ANNUAL REPORT 2018

FMA

Financial Market Authority
Liechtenstein

THEMATIC PAGES

Hand-crafted paper

"Born into white from the water,
hung under the roof truss to dry."
HP Leibold

Specialists with an all-round view

The FMA develops young talent and has introduced junior job rotation for this purpose. In two years, the juniors pass through four organisational units and thus gain an in-depth insight into the exciting and multifaceted activities of the supervisory authority. At the end of 2018, two juniors were employed in this model. A former junior now works in a permanent position as a legal specialist in the Executive Office.

Junior job rotation

Non-life insurers with tailwind

On 15 November 2018, the Liechtenstein Non-Life Insurance Conference took place in the SAL. The non-life insurance industry recorded high premium growth. Premium income amounted to CHF 2.7 billion. This positive development is mainly attributable to the settlement of new non-life insurance undertakings in Liechtenstein.

CHF 2.7 billion

Stable financial centre

Over the past few years, Liechtenstein has established a balanced system to ensure financial stability. In November, the Financial Stability Report on the stability of the financial sector was presented as another important component of macroprudential supervision. The report concludes that Liechtenstein's financial sector as a whole is in a stable state, even if there are risks that need to be addressed. About 100 people attended the presentation in Vaduz.

100

Customer protection strengthened

Higher demands

On 1 October 2018, the new Insurance Distribution Act entered into force. The requirements for insurance mediation and insurance advice have been increased. The new rules also apply to insurance undertakings, provided that they work in direct insurance distribution. The aim of the increased duties is to protect customers. The licensing process for insurance intermediaries has been digitised. Licence applications may be submitted conveniently online.

Transaction monitoring

6,000,000

With the strong regulation of the financial sector, the volume of data in supervision has also increased sharply. Effective risk-based supervision accordingly requires the use of modern information technologies. In the new transaction data monitoring system for transactions in financial instruments implemented throughout Europe, the FMA has received data on six million transactions. One of the goals is to combat market abuse and insider trading.

Regulatory Laboratory strengthened

In June, the Regulatory Laboratory was strengthened by the creation of the Regulatory Laboratory/Financial Innovation Group within the Executive Office. At the interface between market and regulation, the Regulatory Laboratory/Financial Innovation Group is the contact point for digitalisation in the financial industry and financial innovation. While the FMA dealt with 101 enquiries on the topic of FinTech in 2017, there were 255 enquiries in 2018 – an increase of about 153%.

+153%

In November, the FMA presented the first comprehensive report on financial market stability to representatives of the financial sector and policymakers. The lively interest in the event shows that Liechtenstein attaches great importance to ensuring stability. The country has a stable, high-performance financial centre. However, the report also identifies risks that we are observing and addressing in order to ensure long-term financial market stability.

After implementation of the 4th EU Anti-Money Laundering Directive, the FMA introduced risk-based due diligence supervision. In this way, we are using our resources in a targeted manner in accordance with the risks of the persons subject to due diligence. We expect financial intermediaries to comply rigorously with their due diligence obligations. Cases of money laundering in Europe have unmistakably shown the consequences for the institutions concerned, the financial centres, and the countries themselves. Starting 1 April 2019, we will concentrate money laundering prevention in a powerful anti-money laundering organisational unit.

We have identified a need for action due to various incidents in the supervision of the fiduciary sector. The sector is a significant part of the financial centre, and its reputation and international recognition are important for the entire financial centre and the country. Consequently, on behalf of the Ministry for General Government Affairs and Finance, we prepared a proposal for the revision of the Professional Trustees Act and made it available to the Ministry.

In February 2019, the FMA ordered the compulsory transfer of the insurance portfolios of two insurance undertakings to a third undertaking. Already in the year 2016, the FMA had appointed a special representative for the protection of customers in both companies. FMA decrees may be challenged in court. Supervisory proceedings can therefore be drawn out over several court instances and tie up considerable resources in the FMA. The intervention in the two companies shows that the FMA has effective instruments at its disposal to fulfil its mandate of customer protection.

The ongoing digitalisation of the financial sector has also been a challenge for us. During the reporting year, we adopted a digital strategy to successfully manage this far-reaching transformation both strategically and operationally. In the increasingly digital financial sector, the supervisory authority is also part of the digital financial ecosystem. We want to perform this function with dedication in the service of the Liechtenstein financial centre.

Roland Mueller
Chairman of the Board of Directors

Mario Gassner
Chief Executive Officer

Sheets of paper
"Pulp shaped, scooped, pressed, dried, leaf by leaf. Irregularities are welcome, they increase expressiveness."
HP Leibold

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SUPERVISION

Rising risks on the financial markets

Risk-based supervision in the fight against money laundering

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Transaction monitoring for transactions in financial instruments

Focus on cybersecurity

Increased protection of customers in insurance distribution

Consistent action against straw men in the fiduciary sector

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Macroprudential supervision

Licences

Ongoing supervision

Due diligence supervision

International administrative assistance

Enforcement

RESOLUTION

Activities of the resolution authority

Creditor and shareholder participation: Bail-in as a resolution instrument

Outlook

Laws supervised and enforced by the FMA

The FMA published a comprehensive report on financial stability. The Liechtenstein financial centre is stable, but the risks on the financial markets are increasing. With the stricter rules in the fight against money laundering, the FMA has introduced consistent risk-based due diligence supervision. In a communication, the FMA defined standards for financial intermediaries in dealing with cyber risks. The potential damage caused by cyber attacks in the financial sector is very high. With the introduction of transaction monitoring for transactions in financial instruments, the FMA received about 6,000,000 transaction reports. The requirements for insurance mediation and insurance advice have been extensively increased with the entry into force of the new Insurance Distribution Act. The aim of the increased duties is to protect customers.

Rising risks on the financial markets

Following the economic upturn in 2017, global growth has cooled somewhat. Despite the declining growth momentum, the fall in unemployment rates continued in light of the ongoing positive growth, and inflationary pressure in the major economies increased appreciably for the first time in 2018. The increasing international trade conflicts, but also the unclear outcome of Brexit, were important drivers for the rising global political uncertainty, which significantly contributed to falling sentiment indicators and thus to the economic slowdown. Moreover, the debt ratio in many countries – in both the private and public sectors – has risen further over the past few years, given the persistently low interest rate environment. An empirical analysis as part of the Financial Stability Report concludes that an increase in uncertainty or turbulence on the financial markets in the current constellation could have a particularly negative impact on the real economy, not least because the monetary policy leeway in the globally relevant national economies continues to be severely limited.

FINANCIAL STABILITY REPORT

During the reporting year, macroprudential supervision for the first time published a "Financial Stability Report" (FSR) on the stability of the financial sector in Liechtenstein, which contributes to international recognition, to the stability of the financial centre, and thus also to its success. The very well-attended presentation event for the FSR in November showed not only the great interest in the topic of financial market stability, but also contributed to raising the awareness of financial market players in regard to systemic risks.

The downside risks to the economic outlook have increased. While the available data towards the end of 2018 indicated somewhat lower, but still positive, global growth, the global financial markets experienced strong price turbulences in the reporting year compared with the previous years. After several years of lower volatility and high risk appetite, there has been a marked increase in risk premiums, even though these are still relatively low by historical standards. Towards the end of the year, there were substantial price corrections on the equity markets, but their valuation continues to be high, historically speaking, at least in the United States. There are also increasing signs that the economic cycle in the US is at a late stage, given that normalisation of monetary policy has already led to a significant flattening of the yield curve.

Following the increasing tightening of US monetary policy during the year, uncertainty over additional interest rate hikes increased towards the end of the year. Interest rate hikes in the United States – the Federal Reserve tightened interest rates four times in 2018 – have led to capital inflows and thus to a real effective appreciation of the US dollar, which has increased the pressure on highly indebted emerging markets. Although the ECB announced in its last monetary policy decision in December that the bond purchase programme would expire as planned at the end of 2018, it continued to maintain its expansionary monetary policy, given that securities that become due are still being reinvested for the necessary period of time. This means that the normalisation of monetary policy in the Eurozone is approaching only slowly, and doubts about a first interest rate hike in the autumn of 2019 rose towards the end of the year against the backdrop of the incipient slowdown. The Swiss National Bank (SNB) and the Bank of Japan also continued their expansionary monetary policy. The risks to financial stability arising from the unconventional monetary policy measures must therefore continue to be monitored carefully.

In Liechtenstein, the economic upswing continued uninterrupted – contrary to the global trend. After negative growth rates in 2015 due to the exchange rate effect, the national economy returned to a growth path in 2016. The economic survey conducted each quarter by the Office of Statistics indicates a further acceleration since 2017. The very positive economic development in Liechtenstein is also evident in the high employment figures. The unemployment rate fell slightly to 1.8% in 2018, and direct exports of goods from Liechtenstein companies also increased significantly compared with the previous year.

The financial sector is of particular importance to Liechtenstein's national economy. Since Liechtenstein does not have its own central bank, the FMA and the Government have jointly taken macroprudential measures to ensure financial market stability in Liechtenstein. In 2019, the newly established Financial Market Stability Committee will take up its work, further strengthening cooperation in macroprudential policy in order to ensure financial market stability on a sustainable basis. To achieve this objective, a number of macroprudential instruments are at the disposal of the Financial Market Stability Committee.

We supervise efficiently, consistently, and effectively.

Core Principles of the FMA

In addition to microprudential supervision, the large financial sector also requires a strong macroprudential framework in Liechtenstein. The Liechtenstein banks focus on the relatively conservative business of private banking and international asset management, while they largely dispense with the riskier business of investment banking. Over the past three years, the banking sector has benefited from strong growth abroad, as foreign subsidiaries and branches contribute significantly to the profitability of the banking sector. Comparatively weak indicators of efficiency – such as the cost/income ratio – are partly attributable to the personnel-intensive business model, but they also point to additional potential for improvement in terms of the productivity of the banks. The high capitalisation of the Liechtenstein banking sector, healthy liquidity indicators, and a very low ratio of non-performing loans at the same time underline the stability of the sector. While the total debt ratio of the private non-financial sector in Liechtenstein is comparatively low, debt is heavily concentrated in the household sector, implying a systemic risk for the banking sector. While the FMA has already adopted various measures to address the relatively high household debt in Liechtenstein, the risks in the Liechtenstein real estate and mortgage market must continue to be monitored and assessed by the FMA on an ongoing basis.

Although the financial sector as a whole is deemed stable, the Financial Stability Report contains further recommendations for sustaining financial market stability. These include in particular the implementation of and compliance with all relevant international and European regulatory standards, the careful monitoring of mortgage debt and the associated risks in the banking sector, the continuation of sound and sustainable fiscal policy, and other crisis prevention measures. Specific factors relating to the size of the country, the large banking sector, and special legal framework conditions must be taken into account when planning and applying risk mitigation measures. Due to the large size of the financial sector by international standards, systemic risks must also be defined more comprehensively than in other countries, for which an efficient implementation of macroprudential measures is indispensable.

Risk-based supervision in the fight against money laundering

An effective mechanism for combating money laundering and terrorist financing is of fundamental importance for the credibility and reputation of a financial centre. Violations of the provisions in the fight against money laundering and terrorist financing attract a great deal of media attention – both nationally and internationally – and are accompanied by a loss of trust that is difficult to repair among customers and business partners and in international relations. Recent money laundering incidents in European countries have shown this unmistakably. The FMA emphasised the importance of an effective defence mechanism at its annual media conference in April. Especially in a growing market, it expects financial market players to carefully examine the origin of new money and the background of transactions in order to prevent money laundering risks and consequently reputation risks.

In September 2017, stricter rules in the fight against money laundering and terrorist financing entered into force in Liechtenstein. As part of the implementation of the 4th EU Anti-Money Laundering Directive and the EU Funds Transfer Regulation, both the Due Diligence Act (SPG), including other special laws, and the associated Due Diligence Ordinance (SPV) were amended. In addition to the aforementioned EU requirements, the revision of due diligence law also addressed the outstanding points of criticism by the International Monetary Fund (IMF) and MONEYVAL from the latest evaluation of the Liechtenstein system for combating money laundering and terrorist financing.

Significant changes have been made to the simplified and enhanced due diligence obligations, the provisions on politically exposed persons (PEPs), the national risk analysis, and supervisory measures and sanctions. One of the key innovations for the FMA was the introduction of consistent risk-based due diligence supervision. Under this approach, the intensity, scope, and frequency of inspections of persons subject to due diligence are based on the assessment of the money laundering and terrorist financing risks to which they are exposed from a national perspective as well as with regard to individual considerations. The resources of the supervisory authority are thus used in a targeted manner and in accordance with the respective risk of the person subject to due diligence.

The following factors are at the centre of the risk-based audit system: guidance and monitoring of the supervision or inspection process by the FMA; periodic risk classification of all persons subject to due diligence by the FMA; stringent and uniform instructions by the FMA to the mandated auditors; use of uniform documents certified by the FMA for optimal evaluation and comparability of results; an authorisation register for auditors based on ongoing monitoring and assessment of the audits; and targeted monitoring of auditors by involving the FMA in the audit procedure in the case of risky audit mandates. In future, it will also be especially important for the FMA to carry out regular and extraordinary on-site inspections independently.

A key element of the risk-based audit system is the risk classification of the persons subject to due diligence. For this purpose, a Risk Assessment System (RAS) was created. Firstly, the risk classification is based on the information and data of the persons subject to due diligence, which must provide such data electronically via the e-Service platform of the FMA. Secondly, the results from the last audit reports as well as any deficiencies and violations from the past are taken into account. The way in which the risk management of the financial intermediary in question is structured also plays a role.

The effectiveness of Liechtenstein's mechanism for combating money laundering and terrorist financing will be reviewed in a country assessment by MONEYVAL in 2020.

The stricter rules in the fight against money laundering and the international focus on the prevention of money laundering have prompted the FMA to subject its due diligence supervision mechanisms to a critical review. On the basis of the results of this review, the Board of Directors decided to adjust the organisational structure of the FMA in the form of a concentration of money laundering prevention in a specific organisational unit, a strengthening of this unit in terms of personnel, and increased direct inspections by the FMA. Deficiencies and violations will continue to be rigorously pursued and penalised. The new organisation for money laundering prevention will take effect on 1 April 2019.

New financial technologies: Liechtenstein as an innovative location

The transformation in the financial sector has further intensified: While classical financial service providers are changing their business, tech companies are increasingly entering the financial sector with digital products. The FMA must also take this into account. Due to the growing number of FinTech enquiries and the high degree of complexity, the FMA strengthened the Regulatory Laboratory by creating the Regulatory Laboratory/Financial Innovation Group within the Executive Office. The group took up its work in June. As a single point of contact for FinTech enquiries, the group has a screening and filtering function, a triage function, and an allocation and coordination function within the FMA. In 2018, the number of enquiries relating to FinTech amounted to 255 (+153% over the previous year).

Once again in 2018, most FinTech enquiries concerned business models relating to virtual currencies, in particular initial coin offerings (ICOs). Other business models included exchange offices and trading venues for virtual currencies as well as digital e-money and payment service solutions. In addition, issuers are increasingly expressing interest in issuing participation rights not as a physical certificate, but rather exclusively in digital form on a blockchain. A trend is also evident toward business models subject to a licence.

BLOCKCHAIN

A blockchain is a decentralised network. The correctness of the transactions within the network is not verified by a central body, but rather by a large number of participants (also called nodes). Simply put, a blockchain is a database in which a large number of participants are involved. The database contains a list of data records (blocks) that are linked together using cryptographic methods.

In August, the FMA approved a prospectus for a tokenised security for the first time. The security token is issued by a company from Liechtenstein, and it is the first tokenised security in Europe requiring a prospectus with the approval of a financial market supervisory authority. In the spring, the FMA was the first European supervisory authority to approve the first three cryptocurrency funds. These are alternative investment funds whose investment strategy is implemented using cryptocurrencies. At the beginning of the year, an InsurTech received a licence from

The FMA is part of the digital financial ecosystem. We actively and pragmatically contribute to the positive development of that ecosystem.

FMA Code

the FMA Liechtenstein as an insurance undertaking. The company offers a fully digitised service: Insurance contracts can be concluded via an app, and claims can also be filed via the app. Other projects considered during the reporting year were in the process of being licensed or approved at the end of 2018. Numerous market participants offer exchanges between cryptocurrencies and traditional currencies and have notified the FMA of their assumption of activities. The operators of such internet-based exchange offices – or also physical exchange offices in the form of crypto ATMs – are subject to the FMA's money laundering supervision.

The Regulatory Laboratory/Financial Innovation Group works closely together with the supervisory divisions and acts as a know-how carrier. This includes collecting, preparing, making available, and passing on specialised knowledge and current industry trends. The focus is on the FMA-wide transfer of know-how. The FMA also offers information on these topics on its website. During the reporting year, the FinTech information provided on the FMA website was further expanded and continuously updated. There is a high demand for information on the side of the market.

Another task of the group is monitoring. Markets in which the FMA is involved pursuant to obligations under the special laws are monitored and statistically recorded within the scope of the FMA's technical and legal possibilities. Market participants that do not hold a licence under the special laws are monitored on the basis of indicators or experience. The aim is to prevent abusive and fraudulent activities. During the reporting year, the Regulatory Laboratory/Financial Innovation Group became active in 14 cases as part of its monitoring mechanism. The group also supports the divisions in all thematic regulatory projects and assists in the preparation of statements and opinions. In the reporting year, this in particular concerned the opinion on the consultation report of the Blockchain Act (VTG).

The regulatory environment is currently hardly tailored to FinTech business models. Initial adjustments have already been made in recent years with a view to the application of certain provisions on the prevention of money laundering. At the European level, efforts are underway to craft regulations governing new financial technologies and financial innovations. These are intended in particular to ensure the protection of investors. The first adjustments have already been made with the recast Payment Services Directive (PSD II). Moreover, the scope of application of the 4th EU Anti-Money Laundering Directive was expanded to include virtual currencies with publication of the 5th Anti-Money Laundering Directive. The amendments to the FATF Guidelines published in October also provide for the comprehensive subordination of FinTech-based business models under the anti-money laundering regime.

Competition for FinTech companies continues to be observed among European locations. Thanks to uncomplicated and fast access to the regulator as well as a high level of FinTech competence on the part of the authorities, Liechtenstein is able to position itself in this competition among locations. Practice has shown that FinTech companies themselves are often very regulation-friendly. The FMA licence is perceived as a mark of quality.

Transaction monitoring for transactions in financial instruments

In addition to the individual players such as banks and insurers, the financial markets have also been regulated extensively in recent years. The term "market regulation" encompasses all sets of rules that relate in the broadest sense to trading in financial instruments. Within the framework of this market regulation, the revised EU Markets in Financial Instruments Directive (MiFID II) as well as the accompanying Markets in Financial Instruments Regulation (MiFIR) entered into force in Liechtenstein on 3 January 2018, along with the requisite amendments to legislation.

The new regulatory framework includes extensive reporting obligations for investment firms to the FMA. Under Article 26 MiFIR, investment firms which execute transactions in financial instruments must report complete and accurate details of such transactions to the competent authority as quickly as possible, and no later than the close of the following working day.

The intention of the legislative power is for these reporting obligations to facilitate the identification of behaviour that constitutes market abuse, such as insider trading and market manipulation. Risks that jeopardise the functioning of the markets can also be identified. For this purpose, the FMA not only receives reports from investment firms domiciled in Liechtenstein, but is also connected to its sister authorities throughout Europe via the established system. Predefined routing rules determine when a report is sent by the FMA to a sister authority or from that authority to the FMA.

SUPERVISORY TECHNOLOGY

IT-based transaction data monitoring is an example of the use of information technologies in the supervision of market players and financial markets. The massive regulation of the financial sector since the financial crisis has led to a massive increase in the volume of data to be processed by supervisory authorities. Effective and risk-based supervisory awareness requires the use of modern information technologies.

During the reporting year, about six million transactions were transmitted to the FMA's system. An investment firm is required to report whenever it carries out a transaction in financial instruments. Financial instruments are subject to reporting requirement if they are traded on an EU/EEA trading venue – irrespective of whether the financial instrument in question is bought or sold via that trading venue.

If a report reaches the FMA's system, it is validated technically and in terms of content. The sending institution receives appropriate feedback. Feedback messages contain the validation results for the submitted transaction reports. If a submitted report is

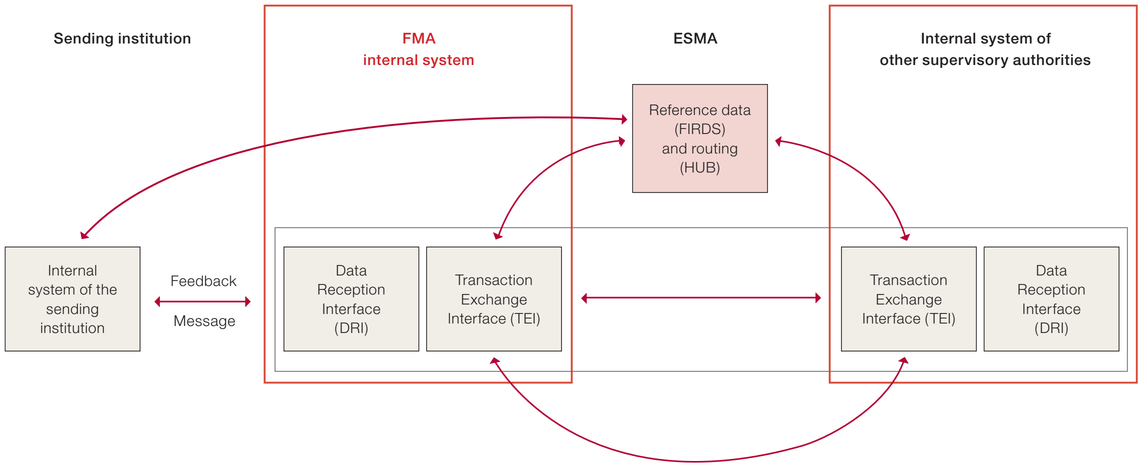

Figure 1
Transaction monitoring for transactions in financial instruments. In the case of suspicious transactions, the FMA carries out further clarifications or takes appropriate enforcement measures.

technically not valid (e.g. due to incorrect encryption, compression, or invalid XML Schema), the entire file is rejected. If the file is technically valid, a feedback message is generated that includes the feedback of the validation results for each individual transaction. Transactions may have the status "accepted", "rejected", or "pending".

Especially for content validation purposes, the reported financial instrument is compared with the reference data system (Financial Instruments Reference Database, FIRDS) operated by the European Securities and Markets Authority (ESMA). From that point on, each individual transaction with the status "accepted" is automatically subjected to the defined routing rules, various scenarios, and further investigations in the FMA's internal system.

If a transaction appears to be suspicious or if an initial suspicion cannot be eliminated, the FMA carries out further clarifications or takes appropriate enforcement measures. In addition to the necessary clarifications with regard to market abuse, the newly introduced transaction reporting provides the FMA with important information on the financial market and the persons involved in each individual transaction.

With regard to the reporting obligation under Article 26 MiFIR, the FMA has published Instructions 2017/19 and 2017/24 with implementing provisions relating to the interface for the transmission of data and the transactions subject to reporting.

Focus on cybersecurity

The increasing use of new technologies and IT systems comes with numerous advantages, but also dangers. Due to the global interconnections and the high density of data entailed by technical progress, any financial intermediary can become a potential target of cybercrime. The greatest threats include DDoS attacks, insider threats such as social engineering or phishing, malware in emails, and encryption Trojans.

The potential damage caused by cyber attacks is very high. For this reason, cyber risks have increasingly become a focus of financial market supervision. The European Supervisory Authorities have identified cyber risks as one of the top four risks for the European financial system.

The FMA expects financial market participants to provide adequate risk management. Financial service providers must incorporate cyber risk into a comprehensive internal risk management process that includes identification, protection, detection, response, recovery, and reporting.

The requisite measures for dealing with cyber risks were specified in detail in FMA Communication 2018/3. Not only must a level of security that is adequate to the threat situation be ensured, but there must also be appropriate emergency management in place in order to be able to resume normal business operations as quickly as possible after an attack. Compliance with these standards will be a focus of the 2019 audit round. At the same time, the FMA itself must also meet high standards in terms of IT security. The undertakings supervised by the FMA must be able to rely on the fact that their data at the FMA is protected against misuse. A successful attack would entail a great loss of reputation and trust. During the reporting year, the Board of Directors and the Executive Board of the FMA discussed this topic in detail at a Strategy Day with experts and adopted measures to further strengthen IT security. Additionally, the FMA's employees receive regular training. In October and November, training courses on text message spoofing and phishing took place in cooperation with experts from the Liechtenstein National Administration and the Cybersecurity Liechtenstein association.

Increased protection of customers in insurance distribution

With the entry into force of the new Insurance Distribution Act (VersVertG) and the associated Insurance Distribution Ordinance (VersVertV) on 1 October 2018, Liechtenstein transposed the EU Insurance Distribution Directive (IDD) into national law. The FMA was mandated by the Government with the implementation and overall project management of the regulatory project.

The VersVertG comprehensively increases the requirements for insurance mediation and insurance advice. The new rules apply not only to insurance intermediaries (agents, brokers), but also to insurance undertakings to the extent they are involved in direct insurance distribution.

First of all, the information requirements of the distributors and, where applicable, the insurance undertakings vis-à-vis their customers, have been greatly expanded. Furthermore, the requirements relating to expertise and advice were increased, and the rules on the conduct of business relating to distribution were greatly expanded. The aim of these enhanced duties is to protect customers.

Additional requirements on distribution are made in particular in connection with insurance-based investment products. Here the distributors are subject to extended information requirements as well as special obligations with respect to the assessment of the suitability and appropriateness of insurance-based investment products. Special documentation requirements as well as product approval processes are intended to contribute to improved quality of distribution and advice.

In accordance with the stricter standards relating to conduct of business, transparency, and expertise of the insurance distributors, the requirements on supervision have also increased.

During the reporting year, the FMA worked on implementing the new legal bases into operational supervision. For this purpose, FMA communications, instructions, and forms were newly created or updated. Part of the implementation work was also the development of an online licensing tool for the digital submission of licence applications. The Insurance Intermediary Online Licensing tool (VOBT) allows the applicant to submit the licence application online. During this process, all required information is entered and the necessary documents are uploaded. The applicant then receives a digital copy including confirmation of receipt, and the FMA is informed of the new application.

Consistent action against straw men in the fiduciary sector

In a communication, the FMA interpreted the wording "actually engaged in management" set out in the Professional Trustees Act (PTA). This wording is intended to prevent the use of straw men as actual managers in trust companies. FMA Communication 2018/4, which contains the interpretation, was published on 30 October 2018.

The Professional Trustees Act requires that a person "actually engages in the management" of the trust company who, on the basis of their trustworthiness, education, and practical experience is sufficiently qualified to guarantee sound and proper business operation. This provision serves to protect the customers of trust companies.

The requirement of "actually engaged in management" resulted in ambiguities and also led to measures and sanctions by the FMA. With FMA Communication 2018/4, the FMA has provided a binding interpretation for the legislative wording, "actually engaged in management". In this way, professional trustees and trust companies are to be made aware of and sensitised to the relevant requirements. In the event of violations, a fine is imposed, and the trust company is called upon to restore a lawful state of affairs. The FMA pronounced legally binding fines on eight persons in the total amount of CHF 80,000.

Embossed
"In virgin white, like tracks in the fresh snow."
HP Leibold

Practice has shown that in several cases, a person was notified to the FMA as actually engaged in management who, while in possession of the necessary qualifications, was not actually engaged in management at all or to the extent required by law. As a consequence, the actual manager and the members of the board of directors or board of trustees were punished with a fine due to non-compliance with this key permanent licensing condition and called upon to restore a lawful state of affairs.

FMA orders compulsory transfer of insurance portfolio

The Insurance Supervision Act places special demands on the shareholders of insurance undertakings for the protection of insured persons. The shareholders of Wealth-Assurance AG and Valorlife Lebensversicherungs-Aktiengesellschaft no longer met the supervisory requirements, meaning that the shareholders did not guarantee sound and prudent management of the undertakings. For this reason, the FMA had already appointed a special representative for Wealth-Assurance AG and Valorlife Lebensversicherungs-Aktiengesellschaft in 2016 to ensure the protection of policyholders and their assets. The special representative was granted all powers that are vested in the board of directors, the general management, and other bodies by law or the articles of association.

After this process was complete, the FMA transferred the insurance portfolios of Wealth-Assurance AG and Valorlife Lebensversicherungs-Aktiengesellschaft to Skandia Leben (FL) AG. About 2,800 policies with a total volume of CHF 3.8 billion were affected by the transfer. The FMA published a press release on 13 February 2019 to inform the public of these steps. This compulsory measure was ordered for the necessary and effective protection of the interests of insured persons and the reputation of the Liechtenstein financial market.

FACTS AND FIGURES ON THE SECOND PILLAR

In the autumn, the FMA published its report on "Occupational Pension Provision in Liechtenstein". In the 2017 investment year, pension schemes generated higher returns and presented themselves in solid condition. The FMA expects lower returns in the year 2018. The provisional average funding ratio of the pension schemes was 102.0% at the end of 2018. Special attention is being paid to the question of redistribution from younger generations to older generations.

Skandia Leben (FL) AG, Triesen, is a life insurance undertaking licensed and supervised by the FMA. It safeguards the interests of the insured persons and ensures proper administration of the insurance contracts. Skandia Leben (FL) AG fulfils all conditions for taking over the insurance portfolios, for safeguarding the interests of the insured persons, and for ensuring proper continuation. The FMA instructed Skandia Leben (FL) AG to implement all necessary measures to take over the insurance portfolios.

In its press release, the FMA further announced that it was monitoring and supervising the process of portfolio transfer. The special representative appointed for Wealth-Assurance AG and Valorlife Lebensversicherungs-Aktiengesellschaft ensures that the interests of policyholders are safeguarded until the portfolio transfer is completed. The FMA also informed that it would withdraw the licences of Wealth-Assurance AG and Valorlife Lebensversicherungs-Aktiengesellschaft to conduct business after completion of the transfer of the insurance portfolios.

Brexit: Preparations for no-deal withdrawal scenario

The FMA is actively accompanying the developments in connection with the planned withdrawal of the United Kingdom (UK) from the European Union (Brexit) in order to adequately prepare Liechtenstein financial intermediaries for the new situation. This is being done in close cooperation with the Brexit Coordination Unit of the Office for Foreign Affairs, the EEA Coordination Unit, and the Ministry for General Government Affairs and Finance. In addition, the EFTA Secretariat is also providing important coordination work in order to harmonise the activities of the EEA/EFTA states with each other as well as with the EU. Measures are also being taken by the European Supervisory Authorities.

Liechtenstein financial intermediaries with especially strong links to the UK were contacted by the FMA with regard to their Brexit planning. The plans were then reviewed, in particular with regard to the scenario of a withdrawal without an agreement between the EU and the UK. Where necessary, the FMA requested additional plans of measures. Finally, the location advantages of the Liechtenstein financial centre, in particular direct access to the countries of the European Economic Area and Switzerland, have become even more important since the Brexit decision. The FMA is available as a point of contact for financial undertakings re-evaluating their legal situation with regard to their location.

Macroprudential supervision

Financial market stability is a necessary prerequisite for the efficient allocation of resources in a national economy, for effective risk management in the financial sector, and for the capacity to cushion negative financial shocks. Moreover, a stable financial sector ensures that access to financial services and credit for households and enterprises is safeguarded both during economic upswings and in recessions.

Given that Liechtenstein does not have its own central bank, ensuring financial market stability is defined by law as the responsibility of the FMA. An important insight from the global financial crisis is the need to complement microprudential supervision, which aims to ensure the stability of individual financial institutions, with a macroprudential perspective. Macroprudential supervision aims to counteract the accumulation of systemic risks and to strengthen the resilience of the financial system. The aim is to reduce the probability and impact of financial crises, given that such crises have led to high costs in the past – also for the real economy. In addition, the financial sector in Liechtenstein is of disproportionate national economic importance, given the financial sector's very high share of gross domestic product compared with other countries.

In November, the FMA for the first time published a "Financial Stability Report" (FSR) on the stability of the financial sector in Liechtenstein.

In addition, quarterly reports on international economic and financial market developments were prepared and discussed with the Executive Board and the various supervisory divisions. Different systemic risks were pointed out, such as high valuations on the equity markets, the rising risk of recession in the United States, and the increased uncertainty regarding the monetary policy of the major central banks. Due to the increasing political uncertainty – not least due to the imminent Brexit and increasing protectionism – the supervised institutions were confronted with higher volatility on the financial markets in the reporting year. Macroprudential supervision was involved accordingly in the risk dialogues and management meetings with the systemically important banks in this context.

ANALYSES OF THE ECONOMY AND FINANCIAL MARKET TRENDS

The FMA publishes the "Volkswirtschaftsmonitor" four times a year, which analyses international economic and financial market developments and assesses systemic risks.

Licences

The provision of financial services requires a licence from the FMA. The licensing requirement creates barriers to entering the market. These barriers serve to ensure the high quality of market participants and the legitimacy of the business in the interests of client protection. The licence is therefore a mark of quality and a preventive control instrument of financial market supervision. The FMA issues licences, reviews and approves changes, monitors ongoing compliance with the licensing conditions and, if necessary, withdraws licences.

In the banking sector, the international orientation continued. Liechtenstein banks strengthened their presence abroad, and foreign investors participated in Liechtenstein institutions. With this internationalisation of the ownership structure, licencing activity in this sector was correspondingly high. Shareholders must meet high standards in order to ensure the sound and prudent management of a financial institution. In addition, the FMA processed several applications for the formation of banks, multilateral trading facilities under the Banking Act, and e-money institutions.

With the incorporation of the AIFM Directive in October 2016, the Investment Undertakings Act of 2005 expired. At the same time, the new IUG 2015 entered into force. Existing management companies were permitted to continue operating through 31 March 2018. Up to that date, they could have the investment undertakings (IUs) they managed under the IUG 2005 certified as IUs under the IUG 2015, have them authorised or licensed as alternative investment funds (AIFs) under the AIFM Act (AIFMG), or have them converted into undertakings

Ream wrapped
"Counted and tied together in reams with unique marks of quality, the real edges of the handmade paper."
HP Leibold

for collective investment in transferable securities (UCITS) under the UCITS Act. Otherwise, the IUs had to be liquidated after expiry of the deadline. Of the originally 265 IUs, 166 applications for conversion to another fund category were submitted to the FMA and approved.

In the spring, the FMA was the first European supervisory authority to approve the first three cryptocurrency funds under the European AIFM regulation. These are alternative investment funds whose investment strategy is implemented using cryptocurrencies. The authorisation was preceded by an in-depth examination, given that this was a new regulatory frontier due to the technological novelty, market risks, and limited experience. In balancing the investors' need for protection and the market opportunities of crypto funds, the FMA concluded that authorisations will be granted only under certain conditions; for instance, distribution to private investors must be excluded.

The insurance industry is increasingly developing new services and business models that are based on the use of digital technologies (InsurTech). During the reporting year, the FMA granted an undertaking a licence to operate a non-life insurance. The conclusion of insurance contracts and filing of claims are largely automated using a smartphone application.

In the year 2018, the number of enquiries relating to FinTech amounted to 255. An integral part of the clarifications was whether the intended activity or the business model requires a licence from the FMA.

With the implementation of risk-based supervision under the Due Diligence Act (SPG), requirements were also introduced in 2018 for receiving and maintaining recognition as SPG auditors for due diligence inspections of financial intermediaries; these auditors are subject to supervision by the Other Financial Intermediaries (OFI) Division (mainly professional trustees and trust companies). These "SPG auditors (AFI)" now listed in the register of auditors are the recognised auditors for carrying out due diligence inspections in these categories of intermediaries on the basis of the preservation of vested rights and the number of audit hours required for that purpose.

The FMA is responsible for reviewing and approving prospectuses and supplements for the public offer of securities or their authorisation for trading on a regulated market. The FMA reviews the securities prospectuses for completeness, coherence, and comprehensibility. The number of approved prospectuses was 21, which is almost twice as many as in the previous year. Of these, four prospectuses were submitted by foreign issuers, including professional securitisation companies from Luxembourg. In the case of certain securities such as debt securities, the issuer may choose between the home country and another EEA country. In the autumn, the FMA authorised the issue of the first tokenised security in all of Europe by approving a prospectus under the Securities Prospectus Act. The approval was preceded by an intensive examination and consideration of the relevant legal questions. This token is a share-like security issued in digital form.

Financial market participants and products supervised by the FMA	2017	2018	Licences issued in 2018	Market exits in 2018
Banking Division				
Banks	15	14	0	1
Investment firms	1	1	1	1
Payment institutions	0	0	0	0
Liechtenstein Postal Service	1	1	—	—
External auditors under the Banking Act	5	5	0	0
E-money institutions	3	4	1	0
Securities and Markets Division				
Asset management companies	109	109	3	3
IUG				
Active management companies (MCs)	11	5	1	7
Domestic investment funds 2005	143	26	0	117
Domestic investment funds 2015	5	9	6	2
Foreign investment funds (AIF and UCITS)	291	359	107	39
Audit firms (only under IUG)	10	0	0	10
Audit firms (only under IUG 2015)	3	6	3	0
UCITSG				
Active management companies (MCs)	12	12	0	0
UCITS	221	223	17	15
Audit firms	10	11	1	0
AIFMG				
Large AIFMs	13	14	1	0
Small AIFMs	0	0	0	0
Administrators	0	0	0	0
Risk managers	1	1	0	0
Selling agents	2	2	0	0
AIFs	111	231	137	17
Audit firms	10	10	0	0

Table 1a
Financial market participants and products supervised by the FMA

Financial market participants and products supervised by the FMA	2017	2018	Licences issued in 2018	Market exits in 2018
Insurance and Pension Funds Division				
Insurance undertakings	38	38	2	2
External auditors under the VersAG	10	10	0	0
Insurance intermediaries	64	57	1	8
Pension schemes	21	18	0	3
External auditors under the BPVG	14	14	0	0
Pension insurance experts under the BPVG	18	18	0	0
Pension funds	5	4	0	1
Other Financial Intermediaries Division				
Professional trustees	147	152	8	3
Trust companies	247	243	6	10
Auditors	45	43	42*	4
Auditors established in Liechtenstein	4	4	2*	0
Audit firms	28	28	0	0
Patent lawyers	7	6	0	0
Patent law firms	3	3	0	0
Persons with a licence under the 180a Act	213	211	13	15
Casinos	0	2	2	0

Table 1b
Financial market participants and products supervised by the FMA

* now also including auditors licensed under the SPG

Financial market participants under the free movement of services	2017	2018
Banking Division		
Free movement of services of EEA banks	241	249
Free movement of services of EEA investment firms	2,070	2,110
Free movement of services of EEA payment institutions	314	312
Free movement of services of e-money institutions	143	179
Free movement of services of EEA-regulated markets	16	16
Branches of EEA investment firms	1	1
Insurance and Pension Funds Division		
Free movement of services of EEA and Swiss insurers	364	392
Branches of Swiss insurers	10	11
Branches of EEA insurers	3	2
Securities and Markets Division		
Free movement of services of EEA investment undertakings	280	348
Free movement of services of EEA management companies	19	22
Investment undertakings with third-country market authorisation	11	11
Other Financial Intermediaries Division		
Auditors engaged in free movement of services	38	40
Audit firms engaged in free movement of services	18	18
Patent lawyers engaged in free movement of services	0	2

Table 2
Financial market participants under the free movement of services

Category	Number of changes	Main changes
Banks	62	– Changes to general management – Changes to board of directors – Changes to internal audit/key functions – Changes to qualifying holdings – Changes to articles of association – Changes to business regulations – Opening of representative office/branch
Investment firms	0	
E-money institutions	11	– Changes to general management – Changes to board of directors – Changes to articles of association – Changes to internal audit
External auditors under the Banking Act/ E-Money Act/Payment Services Act	3	– Senior auditors
Asset management companies	49	– Changes to general management – Changes to board of directors – Changes to articles of association – Change of audit firm – Changes to qualifying holdings – Change of name
Active management companies authorised under the IUG, UCITSG, AIFMG	23	– Changes to general management – Changes to board of directors – Changes to document templates – Change of audit firm
IUs for other values	0	
IUs for qualified investors	1	– Separation of subfund
IUs for a community of interests	5	– Conversion of IU 2005 to AIF/UCITS or IU 2015
IUs for single investors	2	– Conversion of IU 2005 to AIF/UCITS or IU 2015
UCITS	105	– Conversion of IU 2005 to AIF/UCITS or IU 2015 – Change-over to UCITS V – Mergers – New unit classes – New subfunds – Change of name – Change of asset manager – Change of depositary
AIFs	171	– Conversion of IU 2005 to AIF/UCITS or IU 2015 – Mergers – New subfunds – Change of name
Insurance undertakings	79	– Changes to general management – Changes to board of directors – Outsourcing of functions – Changes to key functions – Changes to qualifying holdings
Professional trustees	0	
Trust companies	57	– Changes to general management – Changes to board of directors – Change of person actually managing the company – Change of insurance – Changes to qualifying holdings – Change of business name
Persons with a licence under the 180a Act	7	– Conversion to dormant status
Audit firms	1	– Change of business name

Table 3
Changes to licences

Ongoing supervision

The goal of ongoing supervision of the individual supervised financial intermediaries is to ensure permanent compliance with the licensing conditions, especially the financial resources of market participants.

Part of ongoing supervision is also verification of compliance with due diligence obligations to combat money laundering and terrorist financing. With the entry into force of the revised Due Diligence Act as part of implementation of the 4th EU Anti-Money Laundering Directive at the beginning of September 2017, the FMA introduced a risk-based audit system during the reporting year. A key element is the risk classification of persons subject to due diligence. For this purpose, a Risk Assessment System (RAS) was created.

In the Banking Division, the Supervisory Review and Evaluation Process (SREP) was fully implemented. The SREP comprises the analysis of the institution's business model, the assessment of internal governance and controls throughout the institution, and the assessment of capital risks and liquidity and financing risks. In this way, the FMA assesses the risks to which the individual institutions are exposed. The results form the basis for any supervisory measures.

Undertakings providing investment services to clients have had to comply with the MiFID II and MiFIR requirements since 1 January 2018. The FMA verifies compliance with the comprehensive regulatory framework under MiFID II in a multi-year audit cycle. In addition to MiFID II and MiFIR, the regulatory frameworks relating to EMIR, central securities depositories, market abuse, credit rating agencies II/III, short selling, securities financing transactions, benchmarks, and disclosure must also be implemented by the institutions concerned. In the year 2018, EMIR – a key component of market regulation – was incorporated into the EEA Agreement. Depending on the progress of the further incorporation procedures and the applicability of the regulatory frameworks in the national legal order, these will be increasingly included in the FMA's supervisory practice.

The Solvency II supervisory system for insurance undertakings introduced in 2016 was further refined during the reporting year. Supervision in this supervisory system is not carried out on a date-related basis, but on an ongoing basis, which leads to greater security for insurance undertakings. One focus of supervision was on the management rules, which are incorporated into the calculation of the important SCR solvency ratio. The modelling of the management rules can significantly affect the SCR ratio. The FMA therefore audited the management rules and demanded adjustments from insurance undertakings. Furthermore, reinsurance contracts were reviewed in light of possible circumvention of the formula-based solvency capital requirements. Further developments will be closely monitored.

The FMA is the competent quality assurance body for supervisory and statutory audits performed by auditors. The first quality assurance reviews were carried out in 2013. 2018 was thus the sixth year of the first cycle of external quality assurance reviews. A review cycle lasts six years, within which period an auditor must undergo at least one quality assurance review. Up to and including 2018, all of the licensed statutory auditors and audit firms that fall into the first review cycle and conduct statutory audits in Liechtenstein have undergone a quality assurance review. The quality assurance review carried out in 2018 again revealed deficiencies in the design of the internal quality assurance system and in the execution of mandates. In particular, these defects concerned the documentation of the internal quality assurance system as well as the processes for accepting and continuing statutory audit mandates as well as implementation of internal follow-up processes. It was also noted that in some cases, no consistency check was carried out between the annual report and the annual accounts. The intensity of the involvement of the auditor responsible for the engagement (partner involvement) also did not meet expectations in some cases.

On-the-spot inspections/inspections

An on-the-spot inspection is an audit activity within the framework of ongoing supervision and enforcement by the FMA on the premises of the financial intermediary. On-the-spot inspections are used to check compliance with supervisory requirements and to identify violations. In 2018, the FMA carried out 23 on-the-spot inspections. In addition, the FMA accompanied four inspections by mandated auditors. In one case, the FMA mandated an auditor to conduct a special on-the-spot investigation (for inspections in due diligence supervision, see the chapter on due diligence supervision). The main reasons for the inspections were operational risks, governance, risk management, litigation, capitalisation, or the head office.

Auditing

As part of its auditing activities, the FMA evaluates the audit reports submitted by the auditors. On behalf of the FMA, auditors perform a risk-based audit of compliance with the regulatory requirements by the financial intermediaries. Where deficiencies arise, the FMA takes the necessary measures or sanctions the financial intermediary in accordance with the legal requirements.

The audits are based on the FMA's Audit Guideline. The Audit Guideline governs the audit standards to be observed in the audits and reports of the external auditors authorised under special legislation, and it serves to ensure the high quality and uniform administration of audits. The uniform and detailed requirements governing audits make a significant contribution to the convergence of supervisory practice and implementation of risk-based supervision.

Category	Audit reports	Deficiencies	Deficiencies mainly in the following areas
Banks	15	52	– Liquidity – Organisational requirements – SPG (transaction monitoring)
Investment firms	1	0	
E-money institutions	2	1	– Documentation of risk assessment
Asset management companies	109	30	– Organisational requirements, especially in the context of MiFID II
(Fund) management companies	19	9	– Reporting requirements, organisational requirements
Funds	489	58	– Investment limit violations, valuation uncertainties, NAV processes, fund accounting
Insurance undertakings	38	49	– Organisational requirements, especially pursuant to Solvency II – Reconciliation of PGR balance sheet with Solvency II balance sheet – Liquidity
Insurance intermediaries	63	0	
Pension schemes	19	1	– Funding ratio
Pension funds	5	2	– Investment violations

Table 4
Review of audit reports

The audit specifications were revised in the course of 2018. The reorientation is intended to further strengthen the involvement of the FMA and expand the management of the auditors. The audit areas have been focused more strongly in terms of content and have been made more risk-based, i.e. the focus of auditors and the FMA should increasingly be on those areas that actually contain risks.

Reporting

Under special legislation, financial intermediaries are required to provide the FMA with the data necessary to evaluate the company and its risks. On the basis of the reports, the FMA verifies compliance with regulatory requirements and follows the business development of the supervised financial intermediaries in a timely manner. In the year under review, reporting was further expanded through new regulations.

During the reporting year, banks and investment firms had to submit ICAAP/ILAAP questionnaires to the FMA for the first time. With this information, the FMA verifies compliance with the basic legal requirements relating to the risk management. They are an important part of the Supervisory Review and Evaluation Process (SREP).

Category	Reports
Banks	1,276
Investment firms	28
E-money institutions	30
Asset management companies	327
Management companies	68
Funds	898
Insurance undertakings	394
Insurance intermediaries	64
Pension schemes	56
Pension funds	13
TOTAL	**3,154**

Table 5
Reporting

Additional reporting obligations also arise for market players as a result of market regulations. As part of the transaction monitoring for transactions in financial instruments under Article 26 MiFIR, data on approximately six million transactions was transmitted to the FMA's system in the reporting year.

The reporting system has been further substantially expanded with the introduction of risk-based due diligence supervision to combat money laundering. Using the FMA's e-Service platform, the financial intermediaries subject to due diligence electronically report the information used to assess risk-based supervision.

The exchange of data between the supervised financial intermediaries and the FMA is increasingly being carried out via the FMA's e-Service portal. It allows efficient and secure data transmission.

Management meetings

FMA representatives hold regular management meetings with members of the general management and board of directors of supervised entities. The main topics in the reporting year were business strategy, business development, market developments, risk assessment, MiFID II requirements, and regulatory developments. Brexit and the introduction of risk-based due diligence supervision were also discussed. 55 management meetings were held during the reporting year.

Occupational pensions: Applications for cash payouts/Verification of association

The FMA is responsible for processing cash payout applications. In addition to the possibility of applying directly to the pension scheme for a cash payout of any vested pension benefits, cash payout applications for credit balances already deposited in a blocked vested benefits account can be filed with the FMA. In the reporting year, the FMA approved 147 applications and denied 62. The main reasons for positive cash payout decisions were permanent departure from the Liechtenstein/Switzerland economic area and the assumption of self-employed work by the applicant.

The FMA is also responsible for verifying employers' association with a pension scheme and compliance with their obligation to pay contributions for employees insured in Liechtenstein. In the reporting year, the Old Age and Survivors' Insurance Authority (AHV) and the pension schemes reported 176 cases in which the employers had failed to join a pension scheme or to contribute in full. In nine cases, the reports led to a criminal complaint due to neglect of legal obligations relating to the payment of contributions or the obligation to join a pension scheme.

Due diligence supervision

The FMA carries out regular inspections on compliance with the provisions of the Law on Professional Due Diligence to Combat Money Laundering, Organised Crime, and Terrorist Financing (Due Diligence Act, SPG) or has such inspections carried out by auditors or audit firms. The audits include both formal and substantive inspections of the plausibility of the due diligence performed. The FMA may also define focus areas for the regular audits or carry out focus audits itself. During the reporting year, the auditors had to use the work papers prescribed by the FMA for their audits for the first time and, in cases of violations, inform the FMA in a comprehensive and timely manner.

For the purpose of risk assessment, the FMA collects information from the persons subject to due diligence each year through its reporting system. If the annual risk assessment of the persons subject to due diligence indicates higher risks, the FMA may shorten the audit cycle.

Where there are indications of misconduct, the FMA also carries out clarifications and, if necessary, extraordinary on-the-spot inspections. The FMA pursues violations and takes the appropriate measures. Depending on the facts of the case and the circumstances, the auditors and audit firms must also consult the FMA either during the performance of the inspections or at the final meetings. In the year 2018, the FMA's involvement in inspections was requested in the case of a total of seven persons subject to due diligence and in final meetings in the case of 19 persons subject to due diligence.

Since 2018, auditors have for the first time been required to report to the FMA the hours worked for due diligence inspections at persons supervised by the Other Financial Intermediaries Division. This is intended to ensure that a pool of auditors is available with the necessary expertise in connection with due diligence inspections.

As part of regular due diligence inspections, banks are audited annually, and investment firms, payment service providers, and e-money institutions are audited every four years for compliance with due diligence legislation. As a rule, these audits are carried out by mandated audit firms under the supervision of the FMA. A total of 462 business relationships were audited. 55 deficiencies were found. A large part of the deficiencies related to the business profiles (45% of the deficiencies) and risk-adequate monitoring, in particular shortcomings in the level of detail of the profiles or defects in the plausibility check of the transactions (15% of the deficiencies). In the reporting year, the FMA accompanied regular due diligence inspections in two cases. The FMA also carried out an extraordinary due diligence audit of a business relationship.

Printed matter
"Despite new information carriers: What is not written on paper or printed, will one day, maybe even tomorrow, be irretrievably lost."
HP Leibold


GESCHEIT -

An audit is conducted each year for every company engaged in life insurance. Life insurance intermediaries are audited in a four-year cycle. A total of 491 business relationships were audited at life insurance undertakings in 2018. Deficiencies arose primarily from inadequate or incorrect documentation with regard to the verification of the identity of the beneficial owner and the contracting party (approx. 5% of the samples) and from shortcomings relating to the delegation of due diligence obligations (approx. 4% of the samples). A total of 36 business relationships with life insurance intermediaries were audited. Deficiencies primarily concerned inadequate internal organisation and incomplete fulfilment of the documentation requirements (approx. 5% each of the samples).

In the past, asset management companies were subject only to limited due diligence, but since 1 September 2017 they have had to comply with all due diligence obligations. Compliance with due diligence obligations at asset management companies is regularly audited every four years. The inspection is carried out in part by mandated auditors and in part by the FMA itself.

Fund management companies have no longer been subject to due diligence since 1 September 2017, although all funds themselves will be directly subject to due diligence upon expiry of a transitional provision. Funds are regularly audited every four years for compliance with due diligence obligations. Fund management companies permitted to manage individual portfolios, however, are subject to due diligence with regard to this additional service. Among the audited 22 asset management companies and two management companies/AIFMs, a total of 21 violations and 27 deficiencies were identified. In particular, shortcomings were identified in regard to identification of the beneficial owner (11 violations, 1 deficiency), PEP clarification (5 violations, 3 deficiencies), risk assessment (1 violation, 5 deficiencies), internal instructions and reporting (1 violation each, 3 deficiencies each), and identification of the contracting party (3 deficiencies).

A need for improvement was identified in regard to absent or incomplete business profiles, risk-adequate monitoring of business relationships, and in basic and continuing training.

Among the 15 funds audited, the origin of some of the assets was not sufficiently documented in the business profile (2 deficiencies). In one case, the identification of the beneficial owner was unclear (1 deficiency).

All intermediaries subject to due diligence under the supervision of the Other Financial Intermediaries Division – including, in particular, professional trustees and persons with a licence under the 180a Act – are in general inspected every three years to ensure that their due diligence obligations are met. In 2018, a total of 178 financial intermediaries and 686 business relationships were audited. 154 deficiencies were identified. Numerous deficiencies were due to the fact that the expressiveness of the business profiles could be improved (approx. 4.6% of the samples). Shortcomings were also found in regard to identification of the contracting party and beneficial owner (approx. 6% of the samples).

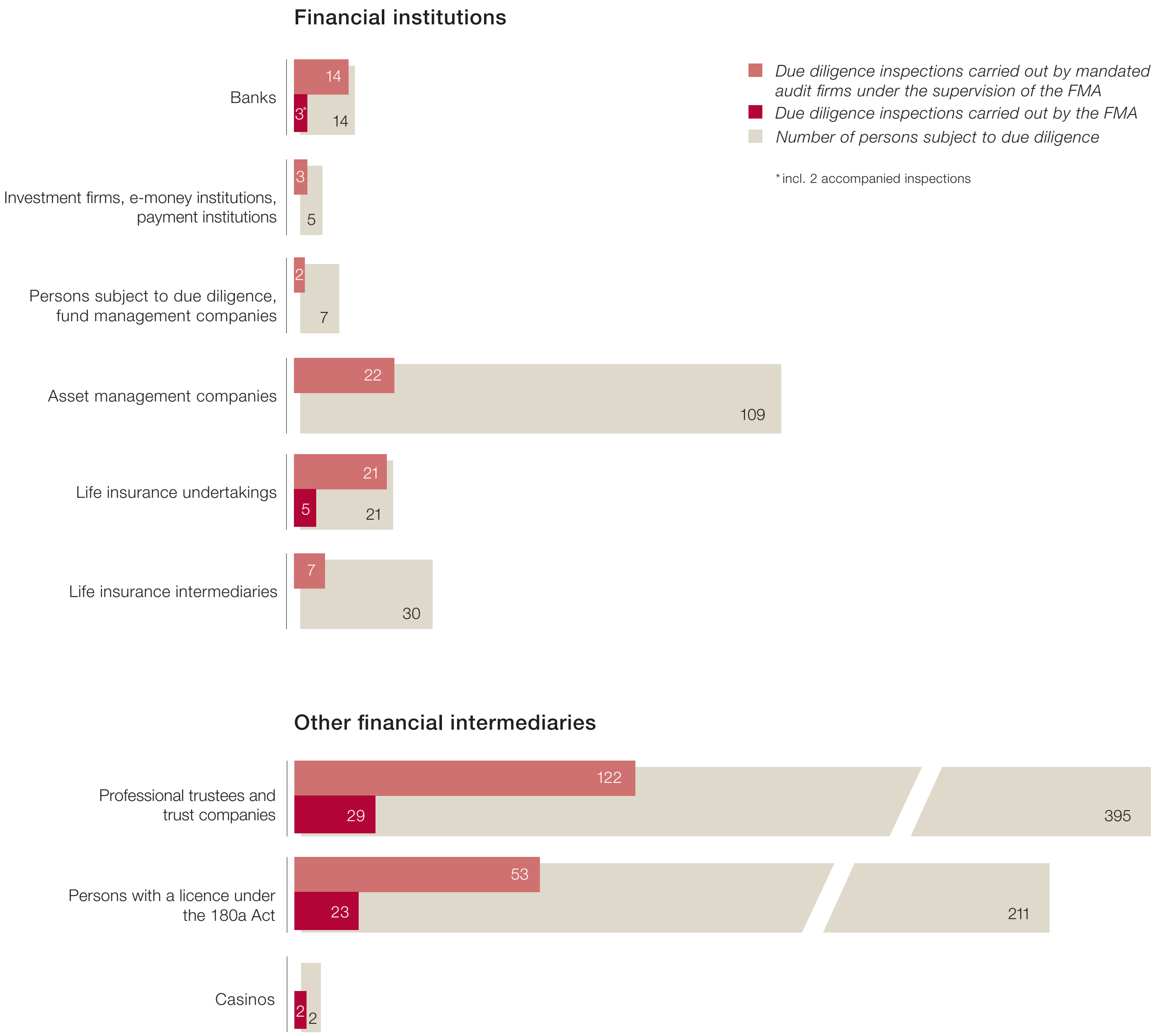

Figure 2
Due diligence inspections

The deficiencies related in particular to cases in which not all legally required details concerning the identity were documented in the due diligence file.

For the purpose of fully developed risk-based supervision, the FMA carried out – in addition to the regular inspections performed by the auditors and audit firms at entities supervised by the Other Financial Intermediaries Divisions – focus audits at 45 persons subject to due diligence concerning the appropriateness and effectiveness of the compliance organisation (internal functions). Supplementing this, the Other Financial Intermediaries Division carried out extraordinary audits at nine persons subject to due diligence on the basis of specific circumstances.

In the case of casinos, the FMA monitors the appropriateness and effectiveness of the measures and processes set out in the due diligence concept to ensure compliance with the obligations under due diligence legislation. For this purpose, the FMA conducts annual inspections at the casinos as part of regular due diligence audits.

During the reporting year, the FMA carried out such on-the-spot inspections at the two casinos licensed in Liechtenstein. The implementation and functioning of the processes and regulations of the due diligence concept in ongoing gaming operations as well as compliance with the obligations under due diligence law were audited. In addition, the FMA carried out inspections of the camera surveillance systems together with the Office of Economic Affairs. After prior consultation with both casinos, adjustments were also made to the reporting system to increase the expressiveness of the reported data.

International administrative assistance

The FMA provides international administrative assistance to foreign authorities relating to prudential supervision and securities supervision. Through administrative assistance, the FMA contributes substantially to the investigation and uncovering of international cases of market abuse and thus to the protection of clients. The international significance of the provision of international administrative assistance is great, and it is of fundamental importance to the financial centre.

Reporting obligations under stock exchange law	1
Insider trading	1
Market manipulation	10
Good standing	6
Consolidated supervision	1
Activity without a licence	5
Other	2
Referral requests	1

Figure 3
Reasons for administrative assistance requests

In 2018, the FMA was requested in 27 cases to provide administrative assistance relating to securities. Compared with the previous years, this figure is decreasing. Overall, however, the cases are becoming increasingly complex.

In 14 cases during the reporting year, the prohibition of disclosure of the foreign request to the information holder was lifted, and the 36 persons concerned were informed accordingly about the FMA's execution of the request for administrative assistance. This number is juxtaposed with merely one request for inspection of files in ongoing administrative assistance proceedings.

In total, the information holders submitted more than 3,500 pages to the FMA, which were subsequently reviewed by the FMA. Following such a review, the FMA submits an application to the president of the Administrative Court for transmission of the compiled documents. In 2018, the relevant documents were transmitted to the requesting authority in 27 cases, taking into account the comments of the Administrative Court in its ruling.

For the first time during the reporting year, the FMA had to deal with an administrative assistance case that had already been concluded, in which the final decree was challenged. The information holder in Liechtenstein – on the one hand the governing body of a Liechtenstein foundation, and on the other hand a professional trustee within the meaning of the Professional Trustees Act (PTA) – had originally objected to the transmission of documents, but surrendered them after the FMA had informed the information holder that an enforcement decree had been issued. The complaint of the person affected by the request of the foreign authority against the final decree

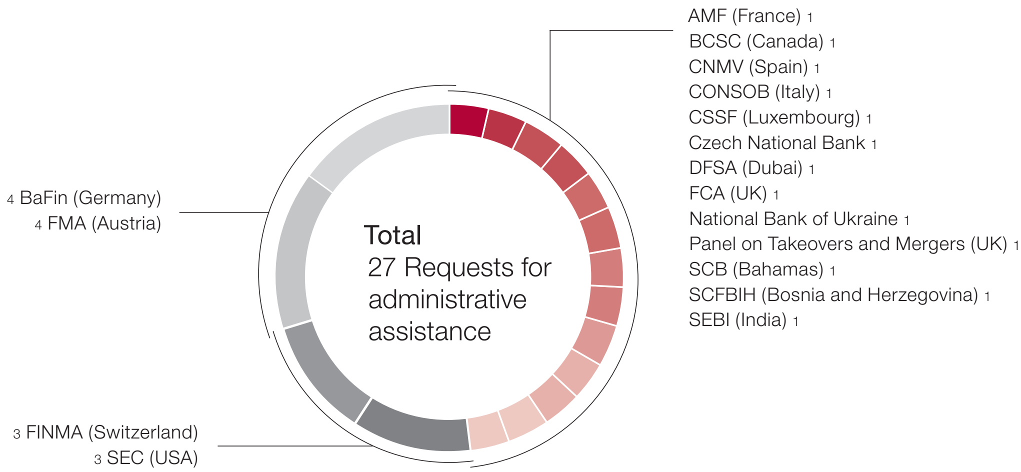

Figure 4
Requests for administrative assistance by authority

issued after the prohibition of disclosure had been lifted resulted in a plea to pronounce the transmission of the information unlawful. The complainant claimed that the transmission of information to the FMA violated fiduciary secrecy.

The FMA Complaints Commission (FMA-CC) did not grant the complaint and stated that fiduciary secrecy does not prevent the FMA from obtaining information if – as was the case here – the FMA is to be regarded as a "supervisory body" as referred to in the second sentence of Article 21(1) of the Professional Trustees Act (TrHG) when obtaining information for the purpose of administrative assistance. The FMA-CC also referred to a judgment of the Constitutional Court in a comparable case, according to which the provisions of Section IVa of the Financial Market Authority Act (FMAG) constitute a sufficient legal basis for the encroachment upon secrecy and privacy. The FMA-CC confirmed that, due to this explicit legal basis, the sovereignty of the State could not be impaired by the granting of administrative assistance and the associated breach of fiduciary secrecy.

Enforcement

The term "enforcement" covers the objective of the supervisory authority defined in Article 4 of the FMA Act (FMAG) to combat abuses. Enforcement captures all activities for which the FMA determines whether an infringement has actually occurred on the basis of indications of infringements of supervisory law. If an infringement has occurred, the FMA orders the enforcement measures and sanctions necessary to restore a lawful state of affairs by way of contestable decrees, and it monitors their implementation.

As of the end of 2018, 18 administrative proceedings and 27 administrative criminal proceedings were pending at the FMA. Administrative proceedings are proceedings for the enforcement of financial market rules governed by public law. Administrative criminal proceedings are proceedings carried out by the FMA to sanction violations of (supplementary) criminal law provisions set out in financial market legislation. As of the end of 2018, preliminary investigations were underway in nine cases. During the reporting year, 109 proceedings and preliminary investigations were completed.

Numerous proceedings and preliminary investigations were conducted for violation of due diligence obligations. Anti-money laundering was a focus of supervision. Further proceedings and preliminary investigations were conducted due to suspected violations of risk management provisions, licensing conditions, capital requirements, obligations in dealing with large exposures, reporting obligations, and notification obligations. In one case, there was suspicion of false information in the reporting, and in another case there was suspicion of indirect involvement in a fraud network. In a further case, proceedings to withdraw a licence were initiated against a bank due to serious violations of risk management provisions and the Due Diligence Act. The company was also fined CHF 200,000. Several proceedings concerned suspicion of the exercise of activities without the required licence. The FMA further verified the trustworthiness of persons serving on governing bodies on the basis of criminal charges and withdrew one licence to work as an insurance intermediary.

During the reporting year, the FMA took action against trust companies in which persons were reported as actually active in management who, although they possessed the necessary qualifications, did not, on several occasions, actually work in management at all or to the legally required extent. The FMA imposed legally binding fines on eight persons in the total amount of CHF 80,000. In FMA Communication 2018/4, the FMA interpreted the wording “actually engaged in management”. This is intended to prevent the use of straw men as persons actually engaged in the management of trust companies.

The FMA communicated a very elaborate supervisory case in February 2019. The FMA ordered the compulsory transfer of the insurance portfolio of two insurance undertakings to another. About 2,800 policies with a total volume of CHF 3.8 billion were affected by the transfer. Already in the year 2016, the FMA had appointed a special representative for the two insurance undertakings in order to protect customers.

In 2018, the FMA filed 21 criminal charges with the Office of the Public Prosecutor. If the FMA becomes aware of the suspicion of a criminal offence to be prosecuted ex officio relating to its legal sphere of action, it is required to report it. Criminal charges have been brought, for instance, for violations of the Due Diligence Act and Banking Act, fraud offences, and the unlawful performance of activities requiring a licence. In nine cases, the FMA filed charges against employees due to failure to comply with legal obligations such as the payment of contributions or the obligation to join an occupational pension scheme.

In 2018, the FMA received eight indications of alleged violations of the law via the whistleblowing section on the FMA’s website. The reports concerned irregularities in the investment of funds, suspicious FinTech business models, violations of governance provisions, suspected fraud, and money laundering. In three cases, the proceedings were discontinued, while in two cases criminal charges were filed; in two cases, the report was forwarded to the competent body such as the Financial Intelligence Unit. At the end of 2018, one case had not yet been closed. In the reporting year, the FMA also received information through other channels.

FMA PRACTICE: INFORMATION ON SUPERVISORY ACTIVITIES

The FMA published its “FMA Practice” on 5 July 2018. The publication serves to provide in-depth information on the supervisory practice of the FMA. It provides information in anonymised form on the FMA’s decisions and decrees, the decisions of the FMA Complaints Commission, and the rulings of the Administrative Court in connection with financial market supervision in 2016. FMA Practice aims to enhance legal certainty and transparency with regard to the supervision of the Liechtenstein financial market as practiced by the FMA.

In 2018, the FMA published six warning notices on its website. The FMA warned that, in their capacity as means of payment or investment objects, virtual currencies can entail risks such as significant price fluctuations or security risks. In two cases, the FMA warned against operators of websites that purported to be domiciled in Liechtenstein. In a further warning notice, the FMA urgently advised against making investments through a specific website. Using the name of a company that actually exists in Liechtenstein, the operators claimed to be offering financial services in Liechtenstein. The FMA warned that investors could suffer a total loss of their supposed investments. The FMA further warned against bogus policies under the name of a Liechtenstein insurance undertaking on the Italian market. In another case, the FMA drew attention to a company that did not hold a licence to take up insurance activities.

Activities of the resolution authority

The Liechtenstein resolution authority located at the FMA is responsible for implementation of the EU Directive on the Recovery and Resolution of Credit Institutions and Investment Firms (BRRD) and the corresponding national legislation (Recovery and Resolution Act, SAG).

Due to the cross-border activities of the Liechtenstein banks, cooperation with the European and international partner resolution authorities is key. The Liechtenstein resolution authority takes part in resolution colleges and is responsible for organising them in the case of internationally operating Liechtenstein banks. In 2018, a first resolution plan for a banking group also operating in Liechtenstein was adopted.

During the reporting year, the resolution authority for the first time had to calculate and prescribe the contributions of the banks and investment firms to the resolution financing mechanism. The resources of the resolution financing mechanism are intended to ensure the effective application of the resolution instruments and powers in the event of resolution, while protecting public funds. In the event of resolution, the mechanism may be used, for example, to provide capital for a bridge institution or a wind-down company. The amount of contributions to the resolution financing mechanism to be paid by Liechtenstein banks and investment firms depends on their liabilities (excluding own funds) minus covered deposits in relation to aggregated liabilities (excluding own funds) minus covered deposits of all institutions authorised in Liechtenstein. These contributions are also adjusted in accordance with the risk profile of the institutions. In total, contributions of CHF 5.7 million were levied in the year 2018. The resolution financing mechanism is administered by the establishment for the financing of financial market stabilisation measures.

The resolution authority was also involved in the national implementation of an amendment to the BRRD. For the purpose of improving the resolution of banks and increased legal certainty for investors, the directive introduced a new category of "non-preferred" senior debt. In bankruptcy, this debt is ranked ahead of own fund instruments and other subordinated liabilities that are not considered own fund instruments. This amendment was a consequence of the Total Loss-absorbing Capacity (TLAC) Term Sheets adopted by the Financial Stability Board (FSB) and the G20 and the implementation thereof in the BRRD. The aim of the TLAC standards is to ensure that global systemically important banks have the required loss-absorbing and recapitalisation capacities, in order to prevent taxpayers from having to rescue banks.

Resolution continues to be a priority topic both internationally and at the EU level. The Liechtenstein resolution authority relies heavily in this regard on the activities of the Single Resolution Board (SRB) headquartered in Brussels.

Pressed
"In the spindle press, the paper receives its final form, the haptics, and the smoothness."
HP Leibold

Creditor and shareholder participation: Bail-in as a resolution instrument

With the creation of the Recovery and Resolution Act (SAG), the bail-in instrument for the conversion and write-down of certain creditor claims was also created in Liechtenstein. In addition to the sale of the company, the creation of a bridge institution, and the separation of assets, the bail-in is one of four resolution instruments that the SAG makes available to the resolution authority. The aim of the resolution regime for banks and investment firms is to ensure the continuity of critical financial and economic functions of a financial institution and to minimise costs for the state and taxpayers. This is in contrast to the numerous bail-outs of financial institutions by various countries during the financial crisis. The bail-in instrument ensures that the owners and creditors of the failing institution bear losses to an appropriate extent and take over an appropriate part of the costs arising from the failure of the institution.

As part of a bail-in, the resolution authority may in particular order the write-down of ownership titles (equity capital) and the write-down or conversion of eligible liabilities (parts of the debt capital) into equity capital. With the conversion of eligible liabilities, an institution can recapitalise, or capital may be provided for a bridge institution. Additionally, the bail-in instrument may also be used in the context of the sale of a company or the separation of assets.

When using the bail-in instrument, first the common equity Tier 1 (CET1) capital – consisting mainly of share capital, premium, and retained earnings – is reduced to zero and cancelled. Next, the additional Tier 1 capital (AT1 capital) and secondary capital (Tier 2 capital) and, where available, other subordinated liabilities and eligible liabilities are written down. Subsequently, eligible liabilities are converted into new common equity Tier 1 capital in order to adequately recapitalise the institution.

In order for a bail-in to be successful, banks and investment firms must maintain sufficient liabilities (eligible bail-in instruments), also in light of the fact that certain categories of debt capital are wholly exempt from a bail-in and therefore enjoy special protection. These include covered deposits, secured liabilities, and outstanding wage claims of employees.

To ensure sufficient eligible liabilities, all banks and investment firms must meet a minimum requirement for own funds and eligible liabilities (MREL). This MREL ratio is determined by the resolution authority on an institution-specific basis and depends on the resolution strategy. The MREL ratio consists of a loss absorption amount and – if the application of resolution measures to an institution is in the public interest, which is especially the case for systemically important institutions – a recapitalisation amount plus a market trust charge.

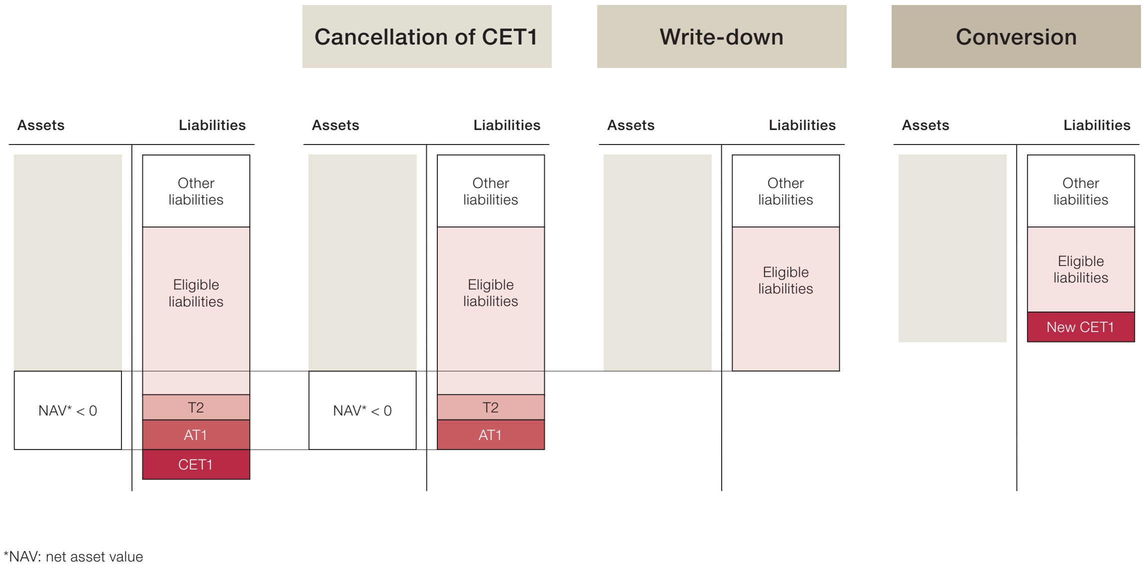

Figure 5
Steps of a bail-in

BAIL-IN
Additional information on bail-in and calculation of the MREL ratio.

Outlook

When combating money laundering, the FMA examines compliance with the stricter provisions of the 4th EU Anti-Money Laundering Directive using a consistent risk-based approach. Starting 1 April 2019, the FMA's activities in money laundering prevention will be concentrated in a specific organisational unit and strengthened in terms of personnel. The FMA will also intensify its own inspection activities. The FMA pays particular attention to the correct identification of the beneficial owners of assets, business relationships with persons from high-risk countries, and monitoring of the origin of new money in the Liechtenstein financial centre.

The FMA will closely accompany the developments in connection with the planned withdrawal of the United Kingdom from the European Union. The European Supervisory Authorities strive to ensure uniform procedures of the national supervisory authorities in the EEA. In 2018, the FMA further specified the necessary measures for dealing with cyber risks in FMA Communication 2018/3. Compliance with these standards will be a focus of the 2019 audit round. Risk identification arrangements and protective measures as well as crisis management capabilities will be examined in particular.

In addition to the opportunities, the FMA also deals with the risks of technology-based business models. One focus is on combating abuses of law, in particular the exercise of activities subject to a licence without an FMA licence or the circumvention of regulatory provisions.

With regard to MiFID II, the FMA examines compliance with the comprehensive regulatory framework in a multi-year audit cycle. In 2019, in-depth audits will be conducted on investor information and customer reporting, investment advice, suitability and appropriateness checks, inducements, record-keeping obligations, and transaction reporting under Article 26 MiFIR.

In the supervision of insurance undertakings, the focus is on auditing the application of management rules and reinsurance solutions in regard to the solvency capital requirement (SCR), key functions and outsourcing in connection with governance, reporting, and conduct supervision.

In the professional trustee sector, the FMA is focusing on the audit of the persons actually engaged in management and the compliance organisation. With regard to compliance organisation, the existence of a documented SPG compliance system as well as the implementation and effectiveness thereof are being audited.

With membership on the European Systemic Risk Board (ESRB) and the planned creation of a national macroprudential authority in the form of a Financial Market Stability Board, macroprudential supervision is also becoming increasingly important.

The Liechtenstein resolution authority will focus on the definition and development of resolution strategies. These form the basis for the preparation of resolution plans. The first indications of ratios for the minimum requirement on own funds and eligible liabilities (MREL) for systemically important Liechtenstein banks will also be discussed by the resolution authority with the banks concerned.

PRIORITIES OF SUPERVISION

In October 2018, the FMA published its Priorities of supervision in 2019 on its website.
In doing so, it is making a contribution to transparency vis-à-vis financial service providers.

Laws supervised and enforced by the FMA

As of 31 December 2018, the FMA is responsible for supervising and enforcing the Financial Market Authority Act (FMAG) as well as the following laws, including the associated implementing ordinances and European Level II measures.

1 Law on Banks and Investment Firms (Banking Act)
2 E-Money Act (EGG)
3 Law on the Liechtensteinische Landesbank
4 Payment Services Act (ZDG)
5 Law on Settlement Finality in Payment and Securities Settlement Systems (Settlement Finality Act)
6 Law on the Disclosure of Information concerning Issuers of Securities (Disclosure Act; OffG)
7 Securities Prospectus Act (WPPG)
8 Alternative Investment Fund Managers Act (AIFMG)
9 Investment Undertakings Act (IUG)
10 Law on the Liechtenstein Postal Service (Postal Act)
11 Professional Trustees Act (TrHG)
12 Auditors and Auditing Companies Act (WPRG)
13 Patent Lawyers Act (PAG)
14 Law on the Supervision of Persons under Article 180a of the Law on Persons and Companies (180a Act)
15 Law on the Supervision of Insurance Undertakings (Insurance Supervision Act; VersAG)
16 Law on Professional Due Diligence for the Prevention of Money Laundering, Organised Crime and Financing of Terrorism (Due Diligence Act; SPG)
17 Occupational Pensions Act (BPVG)
18 Law on Insurance Protection of Buildings against Fire Damage and Damage from Natural Hazards (Building Insurance Act)
19 Asset Management Act (VVG)
20 Insurance Distribution Act (VersVertG)
21 Law on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act; PFG)
22 Law against Market Abuse in the Trading of Financial Instruments (Market Abuse Act; MG)
23 Law on Takeover Bids (Takeover Act; ÜbG)
24 Law on the Supplementary Supervision of Undertakings in a Financial Conglomerate (Financial Conglomerates Act; FKG)
25 Law on Occupational Pensions of the State (State Pensions Act; SBPVG)
26 Law on Certain Undertakings for Collective Investment in Transferable Securities (UCITSG)
27 Law implementing Regulation (EU) No 236/2012 on short selling and certain aspects of credit default swaps (EEA Short Selling Regulation Implementing Act; EWR-LVDG)
28 Law implementing Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR Implementing Act; EMIR-DG)
29 Law implementing Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIP Implementing Act; PRIIP-DG)
30 Law on the Recovery and Resolution of Banks and Investment Firms (Recovery and Resolution Act; SAG)
31 Law implementing Regulation (EC) No 1060/2009 on credit rating agencies (CRA Implementing Act; CRA-DG)

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REGULA-TION

Nine years after the G20 summit in Pittsburgh, the financial sector is much more heavily regulated than before the financial crisis. Individual basic legal acts have already been revised at the European level, and new regulatory frameworks are being added. In addition to the density of regulation, the depth of regulation is also increasing. During the reporting year, Liechtenstein transposed several European directives into national law. For example, new rules have been established for deposit guarantees, and the Pension Funds Act has been comprehensively revised. The creation of an institutional framework for macroprudential policy and supervision strengthens the FMA's macroprudential supervision. The FMA has identified a need for action in the supervision of the fiduciary sector.

Regulatory activity remains at a high level

At the height of the financial crisis in 2008, the G20 agreed that no financial centre, no financial product, and no financial market player should remain unregulated. Indeed, ten years later, the financial sector is substantially more heavily regulated than before the crisis. The basic goals of regulation were to increase the crisis resistance of the financial sector, to create transparency, and to strengthen customer protection.

Regulation of the financial sector is by no means complete, however. New rules are being added at both the global and EU levels. At the same time, existing regulations are being adjusted, corrected, designed to be more appropriate to size (proportionality), or adapted to new circumstances. The legislative power of the EU, which is of primary relevance to Liechtenstein due to the country's EEA membership, is focusing on amendments to the supervisory and resolution regime for banks (CRD/CRR V, BRRD II), regulation of new financial technologies, completion of the European Capital Markets Union (CMU), and tightening the regime for combating money laundering and terrorist financing. The latter is motivated in particular by recent money laundering scandals and terrorist acts.

Apart from the sheer number of new regulatory projects, their increasingly high level of detail is also a relevant factor. In addition to the density of regulation, the depth of regulation is also increasing, i.e. the regulations to be implemented by Liechtenstein leave less leeway for financial market players as well as for the financial market supervisory authorities. While there are isolated tendencies to strengthen the principle of proportionality, according to which smaller financial intermediaries are subject to less stringent rules than large institutions, the general trend remains unchanged. This trend can also be seen in the high density of Level II and Level III legal acts.

At the global level, there is a trend towards increased international cooperation among financial market supervisory authorities. The aim is to ensure consistent implementation of the international standards.

Creation of an institutional framework for macroprudential policy and supervision

In September 2018, the Government adopted the report and application on amendment of the Financial Market Act to establish an institutional framework for macroprudential policy and supervision. The FMA prepared the report and application on behalf of the Government.

The European Systemic Risk Board (ESRB) is responsible for macroprudential supervision of the EEA financial system with the aim of contributing to the prevention or mitigation of systemic risks to financial market stability in the EEA. In particular, the ESRB is tasked with issuing recommendations and corrective measures on identified risks. The EEA Member States must then comply with these recommendations. Recommendation ESRB/2011/3 requires EEA Member States to designate a national authority responsible for implementing macroprudential policy.

In order to implement this recommendation, the Government proposed a law establishing a Financial Market Stability Committee. The committee is to be composed of two representatives each from the Ministry for General Government Affairs and Finance (MPF) and the FMA, with the MPF acting as the chair and the FMA as the secretariat. The committee's mandate includes discussing any facts relevant to financial market stability, dealing with warnings and recommendations of the ESRB, submitting recommendations to the Government or the FMA, and issuing warnings and recommendations itself. As necessary, the committee works together with the ESRB and the relevant EEA partner institutions. The law establishing this committee is scheduled to enter into force on 1 May 2019.

Deposit guarantee strengthened

The EU Deposit Guarantee Schemes Directive creates a uniform level of protection for depositors in the European Economic Area. As part of the national implementation of the directive, the Government adopted the report and application to Parliament on enactment of the Deposit Guarantee and Investor Compensation Act (EAG) and the amendment of other laws in November 2018. The FMA prepared the report and application on behalf of the Government. The EAG will enter into force in June 2019.

The core task of the deposit guarantee scheme is to protect depositors from the consequences of the insolvency of a bank. All banks that accept deposits must be members of a protection scheme. The depositors of Liechtenstein banks are protected. The insured amount is CHF 100,000 per depositor and bank. The refund period is being gradually reduced to seven working days.

This broadened and clarified scope of coverage, faster repayment periods, improved information, and robust funding requirements are intended to strengthen the confidence of depositors in Liechtenstein's deposit protection. Another change is the gradual changeover from a deposit scheme financed purely ex post to a scheme in which the funds for the compensation case are raised ex ante by the banks.

The EAG expands the tasks, rights, and duties of the FMA. In the future, the FMA will have supervisory powers with regard to the protection schemes. The FMA is responsible for the recognition and ongoing monitoring of deposit guarantee and investor compensation schemes. In particular, the FMA is responsible for the ongoing monitoring of the Deposit Guarantee and Investor Compensation Foundation PCC (EAS), which will operate the statutory protection scheme.

Payment Services Directive: Promoting innovation in payment transactions

The EU Payment Services Directive (PSD 2) creates a uniform legal framework for payment service providers in the EU internal market. Its objectives are to promote innovations in electronic payment methods and transactions and to increase efficiency and security in payment transactions. The PSD 2 creates new information and liability provisions designed to ensure greater protection for customers. Strict conditions for customer authentication are prescribed, and the scope of the previous exceptions is limited. The PSD 2 also sets out a definition of two new financial intermediaries, namely the payment initiation service provider and the account information service provider.

The FMA was mandated by the Government to prepare the implementation act. Following the completion of the consultation process, the FMA prepared the report and application for legislative drafting and review.

The new Payment Services Act entails additional responsibilities for the FMA. For instance, more detailed rules on licensing are provided, which means that existing licensing processes for payment institutions have to be revised. In addition, two new categories of financial intermediaries will be added, for which new licensing and registration processes as well as ongoing supervision will have to be implemented.

Residential real estate: New lending rules

The EU Mortgage Credit Directive (MCD) creates a uniform legal framework for the provision of mortgage credit agreements to consumers in the EU single market. In addition, a new licensing regime for credit intermediaries is being introduced.

The MCD covers all loans taken out by consumers for the purchase of residential property as well as certain loans for the renovation of residential property secured by a mortgage. The MCD introduces several new features for mortgage lenders: On the one hand, pre-contractual information requirements are introduced to ensure that all consumers who purchase a property or take out a loan secured by their residential property are adequately informed of the possible risks. On the other hand, uniform standards for creditworthiness assessment by lenders and standards for the remuneration and training of employees involved in the provision of mortgage loans are set out. For the first time, the MCD also introduces licensing conditions and information requirements for credit intermediaries.

The FMA was mandated by the Government to participate in the drafting of an implementation law by the Office of Economic Affairs. In 2018, the FMA participated in the preparation of the draft consultation report and, in terms of content, contributed primarily to topics that have a nexus with the FMA's legal scope of responsibilities.

Partial revision of the AIFM Act: Strengthening competitiveness

In December 2018, the Government adopted the consultation report on the Law amending the Alternative Investment Fund Managers Act (AIFMG). The FMA drafted the consultation report on behalf of the Government.

Since the incorporation of the AIFM Directive into the EEA agreement in 2016, the provisions on cross-border business activities (EEA passport provisions) have been applicable in Liechtenstein. Since then, the number of Liechtenstein alternative investment funds (AIFs) has increased from 22 to 221 as of the end of 2018. In the context of the conversions of funds under the Investment Undertakings Act 2005 into AIFs and the expanded application of the AIFMG, some opportunities for improvement of the AIFMG were identified.

The purpose of the revision is to bring the provisions more into line with the minimum requirements of the AIFM Directive and in particular to amend the provisions on small AIFMs, legal forms, product regulation, structural measures, and marketing investors.

The goal of the revision is to provide market participants with an efficient legal basis. The envisaged streamlining and simplification of the law will further strengthen the competitiveness and attractiveness of the Liechtenstein fund centre.

In addition, the partial revision serves to implement various EU regulations relating to the AIFMG which open up new business opportunities with a view to the distribution of European Venture Capital Funds (EuVECA), European Social Entrepreneurship Funds (EuSEF), European Long-term Investment Funds (ELTIF), and Money Market Funds (MMF).

Regulatory framework for benchmarks: New rules for indices

During the reporting year, the FMA finalised the report and application on enactment of a law implementing the EU Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

The EU regulation establishes a uniform regulatory framework throughout the EEA for benchmarks and their administrators and serves in particular to protect consumers and investors. The provisions are intended to ensure that benchmarks produced and used in the EEA or in third countries are robust, reliable, representative, and suitable for the intended use. The FMA is endowed with specific powers and administrative measures as well as a punitive regime for the purpose of effective enforcement.

Reform of securities prospectus law: Strengthening investor protection

In January 2019, the Government adopted the report and application on enactment of an EEA Securities Prospectus Implementing Act. On behalf of the Government, the FMA prepared the consultation report and subsequently compiled the report and application.

The purpose of the draft law is to reform the existing securities prospectus law with a special focus on uniform, equivalent investor protection. It also aims to reduce the administrative and cost burden of prospectus preparation, especially for small and medium-sized enterprises (SMEs), issuers of secondary issues, and regular issuers. The Securities Prospectus Implementation Act is scheduled to enter into force on 21 July 2019.

Proposal for revision of the Professional Trustees Act

At its annual media conference on 18 April 2018, the FMA announced that it had identified a need for action in the supervision of the fiduciary sector. The FMA justified this with business practices that had been the subject of critical media coverage on several occasions and in light of several cases of fraud. For the FMA, the protection of clients and the reputation and thus the credibility of the financial centre have the highest priority.

On behalf of the Ministry for General Government Affairs and Finance, the FMA subsequently prepared a proposal for a revision of the Professional Trustees Act (PTA) and made it available to the Ministry at the end of October 2018. According to the FMA's proposal, several provisions in the current version of the PTA should be adjusted to current needs and international standards, and existing legal loopholes should be closed. Transparent regulation and stringent supervision are necessary to safeguard quality in the fiduciary sector, to strengthen confidence in the industry, and to prevent abuses.

The powers and competences of the FMA were last extended with the entry into force of the comprehensively revised PTA on 1 January 2014. The FMA's supervision of professional trustees and trust companies mainly includes monitoring compliance with the due diligence provisions to combat money laundering.

The FMA is also responsible for issuing licences, monitoring compliance with the licensing conditions, and withdrawing licences.

Comprehensive revision of the Pension Funds Act

In July 2018, the Government adopted the report and application concerning comprehensive revision of the Pension Funds Act (PFG). With this legislative proposal, Liechtenstein is transposing the EU Directive on the activities and supervision of institutions for occupational retirement provision (IORPs) into national law. On behalf of the Government, the FMA prepared the report and application and revised the Pension Funds Ordinance (PFV). The law and ordinance entered into force on 13 January 2019 according to schedule.

The new provisions are intended to facilitate the operation of occupational retirement provision in the European single market and also to promote the mobility of workers between Member States. In addition, the corporate governance requirements for pension funds were adjusted in line with the directive. For instance, the law contains further requirements for the assessment and existence of professional qualifications and reputation of the management, formulates the need for key functions, and contains provisions for the remuneration policy of the management. The law also contains more detailed provisions on the duty to provide information to pension beneficiaries.

As part of the implementation of the revised supervision legislation, selective adjustments to supervisory processes and the updating of instructions are necessary.

REGULATORY ACTIVITIES OF THE FMA

In accordance with the owner strategy, the FMA supports the Government in regulatory projects. For this purpose, a service agreement was concluded between the Government and the FMA in 2011. The FMA's regulatory reporting listed 20 regulatory projects in the process of implementation at the end of 2018. Additionally, the FMA regulatory works to implement numerous technical regulatory and implementing standards of the European Union. In addition to the drafting work in the legislative process, implementation of the new legal bases in the supervisory processes may also be time-consuming. A selection of regulatory projects is described in the Annual Report.

Outlook

Due to the upcoming elections to the European Parliament in May 2019 and the associated limited capacity of the European legislative bodies to act, a reduced number of newly adopted regulatory projects at the EU level can be expected in 2019. Nevertheless, both the financial market players and the financial market supervisory authorities face considerable challenges in implementing and enforcing regulatory projects.

A comprehensive legislative package to reduce risk in the European banking sector is scheduled for publication in 2019. This package provides for the strengthening of the framework for bank resolution. In particular, the TLAC standard is to be fully incorporated into the BRRD, and harmonisation must be carried out with the minimum requirement for own funds and eligible liabilities (MREL). In addition, the own funds requirements for banks are to be tightened, in part by defining a binding debt ratio and a binding structural liquidity ratio. At the same time, the principle of proportionality for small and medium-sized banks is to be better taken into account, especially with regard to reporting and disclosure requirements. Furthermore, in 2019 important EU enactments such as the Deposit Guarantee Schemes Directive and the Payment Services Directive (PSD II) will be transposed into national law. The Alternative Investment Fund Managers Act (AIFMG) will also be revised in order to strengthen the competitiveness and attractiveness of the Liechtenstein fund centre. An institutional framework for macroprudential policy and supervision will also be established.

Already in 2018, the consultation took place on the Law on Transaction Systems Based on Trustworthy Technologies (Blockchain Act, VTG). Due to the great potential of the "token economy" for large parts of the economy, the Government intends to use this law to strengthen legal certainty for users and service providers in order to support the positive development of the token economy in Liechtenstein. The consultation report envisages that the FMA be entrusted with enforcement of parts of the VTG such as the registration of TT service providers.

Flood of regulations in the financial sector

Since the FMA was founded in 2005, the number of laws and ordinances under the supervision and enforcement of the FMA has risen sharply. In addition to the national legal bases, a significant number of delegated legal acts and implementing acts (Level 2 acts) have also been added since the reorganisation of the European System of Financial Supervision in 2011. Finally, numerous guidelines issued by the European Supervisory Authorities (Level 3 acts) complement the regulatory landscape in the financial market sector.

The level of detail and the complexity of financial market regulation have risen dramatically. While the laws falling within the competence of the FMA comprised 450 pages in 2005, they had grown to nearly 1,800 pages by 2018.

19 — 2005
25 — 2008
32 — 2018
LAWS

12 — 2005
18 — 2008
27 — 2019
ORDINANCES

121 — 2014
201 — 2018
PAGES
Banking Act (BankG)

68 — 2015
275 — 2016
ARTICLES
Insurance Supervision Act (VersAG)

450 — 2005
1,800 — 2018
PAGES OF LEGISLATION
Total

Regulations of the FMA Liechtenstein

The following overview shows the regulations issued, amended, or comprehensively revised by the FMA in the reporting year.

Guidelines

FMA Guideline 2018/2 – Secure liquid assets with low risk
Defines "secure liquid assets with low risk" as part of the safeguarding requirements under the ZDV.

FMA Guideline 2018/1 – Investment and management of contributions by the establishment for the financing of financial market stabilisation measures
Defines the principles for the management of the financial assets of the establishment for financial market stabilisation measures.

FMA Guideline 2013/2 – Due diligence inspections by mandated due diligence auditors
Further specifies the requirements for the performance of due diligence inspections under the SPG and PSV.

Communications

FMA Communication 2018/4 – Tasks and responsibility of the person "actually engaged in management" of a trust company
Defines the term "actually engaged in management" under the TrHG.

FMA Communication 2018/3 – Dealing with cyber risks
Sets out the FMA's expectations of financial intermediaries in dealing with cyber risks.

FMA Communication 2018/2 – Professional qualification requirements under the Insurance Distribution Act
Further specifies the requirements for the professional qualifications of insurance distributors, reinsurance intermediaries, and reinsurance undertakings.

FMA Communication 2018/1 – Professional trustees and trust companies as depositaries
Defines the requirements for professional trustees and trust companies as depositaries for alternative investment funds.

FMA Communication 2017/3 – Electronic reporting in accordance with due diligence law
Provides information on the electronic reporting system under the SPV.

FMA Communication 2016/1 – Requirements and obligations in connection with the depositary function for AIF and UCITS
Sets out the provisions governing the depositary function and the practical requirements for compliance with the applicable legal obligations.

FMA Communication 2015/7 – Determination of beneficial owners under the Due Diligence Act
Further specifies the requirements governing the determination of the beneficial owner.

FMA Communication 2015/2 – Complaint handling
Defines guidelines for handling complaints in securities trading and banking.

FMA Communication 2015/1 – Electronic transactions (e-Services)
Governs the use of the e-Service portal and the e-Services available on it.

FMA Communication 2013/7 – Guarantee of sound and proper business operation
Sets out the permanent licensing condition for the guarantee of sound and proper business operation.

Instructions

FMA Instruction 2018/23
Recognition under special legislation as an auditor under the IUG, AIFMG, UCITSG, and VVG

FMA Instruction 2018/22
Agents

FMA Instruction 2018/21
Change to licensing requirements under the Insurance Distribution Act

FMA Instruction 2018/20
Licensing of an audit office under special legislation

FMA Instruction 2018/19
Licensing of a bank or investment firm

FMA Instruction 2018/18
Licensing of an e-money institution

FMA Instruction 2018/17
Cross-border activity under the freedom to provide services or the establishment of a branch or permanent presence

FMA Instruction 2018/16
Implementing provisions for EMIR

FMA Instruction 2018/15
Information requirements and conduct of business rules under the Insurance Distribution Act

FMA Instruction 2018/14
Use of the semi-annual reporting form for asset management companies

FMA Instruction 2018/13
Reports to be submitted to the FMA by the audit firms/auditors

FMA Instruction 2018/12
Notifications and reports to be submitted periodically to the FMA

FMA Instruction 2018/11
Reports to be submitted to the FMA on a case-by-case basis

FMA Instruction 2018/10
Notification of domestic asset management companies

FMA Instruction 2018/9
Grant of a licence under the Insurance Distribution Act

FMA Instruction 2018/8
Requirements for systematic internalisers

FMA Instruction 2018/7
General and sector-specific interpretation of due diligence law

FMA Instruction 2018/6
Supervisory assessment of qualifying holdings in e-money institutions under the E-Money Act

FMA Instruction 2018/5
Verification of guarantee of sound and proper business operation for payment services

FMA Instruction 2018/4
Verification of guarantee of sound and proper business operation for e-money institutions

FMA Instruction 2018/1
Occupational pensions

FMA Instruction 2017/13
Duty to report and approve articles of association and regulations

FMA Instruction 2017/7
Liquidity requirements under CRR/CRD IV

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EXTERNAL RELA-TIONS

The FMA has further intensified its international cooperation through meetings and colleges of supervisors within the framework of group supervision with foreign partner authorities – especially in the German-speaking and Asian countries. In European supervisory bodies and working groups, the FMA represents the interests of Liechtenstein. Due to their broad range of responsibilities, specialists from the FMA have a high level of expertise. They were able to pass on their knowledge at 60 specialist events. In addition, the Non-Life Insurance Conference and the presentation of the Financial Stability Report took place during the reporting year.

Annual media conference: Focus on combating money laundering

On 18 April 2018, the FMA invited the media to the traditional annual media conference and provided information on the development of the individual sectors in the financial centre.

Chairman of the Board of Directors Roland Mueller and Chief Executive Officer Mario Gassner drew attention to the great importance of an effective and credible fight against money laundering for the Liechtenstein financial centre. Violations of anti-money laundering provisions could have far-reaching negative consequences for the entire financial centre. Efforts to combat money laundering therefore increasingly moved into the focus of the FMA's activities as well. During the reporting year, the FMA introduced risk-based supervision in the fight against money laundering. Supervision resources are thus being used in a targeted manner and applied in accordance with the respective risk of the person subject to due diligence.

We engage in dialogue with national and international stakeholder groups.

Core principles of the FMA

The speakers identified a need for action in the supervision of the fiduciary sector. Business practices in this sector and several cases of fraud have been the subject of critical media coverage. For the FMA, the protection of clients and the reputation and thus the credibility of the financial centre have the highest priority.

Transfer of knowledge and information to the market and universities

FMA employees have a high level of expertise and broadly diversified specialist knowledge. Through the FMA's participation and representation in the European and global supervisory organisations, the FMA also has access to first-hand information. The FMA strives to pass this knowledge on to the financial market participants and, with this transfer, to create added value for financial intermediaries and students at universities. In the reporting year, a total of 20 employees gave 69 presentations at 60 professional events or at the invitation of business associations, mostly in Liechtenstein, but also in European countries and the United States. Specialists from the FMA were in great demand on the complex topic of new financial technologies and their regulation. Another focus was on regulatory issues in banking law and due diligence law.

The FMA maintains close cooperation with the University of Liechtenstein and passes on knowledge to students and professionals in continuing training courses offered by the university. For this purpose, the FMA mainly teaches as part of master's, bachelor's, diploma, and certificate programmes at the Institute for Finance at the University of Liechtenstein. During the reporting year, seven employees of the FMA taught at universities.

Liechtenstein Non-Life Insurance Conference

On 15 November 2018, the Liechtenstein Non-Life Insurance Conference took place at the SAL in Schaan. The non-life insurance industry has recently recorded high premium growth. In 2017, the premium income of CHF 2.7 billion generated by non-life insurance undertakings exceeded the premium income generated by life insurance undertakings for the first time. This positive development is mainly attributable to the establishment of new non-life insurance undertakings in Liechtenstein, thus demonstrating not only the attractiveness of the local framework conditions, but also the further development of the Liechtenstein insurance centre into an increasingly diversified and consequently more resilient location.

Speakers from renowned and internationally active insurance companies such as Allianz Global Corporate & Specialty SE, Zurich Switzerland, Swiss Re, and W. R. Berkley Corporation illuminated topics that are particularly challenging for the insurance industry today. The focus was on digitalisation in the insurance sector and InsurTech. Prime Minister Adrian Hasler addressed the conference with welcoming remarks. He emphasised the great importance of digitalisation also for Liechtenstein, in which there is great potential for innovation. The Government attaches accordingly great importance to the promotion of innovation.

FMA presents report on the stability of the Liechtenstein financial sector

In November, the FMA presented the Financial Stability Report on the stability of the financial sector. About 100 people, including H.S.H. Prince Alois von und zu Liechtenstein and representatives of the Liechtenstein Parliament attended the presentation in Vaduz. Mario Gassner, Chief Executive Officer of the FMA, and Martin Gaechter, Head of Macroprudential Supervision, explained the most important findings of the report. Prime Minister Adrian Hasler addressed the event with welcoming remarks. The Financial Stability Report is an important component of macroprudential supervision, contributing to international recognition, the stability of the financial centre, and thus its success.

Over the past few years, Liechtenstein has established a well-balanced system for ensuring financial stability. With the implementation of the CRD IV package in February 2015, standard instruments have become

Liechtenstein Non-Life Insurance Conference: Full house in Schaan
Alexander Imhof, Head of Insurance and Pension Funds Division, FMA Liechtenstein; Chris Fischer Hirs, Group CEO, Member of the Board of Management, Allianz Global Corporate & Specialty SE; Prime Minister Adrian Hasler.

Growth

available at the European level for designing macroprudential policy. The Recovery and Resolution Act, which entered into force at the beginning of 2017, creates a uniform mechanism for efficient and effective crisis management at banks and investment firms. The FMA and the Liechtenstein Government are also represented on the European Systemic Risk Board (ESRB). This has further strengthened Liechtenstein's international integration and macroprudential supervision.

Transfer of know-how for digital transformation

In its digital strategy, the FMA has set itself the goal of playing an active role in the development and design of the digital financial ecosystem. In this context, the FMA joined the digital-liechtenstein.li initiative in September. digital-liechtenstein.li is a platform for digital innovation and networking for Liechtenstein. The initiative is borne by the shared vision of all members that Liechtenstein develop into a leading digital business location. The initiative combines forces from politics, business, and research, creates access to relevant networks and platforms, and makes it possible to transfer critical know-how for digital transformation. The platform is under the patronage of the Government of the Principality of Liechtenstein.

Work meetings in Hong Kong, Singapore, and Berlin

During the reporting year, the Chairman of the Board of Directors and the Chief Executive Officer of the FMA conducted work meetings in Hong Kong, Singapore, and Berlin. The goal of these meetings is to promote knowledge about the Liechtenstein financial centre among important decision-makers and to strengthen trust in the financial centre.

The topics discussed in Hong Kong and Singapore included barriers to market access for Liechtenstein financial market participants – especially in Hong Kong and China – as well as the challenges posed by the further spread of innovative technologies and business models. The Asian market is a growth market with increasing importance for Liechtenstein's financial intermediaries. At the same time, Asian investors have invested in Liechtenstein financial institutions.

With the meetings with the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission of Hong Kong (SFC), and the Monetary Authority of Singapore (MAS), the FMA also strengthened bilateral relations. The interests of Liechtenstein and Liechtenstein financial intermediaries were addressed in the meetings with the national supervisory authorities, and the current challenges and opportunities in the Asian market were discussed.

In Berlin, the FMA leadership and the Liechtenstein ambassador in Berlin met with members of the German Bundestag and representatives of the public authorities and private sector to discuss developments in the financial sector. Germany is an important market for Liechtenstein's banks, insurers, asset managers, the fund industry, and the fiduciary sector.

The goal of these meetings is to address the interests of Liechtenstein and Liechtenstein financial intermediaries. The focus of the discussions was on regulation and supervision of the financial markets. Other issues discussed included automatic exchange of information (AEOI), combating money laundering and terrorist financing, and dealing with cyber risks.

Bilateral cooperation

At the European and international level, there has been a trend towards enhanced cooperation between authorities for some time. This trend continued in the reporting year. This is due in part to the steadily increasing activity of international standard setters, and in part due to the close cooperation between the financial market supervisory authorities in group supervision set out by numerous regulations. A close exchange took place with foreign partner authorities in this context.

In general, the trend towards growing importance of the Asian region continues. For this reason, the FMA intensified its relations with various Asian supervisory authorities. Due to the great importance of the close ties between the Liechtenstein and Swiss financial centres, regular and close exchanges with the Swiss Financial Market Supervisory Authority (FINMA) also take place.

In November 2018, the heads of the supervisory authorities of Germany, Austria, Switzerland, and Liechtenstein met in Vienna to discuss key developments in financial market supervision. This traditional meeting of the national financial market authorities of the German-speaking countries is held each year in one of the four countries. The focus was on regulatory developments relating to new financial technologies and the protection of national supervisory authorities and financial intermediaries from cyber risks.

The FMA also took part in numerous thematic meetings of the supervisory authorities of the German-speaking countries. In May, a meeting of the audit supervisory authorities took place in Vaduz, followed by an exchange on accounting in June and – for the first time – an exchange of the German-speaking gaming supervisory authorities in November.

The goal of these meetings is to address the interests of Liechtenstein and Liechtenstein financial intermediaries.

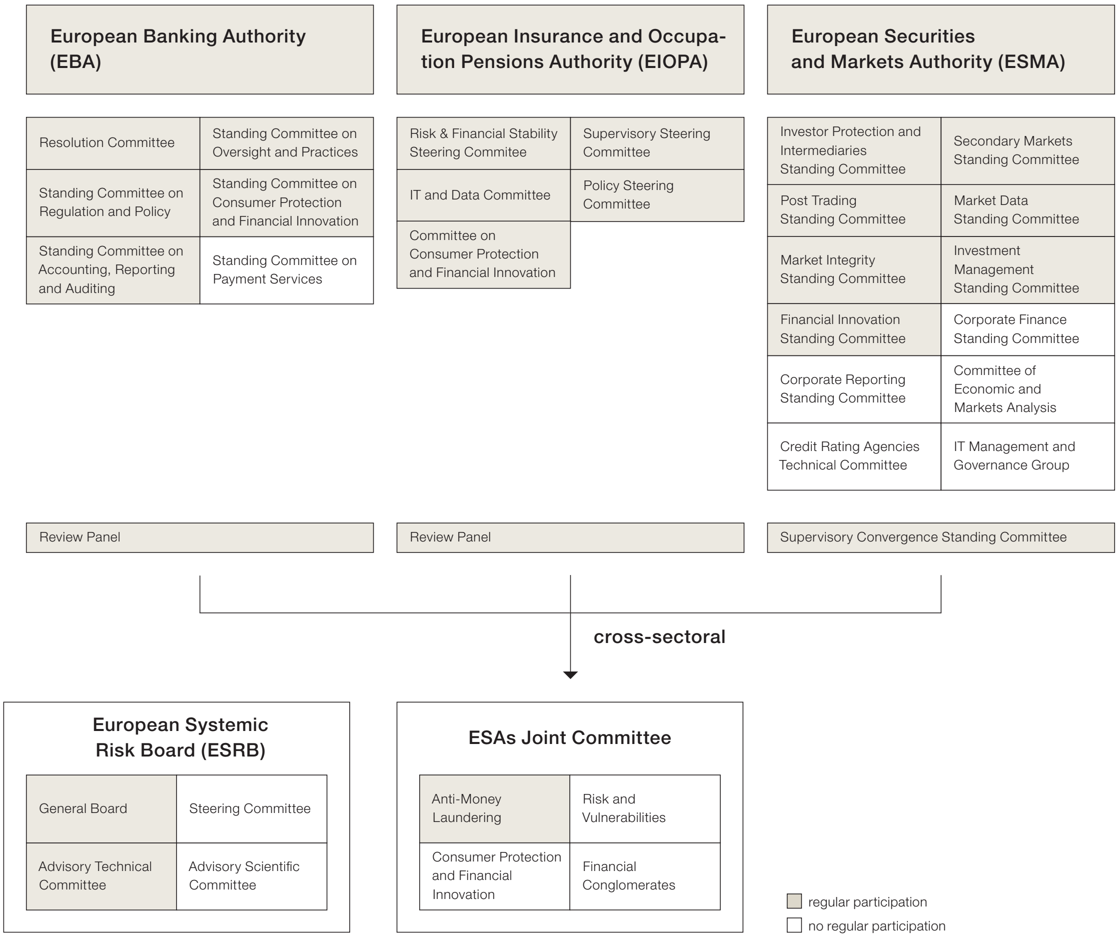

Figure 6
Cooperation in the European System of Financial Supervision

European cooperation

The FMA is a full member of the European Supervisory Authorities (ESAs) and participates in numerous committees and working groups of the ESAs relevant to the Liechtenstein financial centre.

The ESAs are responsible for ensuring that the rules governing financial market supervision are implemented and applied consistently and equivalently throughout Europe. An important instrument for that purpose is the peer review, with which the ESAs examine the supervisory practice of the individual national supervisory authorities. In the reporting year, the FMA was involved in two peer reviews of the European Supervisory Authorities.

In the Banking Division, a peer review relating to passporting was completed in 2018. As part of the peer review, the technical standards in the notification procedure were reviewed. The peer review did not give rise to any significant need for action on the part of the FMA. Another peer review in the reporting period also concerned the Banking Division. The results are still outstanding. During the reporting year, the FMA also received 27 questionnaires from the ESAs. One of the aims of these questionnaires is to examine supervisory practice. They also serve to gather information about new risks and trends, to harmonise supervisory practice, and to serve as a basis for regulation.

1,192 MEETINGS WITH CLIENTS

The FMA receives guests every day in its client zone. Approachable authorities are a location advantage of Liechtenstein. In 2018, the FMA held 1,192 meetings with external clients in the Bardella, Caselva, Galina, and Silvaplana meeting rooms – 42 more than in the previous year. The busiest month was May with 116 meetings. With 73 meetings, August was the quietest month. Once again, there was great interest among companies in the FinTech sector. The Regulatory Laboratory invited participants for 75 meetings. The FMA is an accessible and service-oriented authority.

Global cooperation

The FMA is a member of the most important global supervisory bodies, where it represents Liechtenstein interests. These bodies include the International Association of Insurance Supervisors (IAIS). Martin Gaechter, Head of Macroprudential Supervision at the FMA, was appointed to the IAIS macroprudential committee in February. The FMA is also represented in the International Organisation of Pension Supervisors (IOPS) and the International Organization of Securities Commissions (IOSCO). Liechtenstein is a member of the International Forum of Independent Audit Regulators (IFIAR) and of MONEYVAL, the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism. MONEYVAL is one of the eight FATF-style regional bodies (FSRBs) of the Financial Action Task Force (FATF). The regional bodies must fully implement the FATF standard and report regularly as associated members of the FATF. Like the FATF, the regional bodies also carry out peer reviews of their member countries. During the reporting year, MONEYVAL considered and adopted the peer review reports on Albania and Latvia.

In addition, several reports were adopted to monitor members' progress in addressing the deficits identified during past assessments. Liechtenstein presented such a progress report to the plenary meeting in the reporting year. This concludes the fourth round of assessments for Liechtenstein. In the coming year, the fifth round of assessments will be held in various jurisdictions. An FMA specialist will act as assessor for Cyprus.

In the reporting year, the FMA participated in the annual meeting of the Enlarged Contact Group (ECG). The ECG is an association of securities supervisors at the global level. The authorities discuss specific supervisory issues in the fund sector.

Outlook

At the international level, the FMA strives for even stronger networking with other supervisory authorities and international organisations. With the FMA's membership on the ESRB and the planned creation of a national macroprudential authority in the form of a Financial Market Stability Committee, European cooperation will be further intensified.

Cooperation with foreign partner authorities in supervisory work will also continue to increase as a result of the colleges of supervisors and new regulations requiring greater cross-border cooperation. The FMA strives to conclude memoranda of understanding with foreign authorities in a targeted manner.

Work meetings are planned in Germany and Austria in 2019. By cultivating relationships and engaging in exchanges at a high level, the FMA aims to promote knowledge about the Liechtenstein financial centre among important decision-makers and to strengthen trust in the financial centre.

USE OF THE FMA WEBSITE

In the reporting year, 85,049 users (previous year: 74,261) visited the FMA website. The website was visited about 180,000 times (previous year: 150,000). Most views originated in Switzerland, at 27 % (previous year: 27 %). The second-most views were registered from Liechtenstein, at 17 % (previous year: 19 %), followed by Germany (11 %), Austria (9 %), the United States (8 %), and the United Kingdom (6 %). Most users access the website via a search engine (about 64 %) or directly (about 33 %). On average, a user stayed on the website for two minutes and 48 seconds, accessing three pages.

Watermark
"Bound to the sieve are watermarks, indelible insignia and marks of origin, quality, security, and brand."
HP Leibold

ANNUAL REPORT 2018

ENTER-PRISE

The FMA has adopted a digital strategy. It serves as a solid basis for planning and guiding the digital transformation of the FMA. As part of the digital financial ecosystem, the FMA wants to contribute pragmatically and actively to the positive development of the Liechtenstein financial centre. The Regulatory Laboratory has been strengthened in terms of personnel and organisation. At the interface between market and regulation, the Regulatory Laboratory/ Financial Innovation Group within the Executive Office is the contact point for digitalisation in the financial industry and financial innovation. With the stricter requirements and the introduction of risk-based supervision in anti-money laundering, the group is also being given a centralised organisation and strengthened in terms of personnel.

Digital strategy

The FMA has been working intensively on digitalisation for several years. Already in 2010, the Board of Directors adopted a comprehensive IT strategy in response to the trend toward digitalisation. Digitalisation is a challenge for the FMA on three levels: Firstly, the financial markets, businesses, and their business models are undergoing profound changes as a result of digitalisation. The FMA is thus monitoring an increasingly digitally functioning financial sector. Secondly, communication between the FMA and financial market participants is increasingly being carried out via digital channels. This concerns both the licensing and the supervisory processes. Thirdly, the FMA itself is undergoing a phase of digital transformation in which its business processes are increasingly being digitised.

In the spring of 2018, the Board of Directors and the Executive Board adopted a digital strategy and approved a roadmap based on that strategy. The digital strategy serves as a solid basis for planning and guiding the digital transformation of the FMA in the medium term. The roadmap defines coordinated projects with a time horizon through 2022.

The FMA has formulated ambitious goals in its digital strategy. As part of the digital financial ecosystem, the FMA aims to contribute to its positive development in a pragmatic and active way. The FMA aims to promote innovation with pronounced flexibility and speed and for Liechtenstein to be perceived as an innovation-friendly location. On the basis of a high level of digital competence, the FMA as a supervisory authority aims to accompany the digital transformation of the financial centre and to reduce the risks of new business models. The FMA's solutions are information offerings and digital interfaces through which interactions between the FMA and the financial market participants are handled efficiently and securely.

The revised IT strategy was already adopted in November 2017. The digital transformation of the FMA is to be made possible and supported by the use of suitable IT resources. In particular, the ever-increasing volume of data in supervisory work is taken into account. For that purpose, the FMA introduced a business intelligence platform during the reporting year. In addition, the internal know-how required for the use of these technologies was also built up. This puts the requisite analysis functions at the disposal of employees to ensure reliable and efficient supervision.

At the technical level, core processes in the areas of licensing, supervision, and enforcement as well as standardised support processes, such as the approval process for invoices and absences, are being digitised. Digitised business processes increase efficiency both at the FMA and at the financial intermediaries with which the FMA interacts. Given the massively increased scope of supervisory responsibilities and the higher complexity, they enable efficient and effective supervision.

Special importance is attached to the human and cultural level. Digitalisation requires a high level of know-how. The FMA promotes the professional qualifications of its employees with a wide range of internal training opportunities and targeted continuing training. In personnel recruitment, the digital know-how of applicants is becoming more important.

But digital know-how alone is not enough. The crucial factor is a corporate culture that supports and promotes digital transformation. During the reporting year, a special code was created for this purpose. The FMA sees digital change as an opportunity for the Liechtenstein financial centre and the country. The FMA aims to be perceived in the market as a competent, accessible, and quickly acting supervisory authority.

Regulatory Laboratory strengthened

Effective 1 June 2018, the FMA strengthened the regulatory laboratory by creating the Regulatory Laboratory/Financial Innovation Group within the Executive Office. At the interface between market and regulation, the group is the contact point for digitalisation in the financial industry and financial innovation. By strengthening the Regulatory Laboratory, the FMA has responded to the growing number of enquiries and the high level of complexity.

The group is headed by Dorothea Rohlfing, who had previously worked in the Banking Division and played a key role in the Regulatory Laboratory. The strengthening of the Regulatory Laboratory was carried out in line with the strategy of the Government and the FMA to promote innovation in the FinTech sector.

Implementation of the EU General Data Protection Regulation

On 25 May 2018, the General Data Protection Regulation of the European Union entered into force. This had a direct impact on the FMA as a data controller and necessitated an adjustment of the requisite internal data protection measures and regulations.

The FMA website was also adjusted to the data protection requirements, and extensive information for financial service providers was published. In addition, all relevant FMA publications such as guidelines, instructions, communications, and forms have been brought into conformity with data protection provisions and supplemented as necessary.

The FMA developed a new data protection concept that will henceforth govern all topics and instructions relevant to data protection law – from the processing of personal data to technical and organisational measures to the archiving and deletion of data. The development of a consolidated data protection concept has created a central basis for the fulfilment of accountability in accordance with the General Data Protection Regulation.

At the initiative of the FMA, an exchange of experiences on the subject of data protection took place with the financial market supervisory authorities of Germany, Austria, and Switzerland in Vaduz.

The FMA was also involved in the drafting process for implementation of the EU General Data Protection Regulation. Due to its regulatory character as an EU regulation, the General Data Protection Regulation had direct effect after its formal incorporation into the EEA agreement. However, the "opening clauses" of the General Data Protection Regulation had to be transposed into national law. As a result, a total of 28 special laws and three special ordinances subject to FMA supervision were revised. The revision of the FMA special laws was integrated into the overall legislative package for the comprehensive revision of the Data Protection Act under the direction of the Office of Justice.

In addition to preparing the necessary draft revisions for the attention of the Office of Justice, the FMA also participated in the consultation process on the comprehensive revision of the Data Protection Act by submitting an extensive opinion.

Corporate Governance

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

The Board of Directors and the Executive Board of the FMA Liechtenstein confirm 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.

Integrated risk management and control system

The work of a financial market supervisory authority entails numerous risks. The FMA therefore has an integrated risk management and control system for the purpose of quality assurance and to avoid damage to reputation, cases of official liability, or organisational failure. In addition to a comprehensive risk management and internal control system (ICS), the FMA's integrated risk management and control system also covers aspects such as information security (ISMS), compliance, personal safety, data protection, and operational and occupational safety.

The integrated risk management and control system of the FMA was further developed in 2018 and expanded in a risk-based manner. In addition to further harmonisation of the FMA's ICS processes, the aspects of data protection and information security (ISMS) received particular attention.

The handling and addressing of cyber risks also played an important role in the context of the integrated risk management and control system. Training of employees in the areas of operational and occupational safety were continued and met with a positive response.

FMA funding

The FMA is funded by a contribution from the State, supervisory taxes and fees, and income from the provision of services. The State contribution was determined by the Liechtenstein Parliament in 2016 and amounts to a maximum of CHF 5 million per year up to and including 2019. In 2019, the State contribution must be reauthorised by the legislative power for the following years.

On 15 January 2019, the Government adopted the consultation report on amendment of the Financial Market Authority Act. In principle, the existing funding system is to be maintained. In particular, the Principality of Liechtenstein is expected to continue to make annual contributions of at most CHF 5 million to FMA funding for the years 2020 through 2023. Furthermore, the consultation report contains a proposal to reduce the maximum amount of reserves step by step. The proposal also provides for selective reductions of fees in the fund sector and increases in supervisory taxes, especially in the area of banking groups and investment firms as well as in the Other Financial Intermediaries Division.

Outlook

During the reporting year, it was decided to concentrate the FMA's anti-money laundering activities of in a specific organisational unit and strengthen them in terms of personnel. The new organisation for money laundering prevention will take effect on 1 April 2019.

The digital strategy adopted by the FMA during the reporting year defines several coordinated projects through the year 2022. In 2019, projects will be carried out at the levels of personnel development, corporate culture, and process optimisation.

A focus of the FMA continues to be on cyber risks. Like the financial intermediaries, the FMA must meet high standards with regard to IT security. In particular, response plans for various scenarios are being developed in the event of attacks.

Paper, the magical substance
"Paper is patient, infinitely malleable – simply complete."
HP Leibold

Organisational chart of the FMA as of 31 December 2018

Board of Directors

Roland Mueller, Chairman
Michèle Borgeaud, Vice Chair
Ivo Furrer
Juerg Meier
Michael Ritter

Executive Board

Mario Gassner, Chief Executive Officer
Alexander Imhof, Deputy of the CEO
Patrick Bont
Marcel Loetscher
Werner Meyer
Martin Schaedler

Resolution Board

Resolution Unit
Dominik Haeuptle

Central Services
Martin Schaedler

Finance/HR
Martin Schaedler

IT/Projects
Roger Guntli*

Reception
Martin Schaedler

Infrastructure
Heinz Schaedler

Executive Office
Mario Gassner

Communications
Beat Krieger

Legal/International Affairs
Dominik Haeuptle

Macroprudential Supervision
Martin Gaechter

Secretary of the Board of Directors
Nadja Rossettini-Lambrecht

Regulatory Laboratory/ Financial Innovation
Dorothea Rohlfing

Banking Division
Patrick Bont

Supervision Section
Markus Meier

Legal Section
Claudia Blasy a.i.

Insurance and Pension Funds Division
Alexander Imhof

Auditing/ Actuarial Section
Beat Waefler

Legal Section
Philipp Fuchs*

Securities and Markets Division
Marcel Loetscher

Supervision Section
Reto Degen*

Legal Section
Claudio Concin

Other Financial Intermediaries Section
Werner Meyer

Supervision Section
Simone Edelmann-Boeniger

Legal Section
Patrik Galliard*

Figure 7 Organisational chart

*Deputy Head of Division or Unit

Governing bodies of the FMA as of 31 December 2018

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

Chairman
Roland Mueller, Staad, Switzerland,
elected from 2010 to 2016 (Vice Chairman)
and from 2017 to 2019

Vice Chair
Michèle Borgeaud, Altendorf, Switzerland,
elected from 2017 to 2021

Members
Ivo Furrer, Winterthur, Switzerland,
elected from July 2011 to June 2016
and from July 2016 to June 2021
Juerg Meier, Eschen,
elected from 2016 to 2020
Michael Ritter, Eschen,
elected from 2010 to 2014 and from 2015 to 2019

Executive Board

Chief Executive Officer
Mario Gassner, Triesenberg

Deputy of the CEO
and Head of Insurance and Pension Funds Division
Alexander Imhof, Vaduz

Head of Banking Division
Patrick Bont, Niederteufen, Switzerland

Head of Securities and Markets Division
Marcel Loetscher, Baden, Switzerland

Head of Other Financial Intermediaries Division
Werner Meyer, Wettswil, Switzerland

Head of Central Services
Martin Schaedler, Triesenberg

Audit Office

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 (RA 2010/463). The responsibilities of the Audit Office are in principle governed by the specific provisions relating to the National Audit Office. The National Audit Office performs this function until the Government decides otherwise.

Figure 8
Governing bodies

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TEAM

The FMA develops its employees. Three employees completed a secondment with sister authorities. They have returned to their workplace in Vaduz with valuable experience. The FMA has introduced junior job rotation for young talent. The model has passed its probationary period. The FMA is an attractive employer for women and men. This should also be clearly reflected in the share of women in management positions. To achieve this, the FMA has adopted a gender diversity strategy. This strategy aims to ensure the compatibility of family and career for women and men in all positions.

Gender diversity strategy for women and men

During the reporting year, the Board of Directors adopted a gender diversity strategy. The reason for this was that even though the share of women at the FMA was more than 40%, the share of women in the management team was much lower. The Board of Directors therefore decided that specific measures should be taken to increase the share of women in leadership positions at the FMA.

The gender diversity strategy is intended to further develop the FMA as a company. It also aims to increase the FMA's attractiveness as an employer and improve its competitiveness in the labour market. As a target, a share of 20% of women in leadership positions by 2021 has been defined. In defining this target, the FMA is taking into account that the turnover in managerial positions is low, and therefore sufficient time must be allowed to achieve the goal. During the reporting year, the share of women in leadership positions was already significantly increased to 15%. In April, a female employee was appointed to head the Regulatory Laboratory/Financial Innovation Group. After the departure of a section head, another female employee took over this position on an interim basis. Effective 1 January 2019, she was promoted to section head and is now working that position part-time.

The gender diversity strategy is a strategy for women and men. Working conditions must be designed in such a way that compatibility of family and career is guaranteed for both sexes at all levels of the hierarchy and in all functions at the FMA. Over the past few years, the FMA has already established a good basis for this by implementing its personnel strategy. This includes flexible working hours with short core times and extended flexible time blocks as well as mobile and flexible working methods using modern work equipment. A key element of the personnel strategy is the option of working from home, which is increasingly being used and appreciated by employees. Within the framework of the gender diversity strategy, part-time work has also been introduced for leadership and project manager functions. This measure is an important factor in increasing the share of women in leadership positions.

On this basis, the gender diversity strategy already takes measures in the recruitment process. Job advertisements for all functions are designed to appear to women and men equally. The goal is to be able to carry out selection procedures with as balanced a share of women and men as possible. In personnel marketing, the compatibility of family and career at the FMA is to be actively communicated. Particular importance is attached to the long-term retention of employees. With a family-oriented corporate culture and appropriate personnel management, compatibility of family and career is to be ensured even in when family situations change, such as when starting a family and having children. Further measures relate to personnel development, which takes special account of the development of women in leadership positions. Monitoring at all levels of strategy implementation helps ensure that the effectiveness of the measures is monitored and that corrections can be made at an early stage.

Insight into the exciting working and living environment of the FMA

The FMA is an attractive employer with multifaceted and exciting areas of responsibility in an international environment. Professional experience at a supervisory authority is also a bonus for later stages of one's career. However, as a financial market supervisory authority, the FMA has only limited points of contact with the general public and thus also with potential employees.

The FMA started using Instagram in the autumn of 2017. This social media channel provides insights into the exciting working and living environment of the FMA team and makes the supervisory authority more tangible. In 2018, 92 contributions were posted: posts from events, work in international bodies, job offers, baking contests, sports activities over lunch or after work, a visit by St. Nicholas, a championship in the Jass card game, and much more. In a summer series, employees presented their way to work: on foot, by mountain bike, or on a Yamaha or Vespa. On Instagram, images and text can be combined in an ideal way. The FMA currently has about 250 followers with an increasing trend.

The use of Instagram is part of the innovative employer presence www.fma-li.li/karriere, with which the FMA draws attention to itself as an attractive employer. The Instagram posts are integrated automatically and synchronously into the website. Other elements of the employer presence include the social business networks LinkedIn, Xing, and Kununu. These channels can be used to reach potential employees in a targeted and cost-effective manner. By involving current employees, job advertisements are placed on their personal and professional networks.

The FMA is an attractive employer with multifaceted and exciting areas of responsibility in an international environment.

The FMA's Instagram profile provides insight into the working and living environment of the FMA team.

Visits to sister authorities

The FMA offers its employees the opportunity to serve on temporary assignment with supervisory authorities abroad. The goal of these secondments is to exchange experiences with the host authorities, strengthen relations, and gain knowledge. They also increase the FMA's attractiveness as an employer. In 2018, the FMA itself hosted two secondees from the Deutsche Bundesbank and the Federal Financial Supervisory Authority (BaFin).

During the reporting year, three FMA employees served in a secondment. A legal specialist was a guest at the Swiss Financial Market Supervisory Authority (FINMA) in Bern for two months. She worked in enforcement and combating market abuse. A senior legal specialist from the insurance supervision performed a six-week assignment at BaFin in Bonn. The focus was on exchanging experiences relating to insurance supervision and networking. Germany is an important market for insurance undertakings domiciled in Liechtenstein. The cooperation and exchange between BaFin and the FMA is correspondingly intensive. Close exchanges also exist between the Monetary Authority of Singapore (MAS) and the FMA. Several subsidiaries of Liechtenstein banking groups are represented in Singapore. For six weeks, a deputy head of section was a guest at MAS in Singapore. The focus of the secondments was on deepening cooperation in group supervision, representing the FMA as the lead regulator in an on-the-spot inspection, and promoting understanding of the various supervisory systems.

Specialists with an all-round view

The FMA develops young talent and has introduced a special programme for this purpose: junior job rotation. In two years, the juniors pass through four organisational units and thus gain an in-depth insight into the exciting and multifaceted activities of the supervisory authority.

Moritz Marxer, Martina Buerzle, Lukas Willburger

"For almost a year now, I've been working as a legal specialist in the Legal/International Group in the Executive Office. We serve as a central hub where many things come together. This makes my responsibilities especially exciting and multifaceted. I joined the FMA as a junior in the job rotation model. I worked in the Banking Division and in the Securities and Markets Division. I didn't end up rotating to another organisational unit because I received an offer for my current permanent position. In any case, the job rotation model was very instructive."
Martina Buerzle, *Legal Specialist, Executive Office*

"Data analysis is a passion of mine. I've worked intensively in data analysis as part of macroprudential supervision and in transaction reporting within the Securities and Markets Division. Those have been my two stops so far in the junior job rotation. The programme is a great thing. On the one hand, I benefit greatly in terms of substance, I'm involved in daily business, I deal with risk assessment and cases of market abuse, and much more. On the other hand, I also like to observe the different cultures I encounter in the organisational units. I studied finance at the University of Liechtenstein."
Moritz Marxer, *Junior Specialist*

"I studied law at the University of Innsbruck. Since September, I have been working in the FMA's job rotation model, focusing on the supervision of insurance intermediaries. There is a lot of movement in this area because the new Insurance Distribution Act entered into force at the beginning of October, and the supervisory processes had to be redesigned. I've also participated in on-the-spot inspections. We verified whether the insurance undertakings complied with due diligence obligations relating to anti-money laundering. It's a great mix here between training and full-fledged work."
Lukas Willburger, *Junior Specialist*

Development of the workforce

In 2018, the average workforce at the FMA was 98 (previous year: 91). As of 31 December 2018, the FMA employed 99 people (previous year: 95). Of these, four were employed on a temporary basis. The share of women was 40% (previous year: 41%). 21 employees worked part-time (previous year: 20). Eight employees left the FMA during the reporting year (previous year: 10). 11 new employees joined the FMA (previous year: 15), and one former intern was employed on a temporary basis. In total, 87.6 full-time equivalent positions and 3.8 temporary positions were filled at the end of 2018. The number of full-time equivalents approved by the Board of Directors as of the end of 2018 was 92 (previous year: 89.7) and the number of temporary positions was 3.8 (previous year: 0).

For 2018, the Board of Directors approved an additional 2.3 full-time positions and 3.8 temporary positions. As part of the formation of the new Regulatory Laboratory/Financial Innovation Group, one temporary and one permanent position were established in the Executive Office as of 1 June 2018. The remaining increase of full-time positions by 1.3 is intended on the one hand for the job pool, so that part-time employees have the option of adjusting their workload. On the other hand, the FMA's job pool should offer a certain degree of flexibility. Two of the temporary positions are to be filled by junior specialists as part of the FMA's job rotation model. The holder of the 80% position is attending part-time training in financial and actuarial science.

The FMA offers internship opportunities for students and graduates.

For 2019, the Board of Directors approved seven additional posts. New European requirements in macroprudential supervision, such as implementing the recommendations of the European Systemic Risk Board, necessitate the creation of an additional position in macroprudential supervision. A further position is intended for the planned reinforcement of the resolution authority. With two positions, the resolution authority is thus reaching the personnel strength provided for in the report and application on the Recovery and Resolution Act. Anti-money laundering will be reinforced with an additional position. Anti-money laundering will be concentrated in a separate organisational unit in the year 2019. Two positions are being created to manage additional responsibilities in the Banking Division and in the Securities and Markets Division. Finally, two positions are planned for the FMA's responsibilities under the Blockchain Act (VTG). The number of full-time equivalent positions will therefore be increased to 99. 3.8 temporary positions continue to be provided for.

Type case
"Letter vaults since Gutenberg.
If only moveable letters could talk."
HP Leibold


HANS [redacted]
Papier ist hier
[redacted]

TODAY IS FAMILY DAY

How do children imagine the place where their mother or father works? So that they or relatives and friends can imagine this mysterious place, the FMA Event Team organised a Family Day on a Saturday in April. It was a bright blue day with almost summery temperatures. The terrace was always full with children and adults – also because there were drinks for every taste and all kinds of delicious food provided by grill master Lukas. The adults chatted, the children tinkered and played or exchanged Panini pictures at a special Panini exchange. 37 FMA employees commuted with their families to Vaduz that day. The Event Team counted 109 adults and 33 children. The youngest guest was just seven months old.

The FMA offers internship opportunities for students and graduates. As of the end of 2018, 12 interns accounting for a total of 8.9 full-time positions were employed. These internships are generally in the legal or economic field, with a duration varying from six to 12 months. In total, 18 holiday interns were employed in various areas for a period of one to three months.

The FMA also offers three training positions for commercial apprentices. The apprentices are employed with the Liechtenstein National Administration. Over the course of their training, they work for a variety of public authorities and government offices.

Educational background and nationalities

Because of its complex and specialised areas of responsibility, the FMA has a very high share of employees with an academic background. 52% of employees are lawyers, and 30% are specialists such as auditors, banking experts, economists, or actuaries. 18% of employees are officers or have a different educational background. As digitalisation of the financial industry and the supervisory processes progresses, so does the need for specialist knowledge in the areas of business information technology and information management, as well as for the digital knowledge of employees in general.

25% of the employees are Liechtenstein citizens, 25% Swiss citizens, 38% Austrian citizens, and 12% German citizens. The FMA strives to employ as many Liechtenstein citizens as possible.

Changes and promotions

Effective 1 June 2018, the Regulatory Laboratory/Financial Innovation Group was created within the Executive Office. Dorothea Rohlfing was promoted to head of this group. Due to the departure of Heinz Konzett, former head of the Legal Section in the Banking Division, Claudia Blasy took over as section head, initially on an interim basis on 1 November 2018 and then permanently on 1 January 2019. After Martin Bieniek changed positions, Beat Waefler took over as head of the Auditing/Actuarial Section in the Insurance and Pension Funds Division as of 1 December 2018.

Outlook

In order to manage its complex new responsibilities, the FMA will increase personnel in 2019. Recruitment of sufficient specialists is challenging in a difficult labour market. Enhanced personnel marketing aims to improve the visibility of the FMA among the target groups. Key target groups are Liechtenstein specialists. Internships and the junior job rotation programme are measures designed to attract junior talent to the FMA. Social media channels offer additional potential, through which the FMA can specifically address specialists.

Implementation of the gender diversity strategy aims to increase the share of women in leadership positions and to better ensure the compatibility of family and career. Over the past few years, the FMA has implemented a personnel strategy that has created an attractive framework for achieving the defined goals. The FMA is an attractive employer with modern employment conditions.

The FMA attaches great importance to promoting the professional competencies of its employees. One focus is on the development of digital competencies. This is achieved through internal training and external continuing training. The cultural dimension of digital transformation is given high priority. A successful transformation requires a corporate culture that supports and promotes digitalisation.

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"Excellent raw materials of linen and cotton,
indispensable for the best rag paper, made for centuries."
HP Leibold

FINANCIAL STATE-MENT 2018

FINANCIAL STATEMENT 2018

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Annual report on the financial statement

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

In its meeting of 28 November 2017, the Government approved the detailed 2018 FMA budget with a State contribution of CHF 5,000,000 and expenses of CHF 23,370,000. The actual expenses for the 2018 fiscal year were CHF 23,426,927, CHF 56,927 (0.2%) higher than the approved budget.

Income without the State contribution amounted to CHF 18,175,912, which was CHF 535,912 (3.0%) higher than budgeted.

Pursuant to Article 30b FMAG, the FMA is required to set aside reserves each year, until the total reserves have reached 50% of the average ordinary expenses over the past three years according to the financial statement. Under this legal requirement, the reserves for the year 2018 could reach a maximum of CHF 11,037,829. Because the financial statement for the 2018 fiscal year showed a loss and the maximum reserve amount was not exhausted, the State contribution for the 2018 fiscal year amounted to CHF 5,000,000. Total income including the state contribution was thus CHF 23,175,912. Deducting the total expenses of CHF 23,426,927, the accounts closed with an annual loss of CHF 251,015.

Personnel expenses in the 2018 fiscal year amounted to CHF 15,690,576 and were thus CHF 204,424 (1.3%) lower than budgeted. In particular, salaries and social security contributions were lower than budgeted. The main reason for this is that certain departures could not be filled seamlessly and that it took longer than expected to fill certain positions.

At CHF 6,160,198, other operating expenses were CHF 270,198 (4.6%) higher than budgeted. The main items above budget were expert fees/opinions and travel expenses. This was primarily a result of unforeseeable costs for litigation, increased costs due to several revisions and adjustments to laws, as well as increased travel activities due to increased participation in expert groups of the European Supervisory Authorities.

At CHF 1,558,183, write-downs were CHF 6,817 (0.4%) below budget.

As already mentioned, the FMA had an annual loss of CHF 251,015 in the 2018 fiscal year. After offsetting the loss with the reserves, the total reserves thus amounted to CHF 10,079,198 as of 31 December 2018.

Outlook

In 2019, the State contribution must be reauthorised by the legislative power for the following years. On 15 January 2019, the Government adopted the consultation report on amending the Financial Market Authority Act. The consultation period expired on 1 March 2019.

Balance sheet as of 31 December (in CHF)

Assets		2018	2017
Fixed assets			
Intangible assets	– Software	1,216,611.34	1,332,345.78
Tangible assets	– Operating equipment	247,112.10	420,254.95
	– IT equipment	156,909.58	132,596.42
	– Furnishings	98,184.89	137,712.16
Current assets			
Receivables	– Receivables from services	756,248.04	367,856.25
	– Receivables from the Principality of Liechtenstein	0.00	3,435,010.55
	– Other receivables	0.00	2,300.00
Bank deposits and cash	– Bank	11,333,314.42	7,937,906.13
	– Cash	478.75	1,139.45
Accrued items		253,683.60	210,938.23
TOTAL ASSETS		**14,062,542.72**	**13,978,059.92**

Liabilities			2018		2017
Equity capital					
	– Endowment	2,000,000.00		2,000,000.00	
	– Reserves	10,330,212.97		9,924,072.28	
	– Annual profit	–251,014.88		406,140.69	
		12,079,198.09	12,079,198.09	12,330,212.97	12,330,212.97
Provisions					
	– Other provisions		494,296.87		490,512.67
Accounts payable					
	– Accounts payable from deliveries and services		775,960.66		974,860.71
	– Accounts payable to the Principality of Liechtenstein		204,303.88		0.00
	– Other accounts payable		433,639.34		119,845.03
Deferred items			75,143.88		62,628.54
TOTAL LIABILITIES			**14,062,542.72**		**13,978,059.92**

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

	2018	Budget 2018	Budget dev.	2017
Fees and taxes				
Licensing fees	1,089,910.46	1,000,000.00	89,910.46	983,021.08
Supervisory taxes	16,105,719.50	15,900,000.00	205,719.50	15,653,802.17
Audit fees	38,544.85	30,000.00	8,544.85	29,721.60
Other fees	916,541.46	700,000.00	216,541.46	933,034.90
Other operating income	25,195.42	10,000.00	15,195.42	93,377.83
State contribution	5,000,000.00	5,000,000.00	0.00	4,483,939.43
	23,175,911.69	**22,640,000.00**	**535,911.69**	**22,176,897.01**
Personnel expenses				
Wages and salaries	– 12,698,299.72	– 12,850,000.00	151,700.28	– 11,757,169.10
Social security contributions and expenses for retirement provision and support	– 2,316,997.65	– 2,365,000.00	48,002.35	– 2,130,744.52
of which for retirement provision	*– 1,954,925.85*			*– 1,804,092.30*
Board of Directors	– 675,278.63	– 680,000.00	4,721.37	– 674,368.98
Write-downs and value adjustments				
Depreciation on software	– 1,190,606.49	– 1,195,000.00	4,393.51	– 1,092,179.43
Depreciation on IT equipment	– 131,495.08	– 135,000.00	3,504.92	– 91,297.63
Depreciation on furnishings	– 62,938.82	– 60,000.00	– 2,938.82	– 62,575.08
Depreciation on operating equipment	– 173,142.85	– 175,000.00	1,857.15	– 173,142.85
Other operating expenses				
Other personnel expenses	– 242,695.83	– 220,000.00	– 22,695.83	– 246,933.64
Basic and continuing training	– 392,480.99	– 350,000.00	– 42,480.99	– 328,440.19
Office expenses	– 238,821.26	– 220,000.00	– 18,821.26	– 230,230.13
Travel expenses	– 580,502.13	– 500,000.00	– 80,502.13	– 495,183.13
Expert fees/opinions	– 981,486.15	– 820,000.00	– 161,486.15	– 1,050,521.55
Audit firms	0.00	0.00	0.00	– 20,358.00
Reimbursements from audit firms	0.00	0.00	0.00	20,358.00
Premises	– 1,948,431.67	– 1,960,000.00	11,568.33	– 1,952,039.34
Insurance	– 47,586.40	– 50,000.00	2,413.60	– 48,457.60
IT costs	– 1,043,082.46	–1,090,000.00	46,917.54	– 865,209.98
Public outreach	– 118,533.91	– 95,000.00	– 23,533.91	– 97,388.39
Events and representation	– 26,500.19	– 55,000.00	28,499.81	– 40,370.02
Membership fees for associations/institutions	– 291,253.60	– 285,000.00	– 6,253.60	– 253,783.20
Audit expenses	– 38,544.85	– 30,000.00	– 8,544.85	– 29,721.60
Other expenses	– 190,837.71	– 165,000.00	– 25,837.71	– 105,021.97
Losses on accounts receivable	– 19,440.69	– 50,000.00	30,559.31	– 34,522.18
Interest and similar expenses	– 17,969.49	– 20,000.00	2,030.51	– 11,455.81
Annual profit/loss	**– 251 014.88**	**– 730 000.00**	**478 985.12**	**406 140.69**

Summarised income statement	2018	Budget 2018	Budget dev.	2017
TOTAL INCOME	**23,175,911.69**	**22 640 000.00**	**535 911.69**	**22 176 897.01**
Personnel expenses	*– 15,690,576.00*	*– 15,895,000.00*	*204,424.00*	*– 14,562,282.60*
Write-downs and value adjustments	*– 1,558,183.24*	*– 1,565,000.00*	*6,816.76*	*– 1,419,194.99*
Other operating expenses	*– 6,160,197.84*	*– 5,890,000.00*	*– 270,197.84*	*– 5,777,822.92*
Other interest and similar expenses	*– 17,969.49*	*– 20,000.00*	*2,030.51*	*– 11,455.81*
TOTAL EXPENSES	**– 23,426,926.57**	**– 23,370,000.00**	**– 56,926.57**	**– 21,770,756.32**
Annual profit/loss	**– 251,014.88**	**– 730,000.00**	**478,985.12**	**406,140.69**

Notes on the financial statement

Financial accounting principles

According to Article 32 FMAG, the supplementary provisions for specific company forms set out in the Law on Persons and Companies (PGR) apply to the preparation of the annual report including the financial statement. The FMA uses the provisions for large companies in this regard. These provisions demand that the financial statement give a true and fair view of the assets and liabilities, financial position, and profit or loss.

Balancing and valuation methods

Tangible assets are valued at acquisition cost reduced by depreciation. Depreciation is calculated using the straight-line method, based on the acquisition value. The depreciation policy provides for the following useful lives:

Category	Useful life
Software	3 Years
IT equipment	3 Years
Furnishings	5 Years
Operational equipment	10 Years

Table 1
Useful life

Receivables are stated at nominal value, reduced by any required value adjustments. Provisions are to be calculated so as to take sufficient account of all identifiable risks in accordance with sound commercial judgment. Accounts payable are valued at their nominal value or at the repayment amount, whichever is higher.

Foreign exchange rate

The FMA only invoices in CHF. Accounts payable in currencies other than CHF are stated at the mean spot exchange rate on the balance sheet date.

Receivables

All receivables have a maturity of less than one year. They are stated in the balance sheet at nominal value. Value adjustments for risks identifiable on the balance sheet date are made to the extent necessary for business purposes. All value adjustments are offset directly against receivables.

Fixed assets in CHF

The development of the individual fixed asset items is shown separately in the fixed asset schedule:

Fixed assets		Software	IT equipment	Furnishings	Operating equipment	Total
Acquisition costs	Balance 01.01.2018	6,382,140.02	372,275.19	909,907.10	1,731,428.55	**9,395,750.86**
	Acquisitions	1,089,844.85	155,858.24	23,419.55	0.00	**1,269,122.64**
	Divestitures	332,384.05	95,893.34	3,351.90	0.00	**431,629.29**
	Balance 31.12.2018	7,139,600.82	432,240.09	929,974.75	1,731,428.55	**10,233,244.21**
Depreciation	Balance 01.01.2018	5,049,794.24	239,678.77	772,194.94	1,311,173.60	**7,372,841.55**
	Acquisitions	1,190,606.49	131,495.08	62,938.82	173,142.85	**1,558,183.24**
	Divestitures	317,411.25	95,843.34	3,343.90	0.00	**416,598.49**
	Balance 31.12.2018	5,922,989.48	275,330.51	831,789.86	1,484,316.45	**8,514,426.30**
Book value	Balance 01.01.2018	1,332,345.78	132,596.42	137,712.16	420,254.95	**2,022,909.31**
	Balance 31.12.2018	1,216,611.34	156,909.58	98,184.89	247,112.10	**1,718,817.91**

Table 2
Fixed asset schedule

Provisions

Under the PGR accounting rules, all provisions are reassessed each year, justified, and adjusted where necessary. The provisions include litigation risks in the amount of CHF 50,000 as well as outstanding holiday entitlements as of 31 December 2018 in the amount of CHF 444,297.

Accounts payable

All accounts payable by the FMA have a maturity of less than one year.

Long-term liabilities

The FMA has a rental contract with the Liechtenstein Old Age and Survivors' Insurance Authority concluded in December 2010, with a rental term of 20 years. The annual rent amounts to approximately CHF 1,800,000 (including ancillary costs).

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 2018 fiscal year, including social security contributions, was CHF 675,279. The Board of Directors was composed as follows in 2018:

Board of Directors	Government decision	Term of office
Roland Mueller (Chairman)	– LNR 2014-897 BNR 2014/841 REG 0660 of 01.07.2014 – LNR 2016-1635 BNR 2016/1674 REG 7402.2 of 16.11.2016	01.01.2015 – 31.12.2016 01.01.2017 – 31.12.2019
Michèle Borgeaud (Vice Chair)	– LNR 2016-1635 BNR 2016/1674 REG 7402.2 of 16.11.2016	01.01.2017 – 31.12.2021
Ivo Furrer	– LNR 2016-653 BNR 2016/663 REG 7428 of 10.05.2016	01.07.2016 – 30.06.2021
Michael Ritter	– LNR 2014-897 BNR 2014/841 REG 0660 of 01.07.2014	01.01.2015 – 31.12.2019
Juerg Meier	– LNR 2015-1185 BNR 2015/1727 REG 7402 of 16.12.2015	01.01.2016 – 31.12.2020

Table 3
Board of Directors

The remuneration of the Members of the Board of Directors is based on the Government decision of 31 January 2017 (LNR 2017-135 BNR 2017/101 REG 0314). The Government specified the following remuneration:

– Basic compensation for the Chairman
– Basic compensation for the Vice Chair
– Basic compensation for other Members
– Flat-rate compensation per meeting day

b) Executive Board
The gross remuneration of the Members of the Executive Board in the 2018 fiscal year was CHF 1,877,808 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 2018:

– Mario Gassner, Chief Executive Officer
– Alexander Imhof, Deputy of the CEO and Head of Insurance and Pension Funds Division
– Marcel Loetscher, Head of Securities and Markets Division
– Patrick Bont, Head of Banking Division
– Werner Meyer, Head of Other Financial Intermediaries Division
– Martin Schaedler, Head of Central Services

Workforce

In 2018, the average workforce at the FMA was 98 (previous year: 91). As of 31 December 2018, the FMA employed 99 people (previous year: 95). Of these, four were employed on a temporary basis. The share of women was 40% (previous year: 41%). 21 employees worked part-time. Eight employees left the FMA during the reporting year (previous year: 10). 11 new employees joined the FMA (previous year: 15), and one former intern was employed on a temporary basis. In total, 87.6 full-time equivalent positions and 3.8 temporary positions were filled at the end of 2018. The number of full-time equivalents approved by the Board of Directors as of the end of 2018 was 92 (previous year: 89.7) and the number of temporary positions was 3.8 (previous year: 0).

Attestation of the Audit Office

FINANZKONTROLLE
FÜRSTENTUM LIECHTENSTEIN

Bericht der Finanzkontrolle an die Regierung des Fürstentums Liechtenstein betreffend

Finanzmarktaufsicht (FMA) Liechtenstein

Als Revisionsstelle im Sinne von Art. 19 des Gesetzes über die Finanzmarktaufsicht (FMAG) haben wir die Buchführung, die Jahresrechnung (Bilanz, Erfolgsrechnung und Anhang) und den Jahresbericht der Finanzmarktaufsicht (FMA) Liechtenstein für das am 31. Dezember 2018 abgeschlossene Geschäftsjahr geprüft.

Für die Jahresrechnung und den Jahresbericht ist der Aufsichtsrat verantwortlich, während unsere Aufgabe darin besteht, diese zu prüfen und zu beurteilen.

Unsere Prüfung erfolgte nach den Grundsätzen des Berufsstandes, wonach eine Prüfung so zu planen und durchzuführen ist, dass wesentliche Fehlaussagen in der Jahresrechnung mit angemessener Sicherheit erkannt werden. Wir prüften die Posten und Angaben der Jahresrechnung mittels Analysen und Erhebungen auf der Basis von Stichproben. Ferner beurteilten wir die Anwendung der massgebenden Rechnungslegungsgrundsätze, die wesentlichen Bewertungsentscheide sowie die Darstellung der Jahresrechnung als Ganzes. Wir sind der Auffassung, dass unsere Prüfung eine ausreichende Grundlage für unser Urteil bildet.

Gemäss unserer Beurteilung vermittelt die Jahresrechnung ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage in Übereinstimmung mit dem liechtensteinischen Gesetz. Ferner entsprechen die Buchführung, die Jahresrechnung und der Jahresbericht dem liechtensteinischen Gesetz, dem Gesetz über die Finanzmarktaufsicht (FMAG) und den Statuten.

Der Jahresbericht steht im Einklang mit der Jahresrechnung.

Wir empfehlen, die vorliegende Jahresrechnung zu genehmigen.

FINANZKONTROLLE
des Fürstentums Liechtenstein

Cornelia Lang *Leiterin*	Fredy Baschleben *Mandatsleiter*

Vaduz, 21. März 2019

Durability

Hanspeter Leibold's profession is the art of handmade paper. He invited us to a photographic stroll through his art workshop in Triesenberg. The result was fascinating photographs of his artistic products and his studio. Hanspeter Leibold also provided the descriptions of the photographs. Several times, he emphasises the durability of the paper ("...made for centuries"). Truly a contrast to our fast-paced, increasingly digital world.

We would like to thank Hanspeter Leibold and photographer Sven Beham, Liechtenstein National Museum, for their support in realising the image concept.

Eulogy
"Paper is memory, culture, technology, art, and future, irreplaceable for everyone,
from the birth certificate, the report card, the identity card, the judgment, the love letter, to the shroud.
We do the things that never vanish."
HP Leibold

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Concept and Design
Leone Ming Est., Intensive Brand

Photography
Portrait (Foreword): Roland Korner, Close up
Paper: Photos, Sven D. Beham, Liechtenstein
National Museum in cooperation with Kunstwerkstätten
Hanspeter Leibold, Triesenberg

The Annual Report is available in German and English on the FMA website. No printed version is published.