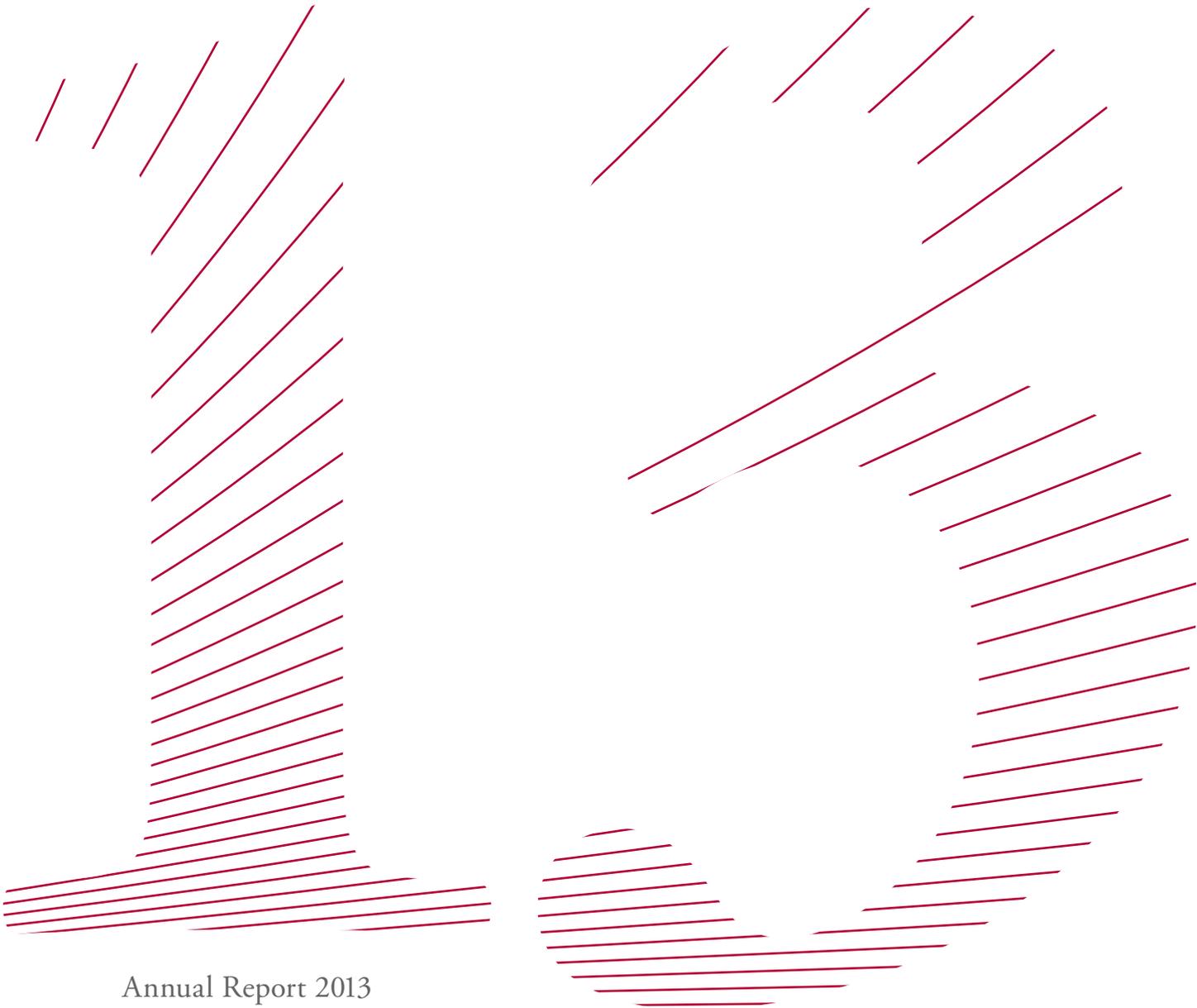




FMA

Financial Market Authority
Liechtenstein



Annual Report 2013

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The FMA is the independent financial market supervisory authority of Liechtenstein, ensuring the stability and credibility of the financial market, the protection of clients, and the prevention and prosecution of abuse.

We supervise efficiently, consistently, and effectively.

We stand for sustainable regulation.

We pursue active dialogue.

We think and act entrepreneurially.

We respect and value each other within our team.

- – We are independent in the fulfilment of our supervisory mandate.
 - We grant licenses in a responsible and speedy manner, and our supervision is risk-based, close to the market, comprehensible, and fair.
 - We orient ourselves by the best methods and practices of an integrated supervisory authority.
 - We fight abuse and consistently punish violations of regulations and laws. In this way, we protect the clients of the financial centre and contribute to its good reputation and credibility.
-
- – We define minimum standards through regulation and further specify laws and ordinances with guidelines and instructions. For this purpose, we especially involve the professional and industry associations.
 - We implement and enforce international standards. In doing so, we take account of the competitiveness and development of the financial centre.
 - We stand for a good regulatory framework for the financial centre and advise the Government on questions relating to financial market strategy.
-
- – We engage in dialogue with our national and international stakeholder groups. We ensure that we are recognized as a competent and reliable supervisory authority in Liechtenstein and abroad.
 - We contribute to international bodies and promote cooperation with other supervisory authorities. We represent Liechtenstein's interests in this regard.
-
- – We always follow the rules and practices of responsible and modern corporate governance. We employ our financial resources cost-effectively and efficiently.
 - We offer our employees an environment where they enjoy working for the long term, and we promote their skills through basic and continuing training.
 - We communicate as an enterprise in a business-like, transparent, and speedy manner.
-
- – We are a team, actively valuing each other in our interactions, and we identify with our goals and responsibilities.
 - We are proud to make a contribution to the success of the FMA and the Liechtenstein financial centre.

Dr. Urs Philipp Roth-Cuony
Chairman of the Board of Directors



Safeguarding stability

In 2013, the world economy recovered and the global financial system stabilized. These positive developments relied heavily on massive interventions by the central banks. The stability risks in the financial system and the business cycle risks for the economy continue to be substantial. In the context, the international efforts to make the financial system more stable through regulatory measures are very significant.

The basis for these measures is the Basel III reform package, which is being implemented in the European Union in the form of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR). As a member of the European Economic Area (EEA), Liechtenstein is incorporating these requirements into national law. During the reporting year, implementation efforts for this purpose were undertaken.

During the reporting year, the FMA analysed the Liechtenstein real estate and mortgage market in depth. That market is of great relevance to financial stability. Because of the current environment with low interest rates, high real estate prices, and high mortgage claims, the FMA has strengthened risk control over this market.

Ensuring market access

Incorporation of the European Union regulations of the three European Supervisory Authorities into the EEA Agreement had not yet been completed by the end of 2013 due to constitutional questions raised by two EEA/EFTA partners. For full access of Liechtenstein financial intermediaries to the markets of the Member States of the European Union, this incorporation is urgent. Without the incorporation, other EU legislative acts referring to the

European Supervisory Authorities can likewise not be incorporated into the EEA Agreement. The Law on Alternative Investment Fund Managers (AIFM Act), which entered into force in July 2013, therefore has only a national scope so far. It has not yet been possible to issue the EU passport, which is necessary as a component for authorization of cross-border management and marketing of alternative funds throughout Europe. The Liechtenstein Government is working intensively together with the EEA/EFTA partners and the European Union to find a solution.

Implementation and enforcement of international standards in financial market supervision are directly relating to the grant of market access. The Board of Directors therefore attaches great importance to the international integration of the FMA into international supervisory organizations and has further advanced such integration. The foreign relations of the FMA were affected heavily by the work of the European Supervisory Authorities EBA, ESMA, and EIOPA in 2013.

Activities of the Board of Directors

The Board of Directors met for ten regular meetings during the reporting period. Additionally, a Strategy Day took place in July, with the participation of the Executive Board. Oversight of the FMA's operational level is supported by a management information system (MIS). The Chairman of the Board of Directors also maintains an intensive dialogue with the Chief Executive Officer.

In his advisory capacity on questions of financial market strategy, the Chairman met for regular talks with the Prime Minister. Regular meetings also took place with H.S.H. Hereditary Prince Alois von und zu Liechtenstein. The Chairman of the Board of Directors is also on the Government's Advisory

Council of the Project for an Integrated Financial Centre Strategy. With a view to the funding proposal, information meetings were also held with the parliamentary groups. The Chairman of the Board of Directors also continued to represent the interests of the FMA and Liechtenstein abroad.

Special topics

The cross-border business of Liechtenstein financial intermediaries entails legal and reputational risks. The FMA has dealt intensively with this topic over the past years. In light of international developments, e.g. , the expected introduction of automatic exchange of tax information, the FMA has developed a guideline for dealing with risks when providing cross-border services, covering all financial intermediaries under the FMA's supervision. At the beginning of February 2014, the draft guideline was circulated for consultations among business associations and public authorities.

Compliance with legal norms naturally depends heavily on their enforceability. Effective possibilities for punishing breaches are therefore an important instrument in the fulfilment of a supervisory authority's responsibilities. These penalties also have a preventive effect with positive consequences for the reputation of the financial centre. The Board of Directors reviewed the FMA's system of penalties during the reporting period and has identified necessary changes. These are also due to international developments. In 2014, the FMA will propose the necessary changes to the Government and the business associations.

Effective 1 January 2014, the FMA has taken on new supervisory duties. It is intensifying its supervision of professional trustees and trust companies, and it is now also supervising persons who carry out activities under article 180a of the Law on Persons and

Companies (PGR). The new supervisory regimes are intended to improve client protection and strengthen international recognition. This again expands the FMA's scope of responsibilities.

Corporate governance

On 1 January 2013, the Recommendations on the Governance and Control of Public Enterprises in Liechtenstein entered into force. They apply in addition to the corporate governance requirements set out in the Law on the Control and Oversight of Public Enterprises in Liechtenstein (COPE Act). In light of the particular relevance to supervisory bodies, the Board of Directors has always attached great importance to this topic. The Board of Directors and the Executive Board of the FMA Liechtenstein jointly declare that the Recommendations on the Governance and Control of Public Enterprises in Liechtenstein, in the version of July 2012, have been implemented without exception.

Survey on perceptions of the FMA

This past summer, the FMA commissioned the University of Liechtenstein to conduct a survey on perceptions of the FMA. The financial intermediaries under the FMA's supervision were interviewed. The results paint a picture of a respected, reliable, and competent supervisory authority. At the same time, the survey also indicated a need for action. The FMA is using the findings to further improve the quality of its work. The focus is on a further increase in efficiency, also through the use of modern information and communication technologies, as well as optimized licensing and supervision processes. The core principles of the FMA and its understanding of itself and its role were used as the basis for the survey.

Information and communication technologies

A modern IT structure is of great strategic importance to the FMA. A central master database was launched in 2013. Additionally, a web-based platform has been developed for future data exchange between the FMA and financial intermediaries. A central document management system was also to be introduced soon. The systems are intended to increase efficiency for both the FMA and financial intermediaries.

FMA funding

Funding of the FMA was restructured in 2013. Several court judgments had previously been issued against the existing funding model. The new model provides for FMA funding using a fixed basic tax, a predictable variable supplemental tax, income from fees, and a State contribution of CHF 5 million. The reduction of the State contribution by CHF 3 million means that financial intermediaries under the FMA's supervision will take on a greater tax burden. The revised Financial Market Authority Act (FMA Act) and accordingly the new funding model entered into effect on 1 January 2014. Establishing new funding rules by the stipulated deadlines was of the utmost importance to the FMA in order to secure funding and for planning security.

Occupational pensions

Because the legal basis had become obsolete and because of the significant need for reorganization, occupational pensions for State employees were given a new legal basis during the reporting period. This included a switch from defined benefits to defined contributions. As an establishment under public law, the FMA will also be included in the new pension scheme. Occupational pensions are an impor-

tant factor for the attractiveness of an employer. Comparability with benefits in the private sector must continue to be possible. This is of strategic importance especially for the FMA, since it competes with the financial sector on the labour market.

Personnel changes

On 22 February 2013, the Board of Directors appointed Patrick Bont as the Head of the Other Financial Intermediaries Division and as a Member of the Executive Board. Patrick Bont had headed the division on an interim basis since November 2012. With Michael Schöb's exit from the FMA, Remo Maggi of the Executive Office was appointed as Secretary of the Board of Directors effective 1 January 2013.

2013 financial statement

In its meeting of 11 December 2012, the Government approved the 2013 FMA budget with a State contribution of CHF 8,000,000 and expenses totalling CHF 18,725,000. The actual expenses for the 2013 business year amounted to CHF 18,709,547 and were thus CHF 15,453 (0.1%) lower than the approved budget.



Mario Gassner
Chief Executive Officer

Supervision

At a media conference in April 2013, the FMA presented and published its report on the Liechtenstein real estate and mortgage market. This market is important to the FMA because, due to its size, it represents a risk for financial stability. During the reporting period, the Banking Division strengthened risk control for this sector, carried out stress tests, and adjusted regulatory requirements. The FMA also indicated a need for action in regard to the data situation on the real estate market.

During the reporting period, the Banking Division worked intensively on transposition of the European Capital Requirements Directive (CRD) IV into national law. This international reform is intended to strengthen the stability of the banking system. This is also in the interest of financial stability in Liechtenstein, since the local institutions have strong international ties. These regulatory efforts should not distract from the fact that the Liechtenstein financial system is stable and that it has proven to be very reliable even in the very demanding environment of the global financial crisis.

In 2013, foreign authorities addressed 48 requests for administrative assistance relating to market abuse to the FMA. The number of requests for administrative assistance, which was already high when compared with other countries, has thus slightly increased again.

The Securities Division prepared for entry into force of the Law on Alternative Investment Fund Managers (AIFM Act) on 1 July 2013. After extensive preparatory work, the FMA was ready on 1 April 2013 to accept applications for the authorization of alternative investment fund managers. Because of the pending incorporation of the European AIFM Directive into the EEA Agreement, however, the AIFM Act so far

only has domestic scope, and access to the markets of EU countries is not yet provided. This means the number of applicants has remained low. By the end of 2013, five alternative investment fund managers had been authorized.

During the reporting period, the organizational requirements for asset managers were made more specific and published in the form of an FMA communication. An asset management company must have a suitable place of business both in terms of personnel and structure. The registered office and head office of the company must also be in Liechtenstein.

In the Insurance and Pension Funds Divisions, the preparatory work for Solvency II continued. Several insurance undertakings took part in an assessment by the European Insurance and Occupational Pensions Authority (EIOPA). EIOPA also published preparatory guidelines for Solvency II that have to be implemented in Liechtenstein as well in 2014. After multiple delays, the new insurance supervision law will be introduced in Europe on 1 January 2016. This gives supervisory authorities suitable qualitative and quantitative tools to be able to assess the overall solvency of an insurance undertaking in an appropriate way. A special focus in the reporting year was on the supervisory work relating to reorganization of the Pension Insurance for State Employees. For the first time, the Other Financial Intermediaries Division carried out consolidated due diligence and quality controls of auditors and audit companies in 2013. Quality assurance reviews are a key element of the European Statutory Audit Directive, which has been transposed into national law in Liechtenstein.

During the reporting year, the Professional Trustees Act was comprehensively revised. The focus of the changes is on stronger official supervision, in order to strengthen confidence in the trustee sector and



promote its international recognition. With entry into force of the law on 1 January 2014, the FMA will thus intensify its supervision of professional trustees and trust companies. The processes to this effect were built up in 2013. Supervisory processes have also been built up for the supervision of persons under article 180a of the Law on Persons and Companies (PGR). With the new law, a comprehensive, effective system of supervision of these persons has been created.

Regulation

The FMA's regulatory work further intensified in the reporting year. Numerous European regulatory projects that were initiated after the global financial crisis have reached a point where legal acts must be implemented into national law now or in the near future: In the banking sector, these include the Basel III reform project and the EU Crisis Management Directive or, across sectors, the new version of the recast Markets in Financial Instruments Directive (MiFID II) and the Market Abuse Directive. Already before the financial crisis, the new supervision directive Solvency II was initiated.

Not only has the number of legal acts to be implemented increased, but also the degree of detail of financial market regulation with technical standards, guidelines, and recommendations has increased substantially. What all regulations have in common is that the national leeway for the benefit of superordinate goals such as financial stability and client protection is becoming increasingly limited.

With the establishment of intensified supervision of professional trustees and trust companies, Liechtenstein has taken an important step in the direction of stronger international recognition of its trust sector. The new official supervision of persons under article 180a PGR effective 1 January 2014 also strengthens the reputation of the financial centre and client protection.

External relations

The international external relations of the FMA were heavily influenced by the work of the European Supervisory Authorities in the reporting year. The FMA enjoys observer status and is represented in the relevant bodies of the three authorities. The FMA signed a cooperation agreement on the AIFM Directive negotiated by the European Securities and Market Authority (ESMA) with more than 30 countries (including the competent securities supervisors of Switzerland, the United States, Singapore, Hong Kong, Canada, and Brazil). The international integration of the FMA has also been successfully continued with the signing of a memorandum of understanding (MoU) with the Swiss Federal Audit Oversight Authority and another cooperation agreement with the Central Bank of San Marino.

During the reporting year, Liechtenstein's anti-money-laundering measures were assessed by the International Monetary Fund (IMF) and MONEYVAL. The FMA's efforts entailed a substantial workload for its employees.

The Head of Macroprudential Supervision at the FMA was appointed Deputy Chairman of the Macroprudential Policy and Surveillance Working Group of the International Association of Insurance Supervisors (IAIS). Another employee of the FMA is an elected scientific expert for MONEYVAL, the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism. He was also called as an assessor for the ad hoc assessment in Cyprus.

Enterprise and team

At the end of 2013, the FMA had 81 employees, 15 of which worked part-time. Fluctuation was 8.1%. Compared with the previous year, the number of employees remained stable. The demands on supervision of the financial market and accordingly the workload have increased further, however. Moreover, the legislative power has transferred additional new tasks to the FMA entailed by supervision of profes-



sional trustees and persons under the 180a Act. The extra workload must be absorbed primarily through increased efficiency, as offered for instance by modern IT systems. The FMA is also constantly considering new possibilities for designing international processes more efficiently.

At a management event in the summer, measures for the further development of the FMA as an integrated supervisory authority (stronger utilization of the advantages of an integrated authority, achievement of the greatest possible synergy effects) and for increasing effectiveness (efficacy, quality of goal achievement) and efficiency (cost/benefit ratio, sparing use of resources) were discussed and developed.

A central master database was introduced in the first quarter of 2013. The FMA thus has a modern central database at its disposal with the information necessary for supervision relating to the supervised financial intermediaries, which also increases the efficiency of work processes. As further elements of the IT strategy, a central document management system and a web-based reporting platform for financial intermediaries are being established.

EXECUTIVE BOARD

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The Financial Market Authority Act was revised during the reporting year. The central object of the revision was to develop a new funding model for the FMA. The goal was to secure FMA funding in a sustainable way for the long term and to design the specific tax burden for individual financial intermediaries in a predictable and calculable way. The further revision of the funding model led to a high workload at the FMA. The revision has also given the FMA the necessary powers to meet the demands of the European Supervisory Authorities.

As part of the work on the new funding model, the FMA conducted numerous talks with the professional and sectoral associations, Parliament, the Government, and the political parties. Thanks to the flexibility of those involved, the legislative process establishing the new funding solution met the deadlines set by the Constitutional Court.

In corporate governance, the FMA further developed its risk management and internal control system (ICS). Risk management is of the utmost importance to the FMA because as a supervisory authority, it is exposed to special risks.

SUPERVISION
FMA Annual Report 2013

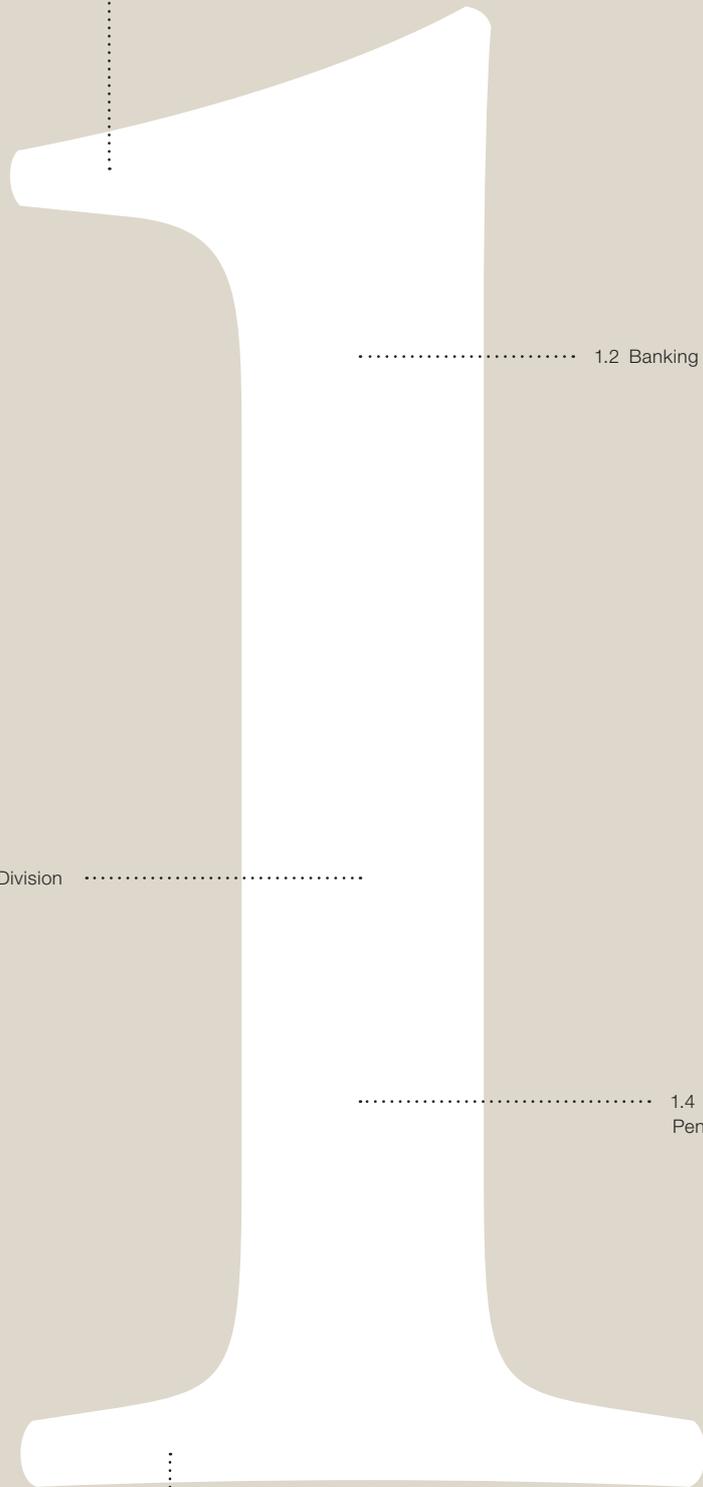
1.1 Macroprudential Supervision

1.2 Banking Division

1.3 Securities Division

1.4 Insurance and
Pension Funds Division

1.5 Other Financial Intermediaries Division



1.1 Macroprudential Supervision

Macroprudential Supervision is a new form of supervision, identifying systemic risks at an early stage and introducing measures to reduce them. It supplements traditional Microprudential Supervision. While Microprudential Supervision focuses on individual financial intermediaries and assumes that the financial system is stable if each individual financial intermediary is solvent, Macroprudential Supervision is guided by the stability of the entire financial system.

The task of Macroprudential Supervision is to identify systemic risks in order to prevent them before they occur or to mitigate their consequences. The tools at the disposal of the FMA for this purpose are warnings and recommendations that are brought to the attention of the Executive Board. The supervisory divisions comment on those warnings or recommendations, and the Executive Board decides – where appropriate after consulting the Board of Directors – on measures to mitigate the identified risks.

Ongoing supervision

In its Macroprudential Supervision, the FMA relies on reports submitted through regular reporting channels, information received through cooperation with national and international organizations, and publicly available data and information on the development of the economy and the financial markets.

During the reporting period, four reports were prepared on the development of the Liechtenstein financial centre. These contain a basic description of current developments, a more detailed description of two to three risks, and a summary assessment of the short- and medium-term outlooks.

Additionally, the FMA prepared four reports on the overall economic development. These contain a description of the national economic trends, an assessment of the significant risks to the overall economy, and a summary evaluation of the short- and medium-term outlooks.

The FMA also prepared and published four reports on the national economic development. These reports comment on national economic trends in the Eurozone, Switzerland, and Liechtenstein.

During the reporting period, the FMA issued two internal warnings on systemic risks and discussed recommendations for mitigating these risks. One warning concerned the risks emerging on Liechtenstein's real estate and mortgage market. The second addressed the risks associated with the low interest rate level for banking and insurance.

Priority areas

The FMA prepared a report on the real estate and mortgage market in Liechtenstein, which was published at a media conference in April 2013. This market is of the utmost importance to financial stability. The environment characterized by low interest rates,

high real estate prices, and high mortgage claims favours imbalances. The FMA recognizes a need to expand the data available on the real estate and mortgage market and to strengthen supervision of banks' mortgage business. As part of Macroprudential Supervision, observation of the developments on the Liechtenstein real estate and mortgage market are also being intensified. Various measures have also been introduced at the microprudential level (p. 23 et seq.).

1.2 Banking Division

1.2.1 Licences

Various enquiries for establishing a bank or investment firm were addressed to the FMA during the reporting year. The potential applicants were supported in the preparation of their applications in that the regulatory requirements were explained in detail and, based on experience, possible problems in the application process were pointed out. It is expected that one or more applications will be submitted in 2014. There have also been several enquiries regarding the establishment of an e-money or payment institution. Some of these were very concrete, so applications for these institutions should be expected.

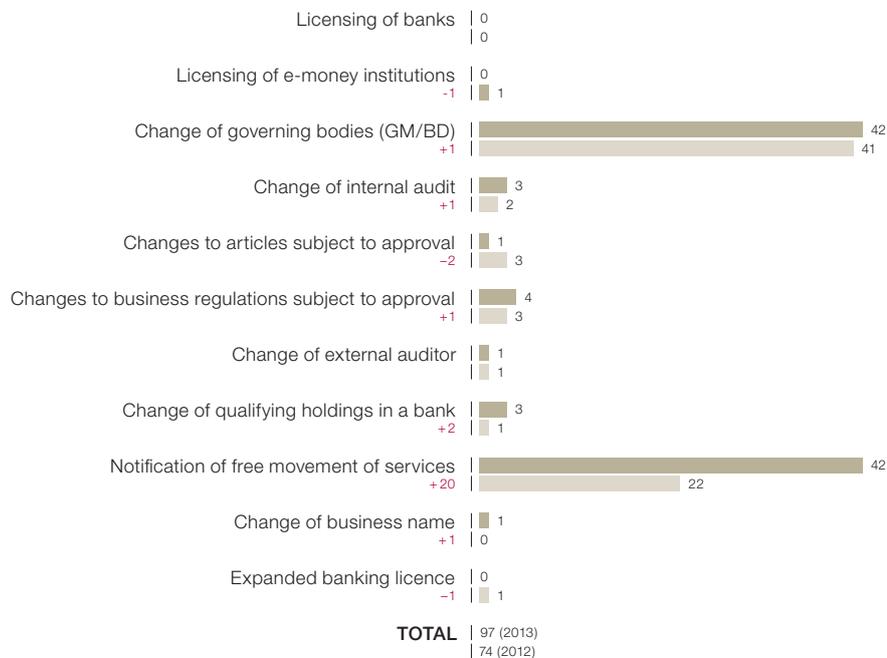


Figure 1
Changes to licences Banks

■ 2013 ■ 2012

Until it has been concluded, the voluntary liquidation of Alpe Adria Privatbank AG i.L., Vaduz, decided in 2009, will continue to be accompanied closely by the FMA.

1.2.2 Ongoing supervision

Auditing

In its supervision of banks and investment firms under the dualistic supervision system, the FMA relies predominantly on reports by external auditors. Nevertheless, the FMA increasingly carries out its own audit activities at the financial intermediaries' premises. The analysis of audit reports under the Banking Act as of 31 December 2012 indicated that external auditors identified and objected to 19 deficiencies, mainly in regard to reporting and internal instruction. This is eight deficiencies fewer than in the previous year.

Supervision of external auditors

Because of the great importance of external auditors under the Banking Act for banking supervision, the FMA has been expressly responsible for supervision of external auditors since 1 February 2011. As part of this responsibility, the FMA is able to carry out quality controls and accompany the external auditors in their audits of banks and investment firms. During the reporting year, the FMA accompanied the audits of selected external auditors, verified their sample selections, and requested working papers upon conclusion of the audit. The FMA then discussed conspicuous points with the external auditors and initiated appropriate measures. This achieves an improvement of quality in regard to all approved external auditors and promotes a uniform interpretation of the legal provisions.

Management meetings

With each bank, the FMA conducted a management meeting, in which a member of the general management and a member of the board of directors of the bank took part. Focus areas were topics such as business development, cross-border risks in the regulatory and tax fields (FATF: serious tax offences as predicate offences of money laundering), the legal situation in Liechtenstein due to regulations of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), the European Market Infrastructure Regulation (EMIR), the revision of the Markets in Financial Instruments Directive (MiFID II), and the status of FATCA implementation.

Inspections under the Due Diligence Act

Pursuant to the Due Diligence Act, regular inspections on behalf of the FMA are carried out by the external auditors. The number of objections rose considerably since the previous year from 20 to 36. The overwhelming number of the objections concerned business profiles, risk-adequate supervision, and simple and special enquiries. The reason is likely the new provision that auditors must select the entire sample of business relationships on the basis of risk-oriented criteria, instead of only half of the sample, as was previously the case.

Auditor workshops

The annual bank auditor workshop took place in May. The topics discussed were cross-border risks, the reporting duties of external auditors, the change to the responsibilities of external auditors and the content of the audit report, quality controls and other instruments for the supervision of external auditors, conspicuous facts in the audit reports, dealing with the International Capital Adequacy Assessment Process (ICAAP), regulation by the EBA, the FMA

guidelines on DDA inspections, custodians under the AIFM Act, the real estate and mortgage market, and reporting by banks.

Reporting

The risk assessment process within the divisions is based substantially on regular reporting. On the basis of the reports submitted, it can continue to be assumed that the Liechtenstein institutions enjoy a stable situation in terms of capital adequacy and liquidity. Most of the institutions already meet the Basel III requirements. In order to recognize overheating of the markets at an early stage, the FMA observes the development of the real estate markets and beyond this also evaluates the reports submitted by the institutions. Since 2013, additional information has been gathered to improve assessment of the risk situation of the banking centre and of the individual institutions as well as to recognize any risks at an early stage. The FMA pays special attention to observing the development of real estate financing in certain geographical markets, but also to observing the development of lending for certain types of real estate.

As part of their regular reporting, the banks report the level of assets under management (AuM) and the net inflow and outflow of new money, broken down by country of origin of the contracting party and of the beneficial owner. The scope of the data subject to reporting and their degree of detail were increased in the 2013 reporting year in order to further improve their expressiveness.

This allows better recognition of any risks the banking centre and the individual banks might be exposed to in light of their client structure.

Outlook on the development of reporting

As an EEA member, Liechtenstein will in the future also exchange institution-related information with the other member states pursuant to EU rules, to the extent such exchange of data does not violate any existing legal provisions in Liechtenstein.

Supervisory practice

If, in its ongoing supervisory activities, the Banking Division gains knowledge of violations of law in force or deficient implementation of banking law provisions, the necessary measures are taken to restore a normal, lawful state of affairs.

Measures were triggered during the reporting period primarily by objections raised in audit reports, enquiries by other supervisory authorities, indications of possible grievances in media articles, reports to the FMA, and the supervisory activities of other departments within the FMA. In 2013, the targets of investigations included adequate design of risk management, violations of regular reporting provisions, cross-border provision of services, lending and custodian services, violations of the Due Diligence Act, and suspicions of market abuse. Additionally, the process for carrying out the joint risk assessment and the joint capital decision was revised and initiated for group companies, leading to stronger cooperation with foreign supervisory authorities.

Supervision of external auditors pursuant to special legislation was again carried out in 2013 through accompanied audits and quality controls. Moreover, FMA Communication 2009/12 on Audit Reporting for Banks was updated. It will be published in 2014.

One priority area of supervision was on carrying out risk dialogues with the banks. The focus was on scenario analysis and stress tests, the mortgage busi-



ness, and the development of corporate assets under management. In the stress tests, market participants were called upon to analyse various scenarios of the supervisory authority and to portray the impact on their own institution. The topics were further discussed in management meetings with the banks over the course of the business year.

The Banking Division did not impose any fines during the reporting period. However, several violations were reported to the Office of the Public Prosecutor.

1.2.3 Combating abuse

The provision of banking services under the Banking Act is subject to a licence in Liechtenstein. Likewise subject to a licence are the issue of commercial e-money in Liechtenstein under the E-Money Act and the provision of commercial payment services under the Payment Services Act. The provision of such services without a licence constitutes a violation. Such violations are prosecuted by the FMA and punished by the Court of Justice.

If there are indications of activities performed by financial service providers without a licence, the FMA takes the necessary supervisory measures. For this purpose, the FMA has the legally specified supervisory resources at its disposal. These allow the FMA to intervene domestically and prohibit exercise of the activities subject to the licensing requirement. It may also combat abuse by entering into contact

with foreign authorities. In individual cases, the FMA may post warnings of abuses on its website in order to protect clients.

During the reporting period, the FMA conducted numerous enquiries on suspicion of abuse as part of its supervisory activities on the basis of indications provided by domestic and foreign authorities, affected market participants or clients, and its own perceptions. In the Banking Division, 28 cases of suspected activities without a licence or of market abuse were investigated, and measures were taken.



Figure 2
Number of cases of abuse

The number of criminal charges filed with the Office of the Public Prosecutor (8) and the number of reports under article 17(1) of the DDA (4) increased compared with previous years. Also in comparison with previous years, the FMA submitted requests to foreign supervisory authorities for administrative assistance in an increased number of cases.

In the field of prevention of money laundering, the FMA is also responsible for combating violations of the Due Diligence Act (DDA). So far, the violations of the DDA identified by the FMA had to be forwarded to the domestic Office of the Public Prosecutor and were subsequently punished by the Court of Justice. With entry into force of the changes to article 31 DDA on 1 February 2013, the responsibility for punishing

various due diligence violations has been transferred to the FMA. Accordingly, the responsibility of the FMA now encompasses in particular violations of the lawful compilation and updating of the profile of the business relations, failure to comply with the legal requirements governing risk-adequate monitoring of a business relationship, violations in connection with increased due diligence obligations, and also violations of the safekeeping and organizational duties of persons subject to due diligence.

1.2.4 Operational focus areas

Consolidated supervision

Because of the limited size of the Liechtenstein market, banks conduct their business internationally. Moreover, the banking business is increasingly networked across borders. This development requires national supervisory authorities to orient their activities accordingly. The FMA has therefore begun focusing more strongly on consolidated supervision. This has been reflected in additional agreements with foreign supervisory authorities and in cross-border inspections of Liechtenstein banking groups. Similarly, exchanges with foreign supervisory authorities have been further strengthened, such as in the context of colleges within the EEA or through bilateral meetings with banking supervisory authorities from third countries. The FMA also participated in selected working groups of the European Banking Authority (EBA).

Depository/custodian service

In their function as a custodian or depository bank, banks contribute significantly to the quality of the Liechtenstein fund centre. In its supervisory activities, the FMA attaches great importance to this function in order to ensure compliance with the legal requirements. For this purpose, on-site inspections were carried out and the external auditors were made aware of their obligations in this regard.

Risk-based supervision

In order to ensure efficient supervision with the existing resources, a focus on the most significant risks is unavoidable. For this purpose, the risks of Liechtenstein banks are analysed on an ongoing basis, and adequate supervisory measures are derived. During the reporting year, the periodic risk dialogue also took place with all credit institutions, at which the bank-specific risks were discussed.

Real estate and mortgage market

Lending is one of the main activities of banks, but credit risk is also one of the most significant risks. A large part of the Liechtenstein credit market is covered by mortgage loans, which is why this area also has great significance for financial stability. Especially in light of various indications of bubbles being formed in nearby foreign countries, the development in Liechtenstein must be observed, and compliance with regulatory requirements must be ensured. In the wake of the real estate and mortgage market study, the FMA has therefore taken several supervisory measures in connection with mortgage lending. These include, for instance, on-site inspections, stress tests, and also adjustments to regulatory requirements.

Among all banks involved in mortgage lending, the FMA conducted a stress test for mortgage lending in 2013. A scenario with the following basic points was supplied: sudden increase of the risk-free interest rate to 6%, loss of value of mortgaged real estate by 40%, and an unemployment rate of 5%. All banks passed the test and would have been able to comply with legal requirements even in that interest rate environment. Additionally, further risks in the mortgage business, such as the possible formation of bubbles in certain regions in Switzerland, were discussed in the risk dialogue. The FMA also asked the Government to harmonize Annex 4.5 of the Banking Ordinance with the corresponding Swiss provisions relating to sustainability, amortization, and transactions exceeding internal instructions.

To improve the assessment of mortgage risk for each bank, the audit report required under the Banking Act was also supplemented by additional information fields which must henceforth be completed by auditors during the annual on-site inspections. This makes more information available to the FMA in order to improve its assessment of the risks on the Liechtenstein mortgage market.

Systemic stability

Compared to GDP, the balance sheet totals of several banks in Liechtenstein are very high, which is why the question of the systemic relevance of credit institutions arises in Liechtenstein, as it does in other countries. During the reporting year, the FMA considered and implemented measures to secure the stability of the financial market, together with the relevant authorities and market participants and in accordance with the European requirements. The focus was on prevention and emergency measures as well as deposit insurance and bankruptcy law.

1.2.5 Outlook

Against the backdrop of the historically low interest rate levels over the last few years, interest income has steadily declined. Also in 2014, the interest rate level is expected to stay low. The pressure to save costs on the one side and to open up new sources of revenue on the other side entails risks. In this situation, the supervisory authority is called upon to monitor compliance with legal provisions on an ongoing basis in order to intervene at an early stage in the case of undesirable developments. The focus is always on protecting clients and the stability of the financial centre. In 2014, additional European standards will be implemented to enhance the stability of the banking centre and security for clients.

The major regulatory project Basel III will probably be concluded in 2014. On the basis of these provisions, the FMA must define and introduce new supervisory processes and adjust existing processes. The implementation of MiFID II is another regulatory project that will place high demands on the FMA. To familiarize the market as early as possible with the new regulations, the significant points are being discussed with the associations in advance.

Bilateral cooperation with foreign supervisory authorities within the framework of consolidated supervision will be supplemented again in 2014 with international colleges. To further improve cooperation among the supervisory authorities, additional cooperation agreements are to be concluded and the network further expanded. The focus is primarily on countries with which Liechtenstein has a direct connection. This makes a noticeable contribution to group supervision and enhances efficiency of supervision, especially for on-site inspections abroad.

In the field of anti-money-laundering, the enactment of the 4th EU Money Laundering Directive in 2014 will clarify what kinds of tax offences will be qualified as predicate offences of money laundering.

1.2.6 International administrative assistance

The number of requests for administrative assistance received by the FMA from foreign supervisory authorities relating to market abuse rose again slightly in 2013. In each of the years 2010, 2011, and 2012, the FMA received 46 requests for administrative assistance. The number rose to 48 in 2013. Except for two requests, the Administrative Court approved execution of administrative assistance in all requested cases. The proceedings for the two aforementioned requests had not yet been concluded at the end of 2013. The main reasons for the high approval ratio are the high quality demanded of incoming requests by the FMA, the good cooperation with the requesting authorities, and the competence of the approval body. The formal administrative assistance procedure under Liechtenstein law is unique in the field of international securities supervision, but it has met with recognition overall, not least of all thanks to the stronger cooperation of the FMA with important authorities and international institutions.

Compared with the previous year, the number of information exchanges declined slightly in 2013. While a total of 48 administrative assistance proceedings (including requests from the previous year) were concluded in 2012, 41 requests for administrative assistance were answered or completed by the end of December. It is gratifying that the FMA in principle meets the time limit deemed appropriate by the International Organization of Securities Commissions

(IOSCO): As a rule, the foreign authority receives the requested information within eight weeks. The average transmission speed – which fell significantly due to the transition of the administrative assistance procedure from the Market Abuse Act (MAA) to the FMA Act – remained stable even as the complexity of cases increased. This overall development was acknowledged positively by most foreign authorities.

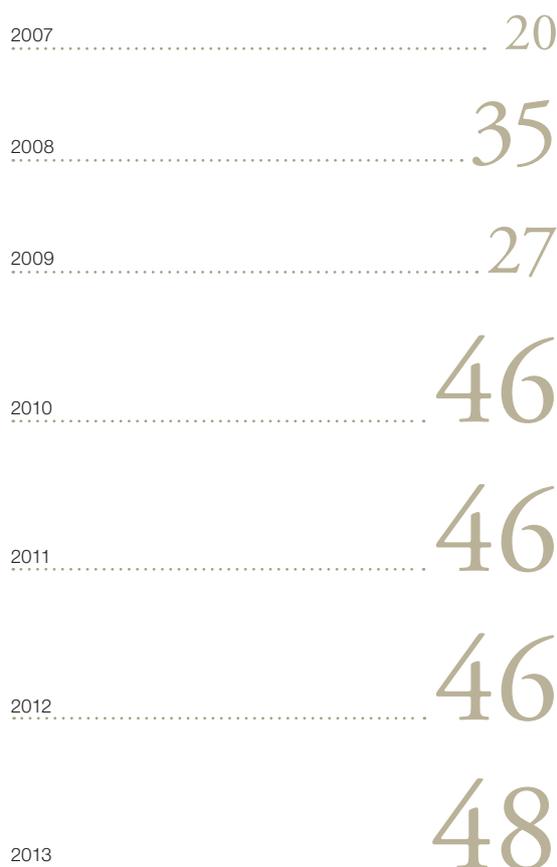


Figure 3
Number of requests
for administrative assistance received

Figure 4
Reasons for requests
relevant to proceedings

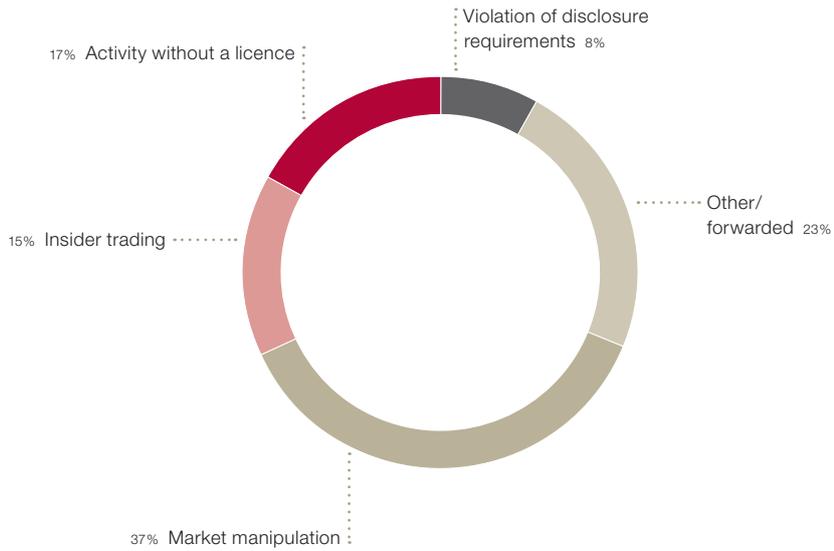
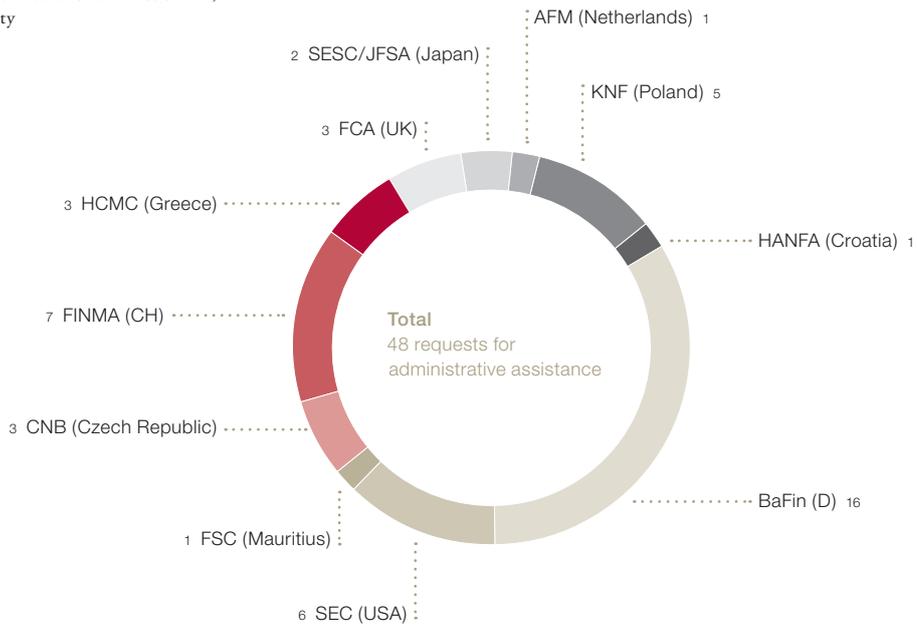


Figure 5
Requests for administrative assistance,
by authority



1.3 Securities Division

1.3.1 Investment undertakings

Licences and certifications

Licensing of domestic investment funds

In 2013, the FMA issued 26 licences for domestic investment funds, including three for investment companies with variable capital (SICAV) and the others as investment funds in the legal form of a collective trust. During the reporting year, two new management companies/alternative investment fund managers (AIFMs) also received a licence. Two management companies returned their licences.

Taking liquidations and deletions into account, the number of Liechtenstein investment funds fell by five to 552 as of the end of 2013. Some of the 552 domestic investment funds have subfunds, so a total of 783 individual funds were licenced in Liechtenstein as of the end of the year. These were managed by 19 management companies/AIFMs and one self-managing investment company, or a total of 20 management companies/AIFMs.

316 changes to prospectuses were approved. Compared with the previous year, in which 394 changes were approved, this means a decline of about 20%. This decline is primarily due to the transition from UCITS III to UCITS IV in 2012. Despite this decline, the volume of changes to prospectuses continues to be high.

Authorization of foreign investment funds

The number of foreign investment funds authorized for marketing in Liechtenstein declined, taking account of mergers, non-launches, and liquidations. At the end of 2013, 156 (previous year: 177) foreign investment funds with a total of 1,002 individual funds were authorized for marketing. They encompassed 110 UCITS-compatible investment funds and 46 non-UCITS funds from the EEA or third countries. Meanwhile, ten foreign management companies have notified their free movement of services in Liechtenstein.

Authorization of persons entitled to market units

In addition to the persons entitled to market fund units in Liechtenstein that are enumerated in the Investment Undertakings Act (IUA) and hold a licence under that special legislation, 11 legal persons and one natural person were likewise entitled to market units at the end of 2013 pursuant to explicit authorization. Under the Law on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act) and the Law on Alternative Investment Fund Managers (AIFM Act), no separate entitlement of legal and natural persons to market units is possible anymore.

Figure 6
Number of management companies and investment undertakings under the IUA

Category	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013	+/-
Active MCs	27	24	22	19	17	-2
of which fund managements	21	21	21	18	16	-2
of which investment companies	6	3	1	1	1	0
Domestic investment funds*	411	469	535	368	346	-22
of which IUs for securities	127	153	177	6	3	-3
*of which IUs for other values	173	171	177	171	140	-31
of which IUs for qualified investors	111	145	181	191	203	12
Foreign investment funds	191	193	198	177	156	-21
Audit companies	11	11	11	10	11	1

* Since 2012, undertakings for collective investment in transferable securities (UCITS) have been reported separately

Category	31.12.2012	31.12.2013	+/-
Active MCs	14	15	1
of which fund managements	14	15	1
of which investment companies	0	0	0
UCITS	189	206	17

Figure 7
Number of management companies and UCITS under the UCITS Act

Category	31.12.2013
Large AIFMs	5
Small AIFMs	0
Administrator	0
Risk manager	0
Marketing contractors	0
AIFs	0

Figure 8
Number of licence holders and alternative investment funds (AIFs) under the AIFM Act

Category	31.12.2012	31.12.2013	+/-
Active licence holders	20	20	0
of which fund managements	19	18	-1
of which alternative investment fund managers (AIFMs)	0	1	1
of which investment companies	1	1	0

Figure 9
Total number of licence holders*

* The holder of an authorization may have several licences

Ongoing supervision

Auditing

As part of indirect supervision, 247 audit reports under the IUA and 165 audit reports under the UCITS Act were evaluated. The reports contained 230 objections, which means 258% more than in the previous year. This massive increase is mainly due to the transition to UCITS IV and the associated higher density of regulation. For instance, 89 objections referred to transaction costs that were not listed separately as part of the required information in periodic reports in accordance with Annex II of the UCITS Act. 42 objections each concerned active violations of investment guidelines and failure to meet legal minimum net asset requirements.

The FMA processes the objections and institutes the appropriate measures. This is done in part by demanding restoration of a lawful state of affairs, through on-site inspections, or by discussing the objections in management meetings with the persons responsible at the management companies. By combining supervisory and preventive measures, the FMA aims to prevent supervision cases and to reduce the number of objections in audit reports.

Reporting

In addition to the audit reports, management companies must submit or publish additional periodic reports to the FMA on the investment undertakings (funds) and undertakings for collective investment in transferable securities (UCITS) they manage. These include semi-annual and audited annual reports. In 2012, the previous quarterly reporting was changed to semi-annual reporting. The experiences with this transition have been positive, since the new system

reduces the workload for management companies and since the quality of the submitted semi-annual reports has been very high.

Supervisory practice

Investment undertakings authorized and managed under the UCITS Act may make investments only in legally permitted investment instruments. Ongoing supervision showed that some investment undertakings employed impermissible investment instruments. The management companies concerned were called upon to rectify the investment undertakings in question. Additionally, the FMA published a comprehensive communication on the permissible investment instruments for UCITS.

In 2013, a requirement of the European Securities and Markets Authority (ESMA) was also implemented, prohibiting the use of certain investment funds as the target investment of a UCITS. This requirement had to be implemented by the management companies before the end of the year.

The valuation of investment funds, especially in the field of alternative investments, makes high demands on management companies and again led to several questions relevant to supervisory law in 2013. To protect investors from investments that are illiquid or cannot be valued, the FMA together with the Liechtenstein Investment Fund Association (LAFV) focuses on compliance with valuation requirements. For this purpose, a working group was established to revise the existing valuation principles of the LAFV and to adjust them to the new market developments.

The software implemented for supervision in 2012 (AWP) has proven its worth. Checking receipt of reports to be submitted and the compilation and administration of objections and comments in the audit reports have become especially efficient by using the new software.

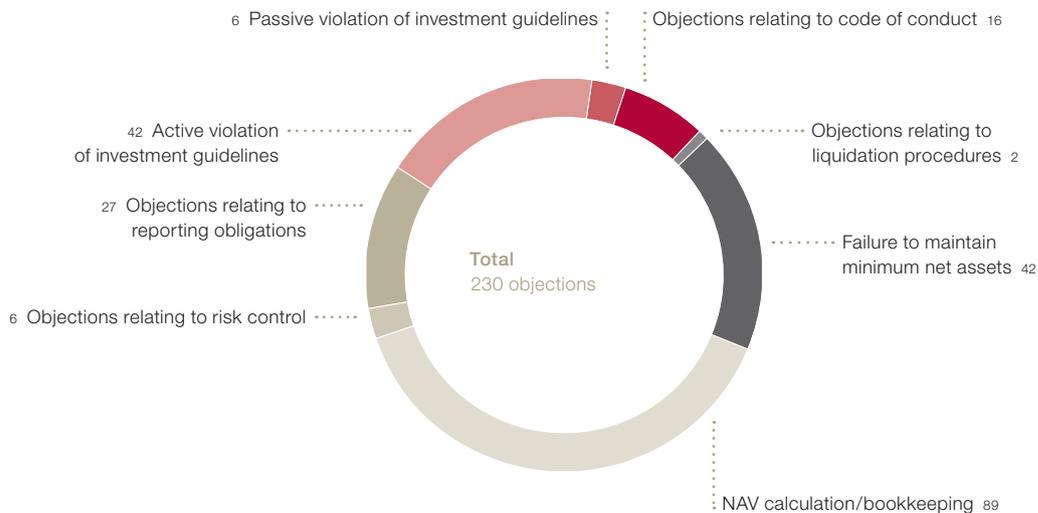
Supervision cases

The persistently challenging economic situation meant that six investment undertakings were found to have fallen below the minimum net assets required. The FMA called upon the management companies to restore a lawful state of affairs. During the second and third quarters, one management company was accompanied by the FMA and required to report on a monthly basis.

In total, five management meetings were held, four of which with the company mentioned above that was being accompanied by the FMA. Five on-site inspections were carried out in connection with applications under the UCITS Act and AIFM Act. At one management company, an accompanied inspection was carried out as part of the DDA audit.

Finally, the FMA initiated supervisory proceedings against several investment undertakings making investments in illiquid financial instruments that were difficult to value. The management companies were called upon to comment on the valuation methods they employed.

Figure 10
Objections



Combating abuse

In the context of combating abuse relating to investment undertakings, the FMA dealt with ongoing market supervision as well as clarifications of whether certain business models fall within the scope of fund law and thus require a licence under the IUA, the UCITS Act, or the AIFM Act. In 2013, the FMA did not find any misuse of fund structures or fund names.

Operational focus areas

Entry into force of the AIFM Act

The AIFM Act and the associated ordinance (AIFM Ordinance) have been in force since 22 July 2013. The preparatory work was extensive and amounted to an endurance test. The FMA met the deadline and was ready by 1 April 2013 to receive applications for authorization of alternative investment fund managers (AIFMs) and applications for authorization of alternative investment funds (AIFs). For European market access, the EEA/EFTA States must first incorporate EEA-relevant directives of the EU – including AIFM Directive 2011/61/EU – into the EEA Agreement. Despite intensive efforts by the Government, incorporation of the AIFM Directive into the EEA Agreement has not been completed so far. This incorporation is a precondition for receiving the “EU passport”, which is considered a component of authorization for cross-border management and marketing of alternative funds throughout Europe.

As a consequence of the incorporation issue, an AIFM Act entered into force on 22 July 2013 that had only national scope of application. From the perspective of the financial centre, the attractiveness of the regulation was that Liechtenstein’s early implementation of the AIFM Directive would have positioned Liechtenstein as a competence centre for AIFMs and their AIFs. The inability of Liechtenstein

AIFs to participate in the EU passport led to a lower interest by foreign financial intermediaries in setting up domicile in Liechtenstein. By the end of the year, five AIFMs had been authorized, one of which was a foreign company newly domiciled in Liechtenstein. No applications for AIF authorization applications were submitted in 2013 due to the lack of the EU passport.

LIF Act project

In the second half of the year, the FMA participated in the work on revision of the IUA, which was given the working title “LIF Act”. The law is intended to apply to all investment funds that are not funds under either the AIFM Act or the UCITS Act. The work and especially clarification of the possible scope of application are being coordinated and chaired by the Office for International Financial Affairs.

Valuation principles

Under the chairmanship of the Liechtenstein Investment Fund Association, the FMA is contributing to the preparation of binding principles for the valuation of investment fund assets. The valuation principles are an element of self-regulation. They may be declared binding by the FMA.

Outlook

LIF Act

The work on the LIF Act will be continued and completed to the extent that the law can enter into force at the time of EEA incorporation of the directives on the European Supervisory Authorities. The LIF Act will replace certain areas of the IUA that will no longer be effective once the EEA incorporation decision enters into force.

MiFID II

Now that representatives of the European Parliament, the Council of the European Union (Member States), and the EU Commission have achieved a basic agreement on the Markets in Financial Instruments Directive (MiFID II), the preparatory work will be intensified in 2014. Entry into force of the recast MiFID II will make adjustments to Liechtenstein legislation necessary.

UCITS V

Revision of the UCITS IV Directive is far advanced at the European level and will contain a harmonization of the requirements on custodians with the provisions of the AIFM Directive. The FMA will initiate a working group in a timely manner to consider the impact of UCITS V on supervisory concerns.

1.3.2 Asset management companies

Licences

In 2013, the FMA issued 11 licences to asset management companies (AMCs), while eight other applications were withdrawn, one application was rejected, and one licence expired. At the end of 2013, 119 AMCs were licensed in Liechtenstein. This means the total number of AMCs operating in Liechtenstein increased by ten since 2012. The rising trend of licensed AMCs thus continued. This trend is due especially to implementation of the AIFM Directive and the tendency for AMCs not subject to prudential supervision abroad

to choose to place themselves under such supervision in Liechtenstein in order to offer their services throughout the entire EEA.

In total, the AMCs applied for or notified 67 changes to existing licences. These were mainly changes to qualifying holdings and governing bodies. 83 applications for notification of free movement of services were submitted at the FMA, and the corresponding notification procedures were carried out. However, no new applications for establishing branches in the EEA were submitted.

Special importance was attached to the following points in the licensing procedure:

- Requirement of substance: Fulfilment of licensing condition that the company must have appropriate resources in terms of personnel and structure;
- Question of structure: Guarantee that the head office of the company is in Liechtenstein. The head office must be where decisions are actually made;
- Qualification/training (fitness and properness): Examination of general managers in terms of their experience and qualifications;
- Organization: A sustainable business plan, especially in regard to organization and financial planning.



Ongoing supervision

Regular audits pursuant to the AMA

In 2013, the business activities of the preceding year were audited by the external auditors and the FMA within the framework of dualistic supervision. 102 audit reports of AMCs were evaluated pursuant to the AMA. In total, 28 objections were made in the case of 16 AMCs.

The objections reported by the external auditors referred primarily to deficiencies in regard to organizational requirements. The main issue is compliance with the requirement that the head office be in Liechtenstein. Other objections referred to various recording and safekeeping duties. Objections concerning capital adequacy requirements continue to indicate that the economic environment in which financial intermediaries must assert themselves continues to be demanding.

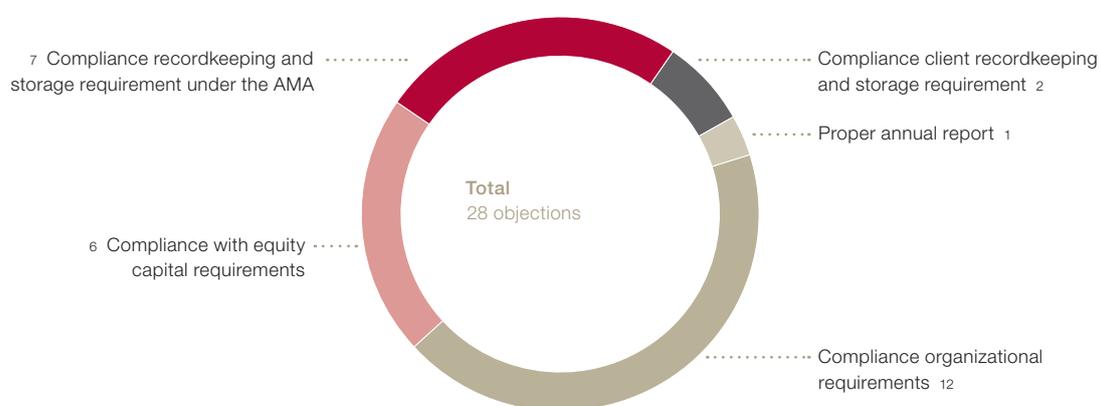
Reporting

The AMCs' reporting discipline was again stable in 2013. Only a few AMCs did not meet their reporting obligations and were sanctioned accordingly. Six AMCs failed to meet their capital requirements. They were called upon by the FMA to restore a lawful state of affairs. Various AMCs failed to meet their reporting obligations with respect to changes to the general management, board of directors, articles, or external auditors. These AMCs were fined by the FMA, and the changes already published in the official notices of the Commercial Register were retroactively approved.

Supervision cases

In 2013, the FMA dealt with nine supervision cases involving AMCs. Among the six objections relating to failure to meet capital requirements, one gave rise to a supervision case because the lawful state of affairs was not restored. Three supervision cases were trig-

Grafik 11
Objections



gered by questions of supervision law concerning the general managers of the asset management companies. One supervision case concerned a company which had violated several points of the AMA. The FMA ordered that a lawful state of affairs be restored. An investigation was conducted against another AMC on the basis of reports in foreign media. The accusations could not be confirmed in light of supervision law. The other proceedings concerned various violations of the law as well as unpaid supervisory fees that had to be collected using enforcement procedures.

Combating abuse

When combating abuse, Securities Supervision investigates whether activities subject to a licence, such as asset management or investment advice, are being carried out without a licence in or from Liechtenstein. In addition to actively combating abuse of its own accord, the FMA also relies on indications from the market, of which several were taken up and examined in 2013. Most of these involved the misuse of terms suggesting the performance of activities requiring a licence. In this regard, the FMA is in permanent contact with the Commercial Register Division of the Office of Justice.

Operational focus areas

Organizational requirements under the AMA and AMO

In cooperation with the Association of Independent Asset Managers (VuVL), the FMA further specified the organizational demands on asset managers and published them by way of an FMA communication. Overall, the AMC must have an appropriate place of business in terms of personnel and structure. It must also be ensured that the registered office and head office of the company are in Liechtenstein. Moreover, the organizational and personnel design of the compliance, risk management, and internal audit functions were further specified.

Outlook

Over the course of 2014, the FMA will advance the revision of the code of conduct for independent asset managers in cooperation with the VuVL. The aim is to achieve harmonization with FMA Communication 2013/08. Supervisory activities will continue to focus on compliance with organizational requirements. The growing demands in the field of money laundering prevention will continue to be a priority area of FMA supervision.

1.3.3 Securities prospectuses

Approvals

Approval activities relating to securities prospectuses under the Securities Prospectus Act (SPA) were again of subordinate significance in 2013. Only two applications from Liechtenstein were submitted for approval.

The notification by foreign supervisory authorities for basic prospectuses of issuers of structured products was within the range of the previous years. In many cases, however, no subsequent public offer was undertaken in Liechtenstein.

As a consequence, offers of foreign structured products notified by an EU/EEA country in Liechtenstein fell substantially in 2013 compared with 2012. The final conditions for a total of 111 structured products (previous year: 233) were submitted to the FMA by two issuers.

1.4 Insurance and Pension Funds Division

1.4.1 Insurance undertakings

Licences

At the end of 2013, a total of 42 (previous year: 41) insurance undertakings with registered offices in Liechtenstein were active (22 life insurers, 15 non-life insurers, and five reinsurers). 13 undertakings were registered as captives, eight of which as direct insurers and five as reinsurers.

In 2013, an additional captive received a supervisory licence to pursue insurance activities under the Insurance Supervision Act (ISA). One insurance undertaking was granted an expansion of its licence to include additional classes of insurance. At the end of the year, an application for establishment of an insurance undertaking was being processed. The FMA is also responsible for the recognition of external auditors pursuant to special legislation. In 2013, one new audit company was recognized pursuant to the ISA.

Cross-border provision of services

At the end of 2013, 364 insurance undertakings from various EEA countries and Switzerland had notified the FMA of their cross-border provision of services in Liechtenstein via their home country supervisory authorities.

Branches in Liechtenstein

A total of 11 foreign insurance undertakings had a dependent branch in Liechtenstein as of the end of 2013. Nine of these have their main offices in Switzerland.

Ongoing supervision

Audits pursuant to the ISA

As of 30 April 2013, the insurance undertakings were called upon to submit their documents to the FMA for reporting on the 2012 business year. Only 17 insurance undertakings (41%) submitted complete documents by that time. The remaining undertakings had to be requested by the FMA to submit all or some of their documents, which again caused a significantly greater workload for the FMA. In the case of four insurance undertakings, restrictions in the audit reports led to further measures; in the case

of three further insurance undertakings, indications or supplements by the external auditors that did not restrict the audit findings led to special supervision measures (on-site inspections and management meetings).

In particular, the external auditors issued an audit report without restrictions, indications, or supplements for 34 insurance undertakings. In the course of the FMA audit, conspicuous facts were found in 27 of these 34 undertakings, but these could be remedied already during the audit. They concerned, for instance, incorrect calculation of the solvency ratio under Solvency I or enquiries concerning certain balance sheet items. Additionally, the quarterly reports of the insurance undertakings were audited.

On-site inspections and management meetings

In 2013, the FMA carried out eight regular and two extraordinary on-site inspections. Apart from the general topics (business mode, corporate strategy, and financial situation), the focus was especially on the risk management system, the internal control system, legal risks, and the status of preparations for Solvency II. At the same time, sample audits were conducted of building security and administrative systems. The two extraordinary inspections were mainly motivated by complaints management. The results of the on-site inspections were entirely positive.

Supplementing the on-site inspections, four regular management meetings and one extraordinary management meeting were carried out in 2013. The extraordinary management meeting was due to unusual business performance. The insights gained from these meetings are very valuable and positive for the FMA.

Audits pursuant to the DDA

Pursuant to article 3(1)(d) of the Due Diligence Act (DDA), insurance undertakings with a licence pursuant to the ISA are subject to the scope of application of the DDA to the extent they offer direct life insurance.

Regular due diligence inspections regarding compliance with the provisions of the DDA and the associated ordinance (DDO) are carried out at insurance undertakings without a special mandate by the FMA as part of audits pursuant to special legislation. In 2013, external auditors carried out regular DDA inspections at 20 life insurers. Two follow-up inspections with a separate follow-up audit report were necessary. In three cases, an additional extraordinary on-site inspection regarding due diligence was carried out by the FMA.

Deficiencies identified concerned the expressiveness of business profiles in particular as well as insufficient clarification and documentation of clients'

Figure 12
Number of insurance undertakings

Licensing category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-life insurance	6	7	9	13	13	14	14	14	14	14	15
Life insurance	12	15	17	17	19	23	22	21	21	22	22
Reinsurance	5	6	5	5	5	5	5	5	5	5	5
TOTAL licences	23	28	31	35	37	42	41	40	40	41	42

asset situations. In this context, the FMA focuses on verifying continuous transaction monitoring of premium payments.

The FMA as a complaints body

In the year under review, 75 complaints were filed with the FMA by policyholders or their representatives. This means an increase of about 9% in the number of complaints (2012: 69 complaints). Most of the complaints involved questions concerning the calculation or amount of the surrender value of life insurance policies or the calculation and invoicing of costs and fees. Complaints concerning lacking or delayed communication of the insurance undertakings with the policyholder, in contrast, fell by more than half compared with the previous year. Complaints about discrepancies relating to the provision of non-life insurance benefits also fell by 6%. The FMA received only one complaint about asset development.

The FMA reviews the complaints for their relevance to supervision law and takes the necessary measures. In the case of disputes under civil law, the FMA is not competent and refers such cases to the regular courts.

Compulsory building insurance

In 2013, 13 insurance undertakings were offering compulsory building insurance in Liechtenstein. Of these insurance undertakings, two were domiciled in an EEA member state and 11 in Switzerland. The building insurers operating in Liechtenstein must make a contribution to fire protection and the prevention of damages arising from natural hazards for the purpose of article 13 of the Building Insurance Act. The basis for calculating these contributions is the fire insurance sum of the individual undertakings.

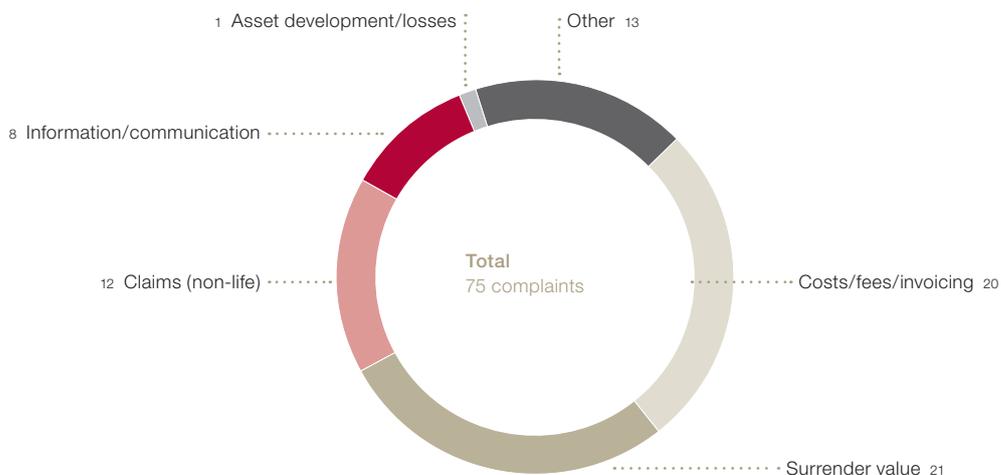


Figure 13
Complaints

Operational focus areas

Solvency II

One focus of the preparations for Solvency II was the Long-Term Guarantee Assessment by the European Insurance and Occupational Pensions Authority (EIOPA). It served to measure the impact of different yield curves on business with long-term guarantees. Six insurance undertakings from Liechtenstein took part in this assessment, which entailed a very high workload. With the help of external experts (IFA – Institute and Faculty of Actuaries), the FMA then analysed the results and derived conclusions for the participants.

In 2013, EIOPA published preparatory guidelines for Solvency II. In this context, the FMA organized two workshops in which it presented the content of the guidelines and explained further steps. By the end of December, the FMA had to communicate to EIOPA using a “comply or explain” process for each guideline as to whether it is being implemented at the national level.

The EIOPA preparatory guidelines for Solvency II were published through an amendment of FMA Communication 2013/1 effective 14 January 2014 and declared applicable to Liechtenstein insurance undertakings.

Cross-border risks

As part of the project on cross-border risks, a survey was used to conduct a situation analysis of the life insurers domiciled in Liechtenstein. The reporting was evaluated during the year under review. The results were integrated into the FMA’s ongoing supervisory work and discussed with the undertakings. At the same time, the core questions concerning cross-border risks were integrated into the annual reporting form.

They will accordingly be included each year in the course of audits of insurance undertakings conducted by the external auditors.

Inspection of implementation of EIOPA guidelines on complaints-handling

On 15 January 2013, the EIOPA guidelines on complaints-handling by insurance undertakings entered into effect (FMA Communication 2013/1). Within the domestic legal framework, these guidelines are understood as a best practice approach, implementation of which by the national financial intermediaries must be ensured and compliance with which is monitored by the FMA. Accordingly, the FMA conducted two on-site inspections with a focus on implementation of the aforementioned guidelines. During the on-site inspections, the FMA held talks with the responsible persons and inspected internal guidelines, fact sheets on complaints-handling, complaints lists, and other relevant documents.

Outlook

The year 2014 will focus heavily on implementation of the preparatory guidelines for Solvency II. For this purpose, the current status of preparatory measures among the individual insurance undertakings will be appraised and analysed during the first quarter using an extensive questionnaire. Building on this, progress made by the insurance undertakings will be observed in the following quarters. At the same time, working groups will be initiated together with the Liechtenstein Insurance Association in order to process the topics contained in the preparatory guidelines for Solvency II. The goal is to develop a common understanding of each of the guidelines and to come up with aids to facilitate implementation.

As part of the on-site inspections and management meetings with insurance undertakings, the topic of dealing with cross-border risks in cross-border insurance will continue to be addressed and evaluated as a priority.

1.4.2 Insurance intermediaries

Licences

Licences issued/withdrawn

A total of six licences were issued in 2013. Additionally, one licence was granted subject to conditions precedent, which are expected to be fully met in the first quarter of 2014. Four licence holders discontinued their activities as insurance intermediaries during the year 2013. As of 31 December 2013, the FMA thus supervised a total of 67 licensed and registered insurance intermediaries, of which 60 were legal persons, four sole proprietorships, and three natural persons. Of the 67 registered insurance intermediaries, 57 work as insurance brokers and ten as insurance agents.

Cross-border provision of services

Cross-border activities under the free movement of services were primarily carried out in Germany (30%), Switzerland (29%), and Austria (26%). Activities were also sporadically (less than 5%) carried out in the United Kingdom, Italy, Hungary, Denmark, Luxembourg, Belgium, Poland, and the Netherlands. So far, one insurance intermediary has operated pursuant to freedom of establishment in Switzerland.

Ongoing supervision

Reporting

As of 31 March 2013, the insurance intermediaries were requested to submit their reporting for the 2012 business year to the FMA. Only nine intermediaries submitted complete documents. The other reports were either incomplete and/or contradictory. This entailed an additional processing workload for the FMA. In summary, the evaluation of all reports resulted in the following findings:

- Six intermediaries did not engage in mediation activities in 2012;
- three intermediaries operated in cross-border business, even though no prior notification was made to the FMA. The notification was subsequently submitted in the course of reporting;
- three intermediaries did not notify a change of licence pursuant to article 19(2) of the IMA;
- 11 intermediaries were unable to provide evidence of adequate continuing training as referred to in article 2(5) of the IMA. The FMA required the intermediaries to make up the adequate continuing training within a reasonable time period.

Regular audits pursuant to the DDA

Insurance brokers with a licence pursuant to the Insurance Mediation Act (IMA) are subject to the Due Diligence Act (DDA) to the extent they broker life insurance and other services with an investment purpose. Already when receiving the licence for mediation activities relating to life insurance, appropriate organizational measures must be taken to ensure implementation of the DDA and its implementing ordinance (DDO) at all times. This is true even if no life insurance is brokered during any given audit period.

In general, the FMA conducts regular audits of insurance brokers every three years regarding compliance with the provisions of the DDA and the associated DDO, or it has such audits conducted by auditors or audit companies under the Insurance Supervision Act (ISA). In the year under review, five insurance brokers were subject to a regular due diligence inspection by the audit companies. This means that all licensed insurance brokers that have been subject to the DDA only since the revision in 2009 have now undergone due diligence inspections for the first time. Conspicuous facts were found primarily in regard to organizational requirements, especially the proper documentation of due diligence monitoring.

On-site inspections

Pursuant to an indication, an extraordinary on-site inspection was carried out at an insurance intermediary to verify the business model of the undertaking. During this inspection, it was noted that the undertaking violated provisions intended to protect payments for the benefit of the policyholder and thus committed an offence under the IMA. The FMA thus sanctioned this violation with a fine.

The FMA also conducted regular on-site inspections of seven insurance intermediary undertakings in order to verify permanent compliance with the licensing conditions. The focus of these inspections was primarily on safeguarding information and advisory requirements, compliance with the DDA, the international organization, and the product and client portfolio. The results of the on-site inspections show that there continues to be a deficit in safeguarding information and advisory requirements, and that there is not full compliance with the legal obligations under the DDA.

Combating abuse

Insurance mediation is subject to a licence in Liechtenstein pursuant to article 5 of the IMA. This service may accordingly not be offered without an appropriate licence. Violations are punished by the Court of Justice.

In this regard, the FMA carried out several clarifications pursuant to various indications or its own perceptions. In the context of these clarifications, one company was called upon to adjust its website so that it did not give the impression that it was performing or offering insurance mediation activities.

Operational focus areas

During the reporting year, the minimum insurance sums for professional liability insurance of insurance intermediaries were adjusted to the European consumer price index. The FMA published the new insurance sums by way of an official announcement and monitored the adjustment of existing insurance contracts as part of ongoing supervision.

Another focus relating to due diligence was on continuing training of insurance brokers. In cooperation with the Liechtenstein Insurance Brokers Association (LIBA), a “Practical DDA training for insurance brokers” was held at the University of Liechtenstein. Key issues in the event were the revision of the DDA and the DDO, future European and international developments in due diligence, and findings from the first audit round of the regular DDA inspections of insurance brokers.

Additionally, the FMA published instructions regarding the requirements for the professional qualifications of insurance intermediaries. The instructions

serve as an orientation guide for the required professional qualifications of an insurance intermediary and contain a list of the certificates of competence recognized by the FMA under law.

Outlook

To create coherent, efficient, and effective supervisory practices, the European Insurance and Occupational Pensions Authority (EIOPA) has the possibility of establishing guidelines. At the end of 2013, EIOPA issued eight guidelines on complaints-handling by insurance intermediaries. The FMA likely must announce to the EIOPA already in the first quarter of 2014 whether Liechtenstein will comply with these guidelines or if there are special reasons that justify non-implementation. Non-implementation would be published accordingly by EIOPA. The guidelines are intended to ensure that complaints by policyholders are handled in a uniform manner, taking these requirements into account. The content of the guidelines specifies an appropriate internal system for complaints-handling.

The draft revision of the Insurance Mediation Directive 2002/92/EC (IMD II) has been available since July 2012. Due to additional delays at the European level, entry into force of the revised directive is not yet foreseeable. The FMA is represented in the relevant European working group.

1.4.3 Pension schemes

Licences

At the end of 2013, 24 (previous year: 29) pension schemes in Liechtenstein were under the supervision of the FMA. These were eight collective foundations, 15 company pension schemes, and the Pension Insurance for State Employees.

Additionally, the Liechtenstein Occupational Pensions Foundation was granted a licence under conditions precedent and other conditions on the basis of the Law on Occupational Pensions of the State (OPS Act) in December 2013. The foundation will only be able to take up its insurance activities once the OPS Act enters into force on 1 July 2014.

In 2013, five company pension schemes were liquidated. Two other pension schemes are in liquidation. The liquidated pension schemes were company pension schemes that decided to switch to a collective foundation. Every liquidation procedure is being supervised and closely accompanied by the FMA until the liquidated pension scheme is released from supervision.

Ongoing supervision

Auditing

Audits pursuant to the Occupational Pensions Act

The pension schemes were required to submit their report on business activities in the 2012 business year to the FMA by 30 June 2013. The documents were audited in detail, and compliance with the legislative and regulatory provisions was verified. In almost all cases, the reports were submitted on time. Two of the schemes were issued a warning. In the case of 13 pension schemes, missing documents were

subsequently demanded, and in the case of eight schemes, additional clarifications became necessary during the audit. The audit work was completed by the beginning of October. In addition to the annual reporting, semi-annual notifications were also subject to an audit.

The Liechtenstein pension schemes were in a stable financial situation at the end of 2012. Only two schemes had a shortfall. While the shortfall in one case was insignificant, in the other case recovery measures were closely accompanied and supervised by the FMA. At the end of 2013, only one scheme still failed to meet the required funding ratio, with a substantial shortfall.

The pension schemes of three major employers in Liechtenstein are domiciled in Switzerland. They are thus subject to Swiss supervision. In these cases, reports are also submitted to the FMA in coordination with the Swiss authority. The audit results are reconciled between the two supervisory authorities.

On-site inspections and management meetings

The FMA conducted two regular on-site inspections and three management meetings at the pension schemes. The focus was on risk management, the internal control system, and investment of assets. During the on-site inspections, the FMA also examined the administrative system and verified the procedures for cash payments and claims.

Vested benefits accounts

The FMA is responsible for processing cash payout applications pursuant to the Occupational Pensions Act (OPA), and it reviews whether one of the legal preconditions for cash payout is met in this regard.

The FMA received a total of 257 (previous year: 226) applications for cash payout in 2013, of which 126 (previous year: 97) received a positive response and 54 (previous year: 57) a negative response. 52 applications were still pending at the end of 2013. 28 requests were processed without a final decision, most due to voluntary withdrawals by the applicants. The main reasons for positive cash payout decisions were departure from the Liechtenstein/Swiss economic area and assumption of self-employed work by the applicant. In total, the FMA decided on vested benefits in the amount of CHF 8.39 million (previous year: CHF 7.19 million).

Combating abuse

Verification of association with occupational pension scheme

Pursuant to article 4a(1) of the OPA and FMA Guideline 2008/1, the Old Age and Survivors' Insurance Authority (AHV) verifies whether the employers in Liechtenstein are properly associated with a pension scheme to insure their employees. The AHV reports employers to the FMA that do not meet their association obligation. In 2013, the AHV reported eight employers to the FMA. The FMA likewise calls upon the reported employers to bring about a lawful state of affairs. In all cases, a solution was found in agreement with the employer, usually in the form of a voluntary retroactive association.

Pursuant to article 4a(6) of the OPA, the pension schemes must notify the FMA within 30 days if an association contract is cancelled. In 2013, the FMA received 226 (previous year: 158) reports of cancellations of association contracts. After receiving a notice, the FMA requests that the employer communicate whether it still employs persons subject to the insurance requirement. If so, the employer must provide evidence of a new association with a Liechtenstein

pension scheme. If, despite employing persons subject to the insurance requirement, the employer does not join a new pension scheme, the FMA retroactively imposes the employer's association with a pension scheme for purposes of insurance. In the reporting year, the FMA imposed one such association with a pension scheme.

Measures where employers fail to contribute

According to article 7(5) of the OPA, the pension schemes must report to the FMA within three months if an employer is late in paying the required contribution.

After receiving such a report, the FMA demands that the employer settle the outstanding contributions under threat of penalty. In 2013, the FMA received 139 (previous year: 137) reports of outstanding contributions. Of these, the FMA submitted a total of 32 (previous year: 10) notifications of such situations to the Office of the Public Prosecutor.

Operational focus areas

The supervisory work involved in the recovery of the Pension Insurance for State Employees (PVS) constituted a special focus. State employees and employees of public enterprises as well as of other associated employers are insured with the PVS. In September 2013, Parliament created a new solution by adopting the Law on Occupational Pensions of the State (OPS Act) and by funding the shortfall of the PVS. The OPS Act will enter into force on 1 July 2014. Starting on 1 July 2014, a new pension scheme organized under private law within the meaning of the Occupational Pensions Act (OPA) will take up insurance activities. Until that time, the PVS will continue to carry out its responsibilities.

The OPS Act is a framework law. The new solution provides for a conversion from today's defined benefits to a system of defined contributions, partial funding up to a funding ratio of 90%, and an interest-free loan for the remaining 10%. The new pension scheme was founded on 19 December 2013 as the Liechtenstein Occupational Pensions Foundation. The FMA granted the licence on 18 December 2013 subject to conditions precedent and other conditions.

Outlook

Liechtenstein Occupational Pensions Foundation

In the first half of 2014, the Liechtenstein Occupational Pensions Foundation carried out the necessary preparatory work and implemented an organizational structure. It will take up insurance activities on 1 July 2014. With the establishment of the Liechtenstein Occupational Pensions Foundation, the Liechtenstein legislative power has taken an important step in the recovery of the PVS. Also in 2014, the FMA will pay special attention both to the Liechtenstein Occupational Pensions Foundation and to the PVS, which will still be competent until the end of June 2014.

Occupational Pensions Act

In 2014, the need to revise the Occupational Pensions Act (OPA) will be reviewed in detail in light of the changes to the Swiss legislation as part of the structural reform of the Swiss Federal Law on Occupational Old Age, Survivors' and Invalidity Provision (BVG). Due to the agreement concluded between the Swiss Federal Council and the Government of Liechtenstein on performance of the responsibilities of the Liechtenstein guarantee fund, Liechtenstein is directly affected by these changes. On this basis, the goal must be to ensure equivalence of the legal framework governing



occupational pensions and the supervision thereof. An OPA revision based on the structural reform in Switzerland will be examined in detail with a view to specific issues. In principle, the efforts to achieve more transparency and an appropriate governance system are also welcomed by the FMA. No automatic adoption of the Swiss provisions is envisaged. The goal is to maintain a generally streamlined but effective piece of legislation. At the same time, the revision of other provisions of the OPA will also be considered in detail.

1.4.4 Pension funds

Licences

At the end of 2013, six pension funds were licensed in Liechtenstein. Four of these are engaged in cross-border business in the EEA. No new licence was granted during the reporting period. One pension fund is in liquidation. Another has stopped accepting new business.

Ongoing supervision

As part of the regular audit, the pension funds domiciled in Liechtenstein were called upon to submit their report on business activities in the year 2012 to the FMA by 30 April 2013 at the latest. The FMA reviewed the submitted documents and monitored compliance with the legislative and regulatory provisions. The audit round for the 2012 business year was concluded in September 2013. Additionally, the semi-annual reporting of the pension funds was inspected.

Operational focus areas

In addition to inspections of the annual and semi-annual reports, more far-reaching audit activities constituted an operational focus area. In particular, these involved an on-site inspection and an extraordinary management meeting. In this connection, direct talks with the management were held to discuss current issues and challenges. Additionally, a sample audit was conducted on-site to verify compliance with legislative and regulatory requirements.

Outlook

At the European level, revision of Directive 2003/41/EC of the European Parliament and the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (Occupational Pension Funds Directive) is still pending. The revised directive is intended to improve the governance and transparency of pension funds. It does not cover the question of solvency. The FMA is represented in the relevant European working group.

At this time, it can be assumed that the European Commission will present its proposal for revision of the directive in 2014. The original schedule (autumn 2013) could not be maintained.

1.5 Other Financial Intermediaries Division

The FMA is responsible for the due diligence supervision of professional trustees, lawyers, and auditors as well as their examination and their professional qualifications for carrying out activities in the financial centre. Supervision also covers persons with a certifi-

cation under article 180a PGR, dealers in goods, real estate brokers, and other persons subject to due diligence. The FMA is the competent authority for quality controls of auditors, and it exercises disciplinary powers in accordance with the Auditors and Audit Companies Act (AACA). The FMA also enforces the Gambling Act with regard to due diligence.

1.5.1 Admission to examinations/Licences

Admission to examinations

Two persons registered for the qualifying examination for lawyers from the European Economic Area (EEA). Both persons passed the examination. 11 persons registered for the licensing examination under the Lawyers Act. Two candidates passed the lawyers' examination.

Three persons registered for the examination under the Patent Lawyers Act (PLA) for 2013. 11 applications for the licensing examination under the Professional Trustees Act (PTA) were registered. Six persons passed the licensing examination. Eight applications were registered for the qualifying examination under the AACA, as were six applications for the licensing examination; one candidate passed the qualifying examination and five the licensing examination. One candidate withdrew from the qualifying examination.

Licences

In 2013, 56 licences were granted to natural or legal persons to carry out the corresponding activities on the financial market. Additionally, changes to already existing licences were carried out upon application in 14 cases. In most cases, these were changes to the business name, changes of the responsible general manager, and extensions of licences for apprentice lawyers. 52 licences were cancelled (2012: 57).

Lawyers and other categories

As of 31 December 2013, a total of 361 persons were licensed under the Lawyers Act. This number includes lawyers (173), Liechtenstein lawyers eligible for registration (68), European lawyers established in Liechtenstein (25), apprentice lawyers (60), law firms (31), branches of law firms (1), and legal agents (3). The total number increased again slightly compared with the previous year (2012: 346).

Professional trustees and trust companies

The number of trust companies declined by five, and the number of trust companies with a restricted licence declined by two. The number of professional trustees declined by five, and the number of professional trustees with a restricted licence stayed the same. As of 31 December 2013, the total number of licences under the PTA was 366 (2012: 378).

Patent lawyers and patent law firms

The number of patent lawyers and patent law firms stayed the same. The total number of persons with a licence under the PLA was 11 as of 31 December 2013.

Auditors and audit companies

As of 31 December 2013, 35 domestic auditors, four foreign auditors established in Liechtenstein, and 26 audit companies were under the supervision of the FMA. The number of licensed auditors engaging in free movement of services was 43, the number of such audit companies 22.

Figure 14
Other financial intermediaries
supervised by the FMA

Other financial intermediaries	2010	2011	2012	2013	+/-
Professional trustees	77	79	70	65	-5
Professional trustees with a restricted licence	23	21	21	21	0
Trust companies	264	263	259	254	-5
Trust companies with a restricted licence	28	29	28	26	-2
Auditors ¹⁾	25	23	33*	35	2
Auditors established in Liechtenstein ¹⁾	0	0	3	4	1
Audit companies ¹⁾	26	24	24	26	2
Lawyers	150	164	168	173	5
Liechtenstein lawyers eligible for registration	66	61	69	68	-1
European lawyers established in Liechtenstein	25	27	22	25	3
Law firms	28	29	29	31	2
Branches of EEA law firms	1	1	1	1	0
Apprentice lawyers	67	56	54	60	6
Legal agents	4	4	3	3	0
Patent lawyers	9	9	8	8	0
Patent law firms	3	3	3	3	0
Persons with a certification under article 180a PGR ²⁾	546	533	535	518	-17
Exchange offices ³⁾	0	0	0	0	0
Real estate brokers ³⁾	25	7	7	0	-7
Dealers in goods ³⁾	42	11	4	4	0
Casinos	0	0	0	0	0
Other persons subject to due diligence ³⁾	35	32	29	31	2
TOTAL	1444	1376	1370	1356	-14

1) Information based on the register of auditors referred to in article 6b AACA

2) No guarantee of correctness

3) Information based especially on the notification requirement under article 3(3) DDA

1.5.2 Supervision pursuant to the DDA

The focus of supervision pursuant to the DDA is on planning, carrying out, and accompanying regular due diligence inspections and evaluating the audit

reports from those inspections. The FMA also carries out extraordinary inspections, imposes measures and penalties, and answers questions of law and interpretation.

The due diligence inspections are carried out by auditors and audit companies; every fourth inspection is accompanied by FMA employees. This promotes the important, constructive exchange with the financial intermediaries as well as with the auditors.

Regular due diligence inspections

Of a total of 370 financial intermediaries approached, 231 reported that they had carried out activities relevant to due diligence. In 2013, 62 regular due diligence inspections were therefore carried out in accordance with article 24 DDA; the FMA accompanied 13 of these inspections. This amounts to 21% of all due diligence inspections. In total, 966 business relationships were audited during these inspections. Additionally, the FMA for the first time carried out consolidated DDA and quality inspections at four auditors and audit companies.

Based on the findings in an accompanied inspection, criminal charges were filed against one financial intermediary for violation of due diligence obligations and a fine was imposed. Another inspection resulted in reduction of the audit frequency to once a year. On the basis of numerous objections, another financial intermediary was called upon to revise the entire portfolio of mandates.

Compared with the previous year, the 2013 audits showed gratifying improvements in the preparation of business profiles and the handling of risk-adequate monitoring. However, most of the deficiencies still relate to the substantive implementation of risk-adequate monitoring. The audited financial intermediaries and the auditors were informed in writing of the results of the audit round.

During the 2013 audit round, certain persons subject to due diligence were for the first time audited in accordance with audit procedure B under the UK

TIEA Act in regard to fulfilment of the provisions of the taxpayer assistance and compliance programme. This audit was carried out by auditors and audit companies, which transmitted the results directly to the UK TIEA Audit Committee by way of a separate inspection report (Law on Administrative Assistance in Tax Matters with the United Kingdom of Great Britain and Northern Ireland).

On-site inspections of additional financial intermediaries

No activities relevant to due diligence were recorded among real estate brokers in 2013. Accordingly, no inspections were carried out. One inspection was carried out at a dealer in goods. These two categories of financial intermediaries are systematically approached by the FMA each year and made aware of their reporting obligation.

Extraordinary due diligence inspections

Pursuant to article 28(1)(c) DDA, extraordinary inspections are carried out if there are indications for doubts as to fulfilment of due diligence obligations or if circumstances exist that appear to endanger the reputation of the financial centre. In 2013, the available indications were examined and clarified in 25 cases, resulting in the performance of two extraordinary inspections.

1.5.3 Combating abuse

Combating abuse involves taking steps pursuant to supervisory law against natural and legal persons carrying out an activity subject to a licence under special legislation or employing a professional or business term or business name reserved under special legislation, without having a corresponding licence.

Interventions must be carried out to combat abuse where the preconditions for engaging in the activity or activities are not or are no longer met.

Combating abuse makes an important contribution to protecting clients and securing trust in the Liechtenstein financial centre. When combating abuse, the Other Financial Intermediaries Division relies on indications from the market, preventive measures in the form of cooperation with other authorities of the National Public Administration, awareness-raising, media monitoring, and other measures.

During the reporting year, the FMA investigated numerous indications giving rise to suspicion that activities subject to the licensing requirement were being carried out without a licence. Especially frequent were cases in which activities subject to a licence appeared on a website. The FMA also audited various business models with regard to whether they were subject to a licence. In several cases, the purpose of business listed in the Commercial Register contained activities requiring a licence from the FMA. Supervisory proceedings were carried out in these cases. On the basis of concrete cases, an interpretation guide for evaluating the legal conformity of formulations of purposes was developed together with the Office of Economic Affairs. Additionally, questions of delineation between licensing scenarios covered by special legislation and by commercial legislation were clarified. Finally, the FMA called upon several licensed persons to restore a lawful state of affairs.

1.5.4 Operational focus areas

After implementation into national law, the FMA for the first time conducted consolidated due diligence and quality inspections of auditors and audit companies during the reporting year. Quality assurance reviews are a key element of the European Statutory Audit Directive. They also apply to Liechtenstein. The reviews extend to the quality assurance system applied throughout the firm in the practice of auditors (“firm review”). The focus of these reviews is to assess the effectiveness of the quality assurance system. It is reviewed whether employees know and apply the available instruments for quality assurance. The Swiss Principles for Statutory Audits (GzA) are the minimum requirements used as a basis for quality assurance.

Of the four reviews conducted in 2013, a total of 20 observations were made. These essentially concern the documentation of the quality assurance system and the principles on independence. The reviewed auditors and audit companies maintain a documentation system that goes significantly beyond the requirements of the GzA and are based on the International Standard on Quality Control (ISQC) 1. With regard to independence requirements, the FMA observed that declarations from employees on possible conflicts of interest that must be obtained regularly were in some cases not obtained. In some cases, moreover, there was no documentation of the acceptance or continuation of the mandate, or the process for reviewing the acceptance or continuation was not carried out in a timely manner.

The levy of supervision taxes again generated a considerable workload during the reporting year. Numerous non-reporters had to be issued warnings and in several cases also had to be assessed. Several complaints

against the FMA supervisory tax resulted in proceedings before the FMA Complaints Commission (FMA-CC) or the Administrative Court. This tied up FMA resources.

Participation in the comprehensive revision of the Professional Trustees Act was intensive. The Liechtenstein Institute of Professional Trustees and Fiduciaries and the FMA developed a proposal for a modern law that corresponds to current needs. The Report and Application was adopted by the Government in July. The first reading in Parliament took place in September. The comprehensive revision was welcomed by all, and the decision to consider the proposal was uncontested. After the second reading in November, the comprehensively revised law entered into force on 1 January 2014. The FMA is thus intensifying supervision of professional trustees and trust companies. The focus of the changes is on stronger official supervision. This strengthens the protection of clients and confidence in professional trustees. It also helps the trust sector attain stronger international recognition, while international market access is promoted and the competitiveness of the financial centre is increased. Supervision encompasses licensing, monitoring of permanent compliance with licensing requirements, and enforcement of supervision including the withdrawal of licences. Additionally, various reporting obligations have been introduced, and the disciplinary system has been reorganized. The FMA's scope of responsibilities will be expanded significantly with the new supervision regime.

In this context, the focus in the last quarter was on extensive implementation work. With a view to the new reporting obligations, various new forms and processes had to be developed. Additionally, new processes had to be created to activate dormant

licences. All existing instructions, forms, licensing letters, processes, and the website were reviewed on time by the division.

During the reporting year, the Law on the Supervision of Persons under Article 180a of the Law on Persons and Companies (180a Act) was also prepared in cooperation with the Ministry for General Government Affairs and Finance. The first and second reading in Parliament took place in September and November. The law entered into force on 1 January 2014.

With this law, the FMA is taking on significant new supervisory duties. A comprehensive, effective system of supervision has been established. Until now, persons carrying out activities under article 180a PGR were subject only to due diligence supervision. Now, the FMA is also responsible for authorization and for ongoing monitoring of these licence holders. As is the case for the revised Professional Trustees Act, the focus is on stronger official supervision, encompassing licensing, permanent compliance with licensing conditions, and the enforcement of supervision including the withdrawal of licences. Additionally, reporting obligations have been instituted to ensure ongoing supervision. For the purpose of transparency and client protection, a publicly available directory of licensed persons is also being maintained. In 2013, the FMA established the supervision processes, created forms, instructions, and other documents, and published them on its website.

Liechtenstein has no regulations governing the trade in raw materials (especially precious metals). In 2013, the FMA examined the resulting risks for the financial centre and the potential for abuse.

Another focus was on the comprehensive revision of the Lawyers Act and the associated transfer of certain responsibilities to the Chamber of Lawyers. DDA supervision of lawyers will continue to be exercised by the FMA.

1.5.5 Outlook

With the comprehensively revised Professional Trustees Act, an important milestone has been set in the establishment of effective, efficient, and internationally recognized supervision of the trust sector. On the basis of ongoing supervision, which is now incorporated into the law, as well as the expanded competence of the FMA to impose measures, abuses can be combated more effectively. The expanded powers of the FMA are a key element of the supervision regime, ranging from a comprehensive right to obtain information to the imposition of a temporary prohibition to perform activities.

A comprehensive and effective supervision system has also been established with the newly created Law on the Supervision of Persons under Article 180a PGR. In this way, the year 2014 will be characterized by the comprehensive new responsibilities to be performed in this field, analogous to the supervision of professional trustees and trust companies, such as licensing, monitoring of permanent compliance with licensing conditions, and enforcement of effective supervision.

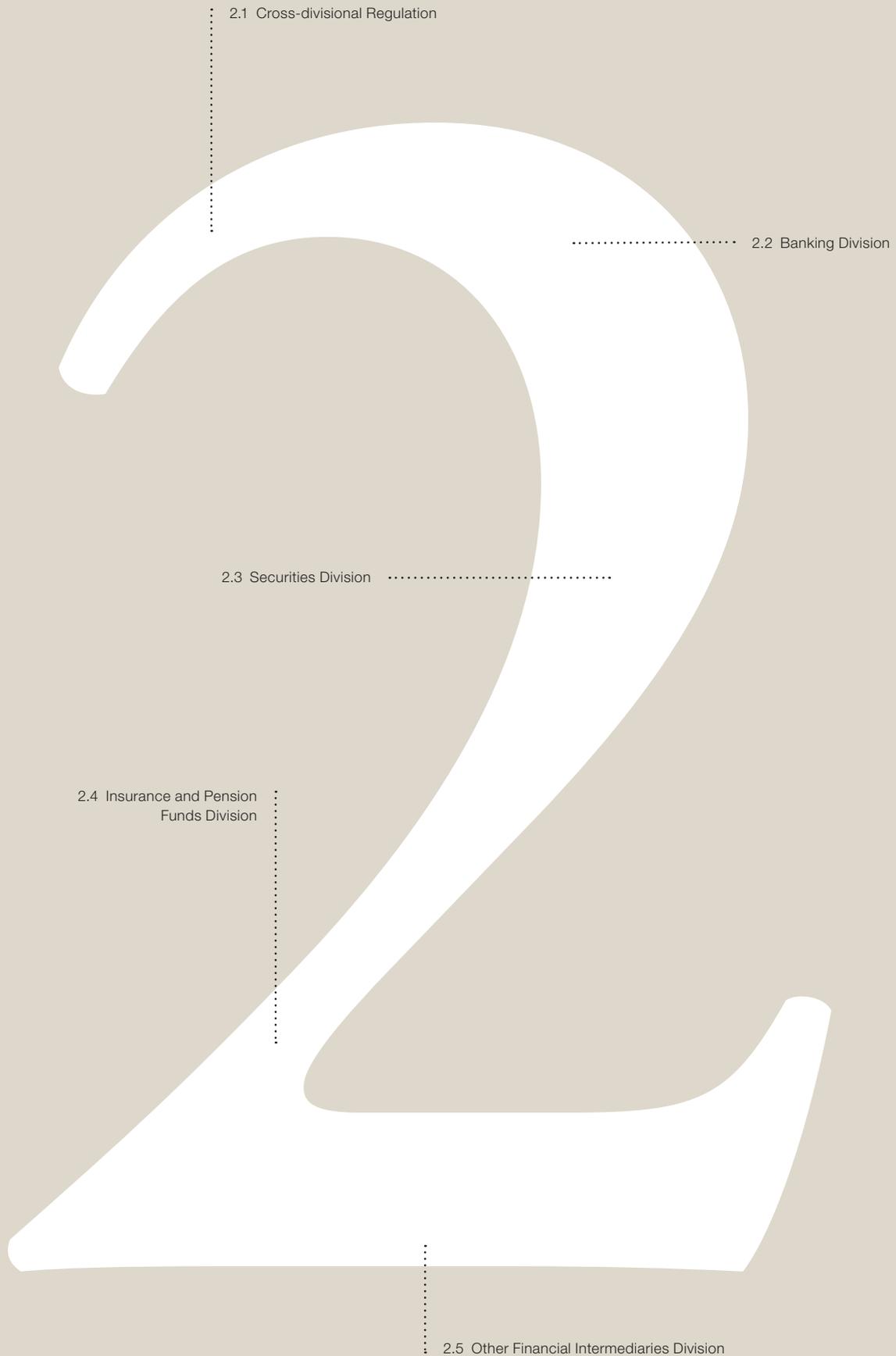
The quality assurance reviews of auditors and audit companies will extend to the firm-wide quality assurance system (firm review). The consolidated due diligence and quality inspections of auditors and audit companies begun in the 2013 audit year will continue in 2014. As a member of the European Audit

Inspection Group (EAIG), the FMA will intensify its exchange with the European audit supervisory authorities.

The market for the trading and custody of raw materials and the need for regulation in this field will be analysed in more depth in 2014. At the same time, the results regarding new business models in this area will – with the participation of the involved market actors – be consolidated into a concept for a national raw materials value chain with the greatest possible added value for Liechtenstein.

In regard to the central custody of securities, the work ongoing at the European level to harmonize provisions governing securities settlement and central depositories is being observed. An active contribution is being made by the FMA's participation in the relevant ESMA working group on the development of technical standards. Additionally, international implementation of the Global Legal Entity Identifier System (GLEIS) is being followed.

As part of regulation, the project on a comprehensive revision of the Auditors and Audit Companies Act, including associated ordinances, is being pursued under the leadership of the FMA. The FMA will also actively participate in the working group on amendment of the EU Professional Qualifications Directive.



The year 2013 was characterized by work connected with implementation of various financial market regulations that emerged in the wake of the financial crisis. The additional workload for the Financial Market Authority and the financial intermediaries has increased significantly because of these developments. The new requirements had to be implemented at the national level, and supervision had to be expanded in accordance with the new provisions and specified in more detail. This means that not only the number of legal acts to be implemented has risen strongly since the financial crisis, but also the level of detail of financial market regulation has been increased significantly due to delegated legal acts, technical standards and guidelines, and recommendations. The national leeway in financial market regulation has been further reduced by the EU provisions for the benefit of superordinate goals such as investor protection.

2.1 Cross-divisional Regulation

Pending Regulatory projects

Recast Markets in Financial Instruments Directive (MiFID II)

In 2011, the European Commission presented a proposal for a recast Markets in Financial Instruments Directive. This proposal was hotly debated in the European Parliament, the Council of the European Union, and the European Commission until the end of 2013. Only at the beginning of 2014 was an agree-

ment reached. Adoption of the proposal is expected in the first half of 2014, so that it would apply in Liechtenstein by mid-2016.

The recast MiFID will have an impact on asset management and investment advice in Liechtenstein. The FMA dealt with the proposal early on and participated in a study commissioned by the Government in this regard. At the end of 2013, the FMA made a recommendation to the Government for further steps. Consequently, the Government mandated the FMA to implement MiFID II.

Market Abuse Directive (MAD II)

The legal framework created by the original Market Abuse Directive has become obsolete due to the emergence of new trading platforms, OTC trading, and new technologies such as high-frequency trading. The Commission's proposal expands the scope of application of existing EU legislation governing financial instruments that are traded only on multilateral trading facilities (MTFs), other organized trading facilities (OTFs), and over-the-counter so that the EU law on market abuse now also covers trading on all platforms and with all financial instruments that they can influence. The proposal expands the existing rule for reporting suspicious transactions to include trade orders that have not yet been executed as well as suspicious OTC transactions. Additionally, the proposal requires Member States to safeguard the protection of informers, and it provides joint rules in regard to incentives for transmitting information on market abuse. Also, attempted market manipulation is for the first time classified as an offence so that

regulatory authorities can prosecute cases in which an actor tries to manipulate the market without actually succeeding in completing the transaction.

Liechtenstein has neither a regulated market (exchange) nor multilateral or organized trading platforms. Nevertheless, certain activities connected with the trade in financial instruments will fall within the scope of Liechtenstein supervision under the recast Market Abuse Directive.

These include the trade in over-the-counter financial instruments (OTC), price-relevant interactions of commodity derivatives and associated spot commodity contracts on the financial and derivative markets, abusive strategies in algorithmic trading or high-frequency trading (HFT), attempted market manipulation and attempted insider trading, and trading in emissions certificates, which will now be defined as a financial instrument.

Placement of these activities under supervision will add a new area of responsibility to the FMA. It is expected that the requirements of MAD II will apply to Liechtenstein in mid-2016 at the same time as MiFID II.

2.2 Banking Division

Completed regulatory projects

FMA Communication 2013/7

The European Banking Authority (EBA) issued guidelines on 22 November 2012 on the assessment of the suitability of members of the management body and

key function holders. These guidelines, directed at the supervisory authorities responsible for the supervision of banks, set out the EBA's view of appropriate supervisory practices within the European System of Financial Supervision and of how Union law should be applied in a particular area. In the FMA communication, more details are therefore provided on guaranteeing irreproachable business activities for banks, financial holding companies, and certain mixed financial holding companies. They were published on 15 November 2013.

FMA Communication 2013/9

The Communication on the Payment Services Act (PSA) of 17 September 2009 was published on 19 December 2013. It governs the provision of payment services under the PSA as a secondary activity and defines the preconditions. This communication is thus a further specification and disclosure of the FMA's supervisory practice.

Pending regulatory projects

Implementation of the CRD IV and CRR rules (Basel III)

As a reaction to the 2008 financial market crisis, the EU issued the following legal acts during the reporting year that must be incorporated into the Banking Act and its implementing provisions and thus into Liechtenstein's body of law:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Capital Requirements Directive – CRD IV);

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 646/2102 (Capital Requirements Regulation – CRR).

CRD IV consists in part of the revision and consolidation of the existing obligations from 2006 (CRD I to CRD III). Additionally, there are five new aspects:

- Implementation of the third version of the requirements of the Basel Bank for International Settlements (Basel III). These specifically target distortions on the financial markets and contain stricter equity and liquidity requirements for banks. The rules are predominantly being implemented by a directly applicable European regulation;
- Provisions to prevent overreliance on external credit ratings;
- Procyclicality of lending by banks and investment firms (capital buffer);
- A new set of rules for the internal order of banks (bank governance);
- A harmonized framework for penalties to ensure the effective enforcement of directive provisions through equally strict penalties throughout the EU.

The focus of the CRR is the capital adequacy of banks and investment firms. So that any losses suffered by banks and investment firms in the future can be compensated effectively, capital adequacy must be improved in both quantitative and qualitative terms. The CRR contains detailed provisions on capital, liquidity, maximum debt ratio, counterparty credit

risk, as well as operational and other banking risks. Implementation of these rules entails comprehensive changes to Liechtenstein banking law.

Implementation of the recovery and resolution rules

The goal of these comprehensive new rules is a uniform framework for crisis management (restructuring and orderly winding-up) of banks and investment firms. They will be implemented by way of a directive.

The rules call upon banks to prepare a recovery plan, setting out what measures must be taken by the general management of the institution or group company so that, in the event that the financial situation deteriorates, financial stability can be restored. Resolution plans, to be prepared by a resolution authority, are also required. This plan must include resolution measures which serve, in the event of a crisis, as specifications for separating and securing the survival of systemic functions and the remaining components of the undertaking. This groundbreaking directive is expected to be adopted in 2014.

Implementation of market abuse rules

These rules, in the form of a directive and a regulation, are intended to strengthen the existing framework for securing market integrity and investor protection, created by the Market Abuse Directive (2003/6/EC), and to adjust that framework to the current market reality. An important component of the new rules is the expansion of the scope of application, such as to include spot markets, and of the powers of the competent authorities. It also serves to harmonize rules throughout Europe and tighten penalties. Adoption is planned for 2014.

Implementation of SEPA

The term SEPA (Single Euro Payments Area) stands for a uniform area for payment transactions in euro. Within this area, the development of common, Union-wide payment services for electronic payments in euro, replacing current national payment services, will no longer distinguish between national payments and cross-border payments. This means SEPA will lead to realization of a uniform single market for cashless payment transactions. Apart from the 28 EU Member States, this will also cover Liechtenstein, Iceland, Norway, Monaco, and Switzerland.

For the purpose of creating an integrated market for electronic payments in euro, Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro therefore provides for the development of a Single Euro Payments Area without distinction between national payments and cross-border payments. SEPA is intended to replace the current national payment services and, by introducing open, common payment standards and rules, and through integrated payment processing, it should provide secure, competitively priced, user-friendly, and reliable payment services in euro. Regulation (EC) No 924/2009 and Regulation (EU) No 260/2012 will apply directly in Europe after their incorporation. Individual provisions of these regulations will require national implementation. Implementation is intended to be accomplished by amending the Payment Services Act in 2014.

Implementation of the Mortgage Credit Directive

This new EU directive is explicitly intended to improve the protection of borrowers. The new provisions on the credit business deal in depth with topics such

as advertising, pre-contractual information, advice, assessment of creditworthiness, and early repayment. European adoption is still open.

Partial implementation of Directive 2009/14/EC (deposit guarantees, 2nd phase)

In the 2nd phase of implementation of the Deposit Guarantee Scheme Directive, the delays for determining claims and payouts applicable to deposit guarantee schemes are to be reduced, and the coverage level is to be increased slightly. The implementation draft is now available and should be transposed into Liechtenstein law in 2014.

Bankruptcy law now part of banking legislation

The winding-up of a bank in Liechtenstein currently has to be dealt with under the Bankruptcy Code. Supplemental provisions are contained in the Banking Act. During the reporting year, a draft consultation report on the creation of modern bankruptcy law in Liechtenstein within the Banking Law was completed. The draft focuses on three core areas: protective measures to prevent the occurrence of bankruptcy; a recovery procedure if the bank is overindebted; and the winding-up procedure. The plan is to circulate the draft for consultations in 2014.

Guidelines of the EBA and regulatory or technical standards of the European Commission

In the course of adoption of European directives and regulations, the EBA will issue numerous implementing acts that either are transmitted directly as guidelines from the EBA to the supervisory authorities or are enacted by the European Commission on the proposal of the EBA as regulatory or technical standards in the form of immediately applicable EU regulations. In the course of CRD IV and CRR implementation in Europe, for instance, more than a hundred of these new, additional rules have been

published. The Level II regulatory acts must either subsequently be implemented by the national supervisory authorities (guidelines) or have direct effect (regulatory standards and technical standards, after incorporation of these legal acts). This flood of new, additional implementing acts means that supervisory authorities as well as financial intermediaries will face considerable challenges.

2.3 Securities Division

Completed regulatory projects

AIFM Act

After adoption of the Law on Alternative Investment Fund Managers (AIFM Act) by Parliament on 19 December 2012, the Government adopted the AIFM Ordinance on 29 January 2013. The FMA participated intensively in the elaboration of the two regulations. On 8 February 2013, the AIFM Act and the AIFM Ordinance will be published in the Liechtenstein Law Gazette. However, incorporation of the AIFM Directive into the EEA Agreement is still pending. As long as incorporation is incomplete, the AIFM Directive is not applicable in Liechtenstein. The delay has made adjustments to the AIFM Act and the AIFM Ordinance necessary. In particular, the provisions on cross-border management and marketing could not enter into force by 22 July 2013 as scheduled. In cooperation with the Office for International Financial Affairs, the FMA drafted the necessary changes to the AIFM Act and the AIFM Ordinance. On 24 May 2013, Parliament adopted the revised version of the AIFM Act. The amended AIFM Act and the new AIFM Ordinance entered into force on 2 July 2013.

Pending regulatory projects

Regulation on European venture capital funds

On 17 April 2013, the European legislative power adopted the Regulation on European venture capital funds (EuVECA). For qualifying venture capital funds, the regulation creates uniform rules for marketing, composition of the portfolios, permitted investment tools and techniques, and for the organization, conduct, and transparency of the fund managers. The managers of European venture capital funds are subject to a registration requirement. In return, they receive an EU passport entitling them to market venture capital funds throughout the EU. The process of incorporating the regulation into the EEA Agreement is underway.

Regulation on European social entrepreneurship funds

Also on 17 April 2013, the European legislative power adopted the Regulation on European social entrepreneurship funds (EuSEF). This regulation is intended to provide a high degree of clarity in regard to the characteristics that distinguish social entrepreneurship funds from the broader category of alternative investment funds. Only funds to which these characteristics apply may obtain financing with the help of the European framework for social entrepreneurship funds created by the regulation. Managers of European social entrepreneurship funds are subject to a registration requirement. In return, they receive an EU passport entitling them to market social entrepreneurship funds throughout the EU. The process of incorporating the regulation into the EEA Agreement is underway.

Law on special investment funds in Liechtenstein

Under the leadership of the Office for International Financial Affairs, the FMA and the business associations are developing a new national fund law abbreviated as “LIF Act”, which is intended to cover certain aspects of the existing IUA after that law expires as planned once the AIFM Directive is incorporated into the EEA Agreement.

Outlook

Many new regulatory projects are on the near horizon, which either have already been adopted at the European level or have already progressed very far. These include in particular the rules on rating agencies, central depositories, investor compensation schemes, transparency requirements, MiFID II, UCITS V and UCITS VI, packaged retail investment products (PRIps) for small investors, and European Long-Term Investment Funds (ELTIFs). At the ESMA level, another approximately 200 rules in the form of guidelines, recommendations, and technical advices are expected.

2.4 Insurance and Pension Funds Division

Pending regulatory projects

Implementation of the Solvency II Directive

The focus of regulatory projects in the insurance field continues to be Solvency II.

The new supervisory regime enters into effect on 1 January 2016 and should be transposed into national law by 31 March 2015. On 19 January 2011, the Commission adopted a proposal to amend the Solvency II Directive 2009/138/EC, in particular to take account of the new European supervisory structure for the insurance sector (Omnibus

II Directive). Omnibus II contains amendments to the Solvency II Directive (Level 1). The negotiations on the Omnibus II Directive between the European Parliament, the European Commission, and the Council of the European Union were interrupted due to the Long-Term Guarantee Assessment in mid-2012 and were resumed only in the second half of 2013. In November 2013, political agreement was reached. The agreement on the content of Omnibus II will presumably be submitted to the plenary session of the European Parliament in spring 2014. The Commission will also enact implementing measures on Solvency II.

The regulatory implementation work for Solvency II already began in 2009. A consultation on the comprehensive revision of the Insurance Supervision Act and on the partial revision of other secondary enactments already took place in Liechtenstein at the end of 2011. Once the Omnibus II Directive is available, the existing draft law for a comprehensive revision of the Insurance Supervision Act must be revised accordingly.

Because of the delays in the European schedule, EIOPA issued preparatory guidelines in autumn 2013. These cover governance systems (including risk management), forward-looking assessment of own risks (based on the ORSA principles), submission of information to national competent authorities (reporting), and the pre-application for internal models. By the end of 2013, the FMA declared to EIOPA that it intends to comply with the majority of the guidelines. The guidelines were published by way of an FMA communication and have been in effect since 1 January 2014.



2.5 Other Financial Intermediaries Division

Completed regulatory projects

Comprehensive revision of the Professional Trustees Act

As part of a joint project, the Institute of Professional Trustees and the FMA developed a proposal for a modern Professional Trustees Act (PTA) that meets current needs and have submitted a draft Report and Application to the Government (p. 51). Additionally, in coordination with the Ministry for General Government Affairs and Finance and the examination committee, a Professional Trustee Examination Ordinance (PTEO) has been drafted. The ordinance governs the professional trustee examination, the supplementary examination, and the qualifying examination for candidates from the EEA. The comprehensively revised PTA and the PTEO entered into force on 1 January 2014.

180a Act

In coordination with the Ministry for General Government Affairs and Finance, the Report and Application as well as the comments on the Law on the Supervision of Persons under Article 180a PGR (180a Act) were drafted and adopted by the legislative power in autumn 2013. The 180a Act entered into force on 1 January 2014 and for the first time establishes effective supervision of holders of licences to perform activities under article 180a PGR (p. 52).

Implementing ordinance for the Auditors and Audit Companies Act (AACA)

In August 2013, the implementing ordinance for the AACA was enacted, with entry into force on 1 October 2013. The ordinance governs the audit standards to be applied when conducting statutory audits as well as the content of quality assurance reviews (quality controls) of auditors and audit companies carrying out statutory audits.

Amendment of sector-specific instructions

Due to the revision of the Due Diligence Act, which entered into force on 1 March 2013, amendments to the existing sector-specific instructions became necessary. This was taken as an opportunity to harmonize all sector-specific instructions in terms of content and structure, to draft instructions that were missing, and to transpose existing sector-specific communications into instructions. The instructions were published on 16 April 2013.

Comprehensive revision of the Lawyers Act

In November 2013, the new Lawyers Act was enacted, with entry into force on 1 January 2014. Supervision of lawyers and law firms was thereby transferred to the Liechtenstein Chamber of Lawyers. Supervision of due diligence for lawyers and law firms remains with the FMA.

Pending regulatory projects

Comprehensive revision of the AACA

Last year, the FMA proposed a comprehensive revision of the Auditors and Audit Companies Act (AACA) and took over the leadership of that project. The work was further advanced with the participation of the Liechtenstein Association of Auditors (WPV) and the competent ministry. The structure of the AACA is being revised as part of the comprehensive revision and harmonized with that of the new Professional Trustees Act. Additionally, corrections are being made that are intended to remedy problems discovered during execution of the law. Entry into force of the comprehensively revised AACA is planned for mid-2015.

Amendment of the EU Professional Qualifications Directive

The European Parliament and the Council of the European Union adopted Directive 2013/55/EU of 20 November 2013 amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation (EU) No 1024/2012 on administrative cooperation through the Internal Market Information System (IMI Regulation). The goals are to strengthen the internal market, promote the free movement of professionals, and at the same ensure a more efficient and transparent recognition of professional qualifications. A European Professional Card is to be introduced, and partial access to regulated professions is to be made possible. The process of incorporating the directive into the EEA Agreement has been initiated. As part of the transposition into Liechtenstein law, the PTA, the 180a Act, and the AACA have to be adjusted.

3.1 National external relations

3.2 International external relations

3.3 Bilateral cooperation



3.1 National external relations

The FMA is in close contact with the Government, Parliament, the authorities, and the professional and industry associations. A central topic in the reporting year was the establishment of new rules for FMA funding, which had become necessary due to several court judgments. The FMA conducted numerous talks with associations, the parliamentary groups, the Finance Commission, and the Audit Commission of Parliament. The legislative revision took place in two stages: The first revision of the Financial Market Authority Act (FMA Act) entered into force on 1 July 2013 and the second revision entered into force on 1 January 2014. The deadlines for the new rules on FMA funding were very tight and demanded flexibility from everyone involved. Timely entry into force was very important to the FMA on grounds of secure funding, planning security, and the administrative workload involved.

On behalf of the Government, the FMA is involved in regulation of the financial market and is represented for this purpose in various working and project groups. This work turned out to be very extensive in light of the numerous regulatory projects.

During the reporting year, the relations between the University of Liechtenstein and the FMA were further expanded. Both institutions have considerable know-how and a high degree of specialization in their fields. The mutual exchange is a benefit to both institutions thanks to the university's academic perspective and the stronger practice-orientation of the FMA. The FMA also commissioned the University of Liechtenstein to conduct a survey of financial intermediaries on perceptions of the FMA.

3.2 International external relations

Again in 2013, the FMA's international external relations were heavily influenced by the work of the European Supervisory Authorities EBA, ESMA, and EIOPA. In particular, these authorities enacted a series of technical regulations and implementation standards and guidelines for upcoming regulatory projects such as Solvency II and CRD IV.

In 2013, the FMA signed a cooperation agreement on the AIFM Directive with more than 30 countries that was negotiated by ESMA. In March, the FMA also signed a memorandum of understanding (MoU) with the Swiss Federal Audit Oversight Authority concerning cooperation on the supervision of statutory auditors, and it signed an MoU with the Central Bank of the Republic of San Marino in December on cooperation in the field of banking and financial market supervision. Another focus of the international activities was the assessment of Liechtenstein's anti-money-laundering measures by the International Monetary Fund (IMF).

3.2.1 Global cooperation

MONEYVAL

MONEYVAL is the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism. It is one of eight regional bodies established in the style of the Financial Action Task Force (FATF) for the purpose of disseminating international standards (especially FATF recommendations) in the respective region. These FATF-style regional bodies (FSRBs) are at

the same time associated members of the FATF and report regularly to the FATF. Liechtenstein is also a member of MONEYVAL.

Like the FATF, the FSRBs conduct mutual assessments of the member countries in regard to their measures to combat money laundering and financing of terrorism. During the reporting period, MONEYVAL conducted on-site assessments in four member countries (Israel, Romania, Macedonia, and Estonia). Moreover, the final evaluation reports of five countries (Poland, Bulgaria, Croatia, Monaco, and Israel) were discussed and adopted in the MONEYVAL plenaries.

Liechtenstein's anti-money-laundering measures were also evaluated again within the framework of this assessment mechanism. Liechtenstein opted for an assessment by the IMF. An assessment team of the IMF, accompanied by a MONEYVAL representative, spent two weeks in Liechtenstein for this purpose in June 2013. The assessment team consisted of experts from Belgium, Austria, the United States, England, and Malta. During the on-site assessment, the assessment team conducted more than 50 talks with Liechtenstein financial intermediaries, associations, and relevant authorities. Upon completion of the evaluation, the report was submitted to the authorities for comments. It will be dealt with at the MONEYVAL plenary in April 2014.

Outside the regular MONEYVAL evaluation mechanism, a team of international experts under the aegis of MONEYVAL conducted a special assessment in Cyprus. A specialist from the FMA was a member of this team.

International Organization of Securities Commissions

The International Organization of Securities Commissions (IOSCO) defines the internationally valid regulatory standards relating to securities. Liechtenstein's membership of IOSCO strengthens the global integration of the financial centre and facilitates access to foreign markets for Liechtenstein financial intermediaries. The trend toward increasing internationalization of supervision continued again in 2013.

The FMA participated in the 38th Annual Conference of IOSCO, which took place in Luxembourg in May 2013. This allowed the FMA to represent Liechtenstein actively in relevant workshops and panels and to cultivate an exchange with other supervisory authorities through various bilateral talks.

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) defines the international standards for insurance supervision, promotes cooperation among supervisory authorities, and offers training courses for its members. The members of the IAIS are insurance supervisory authorities. Additionally, various organizations, including many associations of the insurance industry, enjoy observer status in order to promote exchange with the private sector.

With the support of the IAIS Secretariat, work on content takes place at the committee and working group level. The FMA participates in activities in two such bodies, namely the Financial Stability Committee (FSC) and the Macroeprudential Policy and Surveillance Working Group (MPSWG). The focus of work in these bodies was on the development and evaluation of tools for identifying, assessing, and mitigating systemic risks in the insurance sector.

The Insurance Core Principles (ICPs) developed by the IAIS are of great importance to effective insurance supervision. They are considered recommendations for the fundamental design of insurance supervision and serve as guidelines and a self-assessment tool for national supervisory authorities. In the Self-Assessment and Peer Review conducted by the IAIS in 2013 in the areas of corporate and risk governance, it was confirmed that Liechtenstein meets the relevant recommendations almost completely.

In October 2013, the FMA took part in the 20th IAIS Annual Conference. The thematic focus was on the development of a sustainable insurance supervision. The conference offers the FMA a valuable forum for information and exchanges with partner authorities.

International Organisation of Pension Supervisors

The International Organisation of Pension Supervisors (IOPS) establishes standards at the international level relating to the supervision of occupational pensions. It also promotes international cooperation and constitutes a worldwide forum for information exchange. The IOPS Principles of Private Pension Supervision are its main work, application of which is verified by members regularly using self-assessments.

As needed, the FMA takes part in the annual meetings of the IOPS in order to ensure compliance with international standards.

International Forum of Independent Audit Regulators

The International Forum of Independent Audit Regulators (IFIAR) is a globally oriented group of currently 46 audit supervisory authorities. IFIAR offers the FMA a platform for maintaining contacts with other audit supervisory authorities and for discussing supervision strategies and their implementa-

tion. The forum also maintains direct contact with other international standard-setters in the field of auditing as well as global audit networks. Connected with this is the creation of international consistency in supervision processes. In 2013, the FMA took part in the plenary meetings and the inspection workshop.

Enlarged Contact Group on the Supervision of Collective Investment Funds

The annual meeting of the Enlarged Contact Group on the Supervision of Collective Investment Funds (ECG) was held this year in Switzerland. In addition to discussions of current regulatory developments and questions arising in supervisory practice, the 33 delegates from 20 national supervisory authorities of countries such as South Africa, Singapore, the United States and numerous European countries including Liechtenstein got to know the Swiss financial and fund centre better and were able to strengthen informal contacts with each other.

3.2.2 European cooperation

Level 2

The “Level 2” committees support the European Commission in the elaboration of technical implementing provisions for the framework legislation enacted by the EU bodies at Level 1. They also advise the Commission on technical questions. As an EEA member, Liechtenstein has observer status, which gives it first-hand background information about ongoing regulatory projects at the European level.

Expert Group on Banking, Payments and Insurance

The Expert Group on Banking, Payments and Insurance is an advisory group composed of experts appointed by the member states. The expert group offers the Commission and its services advice and expertise for the preparation of drafts of delegated legal acts in the areas of banking, payment transactions, and insurance. The FMA represents Liechtenstein in the meetings of the expert group.

Committee on the Prevention of Money Laundering and Terrorist Financing (CPMLTF)/Expert Group on Money Laundering and Terrorist Financing (EGMLTF)

In the context of the Treaty of Lisbon, it was decided in 2013 to convene the CPMLTF only in cases where the EU member states support the European Commission in the exercise of its executive powers provided in legal acts. At the same time, the EGMLTF was created, the personal composition of which corresponds to that of the CPMLTF. The EGMLTF will henceforth replace the CPMLTF in advising the European Commission on the preparation and implementation of principles to combat money laundering and financing of terrorism. As before, Liechtenstein will participate in the EGMLTF as an observer.

On the basis of the draft 4th EU Money Laundering Directive presented in spring 2013, the work of the EGMLTF focused on defining its future role in the execution of supranational risk analysis and the gathering of information required for that purpose at the level of the members. The EGMLTF also deliberated on the need for a third-country equivalence list. In September 2013, an ad hoc meeting of the EGMLTF took place together with the Cash Control Working Group. The goal was to develop a uniform position

on dealing with cash controls in accordance with the FATF standard. The EGMLTF's deliberations also concerned a draft revised Payment Services Directive.

Level 3

A main responsibility of the European Supervisory Authorities EBA, ESMA, and EIOPA is to ensure a consistent and equivalent implementation and application of the European regulatory framework in the area of financial supervision throughout Europe (supervisory handbook) and in this way to develop a uniform supervisory practice (single rule book). These steps are intended to prevent possibilities for regulatory arbitrage, but also the "gold plating" of national requirements and the associated distortions of competition are to be limited. This goal is to be achieved primarily through legally binding technical standards as well as guidelines and recommendations.

Technical standards govern technical questions of application of EU law and do not contain any strategic or political decisions. They enter into force only once they have been enacted by the EU Commission by way of a regulation or decision. The observation of guidelines and recommendations, which in principle are non-binding, is ensured through political pressure.

European Banking Authority (EBA) and European Banking Union

The European Banking Authority (EBA) continued to work on the harmonization and further specification of rules in the supervisory field (single rule books) and created numerous technical standards on the topics of capital, liquidity, market and credit risks, remuneration, valuation, winding-up of a bank, etc. These technical standards further specify the CRD IV and the Recovery and Resolution Directive (RRD).

The EBA is also working on harmonization of the supervisory practice of the national supervisory authorities (supervisory convergence). In order to enhance the transparency and comparability of national bank balance sheets, various quality assessments and balance sheet items were taken up, and uniform definitions and handling were developed. For instance, the practice of risk assessment of asset items in different countries was examined in more detail and compared, as was the handling of the valuation of deferred and overdue balance sheet items; moreover, a general quality assessment of the valuation of assets was initiated. These initiatives are intended to create a common benchmark for assessing the quality of bank balance sheets, thus also increasing comparability with a view to the European stress test scheduled for 2014.

Additionally, various studies and proposals were developed on the topics of colleges and consumer protection.

The work on establishing a European Banking Union continued in 2013. The European Banking Union is intended to be a building block toward strengthening the robustness of the Monetary Union and to complement the other components, such as any future Fiscal Union. In 2014, the European Central Bank (ECB) will assume supreme oversight of the 130 most important banks in the Eurozone. Before it does so, these banks will undergo a risk assessment, an assessment of asset quality, and a stress test in cooperation with the EBA.

Consolidation of the oversight of the most important Eurozone banks in the ECB will strongly support the EBA's efforts regarding a single rule book and supervisory convergence.

European Securities and Markets Authority (ESMA)

The European Securities and Markets Authority (ESMA) is very active within its scope of competence and further expanded its areas of activities again in 2013. The FMA has observer status on the Board of Supervisors, the committees, and the working groups. Direct involvement in ESMA's regulatory process has quickly become the most important reference point for Securities Supervision's supervisory and regulatory activity. The FMA participates in the meetings of the Board of Supervisors (BoS) and is also represented in the subcommittees relevant to the Liechtenstein financial centre.

The FMA's participation in the meetings of the ESMA Review Panel is a precondition for Liechtenstein's integration into the system of European Supervisory Authorities. The Review Panel is primarily concerned with harmonization of the exercise of supervision and secondarily with the underlying national legislative provisions. Fundamentally, equivalence of supervision in Europe is reviewed. The Review Panel decides which areas of supervision will be audited by way of a peer review. This means early involvement in the peer review process is indispensable for a positive outcome of these reviews from the perspective of Liechtenstein. In 2013, three peer reviews were carried out, two of which concerned MiFID implementation and one the complex topic of automated trading.

The Investment Management Committee dealt with the definition of guidelines, technical standards, and recommendations to further specify the UCITS and AIFM Directive. Additionally, the committee created a legal framework for cooperation agreements with supervisory authorities of third countries. The memoranda of understanding negotiated by ESMA with more than 30 countries were also signed by the FMA, clearing the path for efficient cooperation

with other supervisory authorities in regard to the AIFM directive. Another topic was the adoption of a guideline on AIFM remuneration practice.

European Insurance and Occupational Pensions Authority

The European Insurance and Occupational Pensions Authority (EIOPA) focused on the preparations for implementation of Solvency II.

In addition to the further development of technical regulation and implementation standards for the introduction of Solvency II, EIOPA issued four preparatory guidelines on Solvency II in the last quarter of the reporting year, covering governance systems, assessment of own risks (based on the ORSA principles), pre-application for internal models, and submission of information to national competent authorities. These EIOPA guidelines serve to support the national supervisory authorities and insurance undertakings in their preparations for the requirements under Solvency II and should in this way promote a harmonized approach throughout Europe until Solvency II enters into force.

During the reporting year, the FMA participated in all five meetings of the Board of Supervisors (BoS). The FMA is also represented in the most important committees and working groups. EIOPA is attaching increasingly great importance to the carrying out of peer reviews. In 2013, the preconditions for operating pension funds and conducting colleges of supervisors were reviewed. The results of the previous peer reviews were satisfactory for the FMA.

Anti-Money Laundering Committee

Anti-money-laundering is one of the cross-sectoral topics falling within the scope of responsibilities of the Joint Committee of the European Supervisory Authorities (ESAs). The topic is dealt with by a

subcommittee called the Anti-Money Laundering Committee (AMLC). The AMLC supports the ESAs in the performance of their duties in order to ensure coherent application of EU law.

The AMLC will presumably play a special role in connection with the 4th EU Money Laundering Directive. The proposal for this directive presented by the EU Commission in February 2013 envisages several duties for the ESAs that would be carried out by the AMLC. For instance, the Commission proposal mandates the ESAs to evaluate the risks of money laundering and financing of terrorism in the EU and to comment on them. The EU Commission also believes that stronger utilization of the risk-based approach requires more substantial orientation aids for member states and financial institutions. For this purpose, the ESAs must define what factors should be considered in the case of simplified and enhanced due diligence and in the case of supervision under the risk-based approach. The ESAs were also mandated to present technical regulation standards on certain points in which the financial institutions must adjust their internal controls to specific situations.

Already in 2013, the AMLC undertook initial preparatory work. A preliminary report on the risk-based approach to supervision was prepared and published. The report contains the most important elements that national supervisors should consider within the framework of risk-based supervision as well as a catalogue of questions for self-assessment of the national risk-based supervision approach.

In addition to the aforementioned rule-setting tasks, the AMLC offers an important platform for exchange of experience in supervisory law. The member states inform each other on a regular basis of their questions and activities in supervisory law. Informal



surveys of the member states on specific questions of supervision are also a helpful instrument for the national authorities.

EU Passport Experts Group

The FMA attended a meeting of the EU Passport Experts Group in Frankfurt in October 2013. The meeting was attended by representatives of supervisory authorities of the EEA states to discuss questions relating to the grant of the EU passport.

EFTA Working Group on Financial Services (WGFS)

Together with representatives of the Government, the FMA took part in the meetings of the EFTA working group. Because of the still unsolved modalities for incorporating the regulations on the new European Supervisory Authorities into the EEA Agreement, many of the associated EU legal acts could likewise not be incorporated. The working group supported the problem-solving process at a technical level. Intensified cooperation with the authorities in Norway and Iceland were established.

Four-country meeting of the national supervisory authorities

The annual four-country meeting of the German-speaking supervisory authorities took place in Zurich in 2013. The financial market supervisory

authorities from Switzerland, Germany, Austria, and Liechtenstein discussed topics of international insurance supervision and regulation this year.

Four-country meeting of the audit oversight authorities

In the field of audit oversight, the FMA took part in a four-country meeting in Vienna in 2013. The four German-speaking authorities responsible for audit oversight – in addition to the FMA, these are the Swiss Federal Audit Oversight Authority (FAOA), the Austrian Quality Control Authority for Statutory Auditors and Audit Companies (QKB) and the German Auditor Oversight Commission (AOC) – met for the purpose of exchanging information and experiences. Key topics were findings in the performance of inspections (official quality assurance reviews), the maintenance of public registers, and current legislative developments on statutory audits at the European level and the associated consequences for the organization and work of audit oversight.



■ Regular participation □ No regular participation

Figure 15
European cooperation

3.3 Bilateral cooperation

Banking Division

Cooperation with foreign supervisory authorities in the banking sector is proving to be very constructive and is steadily being pursued with more depth. Due to the ties within banking groups, regular exchanges take place primarily with the supervisory authorities in Switzerland and Austria. In bilateral meetings, institution-related information is exchanged, and the various supervisory processes and approaches are discussed. These talks contribute substantially to better understanding and accordingly to better supervision of the banking group. Another instrument for this purpose are the supervisory colleges, which run according to a standardized process throughout Europe and lead especially to stronger exchange between the FMA as a consolidated authority and the national supervisory authorities of those countries in which Liechtenstein banking groups are represented with subsidiaries. In this context, the risk areas of the individual subsidiary banks and branches are analysed, and the adequacy of their own funds and liquidity is discussed.

In December, the FMA and the Central Bank of the Republic of San Marino concluded a memorandum of understanding (MoU) on cooperation in the field of banking and financial market supervision. MoUs are legally non-binding agreements between supervisory authorities to further specify their cooperation within the framework of national legislative requirements. They permit an efficient design of the FMA's practical supervisory activity in the case of cross-border fact patterns and they form an important trust-building and internationally recognized measure.

Securities Division

The Securities Division maintained intensive bilateral contacts with various national supervisory authorities. This exchange concerned both topics in the supervisory field as well as regulatory questions. In particular with the Swiss Financial Market Supervisory Authority (FINMA), discussions were held on the cross-border marketing of fund products. In February 2014, the FMA Liechtenstein and FINMA concluded a MoU on cooperation relating to the cross-border marketing of funds.

The conclusion of bilateral cooperation agreements begun in 2012 under the AIFM Directive was continued in 2013. The AIFM Directive provides for the conclusion of cooperation agreements with the securities supervisory authorities of third countries. ESMA negotiates these agreements on behalf of all the competent national securities supervisory authorities of the EU and the EEA. In total, 42 agreements had been concluded by the end of 2013. The cooperation agreements cover the exchange of information, cross-border on-site inspections, and mutual support in enforcing supervisory rules.

Cooperation extends to alternative investment fund managers (AIFMs) managing and marketing alternative investment funds (AIFs) in the EU and EEA and to EU/EEA AIFMs managing and marketing AIFs in third countries. The authorities also work on cross-border supervision of custodians and the delegation of AIFMs. The content of the aforementioned MoUs follows the IOSCO Principles on Cross-Border Supervisory Cooperation (2010) and supplements the conditions set out in the IOSCO Multilateral MoU Concerning Consultation and Cooperation and the Exchange of Information (2002).

Insurance and Pension Funds Division

The Direct Insurance Agreement between Liechtenstein and Switzerland on direct insurance and insurance intermediaries guarantees that insurance undertakings and insurance intermediaries domiciled in one of the two states enjoy the freedom of establishment and the freedom to provide services in the territory of the other country via a uniform licence issued by the home country. Working meetings between the FMA and FINMA regularly take place. Priority topics in the reporting year were natural hazards insurance and an equivalency review of the two supervision laws.

Regular contact exists between the Swiss Federal Social Insurance Office, the Swiss LOB Guarantee Fund, and the FMA on the basis of an agreement between the Swiss Federal Council and the Government of Liechtenstein on performance of the duties of the Liechtenstein Guarantee Fund.

As part of ongoing supervision of insurance undertakings, the FMA maintains regular contact with foreign supervisory authorities.

Other Financial Intermediaries Division

In March 2013, the FMA and the Swiss Federal Audit Oversight Authority (FAOA) concluded a memorandum of understanding (MoU) on cooperation in the supervision of statutory auditors according to the principle of home country supervision. The object of the cooperation is the mutual recognition of the supervisory activities of both authorities and accordingly also to ensure a consistent official supervision of auditors and audit companies engaged in cross-border business. The MoU is a legally non-binding agreement to further specify the cooperation of the FMA and the FAOA within the framework of national legislative requirements and is intended to permit a consistent and efficient design of practical supervisory

activity in the case of cross-border fact patterns. In 2013, the first administrative assistance proceedings on the basis of the MoU already took place.

4.1 Organization

4.2 Corporate development

.....
4.3 Finances

4.1 Organization

4.1.1 Organizational structure

The organizational structure of the FMA remained the same. With its supervisory divisions – Banking, Securities, Insurance and Pension Funds, and Other Financial Intermediaries – the FMA reflects the structure of the financial centre, which ensures closeness to practice and the market. Horizontal responsibilities are performed by the Executive Office and Central Services. Exchanges between the individual divisions are becoming increasingly important, since numerous regulations – and no longer only individual categories of intermediaries – affect the financial markets as a whole.

4.1.2 Corporate governance

Declaration on compliance with the Recommendations on the Governance and Control of Public Enterprises in Liechtenstein

The Executive Board and the Board of Directors of the FMA Liechtenstein jointly declare that the Recommendations on the Governance and Control of Public Enterprises in Liechtenstein, in the version of July 2012, have been complied with without exception.

Risk management

Risk management is of special importance to the FMA. The work of a supervisory authority is associated with numerous risks. The Recommendations on

the Governance and Control of Public Enterprises in Liechtenstein (Public Corporate Governance Code) demand that the strategic management level ensures appropriate risk management. This concerns the financial centre and the financial system as well as the FMA as an enterprise. In 2013, further improvements to the risk management process and the internal control system (ICS) of the FMA were undertaken.

4.1.3 FMA funding

During the reporting year, FMA funding was put on a new legal basis. The new rules were necessary because the funding model had been contested in the courts and several judgments were passed against it. The adjustment took place in two stages. The first legislative revision, which secured the funding bases for the Other Financial Intermediaries Division, entered into force on 1 July 2013. The comprehensive revision of the funding provisions took place in the second half of 2013. Parliament considered the proposal in a second reading at its working meeting in November 2013 and adopted it. The revised Financial Market Authority Act (FMA Act) and with it the new funding model entered into force on 1 January 2014.

The new rules pursue several goals: sustainable and long-term securing of FMA funding; transparent design and simple handling of the funding model; predictability and calculability of the specific tax burden for individual financial intermediaries; ensuring the constitutionality of the provisions.

The new tax model is composed of a fixed basic tax and a variable supplemental tax that must be paid by the financial intermediary under supervision. The provisions on the basic tax stay basically the same in terms of their function. For the supplemental tax, the new model provides that the amount is no longer determined according to the FMA's costs, but rather in terms of a fixed, predefined indicator for each category of entities subject to supervision, such as the balance sheet total, assets under management, or the number of client relationships.

The new funding model thus secures FMA funding through a fixed basic tax, a predictable variable supplemental tax, revenue from fees, and a State contribution of CHF 5 million. Any shortfall is covered primarily by reserves and secondarily by an additional contribution of the State. In return, the annual surpluses of the FMA will be transferred back to the State after a reserve of more than 50% of the average regular expenses over the past three years has been reached.

Establishing new funding rules by the stipulated deadlines was of the utmost importance to the FMA in order to secure funding and ensure security in planning.

4.1.4 Occupational retirement provision

As an establishment under public law, the FMA is associated with the Pension Insurance for State Employees (PVS). In September 2013, Parliament adopted the Law on Occupational Pensions of the State (OPS Act). This meant that the preparatory work for establishing the new Liechtenstein Occupational

Pensions Foundation could be initiated. The FMA will be associated with this pension scheme organized under private law.

Occupational pensions are an important factor for the attractiveness of an employer. Since the FMA competes with the financial industry on the labour market, comparability with occupational pension benefits in the financial industry must be ensured.

4.2 Corporate development

4.2.1 Human resources management

Attractiveness as an employer is a key factor for the FMA's success. It is a precondition for covering the high demand for specialists and for binding employees over the long term. The FMA therefore attaches great importance to broad offerings in basic and continuing training, and it promotes individual development possibilities for specialist and management careers. During the reporting year, coaching and management training was again offered to further strengthen the competences of the management employees. As part of a management event in 2013, the two clusters "Effectiveness and Efficiency" and "Integrated FMA" were discussed, and concrete improvement measures were defined.

To promote the social and communication skills of employees, seminars are conducted on a regular basis. Moreover, some employees have been bound to the FMA over the long term with targeted individual continuing education measures. Not least of

all thanks to these measures as well as team events, internal cohesion has been strengthened and fluctuation has been gratifyingly low.

4.2.2 Survey on perceptions of the FMA

In summer 2013, the University of Liechtenstein carried out a survey on perceptions of the FMA. Of 525 financial intermediaries approached, 220 took part in the anonymized online survey. The high response rate makes it possible for the FMA to draw representative conclusions about perceptions in the financial centre of the FMA, its services, and the quality of its work and to identify potential for improvement.

The survey commissioned by the FMA paints a picture of a respected, reliable, and competent supervisory authority. At the same time, the survey also indicates a need for action. The FMA is using the findings to further improve the quality of its works. The focus is on a further increase in efficiency, e.g., through the use of modern information and communication technologies, as well as optimized licensing and supervision processes.

4.2.3 Corporate communication

The task of corporate communication is to position the FMA among domestic and foreign stakeholders as a credible, competent, and effective financial market supervisory authority and to manage the exchanges of the FMA with stakeholders in a professional way. During the reporting year, the focus was on the communication of substantive topics in the fields of financial market stability, regulation, and super-

vision. In this way, the FMA transfers know-how to the outside. At the beginning of April, the FMA presented its report on the state of the Liechtenstein real estate and mortgage market. The topic met with great interest in the media and the public.

In October 2012, the redesigned FMA website was launched. The website is an efficient and low-cost information channel of great importance to the FMA and the users. The main target groups are the financial intermediaries. In summer 2013, the survey on the perceptions of the FMA also asked financial intermediaries about the website. The information offered was found to be good or very good in terms of presentation, searchability, usefulness, and completeness. Optimization potential is being assessed on an ongoing basis. Due to the stronger regulation of the financial markets, the focus is on timely provision of information about regulatory requirements.

4.2.4 Information and communication technologies

In recent years, information and communication technologies have become considerably more important for the successful performance of the FMA's tasks. The FMA therefore attaches great importance to this topic and is making the necessary investments to build up a modern and future-oriented IT infrastructure. The goal is also to achieve high efficiency gains.

Master database

After several months of planning and development, a central master database was introduced in the first quarter of 2013. Since the master database plays a key role in the further development of the IT infrastructure, utmost importance is attached to data quality in particular. After extensive data cleansing

and migration from the old systems into the new platform, the FMA now has a cross-divisional database at its disposal with all the important information about the actors in the Liechtenstein financial centre. The database has harmonized and simplified numerous workflows, permitting more efficient working methods. The master database is being continuously expanded based on the needs of the supervisory divisions in order to support the work of employees in an optimal way and further enhance efficiency.

Document Management System

The second important element of the FMA's IT infrastructure is a modern Document Management System (DMS). After completion of the conceptual work, implementation of the new system began. The DMS will allow centralized filing and administration of all documents within the FMA. The utmost importance is attached to search functions in order to ensure that the required information is found quickly and effectively.

The plan is to expand the DMS to include a scanning solution to support an electronic inbox. This will reduce media breaks and accelerate numerous work steps. Additionally, the archiving rules currently in force are to be implemented on the basis of the DMS.

e-Service platform

Based on the increasing reporting obligations imposed by the European Supervisory Authorities (ESAs), the FMA has begun to develop an e-Service platform. This new, Internet-based communication channel to financial intermediaries offers a flexible electronic platform for processing existing and future reporting requirements. Due to delays in the detailed specification of the requirements on the part of the ESAs, the FMA reprioritized the implementation tasks at the end of 2013. The FMA is now planning to implement

initial national reporting requirements in the second half of 2014 with selected financial intermediaries in the form of a test run.

The e-Service platform will be further expanded in the future and extended to include additional service modules. The goal is for the exchange of information between financial intermediaries and the FMA to be processed primarily via this channel. The goal is ultimately a high level of efficiency and security of workflows at the FMA and the supervised financial intermediaries.

Additional IT projects

In 2013, the focus of division-specific IT projects was on adjusting the supervision system in the Securities Division. It had to be adjusted to the requirements of the new Law on Alternative Investment Fund Managers (AIFM Act). The system is now able to support all workflows in accordance with the legal foundations.

Additionally, planning has begun for the implementation of a tax calculation tool, which will support the FMA in processing its new funding solution. This new tool will be used for the first time in the second quarter of 2014 to calculate the 2014 supervision taxes.

4.2.5 Efficiency and effectiveness

The demands on national financial market supervisory authorities have increased dramatically since the crisis, due to tightened financial market regulation and the strengthening of their powers. The legislative power has moreover assigned further supervisory duties to the FMA. The FMA must cover its increasing workload primarily by enhancing efficiency and effectiveness. In the summer, the FMA conducted

a management event on this topic in order to ascertain further potential. Potential exists for instance in modern information and communication technology that is being developed or is already operational in part, the optimization of individual work processes, or the achievement of the greatest possible synergy effects of the integrated supervisory authority.

4.2.6 Infrastructure and security

At its location at Landstrasse 109 in Vaduz, the FMA has a modern infrastructure and high standard of security at its disposal. The security measures are regularly reviewed. During the reporting year, measures relating to Business Continuity Management (BCM) in emergency situations were introduced. Additionally, first aid and fire-fighting courses are offered to employees.

4.3 Finances

Pursuant to article 28 of the Financial Market Authority Act (FMA Act), the FMA is funded by a State contribution, supervision taxes and fees, and income from the provision of services.

In its meeting of 11 December 2012, the Government approved the 2013 FMA budget with a State contribution of CHF 8,000,000 and expenses of CHF 18,725,000. The actual expenses for the 2013 business year were CHF 18,709,547. Expenses are thus CHF 15,453 (0.1%) under the approved budget.

Income amounted to CHF 18,623,483 and is thus CHF 663,483 (3.7%) higher than budgeted. Income from licensing fees (+CHF 319,269), other fees

(+CHF 145,582) and other income (+CHF 195,752) were higher than expected. Minus the total expenses of CHF 18,709,547, the accounts closed with an annual loss of CHF 86,064 (budget: CHF 765,000), which is being offset by reserves.

Personnel expenses in the 2013 business year amounted to CHF 13,435,737 and were thus CHF 289,263 (2.1%) lower than budgeted. The main reason for this is that vacant positions were not filled and other personnel expenses were reduced again significantly compared with the previous year.

Material expenses at CHF 4,106,861 were CHF 53,139 (1.3%) below budget. This was mainly because the budget item for expert costs/opinions was not used up. The reason for this is that certain clarifications were undertaken internally, and projects were delayed or cancelled.

Write-downs totalled CHF 1,166,949 and were thus CHF 326,949 higher than budgeted. The main reason for this budget overrun was that the write-down on IT equipment was higher than budgeted because investments in the reporting project (e-Service) were shifted from the year 2014 to the year 2013. Additionally, corrections to accounts receivable resulted in higher write-downs than had been assumed during the 2013 budget process.

In the 2013 business year, the FMA recorded an annual loss of CHF 86,064. This loss is being offset by reserves. The reserves accordingly amounted to CHF 9,410,478 as of 31 December 2013. This means the legally defined maximum amount of reserves has nearly been exhausted.

During the reporting year, FMA funding was given a new legal basis. The new solution was necessary because the funding model had been contested in

the courts, and various court judgments were issued against it. The revised FMA Act and accordingly the new funding model entered into force on 1 January 2014.

The new tax model is composed of a fixed basic tax and a variable supplemental tax. The provisions on the basic tax stay basically the same in terms of their function. For the supplemental tax, the new model provides that the amount is no longer determined according to the FMA's costs, but rather in terms of a predefined indicator for each category of entities subject to supervision.

The new funding model thus secures FMA funding through a fixed basic tax, a predictable variable supplemental tax, revenue from fees, and a State contribution of CHF 5 million. Any shortfall is covered primarily by reserves and secondarily by an additional contribution of the State. In return, the annual surpluses of the FMA will be transferred back to the State after a reserve of more than 50% of the average regular expenses over the past three years has been reached.



Balance sheet as of 31 December (in CHF)

Assets		2013	2012
Fixed assets			
Tangible assets	– IT equipment	1,093,310.91	717,071.39
	– Furnishings	115,600.60	179,457.19
	– Operating equipment	1,112,826.35	1,285,969.30
Current assets			
Liquid assets	– Cash	380.55	76.00
	– Bank	13,768,899.34	13,030,684.25
Receivables	– Debtors	591,040.41	480,273.15
	– Del credere	–124,466.55	–77,898.65
Accrued items			
	– Accounts paid in advance	204,929.92	356,405.60
TOTAL ASSETS		16,762,521.53	15,972,038.23
Liabilities		2013	2012
Equity capital			
	– Endowment	2,000,000.00	2,000,000.00
	– Reserves as of 1 January	9,496,541.75	9,242,878.44
	– Dissolution of/allocation of reserves	–86,063.92	253,663.31
	– Own funds	11,410,477.83	11,496,541.75
Provisions			
	– Provisions	50,000.00	50,000.00
Accounts payable			
	– Creditors	502,647.70	838,886.16
	– National Administration offset account	4,751,122.58	3,417,919.90
Deferred items			
	– Accounts received in advance	48,273.42	168,690.42
TOTAL LIABILITIES		16,762,521.53	15,972,038.23

Income statement from 1 January – 31 December 2013 (in CHF)

Expenses	2013	Budget 2013	Budget-Abw.	2012
Personnel expenses				
Wages	10,324,101.70	10,400,000.00	-75,898.30	10,014,977.67
Social security contributions	1,964,073.78	2,080,000.00	-115,926.22	1,948,576.76
Insurance (sickness daily allowances)	107,668.55	135,000.00	-27,331.45	125,138.75
Insurance benefits (sickness daily allowances)	-35,791.55	-25,000.00	-10,791.55	-142,496.10
Other personnel expenses	157,737.24	260,000.00	-102,262.76	325,564.00
Basic and continuing training	293,309.31	250,000.00	43,309.31	285,790.61
Board of Directors	624,637.68	625,000.00	-362.32	633,964.68
Total personnel expenses	13,435,736.71	13,725,000.00	-298,263.29	13,191,516.37
Material expenses				
Office expenses	189,964.23	185,000.00	4,964.23	212,522.83
Travel expenses	395,350.70	375,000.00	20,350.70	415,648.38
Expert fees/opinions	431,515.81	565,000.00	-133,484.19	497,997.37
Audit companies	7,296.40	-	7,296.40	7,537.30
Reimbursements from audit companies	-7,296.40	-	-7,296.40	-7,537.30
Premises	1,953,812.47	1,950,000.00	3,812.47	1,951,930.46
Insurance	50,648.80	60,000.00	-9,351.20	51,673.20
IT costs	587,883.83	465,000.00	122,883.83	594,707.18
Public outreach	98,241.63	100,000.00	-1,758.37	113,018.42
Events and representation	13,233.75	30,000.00	-16,766.25	47,954.80
Membership fees for associations/institutions	196,657.72	260,000.00	-63,342.28	150,051.34
Audit expenses	81,665.25	80,000.00	1,665.25	76,127.30
Other expenses	107,886.60	90,000.00	17,886.60	84,458.62
Total material expenses	4,106,860.79	4,160,000.00	-53,139.21	4,196,089.90
Write-downs				
Depreciation on IT equipment	761,924.88	560,000.00	201,924.88	432,497.87
Depreciation on furnishings	84,135.04	80,000.00	4,135.04	119,425.63
Depreciation on operating equipment	173,143.30	175,000.00	-1,856.70	173,142.82
Write-downs on debtors	147,746.06	25,000.00	122,746.06	104,086.05
Write-downs on external costs of auditing companies	-	-	-	32,400.00
Total write-downs	1,166,949.28	840,000.00	326,949.28	861,552.37
TOTAL EXPENSES	18,709,546.78	18,725,000.00	-15,453.22	18,249,158.64
Annual profit (allocated to reserves)	-	-	-	253,663.31
	18,709,546.78	18,725,000.00		18,502,821.95
Income				
Licensing fees	1,019,269.16	700,000.00	319,269.16	1,078,500.00
Supervisory taxes	9,001,213.98	9,000,000.00	1,213.98	8,002,389.55
Audit fees	81,665.25	80,000.00	1,665.25	76,127.30
Other fees	295,582.00	150,000.00	145,582.00	300,150.00
Other income	225,752.47	30,000.00	195,752.47	45,655.10
Total income	10,623,482.86	9,960,000.00	663,482.86	9,502,821.95
State contribution	8,000,000.00	8,000,000.00	-	9,000,000.00
TOTAL INCOME	18,623,482.86	17,960,000.00	663,482.86	18,502,821.95
Annual loss (dissolution of reserves)	86,063.92	765,000.00	-678,936.08	-
	18,709,546.78	18,725,000.00		18,502,821.95

Notes on the 2013 financial statement

Financial accounting principles

According to article 32 of the FMA Act, the supplementary provisions for specific company forms set out in the Law on Persons and Companies (PGR) apply to the preparation of the business report (financial statement and annual report). The FMA uses the provisions for large companies in this regard. These provisions demand essentially that the financial statement give a true and fair view of the asset, financial, and income situation.

Balancing and valuation methods

Tangible assets are valued at acquisition costs, reduced by depreciation. Depreciation is linear, based on the acquisition costs. The depreciation guideline sets out the following durations of use:

Category	Duration of use
IT equipment	3 years
Furnishings	5 years
Operating equipment	10 years

Figure 16
Duration of use

Receivables are calculated at par value, minus any required value adjustments.

Provisions are to be calculated so as to take sufficient account of all recognizable risks according to a reasonable commercial assessment.

Accounts payable are valued at par value or at the repayment amount, whichever is higher.

Foreign exchange rates

The FMA only invoices in CHF. Liabilities in currencies other than CHF are booked at the applicable daily exchange rate and accounts paid/received in advance at the monthly average exchange rate for December 2012 as calculated by the Swiss Federal Tax Administration.

Receivables

All receivables have a maturity of less than one year.

Fixed assets

The development of the individual fixed asset items is presented separately in the assets analysis:

Tangible assets	Acquisition costs				Depreciation				Amortized value	
	Balance 01.01.2013	Acquisitions	Divestitures	Balance 31.12.2013	Balance 01.01.2013	Acquisitions	Divestitures	Balance 31.12.2013	Balance 01.01.2013	Balance 31.12.2013
IT equipment	1,365,486.91	1,138,164.40	0.00	2,503,651.31	648,415.52	761,924.88	0.00	1,410,340.40	717,071.39	1,093,310.91
Furnishings	597,127.90	20,278.45	0.00	617,406.35	417,670.71	84,135.04	0.00	501,805.75	179,457.19	115,600.60
Operating equipment	1,731,428.20	0.35	0.00	1,731,428.55	445,458.90	173,143.30	0.00	618,602.20	1,285,969.30	1,112,826.35
TOTAL	3,694,043.01	1,158,443.20	0.00	4,852,486.21	1,511,545.13	1,019,203.22	0.00	2,530,748.35	2,182,497.88	2,321,737.86

Figure 17
Assets analysis

Provisions

As part of accounting under the Law on Persons and Companies (PGR), all provisions are reassessed each year, justified, and adjusted where necessary. The provisions include litigation risks in the amount of CHF 50,000.

Long-term liabilities

The FMA has a rental contract with the Liechtenstein Old Age and Survivors' Insurance Authority (AHV), concluded in December 2010, with a rental term of 20 years. The annual rent amounts to approximately CHF 1.8 million (including ancillary costs and renter investments, especially in security).

Remuneration of the Board of Directors and Members of the Executive Board (article 1092(9)(a) PGR)

a) Board of Directors

Remuneration for the Board of Directors of the FMA in the 2013 business year, including social security contributions, was CHF 624,638. Dr. Ivo Furrer was elected effective 1 July 2011 as a Member of the Board of Directors of the FMA and Dr. Urs Philipp Roth-Cuony effective 1 January 2012 as the new Chairman of the Board of Directors for a term of five years. The other Members of the Board of Directors were elected by Parliament in its meeting of 17 December 2009 for a term from 2010 to 2014.

In its decisions RA 2011/1264-0660 of 25 May 2011 and RA 2011/2351-0314 of 27 September 2011, the Government specified the following remuneration:

- Basic compensation for the Chairman;
- Basic compensation for the Vice Chairman of the Board of Directors;
- Basic compensation for other members;
- Flat-rate meeting compensation per meeting day.

b) Executive Board

The gross remuneration of the Members of the Executive Board in the 2013 business year was CHF 1,729,878, without social security contributions.

The Members of the Executive Board are appointed by the Board of Directors. The Executive Board was composed of the following Members as of 31 December 2013:

- Mario Gassner, Chief Executive Officer;
- Dr. Alexander Imhof, Deputy of the CEO and Head of Insurance and Pension Funds Division;
- Rolf Brüggemann, Head of Banking Division;
- Dr. Marcel Lötscher, Head of Securities Division;
- Patrick Bont, Head of Other Financial Intermediaries Division.

Effective 22 February 2013, the Board of Directors appointed Patrick Bont as the new Head of the Other Financial Intermediaries Division and Member of the Executive Board. Patrick Bont served as the Head of Division ad interim until 21 February 2013. The employment relationship with former Head of Division and Member of the Executive Board Robert Rastner came to an end on 30 June 2013.

Workforce

As of 31 December 2013, the FMA had a total of 81 employees (previous year: 79). 15 employees had part-time contracts. In total, the FMA had 75.1 full-time equivalents (previous year: 72.5) as of 31 December 2013.

Category	Persons	Positions
Permanent full-time	66	66,0
Permanent part-time	15	9,1
TOTAL positions filled	81	75,1
Temporary appointments	0	0,0
Workforce as of 31.12.2013	81	75,1
Vacant positions		3,6
TOTAL FMA	81	78,7
Interns	6	5,1

Figure 18
Workforce
as of 31 December 2013

Attestation of the National Audit Office



FINANZKONTROLLE
FÜRSTENTUM LIECHTENSTEIN

Report of the National Audit Office to the Government of the Principality of Liechtenstein concerning
the Financial Market Authority (FMA) Liechtenstein

As the Audit Office within the meaning of article 19 of the Law on the Financial Market Authority (FMA Act), we have audited the accounting, the annual financial statement (balance sheet, income statement, and notes) and the annual report of the Financial Market Authority (FMA) Liechtenstein for the business year ending 31 December 2013.

The Board of Directors is responsible for the annual financial statement and the annual report, while our task consists in auditing and evaluating them.

Our audit was conducted in line with the principles of the profession, according to which an audit must be planned and carried out so that significant false statements in the annual financial statement and the annual report are recognized with appropriate certainty. We audited the items and information contained in the annual financial statement by means of analyses and surveys on the basis of samples. Moreover, we evaluated the application of the relevant accounting principles, the significant valuation decisions, and the presentation of the annual account statement as a whole. We are of the view that our audit constitutes a sufficient foundation for our judgment.

According to our evaluation, the annual account statement conveys a picture of the asset, financial, and income situation that corresponds to the actual facts, in compliance with Liechtenstein law. Furthermore, the accounting, the annual financial statement, and the annual report comply with Liechtenstein law, the Law on the Financial Market Authority (FMA Act), and the statutes.

The annual report is in accordance with the annual financial statement. We recommend that the present annual financial statement be approved.

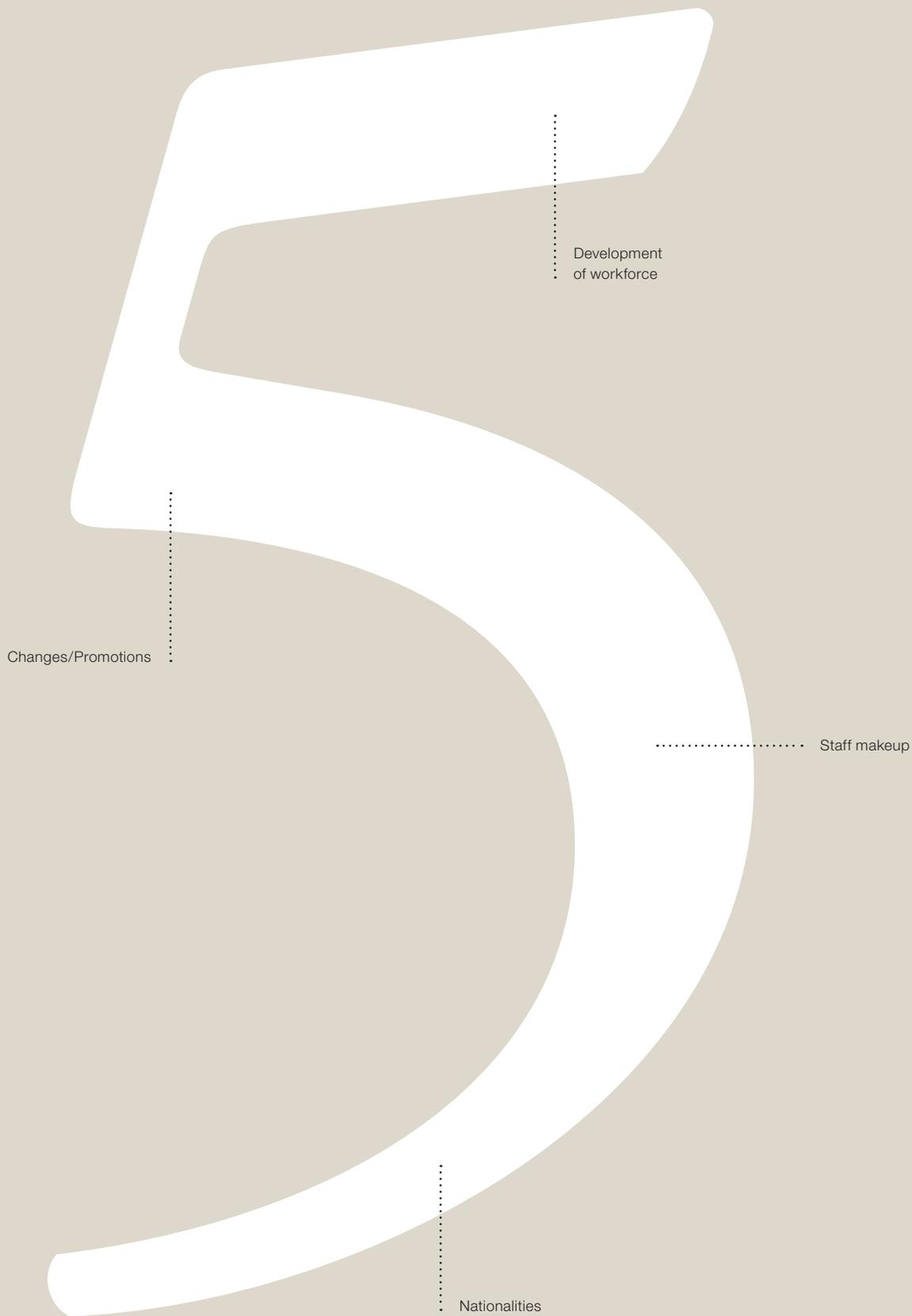
NATIONAL AUDIT OFFICE
of the Principality of Liechtenstein

Cornelia Lang
Director

Oliver Hermann
Deputy Director

Vaduz, 20 February 2014

LIECHTENSTEIN



Development of the workforce

As of 31 December 2013, the FMA had 81 employees (previous year: 79). The share of women was 38%. 15 employees were part-time. An equivalent of 75.1 full-time positions were filled as of 31 December 2013. During the reporting year, seven employees left the FMA (previous year: 15). The fluctuation was thus significantly lower than in the previous year.

Changes/Promotions

Patrick Bont served as Head of the Other Financial Intermediaries Division ad interim until 21 February 2013. Effective 22 February 2013, the Board of Directors appointed Patrick Bont as the new Head of the Other Financial Intermediaries Division and Member of the Executive Board.

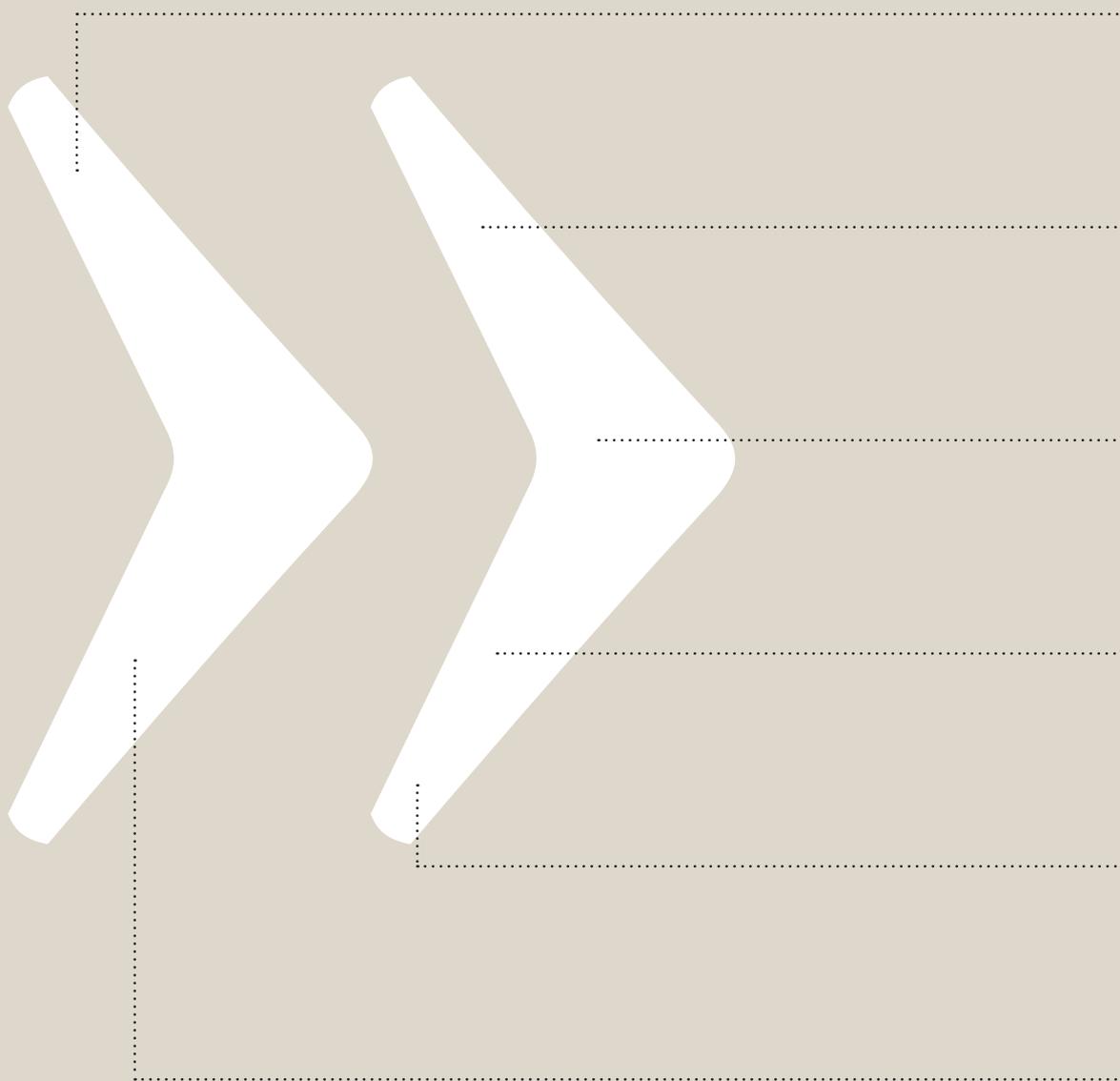
Staff makeup

The staff are made up of 47% lawyers and 17% economists; 16% are specialists such as auditors, banking experts, and actuaries. 20% of the employees are officers or have a different educational background.

Nationalities

26% of employees are Liechtenstein citizens, 32% Swiss citizens, 31% Austrian citizens, and 11% German citizens. The share of Liechtenstein employees fell slightly since the previous year from 27% to 26%.

As a public authority, the FMA strives to employ as many Liechtenstein citizens as possible. When recruiting new employees, Liechtenstein applicants are given preference. This potential is limited, however: On the one hand, the FMA has a strong need for specialists, only few of which are available in Liechtenstein due to the small size of the country. On the other hand, the FMA competes with domestic and foreign financial market participants when recruiting staff. The FMA's attractiveness as an employer must therefore urgently be preserved and promoted also for Liechtenstein citizens.



..... Financial market participants supervised by the FMA

..... Financial market participants supervised by the FMA
under the free movement of services

..... Laws subject to supervision and enforcement by the FMA

..... Organizational chart

..... Governing bodies

..... Abbreviations

Financial market participants supervised by the FMA as of 31 December 2013

	2007	2008	2009	2010	2011	2012	2013	+/-
Banks/Investment firms/Liechtenstein Postal Service								
Banks	16	15	16	17	17	17	17	0
Investment firms (from 1.11.2007)	0	0	0	0	0	0	0	0
Payment institutions (from 1.11.2009)	-	-	-	0	0	0	0	0
Liechtenstein Postal Service	1	1	1	1	1	1	1	0
Audit offices pursuant to the Banking Act	10	8	8	8	7	6	5	-1
E-money institutions						1	1	0
Asset management companies								
Asset management companies (from 1.1.2006)	90	102	102	107	107	109	119	10
Investment undertakings								
Active management companies	27	28	27	24	22	20	20	0
of which fund managements	20	21	21	21	21	19	19	
of which investment companies	7	7	6	3	1	1	1	
Domestic investment undertakings/funds	303	364	411	469	535	557	549	-8
Domestic subfunds/segments					791*	779		0
Foreign investment undertakings with third-country marketing authorization	136	112	95	82	84	82	46	-36
Foreign subfunds/segments	89	92	98	114	109	109	90	-19
Audit offices pursuant to the IUA	10	10	11	11	10	10	12	2
Entitled to market units pursuant to the IUA (from 1.9.2005)	8	11	12	14	13	13	12	-1
Insurance undertakings								
Insurance companies domiciled in Liechtenstein	37	42	41	40	40	41	42	1
Audit offices pursuant to the ISA	9	9	9	10	11	12	12	0
Insurance intermediaries								
Insurance intermediaries (from 1.7.2006)	35	64	70	71	68	65	66	1
Pension schemes								
Pension schemes	36	34	33	33	29	29	24	-5
Audit offices pursuant to the OPA	12	12	13	14	14	14	15	1
Pension insurance experts pursuant to the OPA	10	13	13	14	13	14	15	1
Pension funds								
Pension funds	2	4	5	5	6	6	6	0
Other financial intermediaries								
Professional trustees	88	85	83	77	79	70	65	-5
Professional trustees with restricted licence	27	28	26	23	21	21	21	0
Trust companies	257	260	262	264	263	259	254	-5
Trust companies with restricted licence	17	19	24	28	29	28	26	-2
Auditors ¹⁾	23	23	24	25	23	33	35	2
Auditors established in Liechtenstein ¹⁾	0	0	0	0	0	3	4	1
Audit companies ¹⁾	24	26	26	26	24	24	26	2
Lawyers	128	133	147	150	164	168	173	5
Liechtenstein lawyers eligible for registration	63	64	60	66	61	69	68	-1
European lawyers established in Liechtenstein	20	27	25	25	27	22	25	3
Law firms	25	26	28	28	29	29	31	2
Branches of EEA law firms	0	1	1	1	1	1	1	0
Apprentice lawyers	65	71	66	67	56	54	60	6
Legal agents	5	5	5	4	4	3	3	0
Patent lawyers	10	10	10	9	9	8	8	0
Patent law firms	4	4	3	3	3	3	3	0
Persons with a certification under article 180a PGR ²⁾	505	513	532	546	533	535	518	-17
Exchange offices ³⁾	2	0	0	0	0	0	0	0
Real estate brokers ³⁾	18	21	24	25	7	7	0	-7
Dealers in goods ³⁾	38	39	42	42	11	4	4	0
Casinos	0	0	0	0	0	0	0	0
Other persons subject to due diligence ³⁾	28	30	32	35	32	29	31	2
TOTAL (including double counts)	2089	2214	2287	2364	2353	2367	2318	-49

1) Information based on the auditor register pursuant to article 6b AACA
2) No guarantee of correctness
3) Information based especially on the notification requirement under article 3(3) DDA

Figure 19
Financial market participants supervised by the FMA
as of 31 December 2013

**Financial market participants supervised by the FMA
under the free movement of services as of 31 December 2013**

	2007	2008	2009	2010	2011	2012	2013	+/-
Banks/investment firms								
Free movement of services of EEA banks	141	171	179	187	199	213	196	-17
Free movement of services of EEA investment firms	1049	1624	1699	1787	1946	2148	1720	-428
Free movement of services of EEA payment institutions	0	0	0	31	72	112	170	58
Branches of EEA investment firms	1	1	0	0	0	1	2	1
Free movement of services of e-money institutions	5	7	7	7	7	13	31	18
Free movement of services of multilateral trading systems (from 1.11.2007)	2	2	2	2	2	2	2	0
Insurance undertakings								
Free movement of services of EEA and Swiss undertakings	271	346	375	212	267	287	364	77
Branches of Swiss undertakings	25	25	22	22	22	17	9	-8
Branches of EEA undertakings	1	1	1	1	1	1	2	1
Management companies and investment undertakings								
Free movement of services of EEA investment undertakings	110	107	95	111	114	95	44	-51
EEA investment undertakings/funds (segmented)	49	52	53	60	61	62	66	
with a total of segments (subfunds)	773	793	841	965	933	917	912	
Other financial intermediaries								
Auditors engaging in free movement of services ¹⁾	5	5	5	6	9	37 *	43	6
Audit companies engaging in free movement of services ¹⁾	21	21	23	22	22	22	22	0
TOTAL	1631	2310	2408	2388	2661	2948	2605	-343

* This includes the licensed (responsible) general managers of audit companies engaging in free movement of services not included on 31.12.2011.

¹⁾ Information based on the auditor register pursuant to article 6b AACA

Figure 20
Financial market participants supervised by the FMA
under the free movement of services
as of 31 December 2013

Laws subject to supervision and enforcement by the FMA as of 31 December 2013

- 1 Law on Banks and Investment Firms (Banking Act)
- 2 E-Money Act
- 3 Law on the Liechtensteinische Landesbank (LLB Act)
- 4 Payment Services Act (PSA)
- 5 Law on Settlement Finality in Payment and Securities Settlement System (Settlement Finality Act; SFA)
- 6 Law on the Disclosure of Information concerning the Issuers of Securities (Disclosure Act)
- 7 Securities Prospectus Act (SPA)
- 8 Law on Alternative Investment Fund Managers (AIFM Act)
- 9 Law on Investment Undertakings for Other Values or Real Estate (Investment Undertakings Act; IUA)
- 10 Law on the Liechtenstein Postal Service (Postal Act)
- 11 Lawyers Act
- 12 Professional Trustees Act (PTA)
- 13 Auditors and Audit Companies Act (AACCA)
- 14 Patent Lawyers Act (PLA)
- 15 Law on the Supervision of Insurance Undertakings (Insurance Supervision Act; ISA)
- 16 Law on Professional Due Diligence to Combat Money Laundering, Organized Crime, and Terrorist Financing (Due Diligence Act; DDA)
- 17 Occupational Pensions Act (OPA)
- 18 Law on Insurance Protection of Buildings against Fire Damage and Damage from Natural Hazards (Building Insurance Act; BIA)
- 19 Asset Management Act (AMA)
- 20 Insurance Mediation Act (IMA)
- 21 Law on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act; PFA)
- 22 Law against Market Abuse in the Trading of Financial Instruments (Market Abuse Act; MAA)
- 23 Law on Takeover Bids (Takeover Act)
- 24 Law on the Supplementary Supervision of Undertakings of a Financial Conglomerate (Financial Conglomerates Act; FCA)
- 25 Law on Pension Insurance for State Employees (Pension Insurance Act; PIA)
- 26 Law on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act)

Organizational chart as of 31 December 2013

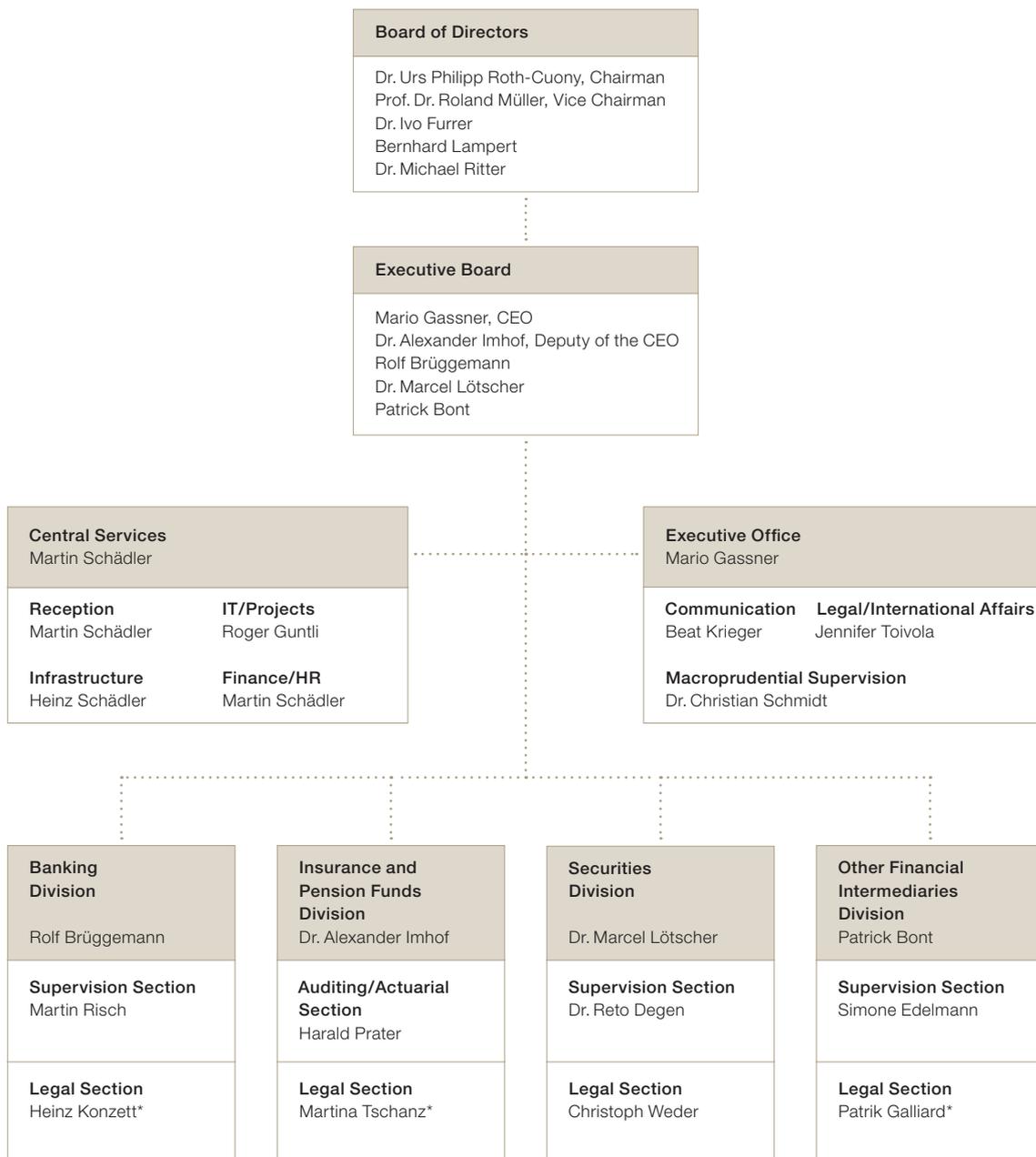


Figure 21
Organizational chart

*Deputy Head of Division

Governing bodies of the FMA as of 31 December 2013

Pursuant to article 6 of the FMA Act, the governing bodies of the FMA are:

- a) the Board of Directors,
- b) the Executive Board,
- c) the Audit Office.

Board of Directors	
<p>Chairman Dr. Urs Philipp Roth-Cuony, Zug, elected from 2012 to 2016</p> <p>Vice Chairman Prof. Dr. Roland Müller, Staad, elected from 2010 to 2014</p>	<p>Members Dr. Ivo Furrer, Winterthur, elected from 2011 to 2015 Bernhard Lampert, Schaan, elected from 2010 to 2014 Dr. Michael Ritter, Eschen, elected from 2010 to 2014</p>
Executive Board	
<p>Chief Executive Officer Mario Gassner, Triesenberg</p> <p>Deputy of the CEO and Head of Insurance and Pension Funds Division Dr. Alexander Imhof, Schaan</p>	<p>Head of Banking Division Rolf Brüggemann, Stäfa</p> <p>Head of Securities Division Dr. Marcel Lötscher, Meggen</p> <p>Head of Other Financial Intermediaries Division Patrick Bont, St. Gallen</p>
Audit Office	
<p>Applying article 19(4) of the Financial Market Authority Act, the Government transferred the function of Audit Office to the National Audit Office by its decision of 2 March 2010 (RA2010/463). The responsibilities of the Audit Office are in principle governed by the specific provisions relating to the National Audit Office.</p> <p>The National Audit Office performs this function until the Government decides otherwise.</p>	

Figure 22
Governing bodies of the FMA

Abbreviations

For other laws, see Annex “Laws subject to supervision and enforcement by the FMA” (p. 96)

AACA	Auditors and Audit Companies Act
AHV	Old Age and Survivors’ Insurance Authority (Alters-und Hinterlassenenversicherung)
AIFM	Alternative Investment Fund Manager
AMC	Asset Management Company
AMLC	Anti-Money Laundering Committee
BCBS	Basel Committee on Banking Supervision
COPE Act	Law on the Control and Oversight of Public Enterprises
CPMLTF	Committee on the Prevention of Money Laundering and Terrorist Financing
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
EC	European Community
ECB	European Central Bank
ECG	Enlarged Contact Group on the Supervision of Collective Investment Funds
EEA	European Economic Area
EFTA	European Free Trade Association
EGMLTF	Expert Group on Money Laundering and Terrorist Financing
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
FAOA	Swiss Federal Audit Oversight Authority
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FINMA	Swiss Financial Market Supervisory Authority
FIU	Financial Intelligence Unit
FMA-CC	FMA Complaints Commission
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
IFIAR	International Forum of Independent Audit Regulators
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IU	Investment Undertaking (Fund)
MC	Management Company

MiFID	Markets in Financial Instruments Directive
MMoU	Multilateral Memorandum of Understanding
MONEYVAL	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MoU	Memorandum of Understanding
OFI	Other Financial Intermediaries
PEP	Politically Exposed Person
PGR	Law on Persons and Companies
PVS	Pension Insurance for State Employees (Pensionsversicherung für das Staatspersonal)
StGH	Constitutional Court (Staatsgerichtshof)
UCITS	Undertakings for Collective Investment in Transferable Securities

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The butterflies were made available by Peter
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The Annual Report is available in German
and English on the FMA website. No printed
version is published.



*Mountain Clouded Yellow
Colias phicomone*



*Tau Emperor
Aglia tau*



*Puss Moth
Cerura vinula*

Domestic butterflies

In the Rhine Valley, on its slopes, and in the Alps of the Principality of Liechtenstein, there is a wide variety of flora that is also the basis for a rich fauna. For the illustration of this Annual Report, the FMA chose butterflies – an animal with more than 100 species identified in Liechtenstein. The FMA would like to thank the Office of the Environment (www.llv.li) and the Liechtenstein National Museum (www.landesmuseum.li) for their generous support in realizing this concept.



*Garden Tiger Moth
Arctia caja*



*Apollo
Parnassius apollo*



*European Peacock
Inachis io*

