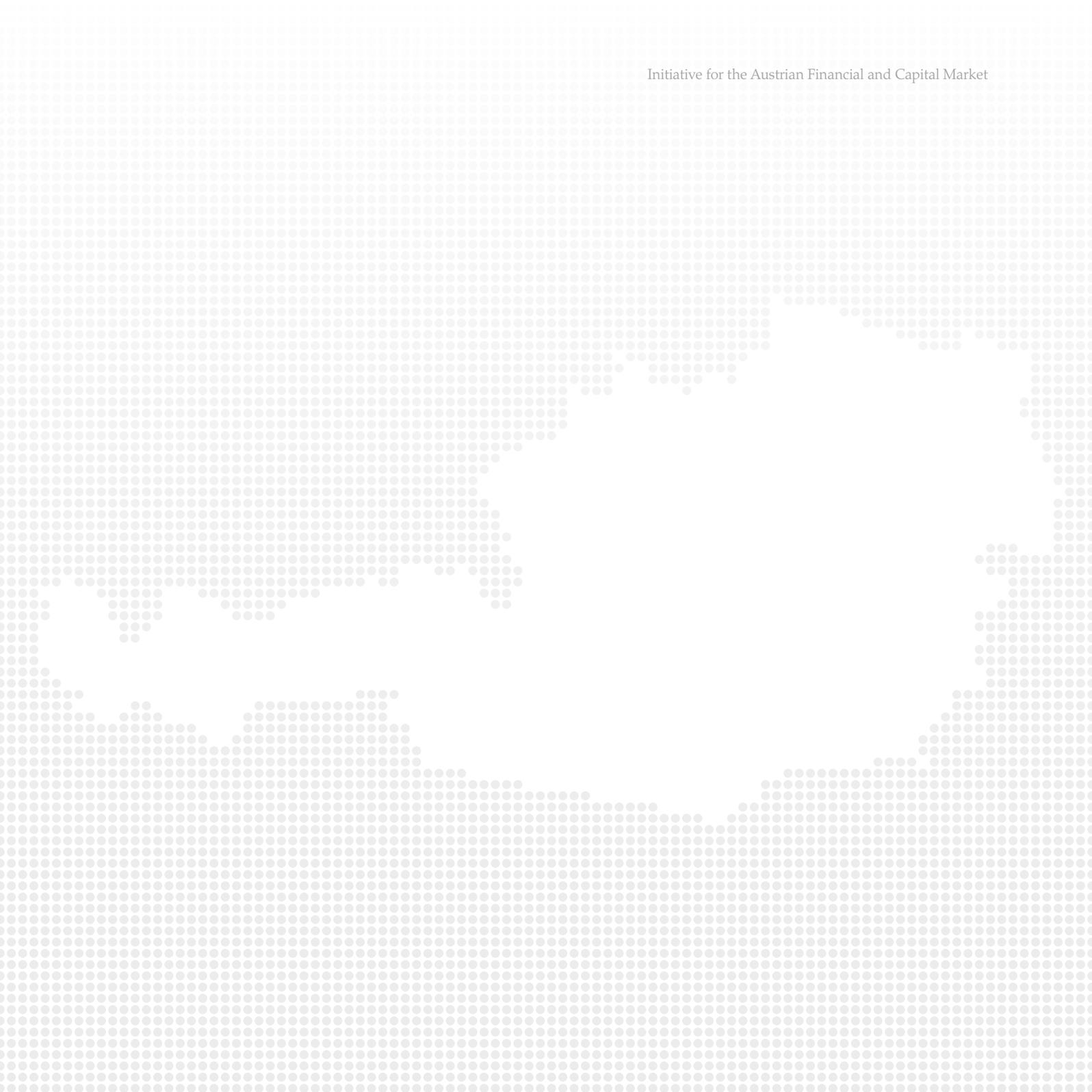
The publication obligations of capital market-oriented companies are optimised according to the current reading, usage, and information needs of the audience. The prerequisite for this is, in particular, the establishment of a central, IT-based, easily accessible information platform, on which the information that capital market-oriented companies must publish is fully accessible.

## **Proportionality in Supervisory Law**

In principle, supervisory law is proportionate, because there are many regulations that facilitate and simplify procedures for small and medium-sized banks and groups of smaller and medium-sized banks. However, further improvements are needed at EU and national level to better adapt the regulatory framework to the size and complexity of financial market participants while maintaining a high degree of financial stability, and to permit a more straightforward legal framework and easing of administrative requirements. At national level, therefore, changes are being implemented that will lift some mandatory organisational requirements for a balance sheet total as low as € 1 bn. These requirements will only become mandatory for a much higher balance sheet total, taking into account complexity criteria.

## **Standardised Reporting**

Regulatory reporting provides valuable information, but sometimes also causes unnecessary costs. At European level, therefore, the establishment of an integrated, standardised reporting system and the exchange of information between competent authorities (supervision, resolution, deposit guarantee schemes) in the respective areas of responsibility will be crucial. At national level, the further development of systems already implemented is important.





# Glossary

<b>aws</b>	Austrian Economic Service
<b>Basel II/III</b>	Guidelines of the Basel Committee on Banking Supervision implemented in an internationally uniform manner for highly developed financial markets
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>FinTech</b>	Modern technologies in the field of financial services
<b>GDP</b>	Gross Domestic Product
<b>INFE</b>	International Network on Financial Education
<b>InsurTech</b>	Modern technologies in the field of insurance services
<b>MiFID I/II</b>	Markets in Financial Instruments Directive
<b>MIFIR</b>	Markets in Financial Instruments Regulation
<b>MTF</b>	Multilateral trading facility
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OTF</b>	Organised Trading Facility
<b>PE</b>	Private Equity
<b>PEPP</b>	Pan-European Personal Pension Product
<b>PSD II</b>	Directive on Payment Services
<b>SME</b>	Small and medium-sized enterprises
<b>Solvency II</b>	Framework Directive for Insurance and Reinsurance Undertakings
<b>STS-PVP</b>	Reliable, transparent, standardised, Private Pension Scheme Product
<b>VC</b>	Venture Capital
<b>WEF</b>	World Economic Forum

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