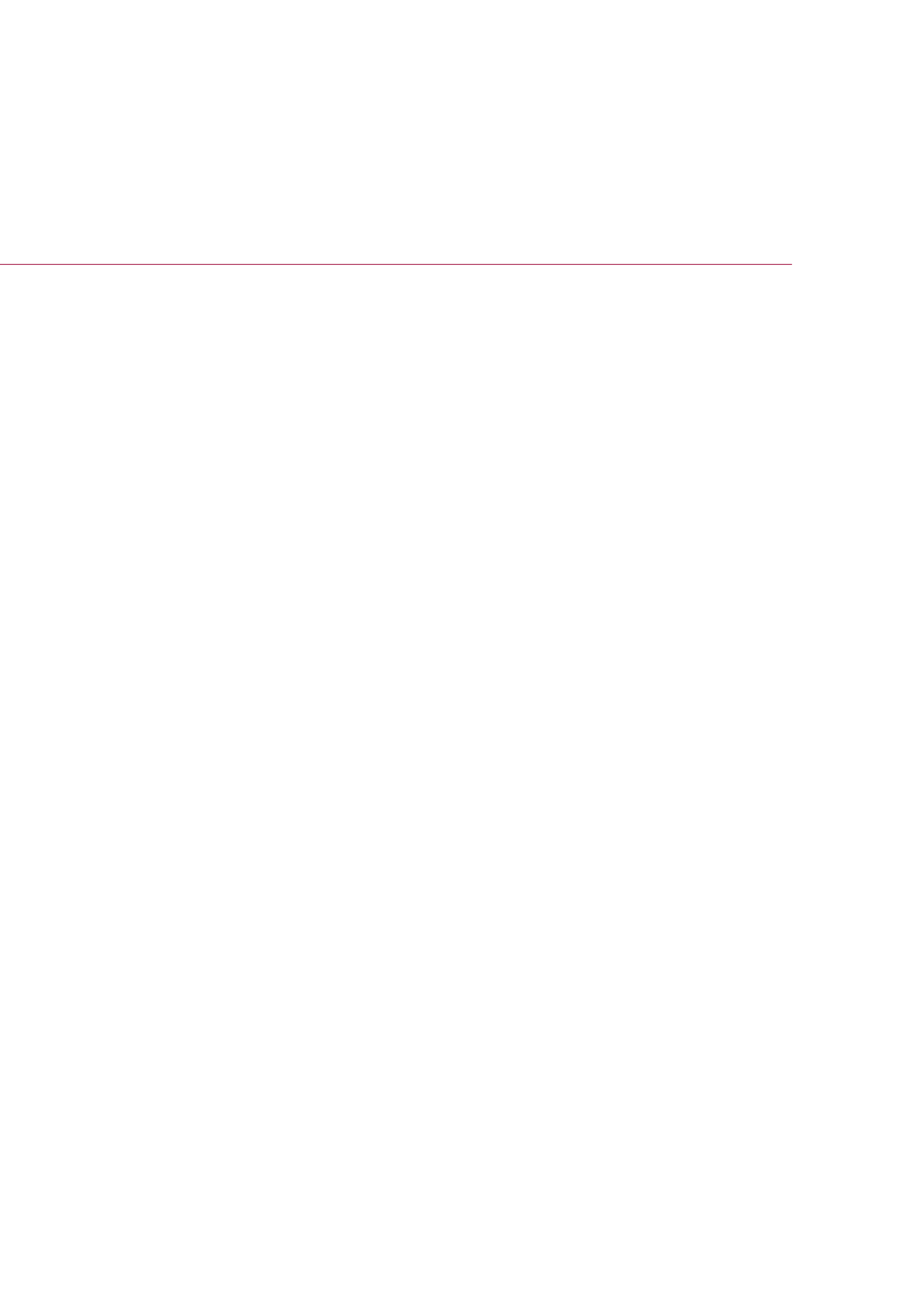




FMA

Financial Market Authority
Liechtenstein

05



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VISION



In fulfilling our sovereign mandate in a responsible manner, we safeguard the stability of the financial market, the protection of clients, the prevention of abuse, and the implementation of and compliance with recognized international standards. In this way, we contribute to the competitiveness and standing of the financial market and thereby to the welfare of the country of Liechtenstein.

Dr. Stephan Ochsner
Chief Executive Officer

René H. Melliger
Chairman of the Board

A milestone in
the history of
the Liechtenstein
financial center

It is with great pleasure and pride that we present to you the first Annual Report of the new independent and integrated Financial Market Authority Liechtenstein (FMA).

“...and thereby to the welfare of the country of Liechtenstein.” Our Vision concludes with these words. Internally, our Vision and Mission Statement serve as guidelines for our thought and action. Externally, they help provide us with clear contours. Our organizational philosophy is expressed through these values and is manifested in our strategy, our annual targets, our performance and behavioral goals, our budget, and of course also in our multilayered, networked everyday work. As a sign of this, the following chapters reflect the structure of our Mission Statement.

An efficient and recognized FMA strengthens the reputation, the stability, and thereby also the international competitiveness of a financial market. Strengthening supervision therefore not only makes sense in terms of the national economy, but is also in the interest of the market participants. Against this background, the creation of the FMA is simultaneously a necessity and an opportunity.

We can look back on the first, extraordinarily intensive, encouraging, and successful business year with justifiable pride. The Liechtenstein financial market grew impressively in 2005. We were able to handle this growth without suffering any losses of quality. Moreover, the existing supervisory tools have proven themselves to be efficient. In the area of regulation, important projects were successfully concluded. Our external relations were characterized by a permanent dialogue with our partners in Liechtenstein and abroad. In this way, we have already been able to achieve recognition and acceptance in the first year and further consolidate confidence in the Liechtenstein financial center. The Board and the General Management have developed into strong, interactive teams, and they have jointly crafted a Vision and Mission Statement. Last but not least, we were able to stay within our budget for 2005.

It is very important to us to express our emphatic thanks to everyone who has contributed to this positive result. We owe the Board, the General Management, and our entire team special thanks and recognition for their extraordinary efforts and our joint success in contributing to the “competitiveness and standing of the financial market and thereby to the welfare of the country of Liechtenstein”.

René H. Melliger
Chairman of the Board

Dr. Stephan Ochsner
Chief Executive Officer

MISSION STATEMENT

1. SUPERVISION

We grant licenses in a responsible and speedy manner, we supervise consistently and fairly, and we fight abuses and punish violations, thereby protecting the clients of the financial market.

2. REGULATION

We regulate with the participation of the affected persons and entities, in fulfillment of international standards and taking into account the competitiveness of the Liechtenstein financial market.

3. EXTERNAL RELATIONS

We cultivate dialogue in our external relations and are recognized nationally and internationally on the basis of our competence and performance.

4. ENTERPRISE

We are independent, internally organized according to private sector principles, client-oriented, and we distinguish ourselves with exceptional quality and pragmatic solutions.

5. TEAM

We are a team, actively value each other in our interactions, identify with our goals and responsibilities, act in an entrepreneurial manner, and are proud to make a contribution to success.

The Liechtenstein Financial Market

The Liechtenstein financial market is linked to the European Union through Liechtenstein's membership in the European Economic Area (EEA) and to Switzerland through the Currency Union. The latter entails that the Swiss National Bank (SNB) is responsible for the entire "CHF currency area" (Switzerland and Liechtenstein), acting as a lender of last resort for Liechtenstein and exercising associated monetary and currency policy functions. The main effect of the EEA on financial services has been diversification. This has made the financial market more competitive internationally. The EEA legal framework has contributed to this competitiveness, enabling cross-border provision of services throughout the entire EEA at attractive conditions. As a consequence of the EEA, small but high-quality "markets" with considerable growth potential have evolved, especially for insurance and fund products.

The figures in these areas were very strong as of the end of 2005: The net assets under management as of 31 December increased by a total of 27.1% from CHF 142.9 billion to CHF 181.7 billion. Liechtenstein investment undertakings managed total assets in the amount of CHF 20.6 billion, an increase of 32.1% over the previous year. Insurance undertakings recorded capital investments of CHF 9.4 billion, an increase of 84.3% over the previous year. The assets under management of pension funds increased by 7.1% to approximately CHF 3.0 billion. The banking sector likewise developed very positively. The 16 banks licensed in Liechtenstein managed client assets in the amount of CHF 148.7 billion (consolidated) as of 31 December 2005. In comparison with 2004, this represents an increase of 24.5%.

Covering about 14.3% of the workforce in Liechtenstein, the financial services sector generates approximately 30% of the gross domestic product and is therefore of significant national economic importance. With a total of 2084 financial market participants at the end of 2005, i.e., with an increase of 11% or of 204 participants relative to the previous year, the threshold of 2000 participants was exceeded for the first time. Focus areas of growth were investment undertakings, insurance undertakings, the trust sector, and the financial market participants that have been newly subject to the Due Diligence Act since 1 February 2005. In light of the new Asset Management Act, which entered into force on 1 January 2006, the trend for 2006 is still rising.

The FMA

The Financial Market Authority (FMA) was formed by consolidating three former units of the Liechtenstein National Administration, namely the Financial Services Authority (FSA), the Insurance Supervisory Authority of the Office of Economic Affairs, and the Due Diligence Unit. The FMA has its own legal personality in the form of an establishment under public law, is independent of the Government, and is exclusively accountable to the Liechtenstein Parliament. After about three years of preparations, the team of the FMA began its first operational business year on 1 January 2005 with 26 staff members.

Goals

- Guaranteeing the stability of the Liechtenstein financial market
- Protection of clients
- Prevention of abuses
- Implementation and compliance with recognized international standards

Responsibilities

- Supervision and execution of specialized legislation
- Regulation, especially implementation of relevant EEA enactments into domestic law, issuing of guidelines and recommendations
- Representation of the interests of Liechtenstein in international bodies

Funding

- two thirds by the State, one third by fees
- Budget 2005: CHF 6.09 million

Bodies

- Board
- General Management
- Audit Office (National Audit Office of the State)

The Board



The Board was elected by the Liechtenstein Parliament in October 2004 for the first term of 2005 to 2009 in the following composition:

Chairman (full-time)

René H. Melliger, Schaan (FL)¹

Swiss Certified Accounting and Controlling Expert

Vice Chairman

Dr. oec. HSG Jochen Hadermann, Triesen (FL)²

Members

Dr. iur. Martin Batliner, LL.M., Eschen (FL)³

Dr. iur. Hans Haumer, Klosterneuburg (A), Vaduz (FL)⁴

Dr. oec. HSG Stefan Jaeger, Teufen (CH)⁵

The Board is responsible for implementation of the Financial Market Authority Act (FMAA) and is exclusively accountable to the Liechtenstein Parliament. Within this context, it is responsible for the development and implementation of the Mission Statement and the strategy. Other focus areas include staffing, organization, and funding. In addition, the Board has special competencies in important cases. Immediately after its election in October 2004, the Board took over the agenda of what was then the management body of the FMA Project under the direction of Prime Minister Otmar Hasler, adopted the budget for the start-up year 2005 for the attention of Parliament and the necessary rules for the operational start of the FMA, and appointed the members of the General Management. Since 1 January 2005, the Board has generally met on a monthly basis.

For the Board to fulfill corporate governance responsibilities, appropriate tools, procedures, and methods had to be developed and guaranteed. These include a topic-oriented reporting procedure and a management income statement (MIS). The methods and procedures include an integrated goal-setting process appropriate to each level and the networking of the meetings of the Board and the meetings of the General Management. For instance, the full-time Chairman of the Board regularly participated as a guest in meetings of the General Management, team development seminars, and employee events. The Chairman of the Board also represented the ideals of the FMA during crucial visits by representatives of foreign authorities, business associations, and clients. The Chief Executive Officer and, depending on the occasion, the representatives of the specialized divisions personally represented the business items at the meetings of the Board. Important approvals/decisions were presented to the Board as appropriate. The Chairman of the Board personally took part in important national and international events (EU bodies in Brussels and London for banks and insurances, Four Country Meeting of the German-Language Supervisory Authorities, DACHL). Focus areas of the Chairman also included talks with the Finance Committee of Parliament and the Audit Office of the FMA. Together with the CEO, he represented the FMA at the Liechtenstein Dialogue 2005 in Focus Group 1 by providing an input speech on the topic: The tension between international and national (financial market) policy: How much influence is left to the state? (taking special account of the perspective of small states).

Monthly meetings and meetings as needed with the Prime Minister served to discuss strategic questions and to coordinate regulatory projects. On behalf of the Government, the Chairman of the Board represented Liechtenstein on the EFTA Board of Auditors in Brussels and the Council of Europe Development Bank Auditing Board in Paris.

The focus areas for 2006 will be the further development of the FMA strategy and intensification of the dialogue with the Government, Parliament, and the Finance Committee. By focusing on cultivating and expanding external relations, especially with selected foreign financial market supervisory authorities, the competitiveness of the financial center will be strengthened in a targeted way.

The General Management



The General Management was appointed by the Board in November 2004 in the following composition:

Chief Executive Officer

Dr. Stephan Ochsner, Eschen (FL)¹

Deputy of the CEO and Director of Insurance

Undertakings and Pension Funds

Mario Gassner, Triesenberg (FL)²

Director of Banks and Investment Undertakings

Dr. Reinhard Malin, Satteins (A)

Starting on 1 March 2006

Christian Reich, St. Gallen (CH)³

Director of Other Financial Service Providers

Dipl.-Jur. Dunja Süssli, Werdenberg (CH)⁴

The General Management is responsible for operational management of the FMA. It is responsible for all tasks that are not assigned to a different body. It ensures the lawful, goal-oriented, and efficient fulfillment of these tasks. To guide and measure the efficiency and cost-effectiveness of the FMA, the “Reporting” and “Management Income Statement” tools were created. Reporting provides an indication of the processing times for the core activities of the FMA (e.g., granting of a license, drafting of a legislative proposal, or evaluating an audit report). This allows the General Management to react immediately to discrepancies.

The details of the operational focus areas can be found in the following chapters. Of particular note was the relatively high proportion of regulatory work, especially the drafting of the completely revised Law on Investment Undertakings (Investment Undertakings Act, IUA), a new Asset Management Act (AMA), and the revised Law on Occupational Pensions (Occupational Pension Funds Act, OPA). Also of note was the strong increase in licenses granted. Against the background of a uniform orientation of the FMA, goals were defined at the beginning of 2005 with respect to the core competences (regulation and supervision), integration, and the culture for the entire FMA. These FMA goals ultimately were included in the personal objectives of the FMA staff members, appropriate to their level, for purposes of their performance evaluations. The experiences in the first year concerning integration and culture have shown that the fusion of the staff members into a single team is essential for the success of the FMA. For this reason, seminars with external support were conducted on the topics of “Team Building” and “Leadership” for managers. In parallel, the foundations of an “FMA Culture” were developed, which provide guidelines for the internal and external conduct of staff members. Finally, the experiences of the first year flowed into the Vision and the Mission Statement, which were developed jointly by the entire FMA team.

The Chief Executive Officer manages the directors of the divisions and units and represents the FMA externally in the operational field. In addition, he was closely involved in key topics for 2005, such as the total revision of the IUA, the creation of the AMA, and the drafting of a new Law against Market Abuse in the Trading of Financial Instruments. From 23 September 2005 to the end of February 2006, he also temporarily managed the Banks and Investment Undertakings (BIU) Division. Internationally, the CEO primarily served as the head of the Liechtenstein delegation to Moneyval, a subcommittee of the Council of Europe for combating money laundering and financing of terrorism. In this role, he also served as an instructor for the Council of Europe and as a Financial Expert in the assessment of Cyprus.

2006 will be characterized by consolidation and further development of what has been achieved so far and by the consistent implementation of the Vision and the Mission Statement.

SUPERVISION



We grant licenses in a responsible and speedy manner, we supervise consistently and fairly, and we fight abuses and punish violations, thereby protecting the clients of the financial market.

We execute the laws governing the Liechtenstein financial market.

We grant licenses in a responsible manner and pursuant to a careful and speedy review.

We supervise independently, free from instructions, and in an integrated and forward-looking manner.

Taking into account the risk in question, we supervise consistently and fairly.

We fight abuses and punish violations.

We protect the clients of the financial market.

Within the framework of applicable law, we exchange information with authorities in Liechtenstein and abroad.



Supervision system

In principle, direct and indirect supervision must be distinguished. Direct supervision is when the State authorities directly supervise the financial intermediaries subject to their supervision, such as when they undertake on-site audits. Indirect supervision is when the State mandates a non-State organ to undertake parts of the supervision activities. Within the framework of indirect supervision, the mandatary (an auditing company or an auditor) must report to the State supervisory authorities on the results of the on-site audits. Insurance undertakings are primarily supervised directly by the FMA, although some indirect elements are to be found, especially with respect to due diligence obligations. In the case of banking supervision, the supervision of investment undertakings, and due diligence supervision, experiences with indirect supervision have been positive. In these areas, the auditors and auditing companies constitute the “long arm” of supervision. This system has indisputable advantages. In particular, it alleviates the resource problems of a small national economy by incorporating competitive auditing companies with high expertise. Nevertheless, a standard has evolved for the FMA to conduct certain on-site audits itself even in areas that are generally supervised indirectly and to engage in quality assurance with respect to the work of the auditing companies. The International Monetary Fund (IMF), for instance, has in principle recognized indirect supervision in Liechtenstein, but has pointed out the necessity of some on-site audits and quality assurance with respect to auditing companies. The FMA has duly taken these recommendations into account. It systematically reviews the quality of the audit report and attaches great importance to basic and continuing auditing training of staff members. In 2006, the FMA will increasingly accompany audits and undertake on-site audits and

extraordinary audits itself. The FMA will provide information to the public on its supervision practices once a year in the form of a detailed publication (FMA Practice). The first issue of FMA Practice is already being prepared.

Due diligence law in the national and international context

Liechtenstein and the FMA have a great interest in keeping assets of criminal origin away from the financial market, thereby protecting the reputation of the Liechtenstein financial center. The Liechtenstein Due Diligence Act (DDA) including the associated Due Diligence Ordinance (DDO) ensures due diligence at the national level in the professional conduct of financial transactions and serves to combat money laundering, organized crime, and financing of terrorism. Supervision of the financial intermediaries subject to the DDA is exercised by the FMA.

Financial intermediaries subject to the DDA are banks and finance companies, trustees, lawyers and legal agents, investment undertakings, life insurance undertakings, the Liechtenstein Postal Service, exchange offices, real estate brokers, traders in valuable goods, auctioneers, gambling houses, and Other Financial Service Providers (OFSP) required to perform due diligence. Moreover, a blanket clause makes all persons subject to the DDA who in a professional capacity accept or keep third-party assets or help invest or transfer them.

The DDA requires all financial intermediaries within its scope to identify their contracting parties by means of documentation with probative value and to determine the ultimate beneficial owners of the assets. For each business relationship, a detailed profile must be compiled and updated on an ongoing basis. The profile is a consequence of

the “know your customer” principle and forms the basis for ongoing monitoring of the business relationship. It must at least contain information on

- the contracting party and the beneficial owner
- authorized parties
- the economic background and the origin of the assets presented
- the profession and business activities of the beneficial owner
- the intended use of the assets

If circumstances deviate from the profile of the business relationship, inquiries must be undertaken and documented in writing. If suspicion arises that a connection exists with money laundering, a predicate offense of money laundering, organized crime, or financing of terrorism, and if the suspicion cannot be dispelled through the inquiries, then a report must be submitted immediately to the Financial Intelligence Unit (FIU). If a report is submitted to the FIU, the financial intermediaries are required to block and retain the assets until the FIU has issued an order, but at most until 5 business days have elapsed without an order. Moreover, they are prohibited for 20 business days from informing the contracting party or third parties about the report. Supervisory activities primarily encompass regular material and formal audits of compliance with the due diligence obligations. The focus is generally on material audits. As part of the material audit, the supervisory authority reviews whether

- the internal organization, the internal monitoring system, and their implementation are appropriate in view of the business activities and the fields of risk of the financial intermediary
- the ongoing monitoring of business relationships is ensured
- the individual transactions always correspond to the profile of the business relationship



- in the event of suspicion of money laundering, predicate crimes of money laundering, organized crime, or financing of terrorism, a report has been made to the FIU

Supervision in the area of due diligence underwent a mandatory change once the FMA began its operational activities, in that it was transferred from the former DDU to the divisions of the FMA responsible for prudential supervision (BIU, Insurance Undertakings and Pension Funds [IUPF] and OFSP). This makes a comprehensive approach to supervision possible as well as the ability to conduct supervision according to the DDA specifically from the perspective of the business sector in question. The Integrative and International Affairs Unit (IIAU) is responsible for coordination and quality assurance, in order to ensure homogeneous interpretation of due diligence law by the FMA.



Apart from the regulatory framework of the DDA and the DDO, which is primarily based on implementation of the First and Second EU Directives on Money Laundering and the Recommendations of the Financial Action Task Force (FATF), Liechtenstein is also committed to implementing international standards as part of its international memberships. By virtue of Liechtenstein's membership in the United Nations since 1990, the economic sanctions enacted by the UN Security Council are of practical importance to financial services in Liechtenstein. These sanctions are implemented by Liechtenstein on the basis of the Economic Measures Act by means of several ordinances, which are published on the FMA website. Liechtenstein has also been a member of the Council of Europe since 1978. This has led to Liechtenstein's membership in the Moneyval committee, which is simultaneously also a regional group of the FATF. Moneyval is dedicated to the fight against money laundering and financing of terrorism. This is accomplished primarily by conducting assessments in Moneyval member States. The Liechtenstein delegation headed by the CEO of the FMA is extraordinarily active in Moneyval by providing Liechtenstein experts as evaluators

for international assessments or as instructors. By implementing and employing the aforementioned international standards, the FMA ensures the efficacy of the national defense measures against money laundering and terrorism, as well as the good reputation of the Liechtenstein financial market. According to the IMF, the Liechtenstein defense system is efficient and demonstrates a "high level of compliance". The FMA strives to maintain this level.

Competence of the FMA to issue orders; appeals

The competence of the FMA to issue orders as the first instance in administrative proceedings arises from article 25 of the FMA Act. The creation of the FMA as an authority independent of the Government also required a restructuring of the appeals procedures. As of 1 January 2005, the FMA Complaints Commission appointed pursuant to article 78, paragraph 3 of the Liechtenstein Constitution in conjunction with article 34 of the FMA Act serves as the second instance after the FMA in administrative proceedings. The third and last instance for ordinary administrative proceedings is the Administrative Court. Decisions and orders of the FMA subject to complaint may be appealed. Appeals may be lodged before the FMA Complaints Commission within 14 days of service of the order. Decisions of the FMA Complaints Commission may in turn be appealed to the Administrative Court within 14 days of service of the decision. In principle, the National Administration Act applies to these procedures.

Combating abuse

As part of ongoing supervision, the FMA also is responsible for combating abuse. The FMA conducts a review in the applicable area of supervision with respect to cases that come to the attention of

the FMA or that are brought to its attention by third parties. If cases extend across divisions, the IIAU coordinates any necessary inquiries. Where necessary, the FMA works together with other domestic and foreign authorities.

Combating abuse can be divided into two large areas of responsibility:

Protection of activities

If there are reasons to assume that an activity subject to supervision is being performed without the necessary license or registration, the FMA may, according to article 26 of the FMA Act, demand information and documentation from the persons in question, as if they were persons subject to the supervision of the FMA. Similarly, the FMA may demand information and documentation from persons subject or not subject to supervision if circumstances arise that might threaten the reputation of the Liechtenstein financial center. In such cases, the FMA may obtain the information and documentation itself or mandate auditors or auditing companies to do so. The costs are borne by the persons in question, if their conduct has given rise to the procedure for determining the facts of the situation. With respect to the protection of the activities of banks, investment undertakings, and insurance undertakings, the FMA has competences laid down by specialized legislation to order supervisory measures. Relevant offenses are punished by the Liechtenstein Court of Justice. The situation with regard to Other Financial Service Providers is special, since the FMA does not exercise disciplinary authority, which is instead within the competence of the Court of Appeal. In general, the FMA is free to make a complaint to the disciplinary or prosecution authorities if there are indications of abuse.

Protection of nomenclature

In addition, especially with a view to customer protection, the FMA is responsible for ensuring that designations of business sectors and professions protected by special legislation are only used by appropriately licensed natural and legal persons. With respect to the names of companies, which are also subject to the protection of nomenclature, the FMA works closely together with the Office of Public Registry and, as needed, with the appropriate business associations. Designations giving the appearance of abuse must be changed accordingly. Further-reaching measures may be imposed, extending to liquidation orders.

1.1 Banks

1.1.1 Liechtenstein banking center

As of the end of 2005, the Liechtenstein banking center was composed of 16 licensed banking institutions, one of which is undergoing voluntary liquidation. Of these 16 banks, 6 are economically dominated by Liechtenstein investors, 5 by investors from the EEA (Austria), and 5 by investors from third States (Switzerland). Currently, there are neither branches of credit institutions from the European Economic Area (EEA) nor from a third State in Liechtenstein. Only 1 branch of a securities firm from the EEA is active in Liechtenstein. The balance sheet total of the 3 largest banks in the financial center covers 88% of the consolidated balance sheet total across all banks, and these 3 banks manage approximately 86% of the client assets managed across all Liechtenstein banks. The banking institutions in Liechtenstein distinguish themselves with solid equity capital and therefore offer the best possible conditions from the perspective of depositor protection. Liechtenstein also has a de-

posit guarantee and investor protection system that all banks have joined.

Given the predominant emphasis on private banking, the main risk of the banking institutions consists in reputation risk. All other banking transactions play a subordinate role in comparison, and the associated risks fluctuate within a tight and manageable range. The legal basis in this field relies heavily on the Swiss legal foundations, and pursuant to Liechtenstein's membership in the EEA, all requisite EU Directives are implemented on an ongoing basis.

By far the most important business sector of the Liechtenstein banks is private banking with portfolio management and all related services. Typical for the Liechtenstein banking center is the close cooperation of the banks with professional asset managers. Letters of credit and investment banking are of subordinate importance. Lending is also only of limited importance. As a rule, mortgages and commercial credits are limited to the local market and are not offered by all banks in the financial center. Lombard loans, however, are offered by all banks if cover is sufficient.

Because of the requirement laid down in the Banking Act to submit a consolidated early-information report by early February, the FMA is able to get an idea of the developments of the banking center relatively early on. The 2005 business year was characterized by the positive development on the financial markets and the positive mood of investors. The 15 operational banking institutions in Liechtenstein, with their primary focus on private banking, benefited from this trend accordingly. Compared with the previous year, the total of the consolidated net client assets under management across all banks increased by about 25% to CHF 148.7 billion. Although the bulk of the increase was due to market causes, the influx of new assets

was also remarkable compared with previous years (nearly 26% of the total increase). Finally, the increased securities sales and volumes were reflected in the income statement, where the result of normal business activities increased by about 41% to a total of CHF 601 million. Equally positive was the development of the consolidated balance sheet total of all Liechtenstein banks, with an increase of about 12% to CHF 41.3 billion. In 2005, a total of 2807 employees worked for Liechtenstein banks or banking groups. This represents a staff increase of 8% relative to the previous year.

1.1.2 Banking supervision

Within the FMA, the Banks Section of the Banks and Investment Undertakings Division (BIU) is responsible for banking supervision. The Banks Section is responsible for the supervision of banks and finance companies, the notification procedure of EEA investment firm in Liechtenstein, and monitoring of compliance with the relevant legal norms. The demands on banking supervision are largely determined by the structure and the business fields of the licensed banks.

The scope of activity of the FMA in the field of banking supervision encompasses execution of the Law on Banks and Finance Companies, the execution of the DDA and the DDO, and prudential supervision of banks and finance companies. Prudential supervision means the ongoing supervision of the conduct of banks, finance companies, and – to a limited extent – the branches of investment firms from EEA countries, once they have been licensed. Prudential supervision is exercised in accordance with the European banking Directives, the principles of effective banking supervision of the Basel Committee on Banking Supervision, and the principles of the International Organization of Securities Commissions (IOSCO) with respect to securities supervision. The tasks of prudential

supervision encompass in particular the auditing responsibilities pursuant to the BA and the DDA, monitoring of the reporting system, granting of information sharing, and combating abuse.

The Liechtenstein banking center is unique in that it does not have its own stock exchange or its own payment and clearing system, which is why the Banks Section also fulfills responsibilities relating to securities supervision, such as the approval of prospectuses in accordance with the Prospectus Act and various responsibilities pursuant to the Law on Settlements Finality in Payment and Securities Settlement System (Finality Act). With respect to securities firms under the securities Directive, it should be noted that only licensed banks have been approved as securities firms in Liechtenstein to date. Securities firms from EEA States must provide notification of their services accordingly. These notifications are processed and registered by the Banks Section. These institutions are supervised by the authorities of their home State.

1.1.3 Licenses

Licenses pursuant to the Banking Act

As in the previous year, no new bank, finance company, or audit office under the BA was licensed in 2005. As of the end of 2005, 1 bank was undergoing voluntary liquidation. Until the liquidation is complete, the bank will continue to be included on the list of licensed institutions. Finance companies have always been of comparatively modest importance for the financial center. While there were still 4 finance companies in 1995, the last finance company voluntarily returned its license in 2004.



1 SUPERVISION

License category according to the Banking Act	2005	2004
Banks	16	16
Finance companies	0	0
Audit offices under the BA	9	9

A total of 25 changes to licenses were approved in 2005 pursuant to the BA. In particular, these include: changes to the board of directors, the general management, the external and/or internal

audit office, acquisition or sale of qualified holdings, and changes to the charter or regulations pursuant to article 26, paragraph 3 of the BA.

Changes to licenses	Number
Changes to bodies (GM/BD)	12
Change of internal audit office	4
Changes to charter subject to approval	2
Changes to business regulations subject to approval	2
Change of external audit office	3
Qualified holdings	2
Total	25

Liechtenstein banks may offer banking and securities services across borders throughout the EEA, as long as they request the FMA to notify the authorities of the host Member State accordingly. In 2005, 1 Liechtenstein bank took advantage of this possibility. Notifications were submitted to three EEA Member States. By the end of 2005, a total of 7 Liechtenstein banks were engaged in cross-border operations.

Securities firms and credit institutions from the EEA that want to offer their services across bor-

ders require a notification submitted to the FMA by the supervisory authority of the home State. In 2005, approximately 1000 investment firms and credit institutions were active under the free movement of services. Compared with the previous year, notifications for EEA investment firms increased by 87, and notifications for cross-border credit institutions increased by 16.

Licenses pursuant to the Prospectus Act

In addition to licenses pursuant to the BA, the FMA also grants licenses pursuant to the Prospectus Act as part of its securities supervision. The prospectus requirement and therefore also the licensing requirement applies when a security is publicly offered for the first time in Liechtenstein. In 2005, a total of 5 licenses for prospectuses were granted. The average wait for the grant of a license was 6 working days.

1.1.4 Auditing

Auditing encompasses both regular audits conducted annually and according to law pursuant to the BA and the DDA, as well as ad hoc extraordinary audits to be ordered where necessary. As a rule, banking supervision employs the system of indirect supervision. At the same time as the regular audit pursuant to the BA, an audit pursuant to the DDA is conducted. The accounting of the banks is based on the relevant EU Directives and international standards, especially the International Accounting Standards (IAS). In addition, the accounting regulations closely follow those of Switzerland.

The banks in Liechtenstein are required to compile an annual account statement and an annual report each year for the expired business year, which as a rule ends on 31 December. This information constitutes the basis for the business report, which the banks must submit to the FMA within four months of the end of the business year. The banking institution must publish the business report. Based on an analysis of the business report, the FMA can obtain a picture both of compliance with the legal provisions and of the development and risk situation of the bank. Together with the audit report pursuant to the BA, the business report constitutes the

most important instrument for banking supervision. If the FMA learns of violations of the laws subject to its supervision or of other grievances, it is responsible for restoring a lawful state of affairs. Audit reports must be submitted to the FMA at the latest six months after the end of the business year, and are then reviewed and evaluated by the Banks Section.

To ensure the quality of the auditing companies, they are only licensed to undertake bank audits in Liechtenstein if they fulfill the appropriate professional, practical, and organizational requirements according to the BA. In addition, every head auditor is reviewed by the FMA prior to admission as a bank auditor. The FMA reserves the right to accompany audits or to direct audits.

Regular audits

– Regular audits pursuant to the Banking Act

The results of the auditing round in 2005 may be considered positive overall. Compared with the previous years, the general standard of compliance with the legal provisions improved further. While 22 complaints were included in the audit reports in 2004, 17 were registered in 2005.

The types of complaints varied considerably. The object of the most frequent complaints was the internal control system of the banks and the execution of their depositary bank function. Other complaints concerned the quality of the reporting system, partial aspects of risk management, the keeping of securities records, and the internal instruction system.

As a rule, grievances were remedied quickly. Implementation of the improvement measures was verified by the FMA.

In addition, the audit reports also contained numerous recommendations. If these recommendations were not implemented, the FMA expected a justification in the context of the expert and management meetings.

An overall evaluation of all findings made by the Banks Section on the basis of other information sources and its own analyses resulted in additional follow-up inquiries with individual banks, in particular with respect to the following points: strategy-related consequences for risk management, reporting system, internal control system, management information systems, acquisition intentions, increases in staff, outsourcing of banking functions, separation of functions in management, changes to the holdings structure, changes to qualified holdings.

– Regular audits pursuant to the DDA

According to articles 3 and 4 of the DDA, all banks in Liechtenstein fall within the personal and material scope of the DDA and therefore are subject to due diligence supervision by the FMA. In the reporting year, the FMA mandated audit offices pursuant to the BA to conduct regular DDA audits at all 16 banks.

In the reporting year for the first time, the audit reports for the 2004 business year had to be submitted together with the audit report pursuant to the BA by 30 June 2005 at the latest. The audit results can be considered positive overall. In comparison with the previous years, the general standard of compliance with due diligence requirements improved. While 58 complaints were registered in 2004, 50 complaints were registered in 2005. The most frequent complaints concerned the content of the business relations profile; for instance, the profile information was not sufficiently expressive or up to date,

or inquiries in the event of implausible or suspicious transactions were insufficient. As a rule, the complaints were remedied by the time the audit report was compiled or in any event by the deadline specified.

Expert and management meetings in 2005

Based on the very good experiences from the previous years, the tradition was continued of conducting expert and management meetings with all the banks, subsequent to evaluation of the regular audits and analysis of the business reports. The meetings discussed the relevant audit reports.

With the participation of the audit offices pursuant to the BA, the expert meetings constitute an initial feedback to the banks concerning the following points: ongoing formal monitoring of the periodic and incident-related reporting system and monitoring of compliance with deadlines, analysis of the business and audit reports, and press monitoring.

As needed, consultations were conducted with the responsible officers of the bank or the external audit offices. Likewise, information was requested from the bank if the audit reports of the audit offices contained complaints, recommendations, implementation deadlines, or other remarks giving rise to a need for action.

The FMA provided feedback according to need and level, either in oral or written form. Depending on the outcome, the addressees were the heads of the external audit, of the internal audit, of the bank's accounting department, those responsible in the respective divisions, or the management of the bank. Some of the clarifications also included on-site inspections by FMA staff.

As every year, the 2005 round of audits concluded with the “management meeting” with each bank, at which the FMA briefly informed the management and a representative of the board of directors (as a rule, the chairman) on the results of the analyses conducted over the course of the year. The focus of these meetings was on the prospects for the near and more remote future of the banking institution (estimates for 2005, budget for 2006, strategy, business policy, ongoing and new projects), as well as a request for the bank to make its views known on possibilities for improving cooperation with the FMA. The feedback of the bank was positive throughout. From an overall perspective, the preparations and follow-up as well as the management meetings themselves were very labor-intensive in 2005. Compared with the previous year, the relevant work increased slightly, since for the first time this year, the Banks Section also had to conduct the analysis of the due diligence audit reports. The mutual benefits from these meetings and the abundance of additional information for the FMA justified this effort, however.

Risk Assessment System

The conclusions from the audit activities relevant to supervision law were reflected in the internal bank rating of the FMA, the “Risk Assessment System (RAS)”. The RAS is an aggregation of this sometimes quite heterogeneous information into an assessment of each bank from the perspective of risk considerations relevant to supervision law. The RAS ultimately delivers a compilation of the risk profiles of the Liechtenstein banks. This allows banking supervision to select a risk-adjusted monitoring approach in a cross-comparison, according to which the available resources are focused on those banks exhibiting a com-

paratively high risk-value and therefore requiring more intensive supervision.

– Extraordinary audits pursuant to the Banking Act and the DDA

Of positive note is that no circumstances arose in the 2005 reporting year that would have required extraordinary audits pursuant to the Banking Act or the DDA. The FMA conducted talks with some banking institutions to obtain information on the background of the complaints and the status of their rectification. In addition, the FMA also conducted talks with the audit offices to clarify specific questions concerning specific financial intermediaries and to draw attention to essential points relating to the compilation of the inspection reports.

1.1.5 Reporting

Reporting pursuant to the BA consists in the obligation of banks and finance companies to submit both periodic and incident-related reports to the supervisory authority. As a rule, the BA contains clear provisions concerning the reporting date, the reporting deadline, and the content of the report. On the basis of these reports, the FMA is able to verify whether certain provisions of the BA have been complied with. Reporting therefore constitutes an important instrument for verification of compliance with legal provisions. A special feature of reporting in Liechtenstein is that Liechtenstein banks are subject to a monthly reporting requirement directly to the SNB pursuant to the Currency Treaty.

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Periodic reporting requirements

Banks in Liechtenstein are required to submit the following periodic reports:

Annual reports	Legal basis
<ul style="list-style-type: none"> early information consolidated early information 	art. 24n para. 1 and 2 Banking Ordinance
<ul style="list-style-type: none"> business report consolidated business report 	art. 24m para. 2 Banking Ordinance
<ul style="list-style-type: none"> interim account statement consolidated interim account statement 	art. 24m para. 2 Banking Ordinance
<ul style="list-style-type: none"> qualified holdings 	art. 27a para. 6 Banking Ordinance
<ul style="list-style-type: none"> report on the 10 largest debtors (individually and on a consolidated basis) 	art. 19n para. 1 Banking Ordinance
<ul style="list-style-type: none"> audit report of the audit office pursuant to the Banking Act (individually and on a consolidated basis) 	art. 49 Banking Ordinance
Semi-annual report	Legal basis
<ul style="list-style-type: none"> equity capital (on a consolidated basis) 	art. 7 para. 1 subpara. b Banking Ordinance
<ul style="list-style-type: none"> risk concentration (on a consolidated basis) 	art. 19m Banking Ordinance
Quarterly reports	Legal basis
<ul style="list-style-type: none"> equity capital (on the basis of annual accounts) 	art. 7 para. 1 subpara. a Banking Ordinance
<ul style="list-style-type: none"> risk concentration 	art. 19 para. 2 Banking Ordinance
<ul style="list-style-type: none"> proof of liquidity for overall liquidity 	art. 17 Banking Ordinance
<ul style="list-style-type: none"> confirmation that sufficient free reserves or reserves on short call are available to pay contributions to the Deposit Guarantee and Investor Protection Foundation of the LBA 	art. 11 para. d of the bylaws of the Deposit Guarantee and Investor Protection Foundation of the LBA
Monthly report to the SNB	Legal basis
<ul style="list-style-type: none"> minimum reserves 	Currency Treaty Switzerland – Liechtenstein

Incident-related reports

In addition to submitting periodic reports, the banks are also required to submit incident-related reports, especially in the event of changes to the licensing conditions (such as changes to the general management or the board of directors, etc.) or if the legally prescribed thresholds are exceeded or not met. Some of these reports are merely taken note of, while others must be approved by the FMA before they are published.

Complaints relating to reports pursuant to the Banking Act

In general, reporting discipline was very satisfactory in 2005 and improved further over the previous year. With respect to the quality of the reports, qualitative complaints were only necessary in a few cases. Similarly, the reporting deadlines were only exceeded in a few cases. Further qualitative improvement of the reporting system is a goal of the feedback rounds conducted each year by the Banks Section with all banking institutions, in which any deficiencies in the reporting system are pointed out and suggestions are made for improvements. In 2005, the FMA issued a total of 3 warnings (4 in 2004, 14 in 2003) because of late submission of reports, but it did not have to impose any fines. Compared with previous years, the reporting system has therefore improved both with respect to quality and compliance with deadlines.

1.1.6 Supervision practice

Measures pursuant to supervision law

If, in the course of its ongoing supervision activities, the Banks Section learns of insufficient implementation of BA requirements, then it orders the necessary steps and takes the necessary measures to protect the creditors of banks and finance

companies and to secure confidence in the Liechtenstein monetary and credit system.

In the 2005 reporting year, such supervisory measures were taken in particular with respect to the following cases:

– Insufficient equity capital

1 bank was required to increase its allowable own resources, so that they did not fall below the early warning threshold of CHF 13 million internally fixed by the FMA, taking into account the losses incurred over the years. For a bank to receive a license, CHF 10 million are required by the BA, CHF 20 million according to FMA practice. In addition, the FMA imposed an intensified monthly reporting requirement on the bank.

– Order of more in-depth reporting in the case of a voluntary bank liquidation

In 2005, 1 bank was undergoing liquidation. The FMA closely followed the progress of the liquidation, in cooperation with the liquidator and the audit office pursuant to the BA. As part of intensive periodic reporting, the audit office kept the FMA informed of the progress of liquidation as long as the bank still maintained current client relations, thereby requiring that investor and deposit protection was ensured. Once all client assets and securities accounts at the bank had been withdrawn, the reporting rhythm was reduced.

– More in-depth clarifications concerning the appropriateness of the organization

In the case of 1 other bank, the FMA determined the need for more in-depth clarifications whether the current allocation of responsibilities within the board of directors was appropriate, given the division of functions within the board of directors required by article 22, paragraph 4 of the BA. The



FMA is in close contact with the bank to find an adequate solution.

Sanctions/Referrals to prosecution authorities

In the context of banking supervision, the FMA neither imposed sanctions in 2005 nor did it refer cases to the prosecution authorities. Also in the context of due diligence supervision, no measures had to be ordered in the 2005 reporting year to restore lawful circumstances. There was also no need to submit reports to the FIU pursuant to article 16, paragraph 1 of the DDA or to submit explanations of cases to the Office of the Public Prosecutor.

FMA Communications

In FMA Communication No. 2 / 2005 of 22 September 2005, the Banks Section concretized its supervision practice concerning interpretation of article 21 of the Finality Act:

According to article 21 of the Final Settlements Act, participants in payment, securities delivery, and securities settlement systems must declare their participation to the FMA and inform it immediately of any changes. Against the background

of the repeatedly observed difficulties in interpreting the reporting requirement specified by article 21 of the Final Settlements Act, the FMA provided information in an FMA Communication on the relevant practical application. Using examples and explanations, the FMA explained when an institution is to be qualified as a direct or indirect participant in the system or as a non-participant.

Responding to inquiries

In the 2005 reporting period, the Banks Section answered approximately 1000 inquiries, about 20 of which were from international organizations. The content and the effort involved in answering the inquiries varied. Some of the questions could be clarified very quickly. In other cases, far more difficult problems were addressed, the resolution of which required in-depth investigations, legal comparisons, and further inquiries with other supervisory authorities and experts. Questions concerning approval requirements for planned activities were frequent, but also questions of supervision law relating to the everyday banking business. In 2005, the FMA also received a large number of inquiries from financial intermediaries and also audit offices in connection with the new DDA and the corresponding ordinance. 21 inquiries were answered in writing in 2005. In the case of more complicated situations, a personal conversation was often necessary. In a few cases, foreign authorities inquired about Liechtenstein supervision practice. This type of communication among supervisory authorities is an indispensable instrument for the consolidated supervision of internationally operating banking groups and for the international convergence of supervision.

1.1.7 Information sharing

Globalization entails that the importance of cross-border situations is steadily increasing, also in the area of financial market supervision law. The smooth functioning of information sharing makes an important contribution to the international recognition of Liechtenstein supervision. Only by ensuring well-functioning supervision in accordance with internationally recognized standards can access to foreign financial markets for the actors of the Liechtenstein financial center be ensured.

Information sharing according to the Banking Act

The BA contains extensive provisions governing cooperation, especially information exchange, with the competent foreign authorities. This information exchange is necessary in a wide range of areas of banking supervision. In particular, information exchange is necessary in the context of prudential supervision of banking groups. Especially relevant is information on the financial situation of the supervised banks, their organization, and their risk management.

In the event of crises, information exchange facilitates the coordination of measures and efficient reactions by the individual supervisory authorities. The areas of information exchange mentioned below have in common that primarily institution-related information is exchanged.

Information sharing relating to market abuse

As part of its responsibilities in the area of securities supervision, the FMA is required to provide information sharing relating to market abuse (insider dealing and market manipulation). In contrast to the information sharing pursuant to the BA mentioned above, this type of assistance involves the exchange of client-related informa-

tion in particular. To determine whether insider information was used in a concrete case, for instance, it is necessary to gain knowledge of the client for whom a transaction under investigation was conducted. This is not possible with market or bank data alone.

Information sharing practice of the FMA

In a decision of the Administrative Court of 7 May 2003, VBI 2003/33, the admissibility of the exchange of client-related data was confirmed for the first time, provided that the following information sharing principles developed through jurisprudence are complied with:

– Principle of speciality

The principle of speciality entails that the transmitted information and comments may only be used for the supervisory purposes defined prior to the transmission. This principle has also been enshrined in article 36 of the BA. Information may only be provided to authorities and persons who are defined in article 36, paragraphs 1 and 3 of the BA and who use such information exclusively for the direct supervision of banks, finance companies, securities firms, insurance undertakings, or financial markets. The supplied information may also only be used for the purposes described in the request and approved by the information sharing decision. In the area of information sharing in combating market abuse, the FMA always explicitly specifies in its orders that the transmitted information may only be used to prosecute insider dealing and market manipulation.

– Principle of confidentiality

The principle of confidentiality entails that the foreign authority requesting information must be bound by official or professional secrecy (article 36, paragraph 1, subparagraph e and paragraph

3, last sentence of the BA). Official and professional secrecy helps protect the personality of the individual in relation to whom the information is being gathered.

– “Principle of the long arm”

A further principle applicable to information sharing is the so-called “principle of the long arm”. According to this principle, transmitted information may not be forwarded by the competent foreign authorities to other authorities and organs without the prior consent of the Liechtenstein supervisory authority. Forwarding the information to prosecution authorities without prior consent is also prohibited. To the extent that use of the information is under discussion for purposes of criminal law, the jurisprudence of the Administrative Court holds that the essential material preconditions of international mutual legal assistance – especially dual criminality – must be fulfilled for such consent to be granted. In the time since decision VBI 2003/33 was issued, however, a divergence between the European and international standards and the “principle of the long hand” derived from Swiss jurisprudence and theory has developed. According to VBI 2003/33, compatibility with the European standard constitutes a premise for the application of this principle. Against this background, it no longer appeared acceptable for Liechtenstein as an EEA Member State to continue to apply the “principle of the long hand”. Accordingly, the FMA has instituted a change of practice with respect to this principle, the details of which will be explained below under the heading “Further development of the information sharing practice of the FMA”.

– Principle of proportionality

Like all State action, information sharing must also be proportional. The mere sounding out of

evidence (“fishing expeditions”) is prohibited. According to the Administrative Court, the requesting authority in an information sharing procedure must “describe the relevant facts, designate the desired information or documents in concrete terms, and name the reasons for its request. As far as the authorities of the requesting State are required to explain the decisive facts, they cannot be expected to do so without gaps or completely consistently. This would not be compatible with the object and purpose of information sharing, since information sharing is intended precisely to illuminate previously obscure points on the basis of information and documents in the possession of the requested State.” According to the jurisprudence of the Administrative Court, the FMA must not “argue whether the facts enumerated in the request are correct or not. It must neither evaluate questions of perpetration or guilt nor assess the evidence itself. It is bound to the description of the facts in the request to the extent that this description is not immediately invalidated by obvious mistakes, gaps, or contradictions.” In the context of clarifying whether insider information has been used, the FMA bases its information sharing practices in relation to supervisory authorities from the EEA and third States on Swiss jurisprudence, according to which the mere fact that transactions have been concluded immediately prior to the announcement of information pertaining to market price can legitimately give rise to information sharing actions.

Further development of the information sharing practice of the FMA

In 2005, the FMA further developed the information sharing practice described above in particular through the following order concerning the “principle of the long arm”:

– Order in re XY Bank AG on granting of official information to the German Financial Supervisory Authority, Frankfurt, concerning sales of shares of X.X. AG

Pursuant to decision VBI 2003/33, Liechtenstein law oriented itself according to the Swiss legal provisions, since these largely corresponded to the European standard during the time period relevant to the decision. The “principle of the long arm” is explicitly stipulated in the Swiss legal order in article 38, paragraph 2, subparagraph (c) of the Swiss Federal Act on Stock Exchanges and Securities Trading (BEHG).

Since decision VBI 2003/33, however, the European and worldwide standards concerning information sharing to combat market abuse have developed substantially. Outside the EEA, a multilateral Memorandum of Understanding (MoU) was adopted in the framework of IOSCO, governing cooperation and the exchange of information between securities supervisory authorities worldwide. This type of cooperation has become particularly dynamic at the European level, however, with the adoption of Directive 2003/6/EC (Market Abuse Directive), which was incorporated into the EEA Agreement on 23 April 2004.

Both the MoU and the Market Abuse Directive provide that the information transmitted in the context of information sharing can be used freely, as long as it serves to combat market abuse. For instance, article 16, paragraph 2 of the Market Abuse Directive stipulates that the competent authorities may use the information they receive through information sharing to fulfill their responsibilities arising from the Market Abuse Directive (combating market abuse) as well as in administrative and judicial proceedings associated with fulfillment of these responsibilities. However, if the authorities

intend to use this information for other purposes or to transmit it to the competent authorities of other countries, they must first obtain the prior consent of the authority that transmitted the information in question.

In such cases, the principle of speciality is upheld, but the “principle of the long arm”, as it currently applies in Switzerland and has been applied to Liechtenstein information sharing procedures, is not compatible with the free usability of the information. This contradiction accordingly also led to the current revision of the Swiss information sharing provision of the Swiss Federal Act on Stock Exchanges and Securities Trading (article 38 BEHG). Pursuant to this revision, the “principle of the long hand” was abolished in Switzerland on 1 February 2006 in the framework of the principle of speciality. The forwarding of information to offices mandated to enforce regulations on stock exchanges, securities trading, and securities traders will now be permissible. Accordingly, Switzerland also no longer prohibits the forwarding of information to prosecution authorities – within the framework of the principle of speciality – and the previously associated require-



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ment of dual criminality. The previous rule will continue to apply, however, with respect to the forwarding of information for purposes not serving to enforce regulations governing stock exchanges, securities trading, and securities traders. In particular, the forwarding of information for tax purposes will continue to be prohibited.

The legal situation has not only changed in Switzerland, however, but also in the EU Member States of Austria and Germany, which the Administrative Court also considered in decision VBI 2003/33 as part of a legal comparison. In both States, the free usability of information in the framework of the principle of speciality is not tied to prior consent of the authority granting information sharing. According to both the Austrian Stock Exchange Act (article 48r paragraph 2 BörseG) and the Germany Securities Trading Act (article 7, paragraph 4 WpHG), the information received through information sharing may therefore be used in administrative and judicial proceedings relating to the fulfillment of supervisory responsibilities without prior consent.

Since decision VBI 2003/33, the European and worldwide standards have accordingly diverged from the “principle of the long arm” adopted from Swiss jurisprudence and theory. Not least of all, this is documented by the revision of the information sharing provision in the Swiss BEHG. According to VBI 2003/33, however, correspondence with the European standard constitutes a premise for the applicability of this principle, as explained above. Against this background, it no longer appears reasonable for Liechtenstein as an EEA Member State to continue to apply the “principle of the long arm”.

Because of these changes to the preconditions relevant to decision-making, the FMA therefore



undertook a change in practice. The corresponding order therefore specifies that the information transmitted via information sharing may also be used in administrative and judicial proceedings – in analogy to the rule established by the Swiss revision – as long as these proceedings serve to combat market abuse. However, the forwarding of information for purposes other than combating market abuse will continue to be prohibited without prior consent of the FMA.

This change of the FMA’s information sharing practice is currently the object of a complaint lodged with the FMA Complaints Commission.

– **Developments relating to implementation of the Market Abuse Directive**

On 23 April 2004, the EEA Joint Committee decided to incorporate the European Parliament and Council Directive 2003/6/EC of 28 January 2003 on insider dealing and market manipulation (Market Abuse Directive) and the associated implementing measures into the EEA Agreement. These enactments aim to improve and harmonize the provisions against insider dealing and market

manipulation throughout the entire EEA, and thereby to ensure the integrity of the financial markets and the overall confidence of the public in securities and derivative trading.

For this purpose, the Directive also requires the competent authorities to engage in more intensive cooperation when investigating market abuse offenses. According to article 16 of the Market Abuse Directive, all necessary information must be immediately transmitted on request to an EEA authority responsible for enforcing the Market Abuse Directive. Moreover, the Market Abuse Directive now only allows requests for information sharing to be refused if

- a) communication of the information might adversely affect the sovereignty, security or public policy of the Member State addressed,
- b) judicial proceedings have already been initiated in respect of the same actions and against the same persons before the authorities of the Member State addressed, or
- c) a final judgment has already been delivered in relation to such persons for the same actions in the Member State addressed.

The Directive further specifies that the competent authorities may only use the information received through information sharing in fulfilling their responsibilities within the scope of the Market Abuse Directive and in the context of administrative or judicial proceedings relating to the fulfillment of these responsibilities. Accordingly, to the extent that the information is used for purposes of combating market abuse, the communication of information to a third-party authority may no longer be made contingent upon prior consent of the authority granting the information. Forwarding the information received through official cooperation for other purposes, however, continues to be without exception only permissible

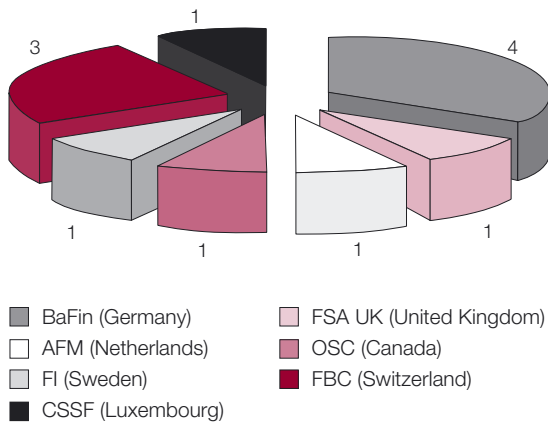
with the consent of the authority that supplied the information.

The provisions of the Directive partially outlined here require adjustments to the current legal framework. According to its responsibilities pursuant to article 5, paragraphs 2 of the FMA Act, the FMA has developed a draft law for the Government on implementation of the Market Abuse Directive. The Government adopted this draft in December 2005 in its proposal for a Law against Market Abuse in the Trading of Financial Instruments and has circulated it among interested circles for consultations.

Information sharing statistics

In the 2005 reporting period, 12 requests by foreign authorities (-54% compared with the previous year) were submitted to the FMA. A total of 24 bank clients were affected by the requests. The FMA ordered information to be transmitted to the requesting foreign authority in relation to 13 clients. Complaints were lodged with the FMA Complaints Commission against 7 of these FMA orders. In addition, 2 complaints against information sharing orders of the FMA from 2004 are pending before the Constitutional Court. The majority of the requests submitted to the FMA in 2005 were relating to investigations of suspected insider dealing. In 2 cases, the requesting authority suspected market manipulation. The FMA was able to fully complete 8 of the total of 12 requests in 2005.

Requesting authorities in the area of market manipulation, 2005:



1.1.8 Combating abuse

The professional provision of services according to article 3 of the BA is subject to a license. In this context, combating abuse means the investigation of services that are provided without the license required by the BA. The FMA also acts against company names that appear to indicate activities as a bank or finance company. The FMA can revoke licenses and force the liquidation of companies acting as a bank or finance company without a license.

The activities of the FMA during the reporting period relating to the suppression of market abuse also involved investigating so-called “phishing” cases. In this form of Internet abuse, the victim is provided with official-looking messages (usually e-mails) or Internet pages that replicate the web presentation of known companies (in this case, banks) and is conned into divulging confidential information to the perpetrator in good faith, especially usernames and passwords or PIN and TAN codes of online banking sites. Since the counterfeit web presentations are usually operated

via servers abroad, cooperation with the respective foreign financial market supervisory authorities is of particular importance in such cases, in order to effect rapid suppression of these activities.

As part of combating abuse, violations of the Prospectus Act are also investigated or turned over to the Liechtenstein prosecution authorities.

In the reporting period, 8 cases of abuse were subject to in-depth investigation. The total number of abuse cases in the banking sector rose by 11% relative to the previous year. The Banks Section did not refer any cases of abuse to the Liechtenstein prosecution authorities in the reporting period. In these cases, the FMA was able to restore lawful conditions, and a referral to prosecution authorities was not necessary. 2 of the investigations conducted in 2005 arose from information supplied or requests submitted by foreign supervisory authorities.

Of the cases during the 2005 reporting period that the Banks Section investigated in-depth, 2 cases arose from suspicion of non-licensed professional lending of third-party assets to an undetermined circle of borrowers according to article 3, paragraph 3(b) of the BA. In 1 case, there were indications of professional acceptance of deposits and other repayable assets according to article 3, paragraph 3(a) of the BA. 1 company was required to change its company name in the Public Registry, since the name indicated BAivities (cf. article 16, paragraph 1 of the BA).

In 1 case, evidence relating to a company domiciled in Liechtenstein and suspected of engaging in banking transactions without a license resulted in an extraordinary audit of company documents. In 2 cases, foreign institutions from third coun-

tries were required to suspend the cross-border financial services they provided without the requisite license, since the provisions pertaining to free movement of services do not apply to third countries.

1 Liechtenstein company without a banking license that had offered activities subject to the BA in a neighboring EEA country was required to suspend its activities, in cooperation with the competent foreign authority.

1.1.9 Operational focus areas in 2005

In 2005, the FMA focused on the following operational areas relating to banking supervision:

Strengthening cooperation with the audit offices of banks

In 2005, the FMA further strengthened its contacts with the audit offices of banks and finance companies. For purposes of increasing the efficiency of indirect supervision, the FMA conducted talks with selected audit offices to clarify open questions arising from audit activities, to develop a common understanding of specific issues, and to potentially optimize the auditing process.

Validation of electronic reporting

To optimize the evaluation of the information submitted by banks as part of their reporting process, and thereby to increase the efficiency of ongoing monitoring, the Banks Section avails itself of the “Financial Reporting (FiRE)” software. Through the automatic compilation and evaluation of the electronic data received through reporting, banking supervision can focus on the analysis of the received data and, in the event of aberrations, issue appropriate recommendations. To further optimize the process, an automatic (pre-)validation of the received data is necessary to identify

irregularities and conspicuous developments. For this purpose, benchmarks and deviation tolerances must be defined to ensure that conspicuous incidents are filtered out and their causes subsequently analyzed by banking supervision, if necessary in consultation with the reporting institution. The objective is to make the analysis process of the reporting system even more goal-oriented and to further improve the allocation of resources. The first benchmarks and deviation tolerances have already been tested, but they must be further refined on an ongoing basis.

Information sharing relating to stock exchanges

A substantive analysis of the changes affecting information sharing in stock exchange matters constituted a further operational focus area.

Preparations for the entry into force of the Asset Management Act

In connection with the AMA, which has now entered into force on 1 January 2006, numerous preparations were necessary to ensure its enforcement, such as in particular: drafting of fact sheets and checklists concerning the submission of requests for licensing as an asset management company, and development of facts sheets concerning reporting requirements for asset management companies and their audit offices.

1.1.10 Outlook for 2006

The operational focus areas of the Banks Section in 2006 will essentially encompass the following:

Practical implementation of the new capital adequacy requirements (Basel II) and accompanying measures for financial intermediaries

Implementation of the new capital adequacy requirements is expected to be completed in the 4th quarter of 2006. As a flanking measure, it will be necessary to develop a reporting system for banks that fulfills the new requirements and appropriate reporting forms. Moreover, several calibrations must still be undertaken to ensure that the international goal of Basel II can be met to neither increase nor decrease the capital adequacy requirements too heavily for the banking center overall in comparison with the preceding years. For this purpose, it will be necessary to calculate the capital adequacy requirements in accordance with the proposed Capital Adequacy Ordinance and to identify undesirable deviations (“QIS-FL light”). For the banks, Basel II entails a considerable investment of human and technical resources. In addition to the requirement of gathering a wide range of additional information, making various decisions on voting rights, and conducting corresponding impact analyses, the new capital adequacy requirements also entail substantial changes to the calculation methodology of capital reserves. These changes make an adjustment and expansion of information technology unavoidable. Once the regulatory implementation measures are concluded, Basel II means that the FMA must install the corresponding systems to be able to monitor the new capital reserve calculations. In addition, Basel II entails a large number of new responsibilities for the FMA (approval of various voting rights, approval of exemptions to the consolidation requirement, recognition of rating agencies,

cooperation with other supervisory authorities at the EEA level, determination of various factors for the calculation of capital reserves, assignment of rating classes, risk weighting, etc.).

Increase in license applications due to structural adjustments in the asset management market

In the first year of the new AMA, the Banks Section expects a surge in license applications. Along with the already apparent trend in the first few weeks of 2006, this is also to be expected due to the transitional provisions for persons with existing professional trustee licenses. These persons may claim a simplified licensing procedure. The granting of licenses pursuant to the AMA is contingent upon specific requirements, especially relating to the fitness and properness of the applicants, the organization, and the business plan. Asset management companies will be subject to ongoing supervision. This is connected with monitoring of capital adequacy and evaluation of audit reports, periodic reports on the course of business, and incident-related reports. Since these periodic and incident-related reports are similar in essence to those of banks, ongoing monitoring and analysis work is able to draw from the resources already existing in the framework of banking supervision, such as know-how, data-bases, etc.

Expansion of the FMA-internal database on asset management companies

The FMA uses its own electronic database in which the key data of the financial intermediaries is recorded. This database must be expanded to include the entities relating to asset management companies.

New IAS/IFRS accounting standards

Since 2005, banks have been allowed to compile their business reporting according to the new IAS/IFRS rules. The group business report of three banks in Liechtenstein is already being drafted according to the new accounting standards. IAS/IFRS has introduced significant new accounting features to aid international comparisons of annual account statements. For banks, these new features are particularly important with respect to the categorization of financial instruments, the valuation of various typical positions in the bank balance sheet, and with respect to disclosure. The principle of prudence of national accounting is making way to the system of “true and fair view”. The demands on the accounting of banks are therefore increasing. The FMA is likewise called upon to keep pace with the accounting dynamics in its supervisory function and to ensure the relevant know-how. For instance, it should be prevented that banks assume unreasonable risks that they would not assume under national accounting rules, as a consequence of the abandonment of the principle of prudence and the resulting better presentation of their bank situation – for instance if non-realized profits on highly volatile financial instruments are added on to their own resources.

1.2 Investment Undertakings

1.2.1 Liechtenstein investment undertaking center

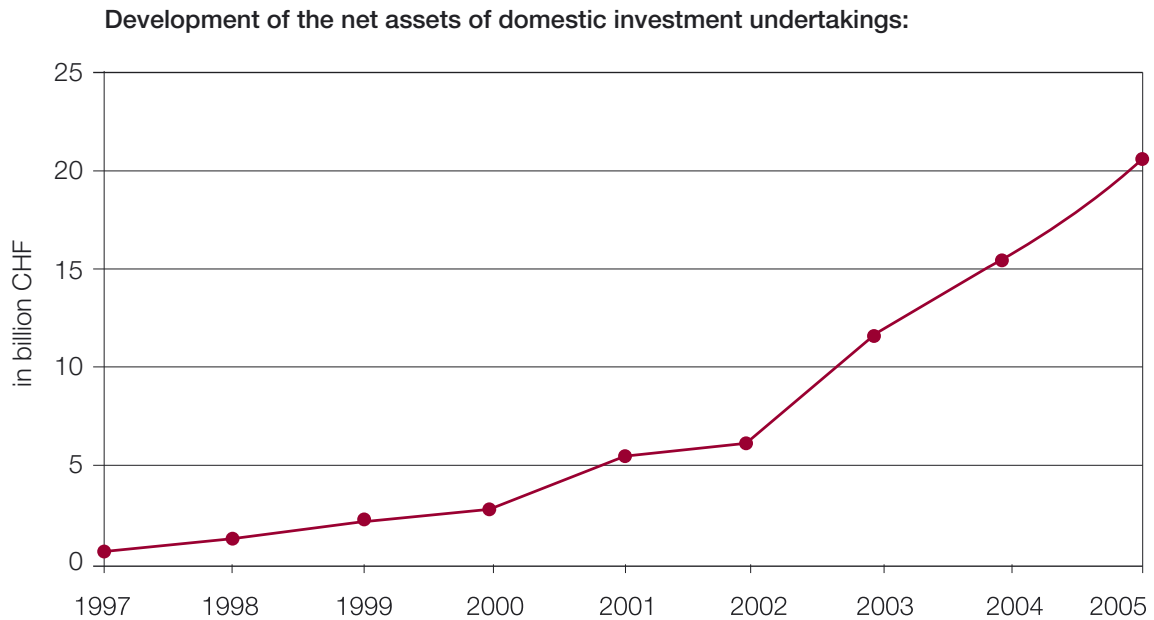
In 1996, the enactment of the Law on Investment Undertakings (Investment Undertaking Act, IUA) laid the foundation for the establishment of the Liechtenstein fund center. Investment undertakings are assets raised from the public through public solicitation for the purpose



of collective capital investment and managed by a management company for the joint account of the investors and on the principle of risk-spreading, unless expressly determined otherwise. Depending on the legal form of the investment undertaking, investment funds and investment companies are distinguished.

At the end of 2005, 164 domestic investment undertakings with a total of 157 segments were licensed; on a consolidated basis, this corresponds to 275 individual funds. In addition, 1 investment undertaking for qualified investors was registered with the FMA. The domestic investment undertakings are managed by 27 management companies. In 2005, an additional 239 foreign investment undertakings with a total of 659 segments were licensed to market units in Liechtenstein.

The net assets under management of domestic investment undertakings increased strikingly by CHF 4.96 billion (+31.8%) to CHF 20.6 billion as of the end of 2005. The share of the fund managements in the net assets under management that are counted within the scope of consolidation of the three major banks is about 70%. This



enormous increase is both a result of the good stock market environment and also of the very strong influx of new assets into the investment undertakings (see illustration above).

The outlook for maintaining the existing growth can be assessed optimistically for 2006 as well. Through the creation of an attractive business environment, the fund center is becoming increasingly attractive for domestic and foreign financial intermediaries who want to implement their ideas quickly, professionally, and in a sustainable manner.

The Liechtenstein fund center is establishing itself increasingly strongly in the private label market for investment undertakings. About 8 of the 27 management companies are very active and successful in this sector. The fund promoters primarily come from the neighboring countries of Switzerland, Austria, and also from Germany. The

fund promoters view the transparent licensing and approval procedures with legally fixed approval deadlines, the high protection of investors, the similar cultural and language area, and the high professionalism in the Liechtenstein financial center as the most important criteria for choosing a fund center.

1.2.2 Supervision of investment undertakings

Within the FMA, the Investment Undertakings Section in the BIU Division is responsible for the supervision of investment undertakings. Supervision encompasses enforcement of the IUA, the Ordinance on the Investment Undertakings Act (Investment Undertaking Ordinance, IUO), and the DDA as well as the corresponding DDO. The FMA primarily fulfills the following core responsibilities relating to supervision law in this regard: granting licenses, and the subsequent execution of prudential supervision in accordance with the IUA and the DDA. The demands on supervision orient themselves essentially according to the structure and the fields of business of the investment undertakings.

Prudential supervision means the ongoing supervision of the proper business conduct of the management companies and of the investment undertakings managed by them. The FMA administers prudential supervision of investment undertakings in accordance with the IUA, the corresponding European fund Directives¹⁾ (UCITS Directives²⁾) and the IOSCO principles on securities supervision. The responsibilities of prudential supervision include in particular auditing in accordance with the IUA, monitoring the reporting system, and combating abuse, as well as supervising management companies in accordance

with the DDA that administer the unit register themselves, offer units, or distribute them.

1.2.3 Licenses

Licenses of domestic investment undertakings

In 2005, a total of 36 licenses for investment undertakings were granted, including 1 investment company, and 1 certification for an investment undertaking for qualified investors was issued; in addition, 1 new audit office was licensed in accordance with the IUA.

On a consolidated basis, the licensed investment companies increased by 22 in 2005, from a total of 141 investment undertakings to 163. Conversely, 14 investment undertakings were liquidated in the reporting year, including 3 investment companies and 11 investment funds. In most cases, the reasons for liquidation were a failure to maintain the legally required minimum net assets; in one case, the licensing conditions were no longer met.

Taking into account all applications received, the average wait for the granting of a license to an investment undertaking from receipt of the complete application to the granting of the license was 11 business days.

1) Council Directive 85/611/EEC of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Directive 2001/107/EC of the European Parliament and of the Council of 21 January 2002 amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses.

Directive 2001/108/EC of the European Parliament and of the Council of 21 January 2002 amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), with regard to investments of UCITS.

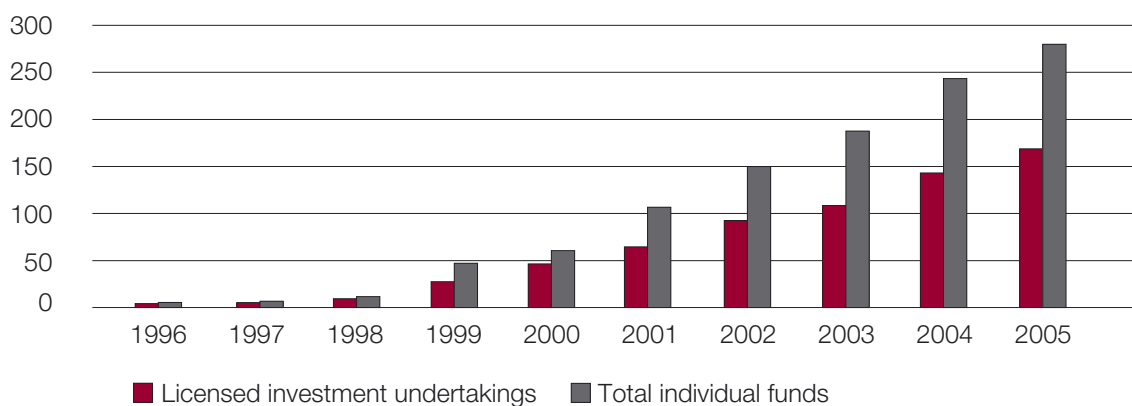
2) Undertakings for collective investments in transferable securities (UCITS) is the English term for these harmonized investment undertakings and is used more frequently in Liechtenstein than the German abbreviation OGAW.

1 SUPERVISION

Status of licensing categories as of 31 December 2005:

Licensing categories	2004	2005	+ / -
Management companies	29	27	- 2
of which fund managements	17	17	0
of which investment companies	12	10	- 2
Domestic investment undertakings	141	163	+ 22
of which segmented	42	45	+ 3
with a total of segments (individual funds)	141	157	+ 16
of which investment undertakings for securities	63	63	0
of which investment undertakings for other values	78	100	+ 22
of which investment undertakings for qualified investors	0	1	+ 1
Foreign investment undertakings	208	239	+ 31
of which segmented	52	56	+ 4
with a total of segments (individual funds)	580	659	+ 79
Audit offices	9	10	+ 1

Comparison between the licenses granted and the individual funds existing in Liechtenstein as of 31 December 2005:



In 2005, a total of 56 changes to existing licenses were processed:

- Changes to functions of bodies: 13
- Changes to investment policy: 28
- Conversion of types: 1
- Change of management company: 1
- Change of depositary bank: 2
- Change of audit office: 3
- Change of ownership: 2
- Name change: 6

Admission of foreign investment undertakings

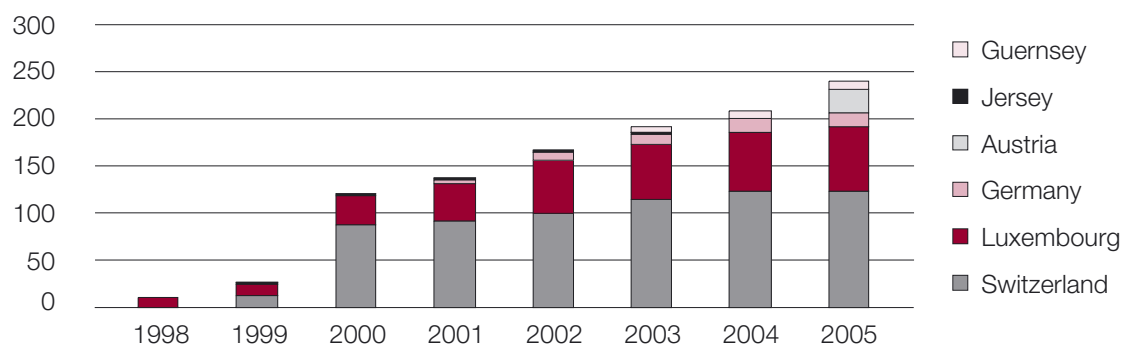
When admitting foreign investment undertakings, a distinction must be made between investment undertakings that can benefit from the free movement of services in the harmonized area and those that are not harmonized and therefore require a license to operate. Investment undertakings and management companies complying with Directives 2001/107/EC and 2001/108/EC may benefit from a European passport. This means that they do not need to formally apply for a license, but rather may take

up business in Liechtenstein after a notification procedure (free movement of services). Non-harmonized investment undertakings and investment undertakings from third States require a license in accordance with the IUA. In 2005, a total of 33 foreign investment undertakings were admitted to operate in Liechtenstein.

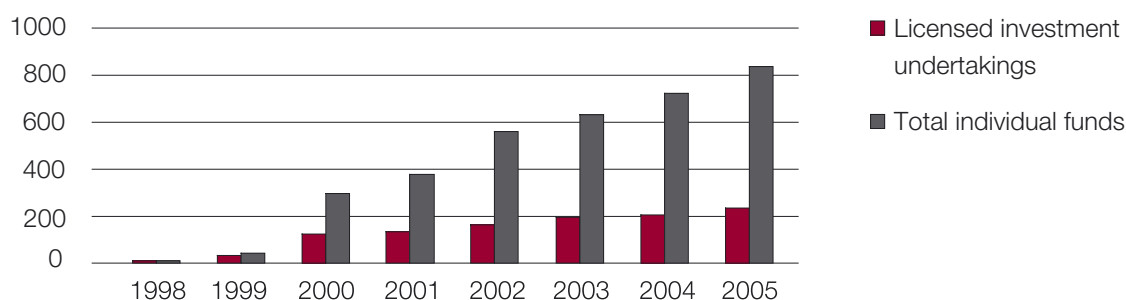
On a consolidated basis, the number of foreign investment undertakings admitted to operate in Liechtenstein increased by 31 from a total of 208 investment undertakings (2004) to 239 (2005). These 239 investment undertakings have a total of 659 segments. In the 2005 reporting year, 2 foreign investment undertakings ceased operations in Liechtenstein.

The foreign investment undertakings admitted to operate in Liechtenstein are distributed among the home territories of Switzerland, Luxembourg, Germany, Austria, Jersey, and Guernsey as follows:

Licenses of foreign investment undertakings by home territory as of 31 December 2005:



Foreign investment undertakings and individual funds managed as of 31 December 2005:



Licensing of persons entitled to market units

The FMA also grants licenses for persons entitled to market units in accordance with article 14 of the IUO.

License as an audit office pursuant to the IUA

Operating as an audit office pursuant to the IUA requires a license by the FMA. Audit offices already holding a license pursuant to the BA may, according to a Government Decision of 2 July 1996, also accept auditing mandates pursuant to the IUA. These mandates do not require a special license.

In the 2005 reporting year, 1 new audit office pursuant to the IUA was licensed. In total, 10 audit offices may now accept mandates for management companies and their investment undertakings.

Licensing practice

– Licensing of a foreign, non-harmonized investment undertaking subject to conditions for the public offering and marketing of units

1 foreign, non-harmonized investment undertaking applied to offer or market its units in Liechtenstein or from Liechtenstein. It became apparent from the submitted documentation that the investment undertaking pursued a solicitation strategy that did not comply with Liechtenstein market practices.

In accordance with the FMA Position Paper on requirements for the market presence of financial products with increased risk in the BIU sector, the order included conditions concerning periodic submission of documentation, adaptation of the prospectus for marketing in Liechtenstein, and publication of the issue and redemption prices of the units. In addition, the order imposed the condition that the investment undertaking adapt its solicitation activities to Liechtenstein market practices and that it refrain from misleading and aggressive solicitation. The order attained legal effect.

– **Investment undertaking for qualified investors**

As a novelty, the first investment undertaking for qualified investors was established in 2005. This category of investment undertaking does not require a license. However, an audit office pursuant to the IUA must submit confirmation to the FMA that the prospectus to be drafted complies with the legislative and ordinance provisions. The circle of qualified investors is delimited by article 29 of the IUO. After the first half year, the first regular audit report must be submitted to the FMA, and from this time, the investment undertaking for qualified investors will be monitored by the FMA in the same way as other investment undertakings.

– **Investment undertaking managed by a third party**

In 2005, the first investment undertaking managed by a third party was founded. In contrast to the previously known (self-managed) investment company, the entire business operation is assumed by a third-party company. This company must, however, be a fund management licensed pursuant to the IUA.

– **Licensing with conditions – Delegation of asset management to an asset manager in a third State**

One licensing application for an investment undertaking for transferable securities envisaged delegation of its asset management to an asset manager domiciled in a third State. In the case of an investment undertaking for transferable securities, the new law requires that the delegatee be subject to appropriate supervision with respect to its asset management activities. This supervision must be equivalent to Liechtenstein supervision, and cooperation between the competent supervisory authorities must be ensured. In the

case of this application, the envisaged asset manager was not subject to appropriate supervision in its State of domicile with respect to its asset management activities. In the asset management contract between the management company and the asset manager, it was agreed that the asset manager would establish an asset management company in Liechtenstein. The FMA received an application for an asset management company in this regard. Against this background, it would have been unreasonable to deny the delegation of asset management. For this reason, the FMA approved the investment undertaking with the condition that the delegation of asset management be replaced by 31 March 2006 with the appointment of an asset manager that complies with the provisions relating to delegation of asset management, and that no distribution in foreign countries should take place up to this time. The license attained legal effect.

1.2.4 Auditing

Management companies are required to submit their annual report to the FMA each year within four months, as well as a half-yearly report within two months of the end of the business year or the business half-year. These reports must be structured according to Annex 3 of the IUO and must be made available to the investors free of charge.

In addition, the management company must report to the FMA on a quarterly basis on the asset development of each investment undertaking. The FMA analyzes these reports and, if necessary, initiates the appropriate measures. These quarterly reports also provide data for statistical purposes and indicate trends in the Liechtenstein financial center.

Regular audits

– Regular audits pursuant to the IUA

The system of indirect supervision provides the FMA with support by the legally provided audit offices in conducting prudential supervision. The audit offices annually audit ongoing compliance with the licensing conditions (article 102 of the IUO) and the ongoing conduct of business (article 103 of the IUO) based on the legally required contents of management companies and investment undertakings, and they summarize their findings in an audit report.

According to article 27 of the IUA, investment undertakings and management companies must be audited each year by an independent audit office recognized by the FMA.

In the reporting year, audits of all management companies and investment undertakings were conducted pursuant to article 98 of the IUA. The audits reviewed whether the conduct of business of the management companies and the investment undertakings complied with the IUA, the IUO, the articles of incorporation, and the full and simplified prospectuses. The business report must also comply with legal requirements.

In the reporting year, the FMA analyzed and evaluated 27 audit reports of management companies and 105 audit reports of investment undertakings. In addition, there were numerous contacts with the general managements of the individual management companies over the course of the entire reporting year, which also have had a great influence on the continuously improving compliance with the legal provisions.

The audits in 2005 paid particular attention to the following points:

- Equity position of management companies
- Compliance with legal minimum net assets of investment undertakings
- Compliance with reporting deadlines
- Risk warning in the prospectuses (transparency for the investors)

The results of the audit round during the 2005 reporting year were assessed as positive. Overall, however, it was noted that the strong increase in the number of investment undertakings has also resulted in an increase in the number of complaints.

The following deficiencies were identified in particular:

- late reporting on the net assets under management and their change relative to the previous quarter (quarterly reporting pursuant to article 14, paragraph 4 of the IUA)
- failure to maintain minimum own funds for individual fund managements (CHF 1 million) and investment companies (CHF 0.5 million) pursuant to article 66, paragraph 3 of the IUA
- failure to maintain minimum net assets (CHF 2 million) for individual investment undertakings (article 59 of the IUA in conjunction with article 82 of the IUO)

The rapid success of individual management companies entailed personnel bottlenecks in some cases and accordingly also irregularities in various business sectors. In this connection, the FMA positively noted the ability of management companies to react quickly and appropriately to complaints.

The FMA reviewed all complaints by the audit offices and called upon the management companies to remedy the deficiencies appropriately and to report to the FMA upon completion of the measures taken. The audit companies submitted a final report to the FMA in each of these cases.

Compliance with equity capital requirements was identified as one of the main deficiencies, especially in the case of smaller management companies. Article 56, paragraph 2 of the IUA stipulates that the licensing conditions, and therefore also the own funds requirements of a management company must be complied with continuously. Several management companies did not pay sufficient attention to this obligation.

Based on this development, the FMA reviewed its scope of discretion with respect to the possible timeframe for restoring lawful conditions, and it developed a Position Paper in this regard. For purposes of legal certainty and equal treatment of the management companies, the FMA drafted the Position Paper entitled “Failure of a management company to maintain minimum own funds – Scope of discretion of the FMA”.

– Regular audits pursuant to the DDA

According to article 3 of the DDA, management companies and their investment undertakings are subject to due diligence supervision in principle, while article 4 of the DDA contains an exception.

Investment undertakings are exempt from the material scope of application of the DDA if they do not keep unit accounts themselves and do not offer or distribute units themselves.

In the 2005 reporting year, only 2 management companies fell within the material scope of application of the DDA, in addition to the personal scope of application, and were therefore subject to supervision pursuant to the DDA.

Audits pursuant to the DDA were conducted with respect to these 2 management companies. The focus of the 2005 audit round, as in the year before, was on a material audit.

In both cases, the audit results can be assessed as positive. Only slight formal deficiencies were found. These deficiencies were not classified as potential threats and were therefore considered insignificant.

Extraordinary audits pursuant to the IUA and the DDA

In the 2005 reporting year, no extraordinary audits were ordered pursuant to the IUA or the DDA.

1.2.5 Reporting

Management companies are required to submit quarterly reports, half-yearly reports, and business reports of the investment undertakings they manage. The FMA receives a half-yearly, business, and audit report about the management company itself. These reports are reviewed by the FMA and analyzed with respect to any supervisory action that must be taken:

In principle, reporting discipline was very good in 2005. With respect to the quality of the reports, qualitative complaints were only necessary in a few cases, in particular concerning the exchange rates used and the calculation of the issue and repurchase prices of units. The warned management companies were made aware of their mistakes and sensitized accordingly.

Reports	Legal basis	Number of reports	Warnings	Complaints
Quarterly reporting	art. 23 IUO	141	3	5
Business report	art. 20 IUO	141	0	0
Half-yearly report	art. 20 IUO	141	0	0

1.2.6 Supervision practice

Ordering of measures pursuant to supervision law

Conditional withdrawal of license in the case of one investment undertaking: The licensed audit office communicated to investment undertaking X that it would not stand for reelection as audit office at the next general meeting. The attempt to find a new audit office was unsuccessful. The FMA was briefed from the start concerning the situation and further steps, both by the audit office and by the investment undertaking. According to the IUA, an investment undertaking is required to have its conduct of business audited each year by an independent audit office recognized by the FMA. If such an audit office is lacking, this legal obligation can no longer be fulfilled. For this reason, the FMA ordered withdrawal of the license in the event that no new audit office could be appointed before the specified deadline. Investment undertaking X was unable to find a new audit office. It returned its license to the FMA before the deadline, so that the FMA did not need to withdraw it.

Sanctions/Referrals

In the 2005 reporting year, the FMA did not impose any sanctions pursuant to the IUA or the DDA. In 2005, no referrals to prosecution or disciplinary authorities or the FIU were necessary.

FMA Communications

No FMA Communications were issued by the Investment Undertakings Section in the 2005 reporting year.

However, the enforcement of the new IUA raised several questions of interpretation for the FMA. In this context, the following position papers were drafted:

– **FMA Position Paper of March 2005 concerning requirements on the market presence of financial products with increased risk in the area of banks and investment undertakings**

The stock and capital markets are offering a growing number of financial products on the market that have an increased risk. This risk is often associated with the promise of higher returns for the investor. Often, the interest of the investors is attracted through targeted, aggressive solicitation (evidence of high performance). For this reason, the FMA has adopted a Position Paper governing the areas of risk, information/transparency, and fees for high-risk financial instruments. It specifies the framework conditions and the potential scope of action of the FMA in this area; its aim is to ensure that questions in this area can be dealt with in a uniform and rapid manner.

– **Failure of management companies to maintain legally required minimum own funds**

Because management companies often failed to maintain the legally required own funds, it became necessary to define the scope of discretion of the FMA with respect to restoring the own funds. A graduated scheme was laid down, according to which the legal conditions for available own funds must be restored.

Fact sheets

The new IUA gave rise to a revision of the already existing fact sheets concerning submission of the necessary documentation for an application pursuant to the IUA.

These fact sheets are intended to create legal certainty for the fund market regarding which documentation must be supplied with an application. The new IUA has also given rise to new material requirements, and deadlines formally based on these fact sheets are tied to the completeness of the application documentation. In this context, the FMA published the following fact sheets on the Internet on 14 September 2005, enumerating the documentation to be submitted for each type of application.

- Management company
- Investment fund
- Investment company
- Name of management company/investment undertaking
- Audit office
- Risk warning
- Free movement of services of management companies/investment undertakings in the EEA
- Free movement of services of management companies/investment undertakings from the EEA
- Establishment of a branch of a management company from the EEA

- Marketing of units of investment undertakings from third States or of non-harmonized investment undertakings

Sample prospectuses

As part of the total revision of the IUA, the decision was made to deviate from the previously pursued prospectus concept, which had been adapted from the Swiss model. The design under European law served as a basis for developing a model that aims to avoid duplication to the extent possible and to simplify the design of the prospectus.

In addition, a simplified sales prospectus needed to be developed, summarizing the content of the full prospectus and containing the most important information in a clear and easily understandable form. The EU Commission issued Recommendation 2004/384/EC to the Member States, which aims to harmonize both the content and the form of the simplified prospectus.

A working group already appointed for this purpose in June 2005 (representatives of the Liechtenstein Investment Fund Association [LIFA], the Liechtenstein Bankers Association [LBA], and the FMA) developed a model for the full and the simplified prospectuses. In November 2005, the first versions were made available to the management companies. The FMA transmitted the final sample prospectuses for investment funds and for investment companies for transferable securities, segmented, to the management companies in electronic form on 2 December 2005.

This working group also drafted a sample prospectus for investment undertakings for qualified investors, which was developed on the basis of the simplified prospectus with modifications. In this connection, a sample subscription form was also

drafted, which plays a central role due to the requisite identification of the qualified investor. Upon amendment of the IUO in December 2005, the provisions concerning investment undertakings for qualified investors were also revised. This resulted in adjustments to the sample prospectus.

Responding to inquiries

In 2005, the staff members of the Investment Undertakings Section received numerous oral and written inquiries from financial intermediaries. Many of these inquiries were answered in writing. The focus of these inquiries resulted from the implementation and interpretation of the IUA and the new IUO.

A considerable number of these inquiries necessitated responses reaching across divisions and sections. The questions generally involved delineation between the IUA and the BA, the Prospectus Act, or the Law on the Supervision of Insurance Undertakings (Insurance Undertakings Act, IUA).

In the case of complicated situations, the FMA was willing to clarify questions of financial intermediaries in personal consultations. This service was readily used by the financial intermediaries.

In the reporting year, approximately 2450 inquiries were answered orally and approximately 210 in writing (e-mail or letter).

1.2.7 Combating abuse

All financial transactions subject to the IUA require a license by the FMA. This means that companies may not provide services subject to approval pursuant to the IUA without a license, and they may not call themselves management companies or investment undertakings. Cross-border services within the EEA must be notified

as such and approved in relation to third States. Violations are punished in accordance with article 111 of the IUA. In the 2005 reporting period, 1 case was subject to detailed review. It concerned the unlawful entry of a legal form in the Public Registry that is exclusively reserved for licensed investment undertakings. The company decided to change the legal form.

1.2.8 Operational focus areas in 2005

Liechtenstein Investment Fund Think-Tank (LIFT)

On 9 November 2005, representatives of the fund industry and of supervision met for the first time to think about how the positive trends of the new IUA can be made sustainable. As a consequence, a group was appointed whose task is to identify legal and market developments early on, to evaluate them according to opportunities and risks, and to act accordingly on behalf of the Liechtenstein fund center. A core team of six persons was appointed to launch LIFT. Two representatives each of the LIFA, the LBA, and the FMA participate. As a rule, the meetings take place monthly. The goal is to determine a common approach with respect to important agenda items and to distribute the tasks to be completed. Larger projects are supported by ad hoc working groups, which are in turn appointed by the representatives of the core team as representatives of the associations.

Issuing of "UCITS III" confirmations for foreign supervisory authorities

On the basis of a decision adopted by the Committee of European Securities Regulators (CESR) in January 2005, all Liechtenstein investment undertakings for transferable securities marketed in EEA Member States had to submit a simplified prospectus to the supervisory authorities of



the host Member States by 30 September 2005 (Liechtenstein was able to effect an extension in Austria and Germany until 31 December 2005).

The Investment Undertakings Section made all necessary efforts in this regard and was able to approve both a simplified and a full prospectus for the approximately 30 affected investment undertakings by December 2005 and therefore also issue a confirmation that these investment undertakings are UCITS-compatible.

In the 2005 reporting year, the Investment Undertakings Section fulfilled the following responsibilities in addition to the aforementioned focus areas and implementation of the new IUA:

- Implementation of the newly introduced investment undertaking for qualified investors with respect to the requisite prospectus, the confirmation to be issued, and list administration
- Restructuring of the licensing orders for management companies and investment undertakings based on the legal adjustments

1.2.9 Outlook for 2006

The supervision of investment undertakings will focus on the following areas in 2006:

- Implementation and enforcement of the new IUA and the new IUO
- Steady expansion of the processes relating to prudential supervision (especially for management companies, management meetings analogous to those for banks)
- Accompaniment of auditing activities by FMA staff members
- Establishment of an electronic inspection system

1.3 Insurance Undertakings

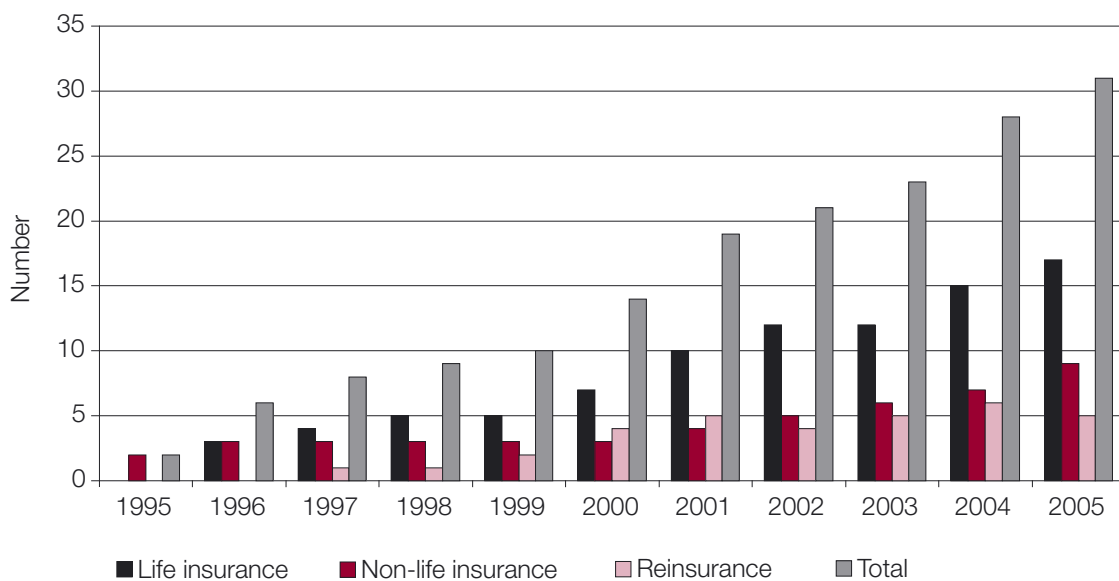
1.3.1 Liechtenstein insurance center

As of the end of 2005, the Liechtenstein insurance center encompassed a total of 31 (previous year: 28) domestic insurance undertakings (17 life insurance, 9 non-life insurance, and 5 reinsurance undertakings). 10 of these undertakings operate as captives (5 direct insurers in non-life insurance and 5 reinsurers). The founders or shareholders of the 31 insurance undertakings come from the following countries: Switzerland (20), Austria (5), Liechtenstein (2), Germany (1), Belgium (1), Ireland (1), and the United States (1). Almost all of the direct insurance undertakings operate in the European Economic Area and Switzerland pursuant to the free movement of services. As the host country

supervisory authority, the FMA supervises the entire activity of these insurance undertakings in the EEA and Switzerland.

The main line of business of Liechtenstein insurance companies is life insurance, and in particular unit-linked life insurance. The non-life insurers are niche insurers specializing in specific insurance products (such as art insurance). All of the reinsurance undertakings are captives, which exclusively reinsure risks of a corporate group. An increasing trend is for large enterprises to establish their own direct insurance undertaking, since they regard the existing supply of direct insurance as insufficient and since their own insurance undertaking grants them direct access to the worldwide reinsurance market.

Development of the number of insurance undertakings by sector, 1996 – 2005 (as of 31 December 2005):



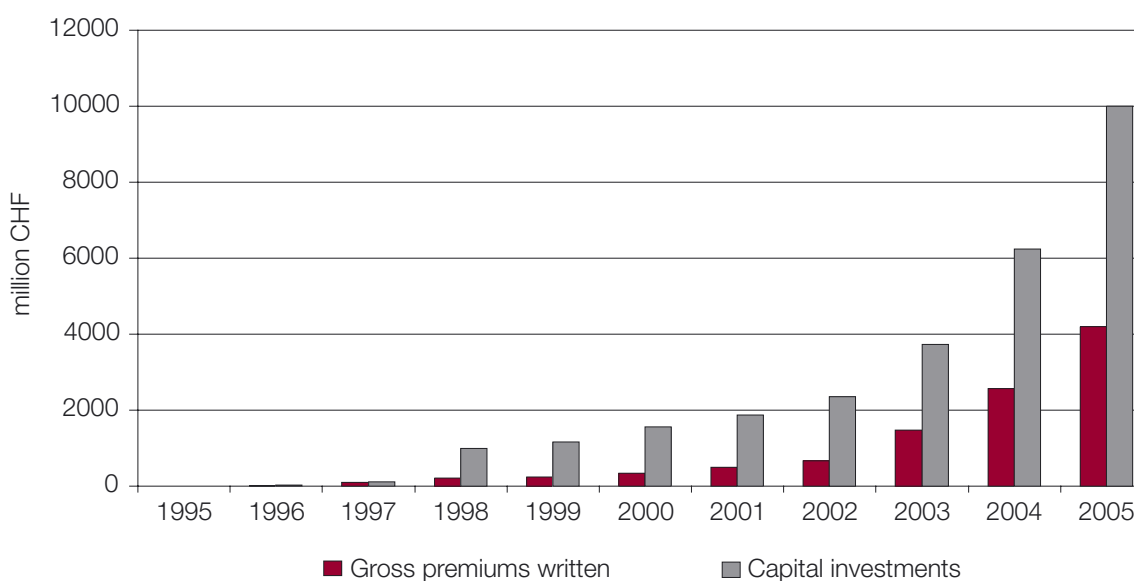
The agencies of Swiss insurance undertakings previously operating in Liechtenstein were converted into subsidiaries in 1998 pursuant to the Liechtenstein – Switzerland insurance agreement. A total of 23 Swiss insurance undertakings maintain a subsidiary in Liechtenstein, namely 14 non-life and 9 life insurers.

By the end of 2005, 225 insurance undertakings from various EEA States and Switzerland had notified the FMA of their assumption of cross-border services in Liechtenstein via their home country supervisory authority. In practice, however, it has turned out that these undertakings have hardly become operational.

At the beginning of 2006, the insurance undertakings were called upon to provide provisional figures on their 2005 business year. One reason for this was to gain a first overview of the de-

velopment of the market and at the same time to be able to make timely interventions in cases of doubt. The provisional figures show that the positive development of the insurance center has continued. The premium income of insurance undertakings amounted to CHF 4.21 billion in 2005, compared with CHF 2.56 billion in 2004, which represents an increase of 64.4%. Of this income, CHF 4.02 billion (95.7%) falls to life insurers, CHF 130.93 million to non-life insurers (3.1%), and CHF 52.31 million (1.2%) to reinsurers. The capital investments made on behalf of clients in connection with unit-linked insurances increased from CHF 4.62 billion in 2004 by 84.7% to CHF 8.54 billion in 2005. The total assets of all insurance undertakings domiciled in Liechtenstein amounted to CHF 10.54 billion in 2005, compared with CHF 6.6 billion in 2004. This corresponds to an increase of 59.6% (see illustration).

Development of gross premiums written and capital investments, 1995 – 2005 (in million CHF):



The claims ratio (expenditures for claims for their own account in percentage of premium income) was 23% (previous year: 6.5%) for non-life insurers and 55.8% (previous year: 24.6%) for life insurers.

Of the life insurers, 12 companies (70%, previous year: 69%) expect positive operating profits for 2005, although most of the undertakings are still in the build-up phase. The solvency margin of all life insurers is covered with sufficient equity capital – with one exception, but in which case the founding company subsequently provided the necessary capital. The non-life and reinsurers predominantly recorded positive operating profits (77%, previous year: 75%); the solvency margin is sufficient for all non-life and reinsurance undertakings. The number of staff members employed with the insurance undertakings increased from 149.5 in 2004 to 181.9 in 2005. This corresponds to an increase of 21.7%.

1.3.2 Insurance supervision

Insurance supervision covers all tasks related to the supervision of insurance undertakings represented in the Liechtenstein insurance center. The demands on supervision depend significantly on the structure of the insurance undertakings represented in the Liechtenstein insurance center. The scope of activity of insurance supervision essentially encompasses the following core responsibilities under supervision law: granting licenses in accordance with the Insurance Supervision Act (ISA) and executing prudential supervision.

Prudential supervision pursuant to the ISA means the ongoing supervision of the proper business conduct of the insurance undertakings. The FMA is responsible for execution of prudential supervision of insurance under-

takings in accordance with the ISA and the Ordinance on the Insurance Supervision Act (Insurance Supervision Ordinance, ISO), the corresponding European insurance Directives, and the principles of the International Association of Insurance Supervisors (IAIS). In particular, the responsibilities of prudential supervision include auditing, monitoring of the reporting system, combating abuse, and supervision of life insurers in accordance with the DDA and the DDO.

In executing prudential supervision, the insurance supervisory authority in particular has the competence to issue orders relevant to supervision law, FMA Guidelines, or FMA Communications.

1.3.3 Licenses

Undertakings providing direct insurance or reinsurance in the Principality of Liechtenstein are subject to insurance supervision and hence to a licensing requirement. Undertakings provide direct insurance in the Principality of Liechtenstein that cover risks in Liechtenstein or that cover risks from Liechtenstein in another contracting State of the EEA Agreement (article 2 of the ISA, in conjunction with article 1 of the ISO). Pursuant to the Direct Insurance Agreement between Liechtenstein and Switzerland from 1996, insurance undertakings domiciled in Liechtenstein and in Switzerland may exercise freedom of establishment and services with respect to direct insurance activities on the territory of the other contracting State. Accordingly, Liechtenstein insurance undertakings may not only engage in cross-border operations from Liechtenstein in the EEA without a license, but also in Switzerland.

As the host country supervisory authority, the FMA supervises the entire activity of Liechtenstein insurance undertakings in the EEA, Switzerland, and third States.

The licensing requirement is laid down in article 12 of the ISA. Pursuant to this requirement, insurance undertakings subject to supervision must hold a license granted by the FMA to initiate business activities in each of the lines of insurance they intend to offer. A multi-stage licensing procedure must be followed: First, an application must be submitted to the FMA for preliminary review, in the sense of a draft of the final license application. As soon as the preliminary application has been reviewed and approved by the FMA, the final license application may be submitted to the FMA. If the application is complete and plausible, the FMA issues an assurance of a license for taking up business activities. The license itself is granted by the FMA once the undertaking has been entered into the public register and proof has been provided that the requisite equity capital is paid up.

In 2005, the FMA as the competent insurance supervisory authority granted licenses to take up business activities to 2 non-life insurance undertakings, 2 life insurance undertakings, and 1 reinsurance undertaking, in accordance with the ISA. Of a total of 5 newly licensed insurance undertakings, 2 insurance undertakings were founded as captives.

Overall, the increase of licenses confirmed the positive trend of the previous years. The average wait for the grant of a license was approximately 20 business days, if the license application was complete.

In the reporting period, 1 reinsurance undertaking (captive) was liquidated. In the case of 1 further reinsurance undertaking, the withdrawal of the license already ordered in 2004 by the Government of the Principality of Liechtenstein (as the competent insurance supervisory authority at the time) was confirmed by a judgment of the Administrative Court (see section on withdrawal of license below).

Status of licensing categories as of 31 December 2005:

Insurance undertakings domiciled in Liechtenstein:

Licensing categories	2004	of which captives	2005	of which captives	+ / -
Non-life insurance	7	(4)	9	(5)	+ 2
Life insurance	15	(0)	17	(0)	+ 2
Reinsurance	6	(6)	5	(5)	- 1
Total licenses	28	(10)	31	(10)	+ 3

The FMA is also responsible for granting licenses as audit offices pursuant to insurance supervision law, in accordance with the ISA. No new licenses were granted in 2005. The number of 10 audit offices pursuant to insurance supervision law has remained the same since 2003.

Changes to licenses

1 non-life insurance undertaking, which previously had only been licensed for Insurance Line 16 pursuant to Annex 1 of the ISA, was granted a license to operate other lines of insurance (lines 7, 8, and 9 pursuant to Annex 1 of the ISA).

Withdrawal of license

As the competent insurance supervision authority at the time, the Government of the Principality of Liechtenstein in 2004 withdrew the license of one reinsurance undertaking for reinsurance operations in all lines. The license was withdrawn in particular since the insurance undertaking had not used the license since it was issued in 2001. Not one reinsurance contract had been concluded since the grant of the license. In addition, other provisions of supervision law (reporting requirements, etc.) had been violated. The legal representative of the affected insurance undertaking filed a complaint against the decision of the Government, but the complaint was insufficient in form and substance. The Government of the Principality of Liechtenstein forwarded the complaint to the Administrative Court. In its final judgment, the Court rejected the complaint against the Government decision to withdraw the license and confirmed the Government decision complained of. In essence, the grounds for the judgment were that the complaint had not contained the legally required minimum information, and that the legal representative of the complainant had been unable to present an appropriate power of attorney.

Cross-border provision of services

Insurance undertakings domiciled in Liechtenstein or licensed by the FMA may provide direct insurance services in another EEA contracting State by way of a subsidiary or free movement of services (single license). The insurance undertaking must notify this to the FMA as the home country authority; the FMA then brings this notification to the attention of the authority of the country in which the undertaking is operating (home country control). The same procedure also applies if an EEA insurance undertaking operates in Liechtenstein. Pursuant to the Direct Insurance Agreement between Liechtenstein and Switzerland, this also applies in relation to Switzerland (see table on page 41).

1.3.4 Auditing

Liechtenstein insurance undertakings are required to compile their business report (annual account statement and annual report) each year as of 31 December, and, if applicable, their consolidated business report (consolidated annual account statement and consolidated annual report). In addition, they must submit a report on the past business year to the FMA by 30 April of each year, together with their balance sheet. In the case of insurance undertakings that offer reinsurance exclusively, this deadline may be extended to 30 June upon application. The insurance undertakings must publish their annual account statement and their consolidated account statement. The FMA may verify business activities on site.

Subsidiaries and movement of services	2003	2004	2005	2004/05 +/-
Subsidiaries of Swiss insurance undertakings	31	26	23	- 3
Subsidiaries of insurance undertakings domiciled in the EEA	0	1	1	0
Insurance undertakings registered for free movement of services in Liechtenstein (CH and EEA)	180	201	225	+24

Annex 4 of the ISO contains the reporting template, including detailed requirements for applying the valuation of assets and for determining the actuarial reserves. Complementing this, the provisions of the Law on Persons and Companies (PGR) and the guidelines of the FMA apply. The accounting requirements are based on European Directives.

Auditing encompasses both annual regular audits that must be conducted by law pursuant to the ISA, and additionally pursuant to the DDA for life insurers, as well as extraordinary audits ordered ad hoc and as needed pursuant to the ISA and the DDA.

Regular audits

– Regular audits pursuant to the ISA

At all times, insurance undertakings must be able to fulfill their contractual obligations. These obligations include the provision of financial securities. Ongoing monitoring therefore includes in particular the verification of solvency and compliance with the business plan of the insurance undertaking.

In 2005, the reporting of all insurance undertakings on the 2004 business year was reviewed in accordance with article 39 of the ISA. Each year by 30 April at the latest, the insurance undertakings must report to the FMA on their business activities in the previous year (article 39, paragraph 1, and article 60 of the ISA). For this purpose, the FMA called upon all insurance undertakings operating in 2004 (with a copy to the audit offices) to submit their reports for the 2004 business year in accordance with the guidelines provided, including figures from the previous year. At the same time, the FMA called the attention of the insurance audit offices to their legal obligations.

A total of 22 insurance undertakings were called upon to submit reports for 2004, including 13 life insurance undertakings, 5 non-life insurance undertakings, and 4 reinsurance undertakings. Of the 5 non-life insurance undertakings, 3 were captives; all 4 of the reinsurance undertakings were captives. In general, the insurance undertakings submitted the documentation on time. None of the audit reports of any of the insurance undertakings contained reservations or warnings, i.e., the reporting of all insurance undertakings

corresponded fully to the legal requirements according to the audit reports.

The FMA reviewed the submitted documentation thoroughly, assessed the plausibility of the data, and monitored compliance with the approved business plan. The results of the 2005 audit round can be summarized as follows:

- Overall, the submitted documentation on the 2004 business year was complete and plausible.
- In the case of 1 life insurance undertaking, the correctness of the balancing was called into question, since one financing transaction was included in the earnings, thereby significantly improving the annual operating profit.
- In the case of 2 life insurance undertakings, the equity capital was determined to be too low, and the undertaking was called upon to initiate appropriate measures to restore the requisite equity capital.
- In individual cases, the presentation of the annual account statement did not fully comply with the insurance-specific accounting norms stipulated in Annex 4 of the ISO.
- In the case of some insurance undertakings, changes to the approved business plan were identified that had not been communicated to the FMA in advance.

The points that the FMA objected to were promptly remedied by the undertakings. In the case of the financing transaction, the undertaking was instructed to present its unaudited 2005 annual account statement to the FMA by the end of March 2006. The 2005 audit round was concluded on the part of the FMA at the end of 2005.

– Regular audits pursuant to the DDA

According to article 3, paragraph 1 (d) of the DDA, insurance undertakings with a license pursuant to the ISA that offer direct life insurance are subject to due diligence supervision. The audit offices pursuant to the special legislation are mandated annually by the FMA to audit the compliance of life insurance undertakings with the DDA through random inspections. They then report to the FMA on the results of the inspections.

Of 15 supervised life insurance undertakings as of 31 December 2005, due diligence inspections were conducted of 12 life insurance undertakings in the reporting year. In the case of 2 insurance undertakings that only received their license in November 2004 and began operations only in January 2005, no due diligence inspection was conducted due to the extended first business year. Because of the ongoing criminal proceedings against 1 supervised undertaking and the fact that no new business relationships had been concluded since the last audit, the regular due diligence audit was waived for this undertaking. In the case of 1 insurance undertaking, only a reduced due diligence audit was performed, since the undertaking had not concluded any new insurance contracts since 2003 and is currently undergoing liquidation. The focus of the 2005 audit round was on material audits.

In general, the results of the audits were positive. The evaluation of the audit reports has shown that in some cases, there is potential for improvement with respect to clarification of the economic background of the assets brought in and with respect to the quality and explanatory power of the information in the business profiles. In individual cases, complaints also arose that the econo-

mic background has only been documented in a rudimentary way. In 2 cases, the FMA requested confirmation from the audit office certifying that the deficiencies identified in the audit report have been remedied on time. The result of the due diligence audit was discussed in person in the case of 3 insurance undertakings. In 1 of these cases, a follow-up audit by the audit company was ordered.

According to the inspection reports of the audit offices on due diligence audits conducted during the reporting year, 2 life insurance undertakings submitted one suspicious transaction report each to the FIU in accordance with article 16, paragraph 1 of the DDA. In one case, a description of facts was transmitted to the Office of the Public Prosecutor.

1.3.5 Reporting

Amended parts of the business plan may only be used by insurance undertakings once the supervisory authority has approved them (article 36, paragraph 1 of the ISA). According to the ISA, all amendments to business plans must be reported. The FMA supervises compliance with the approved business plan. In particular, the reporting and submission requirements according to article 43 of the ISA must be respected.

In the reporting year, the FMA approved a total of 34 business plan amendments (e.g., changes to the board of directors and the general management, change of the responsible actuary, increase of share capital).

Regarding submission of the annual reports, see point 1.3.4 above.

1.3.6 Supervision practice

In the 2005 reporting year, no measures pursuant to the ISA had to be taken to restore lawful conditions by means of an order.

As mentioned above, it was determined in the course of the 2005 audit round that 1 life insurance company recorded a financing transaction as earnings and did not include it appropriately on the liabilities side. In this case, the FMA called the correctness of the balancing into question and called for a change as part of the 2005 annual account statement. In addition, the FMA is monitoring the strong growth of the life insurance companies very closely and the associated risk of insufficient equity capital. In the reporting year, the FMA demanded corresponding measures to restore the required equity capital in 2 such cases. Finally, the FMA was responsible for monitoring the approved business plan and the advance reporting of amendments to the business plan. In the area of the DDA, the FMA paid attention to quicker submission of the audit reports of the audit offices and a further optimization of the measures for compliance with the due diligence provisions by the life insurance undertakings.

1.3.7 Combating abuse

Performing insurance activities without a license is not permissible (article 12, paragraph 1 of the ISA). Moreover, article 21a of the ISA enshrines a protection of nomenclature for those undertakings with a license to operate direct insurance or reinsurance. Violations are punished according to article 64 of the ISA. For this purpose, the Insurance Undertakings and Pension Funds Division (IUPF) pursues all indications giving rise to suspicion of activities or business names that do not conform with the legal requirements.

The FMA monitors that the insurance undertakings respect the legal provisions and generally acknowledged principles of proper business operations in their conduct of business. This also includes monitoring that the interests of the policyholders are sufficiently protected. For their information and protection, articles 45 and 49 of the ISA impose certain reporting obligations on the insurance undertaking. The content and scope of these reporting obligations are laid down in Annex 4 of the ISA.

The FMA pursued all indications giving rise to suspicion of activities or business names not in conformity with the law. If preliminary inquiries corroborate a suspicion, a referral must be made to the Liechtenstein prosecution authorities. In the case of impermissible use of names indicating activities as an insurance undertaking, the FMA is solely responsible. In total, 28 cases were reviewed in detail during the reporting period. 26 of these cases could be closed, while only 2 cases are still pending. No case had to be referred to the prosecution authorities. None of the inquiries conducted in 2005 arose from information provided or requests submitted by foreign supervisory authorities.

Responding to inquiries

The FMA answered numerous inquiries in the 2005 reporting period. The content and the effort involved in answering the inquiries varied considerably. Frequent inquiries concerned the licensing requirements for the formation of an insurance undertaking, but also questions of supervision law concerning the everyday business of insurance undertakings. In 2005, the FMA also received several inquiries from life insurance undertakings and audit offices in connection with the new DDA and the corresponding ordinance.

In complicated situations, a personal consultation was often necessary. In some cases, foreign authorities also submitted inquiries on Liechtenstein supervision practice. This type of communication among supervisory authorities is an indispensable tool of consolidated supervision of internationally operating insurance undertakings and for the international recognition of the FMA.

The FMA as a complaints office

Pursuant to the reporting obligations contained in Annex 4 of the ISA, the insurance undertaking must, in addition to other information, provide policyholders who are natural persons with the address of the competent supervisory authority, to which policyholders may turn with complaints concerning the insurance undertaking. If a policyholder has problems with an insurance undertaking, the policyholder may turn to the FMA. The FMA reviews the complaints and communicates its views to the policyholder and the affected insurance undertaking. The FMA only plays the role of a mediator; it cannot decide on individual cases as an authority. This is within the exclusive scope of judges. Civil disputes between insurance undertakings and individual policyholders fall within the jurisdiction of regular courts. The FMA also does not play the role of a general legal advisor. In such cases, the policyholder should turn to lawyers or consumer protection organizations. Complaints of policyholders primarily concerned the calculation of surrender values and deductions for administrative costs and commissions. In addition, complaints were also brought during the reporting year concerning compliance with the legal reporting obligations vis-à-vis policyholders and concerning subsidiary contractual agreements to insurance contracts.

13 cases of complaints arose in the reporting year concerning 4 different life insurance undertakings. Most of the complaints cases concerned the calculation of surrender values and deducted commissions. Overall, the FMA was unable to determine any violations of laws. 2 cases were pending at the end of 2005.

1.3.8 Operational focus areas in 2005

In 2005, insurance supervision focused on one main area:

As part of combating abuse, it conducted a systematic audit relating to the protection of nomenclature provided in article 21a of the ISA. According to this article, the terms “insurance”, “insurer” or “assurance”, by themselves or in compounds, and equivalent foreign-language terms in the company name, in the designation of the purpose of the business, or for purposes of solicitation may only be used for undertakings in possession of a license to operate direct insurance or reinsurance. Insurance brokers may only use such terms if they are supplemented by a clarifying term referring to their function as brokers. A systematic review of the entries in the Public Registry was conducted. The FMA pursued all indications giving rise to suspicion of activities or business names not in conformity with the law. If preliminary inquiries corroborate a suspicion, a referral must be made to the Liechtenstein prosecution authorities. In the case of impermissible use of names indicating activities as an insurance undertaking, the FMA is solely responsible. In the 2005 reporting period, a total of 28 cases were reviewed in detail during the reporting period. 26 of these cases could be closed, while only 2 cases are still pending. No case had to be referred to the prosecution authorities. Similarly, no fines were imposed.

1.3.9 Outlook for 2006

The operational focus areas relating to insurance undertakings for the year 2006 will essentially be the following:

Reporting by insurance undertakings

The reporting system of the insurance undertakings to the FMA will be strengthened beginning in 2006 with further reports during the year (e.g., reporting of important indicators concerning the 2005 business year by 31 January 2006) as well as submission of a projection for the current business year and a budget for the following business year.

On-site inspections

Beginning in the autumn of 2006, the FMA will conduct systematic on-site inspections at the registered offices of the insurance undertakings, focusing on specific areas.

1.4 Pension Funds

1.4.1 Liechtenstein pension fund center

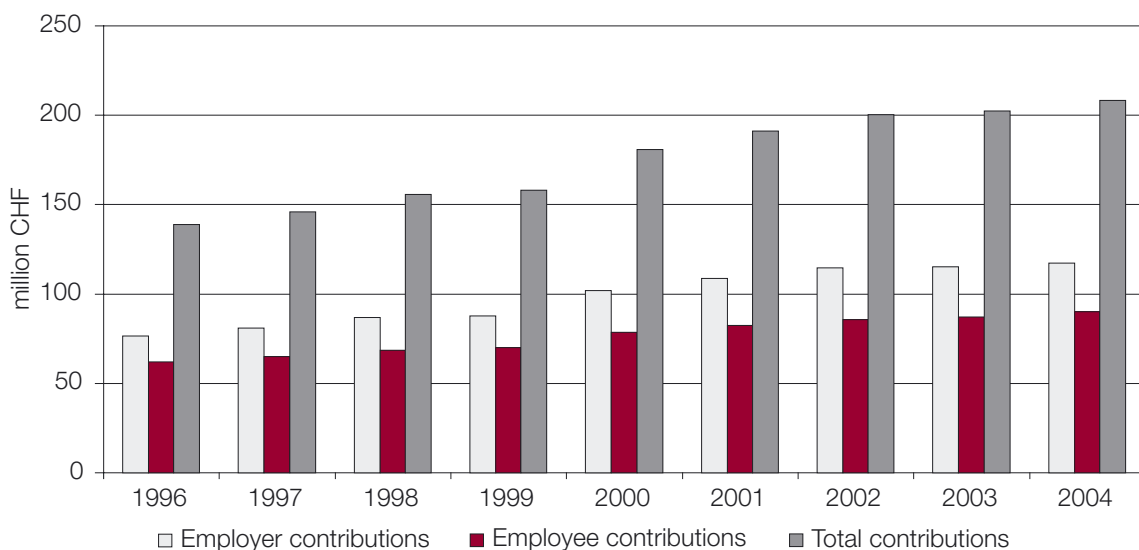
Pension funds are the implementing agents of occupational pension funds. As the 2nd pillar in the three-pillar concept of retirement planning and along with State old age, survivors', and disability insurance (AHV/IV, 1st pillar), occupational pension funds contribute to the ability of policyholders to sustain their accustomed standard of living after retirement. It is organized at the level of individual businesses. In principle, all employees are required to participate in a pension fund who are already insured by the 1st pillar and who earn at least CHF 19,350 a year (as of 1 January 2006). The employer is responsible for the administration of occupational pension funds. For this purpose, the employer either establishes a proprietary pension fund, or the employer joins a collective fund that serves several businesses with the same or similar insurance plans.

At the end of 2005, the Liechtenstein pension fund center (occupational pension funds, 2nd pillar) encompassed a total of 41 (previous year: 40) pension funds. 16 of these pension funds operate as collective foundations, and 25 as proprietary pension funds. Of the 16 collective foundations, 5 are undergoing liquidation, since their parent companies (Swiss life insurers) are withdrawing from the collective pension business, or since insurers have merged.

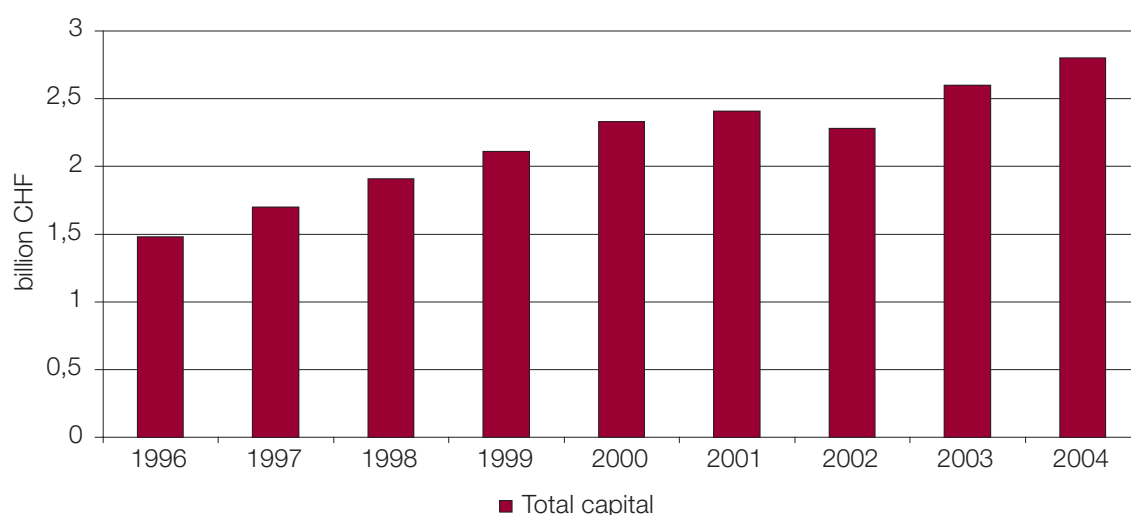
In 2004, employee contributions amounted to CHF 90.94 million and employer contributions to CHF 117.35 million, totaling CHF 208.3 million (see illustration below).

The total assets of the pension funds as of 31 December 2004 amounted to CHF 2.81 billion. These figures do not include the data on pension funds for employees of the State. The cover ratio (capital investments as % of technical

Development of contributions, 1996 – 2004 (in million CHF):



Development of total capital of pension funds, 1996 – 2004 (in billion CHF):



reserves) is over 100% in the case of 34 pension funds, and under 100% in the case of 6 pension funds. Current figures for 2005 are not yet available, since the pension funds will only submit them in mid-2006 (see illustration above).

1.4.2 Supervision of pension funds

The FMA fulfills all responsibilities relating to the supervision of the Liechtenstein pension funds. Its scope of responsibility encompasses the enforcement of the Law on Occupational Pensions (Occupational Pensions Act, OPA) and the Ordinance on the Occupational Pensions Act (OOPA). Pension funds are not subject to supervision under the DDA.

The core responsibilities within the scope of supervision can be divided in principle into two large categories, namely placement under supervision and the subsequent performance of prudential supervision of pension funds. Prudential supervision pursuant to the OPA means ongoing supervision of the conduct of business of the pension funds. In

particular, this includes monitoring of compliance with the legal requirements, such as reporting and information obligations, solvency, the development of the necessary reserves, and the protection of the interests of the policyholders. The following tools of ongoing supervision may be used: annual (internal) reporting by the pension funds to the FMA; reporting obligations during the year concerning the financial situation, especially in the case of insufficient cover; incident-related submission and reporting obligations; observation of the market (including the press); regular contact with the companies; on-site inspections; and statistical evaluations and comparisons within the industry. Liechtenstein pension funds are not subject to supervision under the DDA.

1.4.3 Initiation and termination of business operations

There is no licensing procedure per se in the area of occupational pension funds. However, the pension funds must submit the relevant legal documentation (including the deed of foundation,

bylaws, rules and regulations, report of the pension insurance expert) for review by the FMA. Only once the FMA has confirmed the lawfulness of the documentation in accordance with the OPA may the pension fund be entered into the commercial register and begin operations.

In the reporting year, one new pension fund initiated business operations. Accordingly, 41 pension funds, 16 collective foundations, and 25 proprietary pension funds were subject to FMA supervision at the end of 2005. In the reporting year, 7 amendments to rules and regulations, 1 investment regulation, and 1 collective insurance contract were reviewed by the FMA. As of 31 December 2005, 5 collective foundations were undergoing liquidation. These were Liechtenstein collective foundations of Swiss life insurance undertakings. The liquidation procedure is subject to FMA supervision. In the case of 2 other pension funds, the FMA approved the liquidation of one, while the liquidation of the other has not yet been completed.

1.4.4 Auditing

All pension funds are subject to a reporting obligation concerning their business activities. In their reporting submitted by the end of June of the following year, the pension funds must submit the following documentation in particular to the FMA: the annual account statement, consisting of the balance sheet, the operating account, and an annex with separate proof of the employee and employer contributions; an activity report of the pension fund; and the confirmation report of the audit office. Pension funds bearing an actuarial risk (age, disability, or death) must additionally submit an assessment by the pension insurance expert every three years, within one year of the audit date of the actuarial audit.

Regular audits

A recognized audit office annually reviews the conduct of business, the accounting, and the financial situation. In periodic intervals, a pension insurance expert conducts an additional audit. As the supervisory authority, the FMA monitors compliance with the requirements of laws and regulations.

In the reporting year, the reporting of all pension funds was reviewed with respect to the 2004 business year. Each year, the pension funds must submit a report concerning their business activities in the previous year to the FMA by 30 June at the latest (article 23 of the OPA and article 32a of the OOPA). The FMA called upon all pension funds operating in 2004 to submit their reporting on the 2004 business year (including figures from the previous year) in accordance with the submission guidelines. At the same time, the FMA drew the attention of the audit offices to their legal obligations.

A total of 40 pension funds were called upon to submit their 2004 reporting, 25 of which were proprietary pension funds and 15 of which were collective foundations. 1 of the collective foundations established in 2004 elected an extended first business year, so that no reporting was conducted. Of the 15 collective foundations, 12 had a Swiss life insurance undertaking as a founding company, 5 of which are currently undergoing liquidation. As mentioned above, the reason for this is the withdrawal from the collective model in Switzerland and accordingly also in Liechtenstein, as well as the merger of companies in Switzerland. In all of these five cases, the insured pool and the insurance contracts (so called "Anschlussvertrag") have been or are being transferred to other pension funds.

3 of the largest Liechtenstein employers, encompassing about 15% of all insured persons under the OPA, have pension funds domiciled in neighboring Switzerland and are therefore subject to Swiss supervision in principle. Nevertheless, reporting is submitted to the FMA in consultation with the Swiss authority. The audit result is harmonized between the two supervisory authorities.

Because documentation was not always submitted on time and was sometimes incomplete, the FMA had to call upon a relatively high number of pension funds to submit their 2004 reporting. In the case of 4 pension funds, the audit reports contained reservations or qualifications. These concerned: unlawful demands vis-à-vis the founding company, violations of the investment and valuation provisions, pending payments vis-à-vis the employer or the founding company, an insufficient updating system, and insufficient information provided to policyholders. Moreover, 1 audit report indicated insufficient cover; in 2 cases of collective foundations undergoing liquidation, the remaining foundation assets were transferred to the founding company (no distribution plan). The FMA reviewed the submitted documentation in detail, assessed the plausibility of the data, and monitored compliance with the requirements of laws and regulations.

The results of the 2005 audit round can be summarized as follows:

- In a relatively high number of cases, reporting was late and incomplete. The board of trustees is apparently often not yet sufficiently aware of its responsibilities.
- The submitted reporting documentation on the 2004 business year was, in most cases, plausible.
- At the end of 2004, a total of 6 pension funds still had insufficient cover. The financial extent

of the recapitalization of 1 of these has not yet been determined, since the liquidation procedure of the founding company has not yet been completed. 1 other pension fund has a funding ratio of 88%, and the other 4 between 97.0% and 99.4%. In these cases, the appropriate recapitalization measures have been initiated, so that some of them will again have sufficient cover by the end of 2005.

The companies largely remedied the points complained of by the FMA by the beginning of 2006. With one exception, the 2005 audit round was concluded by the FMA at the beginning of 2006.

Extraordinary audits

In the case of 1 pension fund, the FMA conducted an on-site inspection at the end of 2005, based on certain indications. This inspection found that the pension fund exhibited significant deficits relating to both organization and asset management, so that organizational measures had to be taken.

1.4.5 Reporting

Pursuant to the OPA, mandatory reports on cancellation of insurance contracts (so called “Anschlussverträge”) are required in the case of pension funds. Each employer with employees subject to mandatory insurance must join a pension fund for the provision of insurance (insurance contract). If such an insurance contract is cancelled, the pension fund must notify the FMA. The IUPF Division then verifies whether the employer continues to employ persons subject to the mandatory insurance, and if this is the case, whether the employer has joined another pension fund. In 2005, the IUPF Division conducted 80 such association reviews.



Accounts for vested pension benefits

If an employee leaves a pension fund for reasons other than age, disability, or death, then the pension fund must offer vested pension benefits. The vested pension benefits must continue to be used for the pension of the employee leaving the insurance. For this purpose, they are transferred to the pension fund of the new employer. If this is not possible (e.g., if the employee leaves Liechtenstein), they must generally be deposited in an account blocked for pension purposes at a Liechtenstein bank.

In the 2005 reporting year, 3 banks maintained accounts for vested pension benefits. As of 31 December 2005, a total of 2702 such accounts (2004: 2375) existed, with managed old-age capital of CHF 78.17 million (2004: CHF 68.27 million). The average amount of the vested pension benefits was CHF 28,929 (2004: CHF 28,744); the average duration of the account was 1491 days (2004: 1477 days). Overall, there were a total of 671 credit entries on blocked accounts in 2005 (2004: 587) and 344 (2004: 306) debit entries. The interest rates fluctuated

between 1.5% and 1.75% (previous year: between 1.25% and 1.75%).

1.4.6 Cash payment of the vested pension benefits/Confirmation of self-employment

Upon a change of employment, the aforementioned vested pension benefits are transferred to the pension fund of the new employer. The vested pension benefits correspond to the policy reserve accumulated during the term of insurance.

The vested pension benefits are not at the free disposal of the employee: They must continue to be used for the employee's pension and are transferred for this purpose to the pension fund of the new employer. If this is not possible, the vested pension benefits must be deposited as a premium-free vested pension policy with an insurance company approved in Liechtenstein or in an account blocked for pension purposes with a Liechtenstein bank.

A cash payment of the vested pension benefits to the leaving employee is only possible in cases specifically enumerated in article 12 of the OPA. Payment is only possible, however, if the employee moves to another EEA Member State where the employee continues to be subject to mandatory pension insurance.

Persons with vested pension benefits deposited in a blocked account of a Liechtenstein bank who want the balance to be paid out may submit an application for cash payment to the FMA. In 2005, the IUPF Division dealt with a total of 106 applications in 2005, 88 of which were granted and 18 of which were denied.

1.4.7 Combating abuse

In particular, this includes pension fund activities outside the scope of the OPA, i.e., pension funds that have not placed themselves under the OPA. The FMA also monitors the names of businesses (protection of nomenclature).

In the 2005 reporting year, 2 pension funds were identified that were not subject to the OPA. In both cases, however, they were funds that had not been involved in the pension business for years and that were undergoing liquidation.

The Legal Section of the IUPF Division is responsible for receiving complaints relating to the supervision of pension funds. In 2005, 7 complaints were received from employees. In these cases, compliance of the respective employers with the legally mandated coverage and the OPA insurance obligation was verified. In 2 cases, criminal charges were filed with the Office of the Public Prosecutor in accordance with article 25, paragraph 1a of the OPA. In both cases, the mandatory occupational pension insurance was not properly administered by the responsible employer.

1.4.8 Operational focus areas in 2005

Review of insurance contracts

In the 2005 reporting year, the FMA comprehensively audited the cancellation of insurance contracts. The pension funds must automatically notify the FMA when an employer cancels the insurance contract for employees subject to the occupational pension insurance requirement. The FMA then reviews whether the employer continues to employ persons subject to mandatory insurance, and if so, with which fund the employer has concluded an insurance contract for the employees.

Pension fund center project

With the implementation of the Directive on the activities and supervision of institutions for occupational retirement provision (IORP), new requirements will be established in the Principality of Liechtenstein for institutions for occupational retirement provision with capital cover (outside the scope of occupational pension funds, i.e., the 2nd pillar), which will enable them to offer pension solutions across borders thanks to EEA-wide recognition. According to a study compiled by the Insurance Industry Institute at the University of St. Gallen on 2 December 2005, implementation of the pension fund Directive will give the Principality of Liechtenstein the opportunity to establish itself as an attractive location for institutions for occupational retirement provision. It will be able to use the already existing infrastructure and know-how in the area of financial services and their supervision. The Government has therefore commissioned the FMA to draft an effective and attractive legal framework for establishing and operating such pension funds, based on the findings of the study. Entry into force of the IORP Supervision Act is expected at the beginning of 2007.

1.4.9 Outlook for 2006

Reporting by the pension funds

For the first time, reporting for the 2005 business year (including figures from the previous year) will be administered electronically in 2006. This will enable an IT-assisted analysis and evaluation of the data and the compilation of statistics. The reporting by the pension funds to the FMA is expected to be strengthened beginning in 2006 through the submission of a projection for the running business year and a budget for the following business year.

On-site inspections

Beginning in the autumn of 2006, the FMA will conduct systematic on-site inspections at the registered offices of the pension funds, focusing on specific areas.

Implementation of the amendments taking effect on 1 January 2006

The implementation of the amendments to the law governing occupational pension funds, which entered into force on 1 January 2006, will lead to more transparency and stronger monitoring. In the first half of 2006, the FMA will elaborate the necessary implementation measures, taking into account the views of all involved participants. These measures are planned to include a training program for boards of trustees.

1.5 Other Financial Service Providers

1.5.1 Responsibilities of the FMA in the OFSP Division

The scope of activities of the OFSP Division encompasses enforcement responsibilities and specific responsibilities relating to the free professions, as well as prudential supervision within the scope of the DDA. The OFSP Division enforces the following laws governing the free professions participating in the financial market, as well as the associated implementing ordinances:

- Law on Professional Trustees (Professional Trustees Act, PTA)
- Law on Auditors and Auditing Companies (Auditors and Auditing Companies Act, AACA)
- Law on Lawyers (Lawyers Act, LA)
- Law on Patent Attorneys (Patent Attorneys Act, PAA)

In this regard, the responsibilities of the OFSP Division do not encompass prudential supervision, but rather certain licensing and approval duties, such as in particular:

- Reviewing and deciding on applications for admission to the various professional and qualifying examinations (admission to examinations)
- Reviewing and preparing decisions on applications for grant of a license for the respective professions (professional licensing)
- Responsibilities relating to combating abuse

1.5.2 Admission to examinations – Licenses/ Professional licensing

Admission to examinations

In 2005, the OFSP Division received a total of 32 applications for admission to the various professional and qualifying examinations. In 30 cases, the applicant was admitted to the examination. One application was withdrawn (auditor), and one application was rejected. The average wait for processing of an application for admission was 10 business days.

22 of the total of 30 candidates (73%) passed the examinations they took. In the previous year, 19 out of 27 passed (70%).

The following table provides an overview of the admissions to examinations and the examination results in 2004 and 2005, as well as of the change according to professional group.

Professional group	Examinations 2004			Examinations 2005			+ / -		
	Adm.	Rej.	Passed	Adm.	Rej.	Passed	Adm.	Rej.	Passed
Lawyers	9 ¹⁾	0	7	17	0	13	8	0	6
Professional trustees	10	0	7	7	1	4	-3	1	-3
Patent attorneys	1	0	1	1	0	1	0	0	0
Auditors	7 ²⁾	1	4	5 ²⁾	0	4	-2	-1	0
Total	27	1	19	30	1	22	3	0	3

Admitted, Rejected, Passed

¹⁾ of which 1 qualifying examination²⁾ of which 5 qualifying examinations

Licenses/Professional licensing

In 2005, the FMA granted 71 licenses allowing natural or legal persons to engage in one of the free professions participating in the financial market. In 28 cases, amendments were made to existing licenses upon application, such as changes to the company name or of the responsible general manager. In addition, numerous licenses were cancelled upon application. 1 application for entry into the list of law practices and 1 application

for a change of the responsible general manager of an auditing company were denied. The average wait for the grant of a license or amendment to a license was approximately three weeks.

As of 31 December 2005, the free professions participating in the financial market were composed as follows:

Lawyers *)	2004	2005	+ / -
Grants	33	26	- 7
Amendments	20	22	2
Rejections	2	1	- 1
Withdrawals	0	0	0
Deletions	23	14	- 9

*) Lawyers, law practices, resident European lawyers, branches of law firms, trainee lawyers, legal agents, legal representatives

1 SUPERVISION

Professional trustees *)	2004	2005	+ / -
Grants	24	34	10
Amendments	14	5	- 9
Rejections	0	0	0
Withdrawals	0	0	0
Deletions	11	5	- 6

*) Professional trustees, professional trustees with restricted licenses, trust companies, trust companies with restricted licenses

Patent attorneys *)	2004	2005	+ / -
Grants	1	1	0
Amendments	1	0	- 1
Rejections	0	0	0
Withdrawals	0	0	0
Deletions	0	0	0

*) Patent attorneys, patent attorney firms

Auditors *)	2004	2005	+ / -
Grants	11	10	- 1
Amendments	4	1	- 3
Rejections	0	1	1
Withdrawals	0	0	0
Deletions	2	6	4

*) Auditors, auditors engaging in free movement of services, auditing companies, auditing companies engaging in free movement of services

1.5.3 Supervision pursuant to the DDA

In the framework of enforcing the DDA and the associated implementing ordinances with respect to OFSPs, the following natural and legal persons are subject to supervision pursuant to the DDA:

- natural and legal persons with a license pursuant to the Professional Trustees Act (PTA)
- natural persons with a certification pursuant to article 180a of the Law on Persons and Companies (PGR)
- exchange offices
- lawyers registered in lawyers' lists pursuant to the Lawyers Act (LA), as well as legal agents within the meaning of article 67 of the LA
- natural and legal persons with a license pursuant to the Auditors and Auditing Companies Act (AACA)
- real estate brokers
- dealers in valuable goods and auctioneers
- enterprises and persons outside the scope of article 3, paragraph 1 of the DDA, but which professionally conduct financial transactions

As of 31 December 2004, the composition of OFSPs to be audited in 2005 and therefore subject to the DDA was:

Other financial service providers as of 31 December 2004	Number
Professional trustees	398
Lawyers	128
Legal agents	5
Persons with a confirmation under art. 180a PGR	438
Exchange offices	1
Others subject to due diligence requirements	11
Total	981

As part of supervision pursuant to the DDA, the FMA is in particular responsible for planning, conducting, and evaluating due diligence inspections, answering area-specific inquiries, legal questions, and questions of interpretation, and identifying and investigating cases of suspicion for the purpose of combating abuse.

Regular audits

Since due diligence inspections of OFSPs are as a rule conducted with a frequency of three years, the OFSP Division selected the natural and legal persons from those represented in the table above that had either never¹⁾ undergone a due diligence inspection or whose last inspection was in 2002 or earlier. The selection encompassed approximately 460 natural and legal persons.

1) There are two possible reasons why an OFSP was never audited. Either the OFSP took up business as an OFSP within the last six months before the last inspection, so that it would not have been taken into consideration for this inspection, or the OFSP was not considered in previous inspections because it indicated that it had not conducted any financial transactions during the relevant period.

These OFSPs were approached in writing by the FMA in February 2005 and asked to return the enclosed response form. Based on the returned response forms, the FMA evaluated whether a due diligence inspection of the OFSP in question had to be performed in 2005. The performance of a due diligence inspection depended on whether the OFSP in question had operated independently in the period since the last due diligence inspection until 31 January 2005 or, in the case that no due diligence inspection of the OFSP had ever been performed, in the previous year (2004), and on whether the OFSP had conducted financial transactions within the meaning of article 1a of the DDA (for lawyers and legal agents with the restriction: “for non-forensic purposes”). This applied to 321 OFSPs.

These 321 identified OFSPs were then assigned to groups that were subject to joint inspections, and each group was assigned an auditor or an auditing company. On 1 April 2005, each affected OFSP was informed of the fact that it was being audited, of the other OFSPs with which it was being audited jointly, and of which auditors were to conduct the due diligence inspection. At the same time, the affected auditors and auditing companies were given written audit mandates. By the end of 2005, 91 audit reports were submitted to the FMA, concerning 314 OFSPs. These reports were evaluated by the end of 2005. All OFSPs whose audit reports were submitted and evaluated received a feedback letter containing an evaluation of the complaints (overall result).

The due diligence inspections of OFSPs in 2005 have been largely concluded. In individual cases, follow-up deadlines are still open and/or compliance with specially agreed measures must be monitored on an ongoing basis by the FMA.

Overall, the conclusions drawn from the inspections are positive. Above all, a great improvement of compliance with and implementation of the due diligence obligations was found in comparison with the first audit rounds. The FMA considers this to be an important signal that the entities subject to due diligence are endeavoring to continuously improve their quality, thereby making a significant contribution to the promotion and maintenance of the reputation of the entire financial center.

The focus of the 2005 audit round was on material audits. Based on the evaluation of all audit reports, the OFSP Division determined that a certain potential for improving the quality of compliance with and implementation of due diligence obligations exists in the following areas:

- Completeness and explanatory power of the business relationship profiles
- Determination of the plausibility of transactions deviating from the business relationship profile

In 15 reports, greater deficiencies were identified:

- In 5 cases, the deficiencies could be remedied during the on-site inspection.
- In 7 cases, a follow-up inspection was ordered.
- In 3 cases, a reporting obligation (with subsequent follow-up inspection) was agreed.

21 follow-up inspections were ordered in all.

Extraordinary audits

No extraordinary audits were ordered in the reporting year.

1.5.4 Supervision practice

In total, the FMA issued 103 orders affecting OFSPs. Complaints were filed against 5 of these orders. 1 complaint was confirmed in the first instance by the FMA Complaints Commission. 1 complaint is still pending in the first instance before the FMA Complaints Commission; 3 are still pending in the second instance before the Administrative Court.

Measures pursuant to supervision law

No special measures pursuant to supervision law were taken in the 2005 reporting year.

Reports to the FIU/Referrals to the Office of the Public Prosecutor

Similarly, the FMA did not have to submit reports to the FIU pursuant to article 16, paragraph 1 or refer situations to the Office of the Public Prosecutor.

Orders of particular interest

– Entry of a trust reg. on the list of law firms pursuant to article 10, paragraph 3 of the LA

2 lawyers applied for entry of a new trust reg. on the list of law firms pursuant to article 10, paragraph 3 of the LA. The FMA rejected this application with the explanation that the conditions pursuant to article 10, paragraph 1 of the LA were not fulfilled. Article 10, paragraph 1 of the LA provides that two or more lawyers may establish a law practice in the form of a unregistered partnership or a general partnership. The two lawyers wanted to run their law practice as a trust reg. in accordance with article 932a §§ 1 et seq. of the PGR. This is not covered by the text of the law, however, since a trust reg. is neither an unregistered partnership nor a general partnership. The legislature has deliberately excluded other

forms of organization. A complaint lodged against the order was rejected by the FMA Complaints Commission. The applicants appealed the decision of the FMA Complaints Commission to the Administrative Court, which interrupted the proceedings and applied to the Constitutional Court for constitutional review. The application for constitutional review has not yet been decided.

– Change of the responsible general manager of the auditing company

1 audit company applied to change its responsible general manager pursuant to article 21, paragraph 1(c) of the AACA. The FMA rejected this application, since the nominated general manager neither held the auditing license within the meaning of article 1 of the AACA required for the general manager of auditing companies, nor would he be able to attain one – based on the findings at the time – since he neither was a citizen of an EEA State nor did he reside in Liechtenstein or any other EEA State. Even if the provisions had been interpreted in light of the treaty law applicable to this case, namely the Vaduz Convention and the special rules of the bilateral protocol between Liechtenstein and Switzerland, the FMA would have been unable to reach a different decision, since these provisions only contain rights of free movement for natural persons, not legal persons, so that the requirements for general managers must be adhered to for legal persons. A general rule of reciprocity based on the existing legal situation in Switzerland also had to be rejected. A complaint filed against this order was rejected by the FMA Complaints Commission. The applicants appealed this decision to the Administrative Court. Judgment is still pending.

– Arms dealers – Dealers in valuable goods

2 arms dealers separately requested the FMA to confirm that they were not dealers in valuable goods as defined by article 3, paragraph 1(n) of the DDA. In the alternative, they requested that the FMA issue an appealable decision. In the view of the FMA, the main request was unfounded, and it granted the alternate request by issuing an order finding that the two arms dealers were dealers in valuable goods within the meaning of article 3, paragraph 1(n) of the DDA and therefore were subject to the personal scope of application of the DDA, i.e., that they were subject to due diligence obligations.

In this context, the FMA interpreted the concept of dealer in valuable goods with the help of legislative materials explicitly stating that dealers in valuable goods encompass the following dealers (with respect to trade in the relevant categories of goods), based on the Austrian interpretation: jewelers, goldsmiths, dealers in precious medals, precious stones, coins, antiques, art, as well as furriers and arms dealers.

A complaint filed against this order was rejected by the FMA Complaints Commission. The applicants appealed this decision to the Administrative Court, which dismissed the appeal on the merits.

FMA Communications

On the initiative of the OFSP Division, the following FMA Communication was issued in 2005:

– FMA Communication No. 2005/1

Against the background of various inquiries, the FMA provided information on the interpretation and practice in connection with the due diligence obligations of dealers in valuable goods. The Communication contained explanations concerning the question of which dealers are to

be understood as dealers in valuable goods within the meaning of article 3, paragraph 1(n) of the DDA. Additionally, the Communication pointed out the obligation to report the initiation and performance of activities subject to due diligence by dealers in valuable goods, as well as the consequences of such a report. The Communication also contained explanations on the significance of the material scope of application of the DDA as well as important instructions in the event that due diligence obligations apply.

Responding to inquiries

In 2005, the FMA received a large number of inquiries from financial intermediaries, which were answered on the telephone or in writing. In complicated situations, the FMA was also willing to clarify questions of financial intermediaries in a personal conversation.

1.5.5 Combating abuse

The performance of the activities and services governed by the laws to be enforced by the FMA is subject to a licensing requirement and is therefore not permitted without the appropriate license. The FMA monitors this prohibition.

For this purpose, the OFSP Division pursues evidence of abusive activities. Such evidence is provided to the FMA in particular by the various professional associations and the affected market participants. Other sources of evidence are provided by the daily newspapers, advertisements, professional magazines, etc. The Internet is also becoming an increasingly important source of information.

Overall, 11 cases were investigated in detail in the reporting period, none of which were found to be unlawful.

To counter abusive activities through prevention, the OFSP Division also provides advice prior to the assumption of purely commercial business activities. In particular, the OFSP Division monitors commercial applications and applications for inclusion in the Public Registry. The OFSP Division was active in numerous cases during the reporting period in order to combat abuse in advance.

1.5.6 Projects in 2005

In 2005, the OFSP Division successfully undertook the following projects:

– Issuing of fact sheets pertaining to the PTA and the LA

For various cases arising under the PTA and the LA, fact sheets were drafted concerning the documentation to be submitted, which are now available for download on the website of the FMA. In particular, fact sheets were drafted concerning:

- various applications for the grant of a professional trustee license or a restricted professional trustee license
- the application for approval of a change of the responsible general manager of a trust company
- the application for change of the business name of a trust company
- the application for admission to the professional trustee examination or the supplemental examination for lawyers to obtain a restricted professional trustee license
- the application for entry on the lists to be kept pursuant to the LA (list of lawyers, list of law practices, list of resident European lawyers, list of trainee lawyers)
- the application for renewal of the legitimation card for trainee lawyers
- the application for admission to the lawyer examination or the qualifying examination for lawyers from the EEA



– Migration of databases

Until the end of 2004, the responsibilities of the OFSP Division were administered by two separate authorities, namely the FSA and the DDU, each of which kept a database with the data required for the fulfillment of their responsibilities. The master data did not correlate with each other, so that the OFSP Division faced the challenge of eliminating these redundancies by merging the databases, in order to obtain synergy effects without creating unnecessary sources of errors arising from the largely parallel compilation and processing of information. On the initiative and under the coordination of the OFSP Division, the former database of the FSA was therefore expanded, so that it was no longer limited to the compilation and processing of data required to enforce the laws concerning the free professions participating in the financial market, but rather also included data required to enforce the DDA with respect to the OFSPs. Through this migration, the database no longer only serves to administer data concerning the free professions participating in the financial market, but it also constitutes an equally useful tool to assist

the planning, performance, and evaluation of inspections pursuant to the DDA.

– **Groups newly subject to the DDA**

As of 1 February 2005, new professional groups have been made subject to the DDA that were previously not affected by due diligence law, namely real estate brokers, dealers in valuable goods, and auctioneers. Against this background, the OFSP Division conducted an information and education project. In a first step, the professional groups newly subject to the DDA were informed by means of an official publication and publication on the website of the FMA of their new status and the resulting reporting requirements. At the same time, the OFSP Division initiated a dialogue with the groups and invited them to an information event on the topic of “Due diligence obligations for groups newly subject to the Due Diligence Act pursuant to article 3, paragraph 1(m) and (n) of the revised Act”, which was initiated and conducted by the OFSP Division. In the follow-up to this event, the OFSP Division issued FMA Communication 1/2005 to provide more detailed information on the interpretation and “practice” in connection with the due diligence requirements of dealers in valuable goods. Finally in this connection, the OFSP Division held a working group meeting entitled “Due diligence obligations of real estate brokers” with interested parties. As a result of this meeting, it was suggested that the DDA be amended by adding a new subparagraph (e) to article 4, paragraph 3, specifying that the transactions of real estate brokers would not be considered financial transactions within the meaning of the DDA to the extent that the transactions derive from the purchase or sale of property in domestic real estate.



– **Participation in the drafting of the Asset Management Act**

With the entry into force of the AMA on 1 January 2006, investment counseling and asset management were removed from the list of activities included in article 7, paragraph 1 of the Professional Trustees Act and are therefore no longer within the scope of the professional trustee license. This amendment substantially affects and changes the job description of professional trustees. Against this background, the OFSP Division was closely integrated in the project for drafting the AMA and contributed in particular with suggestions for transitional provisions and compensatory measures. At the same time, the OFSP Division contributed to solving the problem of interfaces with the scope of professional trustees.

– **Recognition of educational certifications pursuant to article 2, paragraph 1(c) to (g) of the PTA**

A prerequisite for admission to the professional trustee examination and for licensing as a professional trustee is the presentation of one of the educational certifications enumerated in article

2, paragraph 1 of the PTA. Because the courses of study with which the educational certifications pursuant to article 2, paragraph 1(c) to (g) of the PTA can be obtained have changed since the drafting of this provision and the number of such courses of study has increased, the Government repeatedly encountered difficulties in the past in deciding whether an educational certification should be recognized as such pursuant to article 2, paragraph 1(c) to (g) of the PTA. Against this background, the Government decided on 5 July 2005 to appoint a working group composed of representatives of the Government, the Liechtenstein Association of Professional Trustees, the Liechtenstein University of Applied Sciences, and the OFSP Division of the FMA. The working group was mandated to elaborate criteria pertaining to the recognition of courses of study as educational certifications pursuant to article 2, paragraph 1(c) to (g) of the PTA, and to review the currently recognized educational certifications in the context of these proposals. In several meetings, the working group drafted a proposal that has been submitted to the Government.

1.5.7 Outlook for 2006

The OFSP Division expects to pursue the following projects in 2006:

Issuing of fact sheets pertaining to the AACA and the PAA

Supplementing the Auditors and Auditing Companies Act and the Patent Attorneys Act along with the associated ordinances, the OFSP Division will lay down the principles for the submission of documentation for the grant of approvals/licenses. Similar to the fact sheets pertaining to the PTA and the LA, the fact sheets will be available for download on the website of the FMA.

Revision of the LA, PTA, PAA, and AACA

As explained below in the chapter on regulation and against the backdrop of provisions that may not be EEA-compatible, the OFSP Division will revise the PTA, AACA, LA, and PAA along with the associated ordinances, where necessary. The OFSP Division expects the draft enactments to be circulated for consultations in mid-2006.

REGULATION



We regulate with the participation of the affected persons and entities, in fulfillment of international standards and taking into account the competitiveness of the Liechtenstein financial market.

Pursuant to the mandate granted by the Government of Liechtenstein, we prepare laws and ordinances.

We issue guidelines, thereby contributing to legal certainty.

We only regulate where a need exists and, in accordance with the principle of proportionality, only as much as necessary.

We review and revise existing regulations.

We regulate in fulfillment of international standards, taking into account the competitiveness and the special characteristics of the Liechtenstein financial market.

We ensure the participation of the affected persons and entities in the regulatory process.

We take advantage of opportunities through rapid realization of regulatory projects, and we actively promote innovations.

Regulatory framework and competences

It is essential for the competitiveness of a financial market that its regulatory framework both be accepted internationally and designed in a practice-oriented way.

According to article 5, paragraph 2, last sentence of the FMA Act, the FMA is responsible for suggesting and preparing regulation relevant to the financial market at the level of laws and ordinances. In this respect, it is dedicated both to the further development of existing legal foundations, but it also recommends new regulatory proposals at the national level. In every case, the power of regulation is reserved to Parliament in the case of legislation and to the Government in the case of ordinances.

On the basis of article 25, paragraph 1 of the FMA Act, the FMA may in particular issue guidelines. These guidelines do not have the character of legislation or ordinances, but they are nevertheless binding at the third tier and must be complied with.

With a view to the implementation of international standards, the FMA develops proposals for the implementation of EEA law relevant to the financial market and other international standards. With respect to the bilateral relationship between Liechtenstein and Switzerland, relevant Swiss legal provisions are also applicable in Liechtenstein in virtue of the Currency Treaty. These provisions are listed in the annexes to the Currency Treaty. The FMA participates in the periodically conducted adjustment procedures and negotiations. In this respect, it represents both the interests of supervision and of the Liechtenstein financial market. In the case of insurance, the Direct Insurance Agreement applies in relation to Switzerland.

In fulfilling all of its regulatory responsibilities, the FMA endeavors to promote innovation, cultivate a dialogue with the financial market participants, and take the overall Liechtenstein interests into account to the greatest possible extent. Division-specific regulation is developed in the respective specialized division, while cross-divisional regulation is coordinated by the IIAU in cooperation with the specialized divisions. The FMA invests significant time and human resources for this purpose.

Because of the procedural steps that must be taken, the legislative process for draft bills takes one year on average. In contrast, ordinances may be adopted within just a few weeks, depending on their scope. The FMA has developed its own regulatory tools for the drafting of project plans, in order to design the planning and execution of regulatory projects as efficiently as possible.

2.1 Banks

2.1.1 Concluded regulatory projects as of 31 December 2005

Asset Management Act

Through the creation of the AMA and its implementing ordinance (AMO), which entered into force on 1 January 2006, a new and internationally recognized category of financial intermediary has been established in Liechtenstein, the core activities of which are investment counseling and asset management.

The asset management companies fulfill the most recent European standard (implementation of Directive 2004/39/EC – partial implementation of the Markets in Financial Instruments

Directive, MiFID) and can therefore obtain the European passport, with which they may operate throughout the EEA without any additional licensing requirements. At the same time, the separation of classical asset management and investment counseling from the job description of professional trustees will allow the latter profession to survive as a Liechtenstein speciality.

The FMA supervises execution of the AMA including the associated ordinances, as well as compliance with the regulations and guidelines based on them. This aims to ensure that clients are protected and that confidence in the Liechtenstein financial market is safeguarded. Additionally, the DDA and the DDO apply to asset management companies. The FMA can fulfill the responsibilities assigned to it either directly and in cooperation with other supervisory organs, or through a referral to the Office of the Public Prosecutor.

Asset management companies require a license from the FMA to engage in business activities. Asset management companies may conduct all business according to article 3, paragraph 1 of the AMA.

As part of combating abuse, the FMA can revoke or withdraw licenses and forcibly liquidate companies operating as an asset management company without a license. Its other responsibilities include its functions as a penal authority for administrative offenses.

2.1.2 Pending regulatory projects as of 31 December 2005

Implementation of Directive 2004/39/EC (Markets in Financial Instruments Directive; MiFID) The first partial implementation of this Directive was accomplished in the Asset Management Act. The second part of the implementation will affect the BA, since the replaced Investment Services Directive (93/22/EEC) has been incorporated

into the BA. The goal is to fully conclude this project by the end of 2006.

Amendment of the Banking Act

Because Directive 93/22/EEC (Investment Services Directive) was implemented in the BA, Directive 2004/39/EC amending it (Markets in Financial Instruments Directive; MiFID) must also be incorporated into the BA. With this adoption of EEA law, the provisions of the BA relating to securities firms and the provision of securities services will be revised to promote a transparent and functioning financial market. Additionally, the FMA is working on an amendment to article 25 of the BA (residence requirement for at least one manager and member of the board of directors in Liechtenstein), since the EFTA Court has found this provision to be contrary to EEA law, due to its incompatibility with the free movement of persons. An amendment to article 14a of the Banking Act (data processing) is also planned. The implementation of provisions relating to the new capital adequacy framework (Basel II) will entail other amendments to the BA. At the level of the BA, the focus in this regard will be on the international cooperation of supervisory authorities. Entry into force of this revision of the BA is expected for the end of 2006.

Implementation of the Market Abuse Directive

On 28 January 2003, the European Parliament and Council adopted Directive 2003/6/EC on insider dealing and market manipulation (the Market Abuse Directive), which is intended to raise the standards for market integrity relating to securities within the entire EU. The FMA drafted a bill for implementation of the Market Abuse Directive on behalf of the Government, which the Government has adopted as a consultation report for the creation of a Law against Market Abuse

in the Trading of Financial Instruments and circulated to interested circles for comments by 3 March 2006. After taking the comments into consideration, the draft bill is expected to be presented to Parliament before the end of 2006.

The consultation draft envisages a separate, exhaustive legal framework for combating market abuse activities in the Liechtenstein financial center. For this purpose, the proposal expands the existing offense of insider dealing and introduces the new offense of market manipulation. In both cases, drastic sanctions are envisaged. All financial instruments fall within the scope of application of the proposal that are admitted for trading on at least one regulated market in the EEA, or for which a corresponding application for admission to such a market has been submitted. The proposal would then apply to all transactions with such instruments, independently of whether the transactions are performed on regulated markets or elsewhere.

The draft bill designates the FMA as the central regulatory and supervisory authority, in which the minimum powers to combat insider dealing and market manipulation envisaged by the Market Abuse Directive are vested.

In addition to the prohibition of insider dealing and market manipulation, the draft law also envisages two additional key reporting requirements:

- Persons performing management functions for an issuer domiciled in Liechtenstein, as well as persons closely linked to them, are required to report all transactions they conduct with financial instruments of that issuer and to publish them, once a threshold value has been reached
- Financial intermediaries must report suspicions to the FMA, if they have a reasonable suspicion that a transaction could constitute insider

dealing or market manipulation, based on the facts and information available to them

Beyond this, the draft law contains transparency rules requiring persons who recommend investment strategies publicly or through other information channels to disclose their own interests.

Finally, the draft law contains an adjustment of Liechtenstein information sharing practice in cases of market abuse according to the Market Abuse Directive and therefore according to the relevant international standards. The consequences are, in particular, a limitation of the grounds on which a foreign request for information sharing may be denied (and the exclusion of the right to appeal in such cases).

Basel II

The changes to the requirements on own funds (EU Directives 93/6/EEC and 2000/12/EC) were adopted by the European Parliament on 28 September 2005. As an EEA member, Liechtenstein must implement the new, harmonized capital adequacy requirements of the EU into national law. The harmonization efforts in the EEA relate to the following points in particular:

- monitoring procedure pursuant to supervision law (“Pillar 2”)
- cooperation between supervisory authorities of the home country and the host country
- recognition of rating agencies
- uniform reporting
- recognition of models
- crisis management

The FMA presented a proposal for implementation of the new capital adequacy provisions to the Bankers Association and therefore to the Liech-

tenstein banks on 2 December 2005, so that the banks will have sufficient time to review the extensive proposal and to plan the efforts needed to adjust their systems accordingly and to allocate resources. The basic provisions will be implemented in an Equity Capital Ordinance; the details of implementation will be included in annexes to this ordinance. A first appraisal phase ran until mid-February 2006. After evaluation of the feedback, a second appraisal phase will run until mid-May 2006, in the course of which any special questions can be clarified. According to the project plan, the final version of the implementation of the new capital adequacy requirements will be available in mid-2006.

Amendments to the Financial Transfers Act

Regulation (EC) No. 2560/2001 on cross-border payments in Euro aims to make cross-border payments in euro within the Single Market, in which Liechtenstein also participates through its EEA membership, less costly. Additionally, the protection of clients is strengthened by a requirement to disclose specific information concerning payments to bank clients in an understandable manner. The amendments to the Financial Transfers Act are limited to the addition of appropriate penal provisions, in the case that the requirements of this regulation and the Financial Transfers Act are violated. Subject to the consent of Parliament, the amendments are expected to enter into force on 1 July 2006.

2.2 Investment Undertakings

2.2.1 Completed regulatory projects as of 31 December 2005

Investment Undertakings Act and the associated ordinance

The IUA and the IUO entered into force in Liechtenstein on 1 September 2005.

The legislation on investment undertakings entering into force on 1 September 2005 was developed primarily due to the need to implement

- the European Directive of 21 January 2002 amending Council Directive 85/611/EEC on the coordination of laws, regulations, and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses, 2001/107/EC
- the European Directive of 21 January 2002 amending Council Directive 85/611/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), with regard to investments of UCITS, 2001/108/EC
- the Recommendation of the European Commission of 27 April 2004 on the use of financial derivative instruments for UCITS, 2004/383/EC
- the Recommendation of the European Commission of 27 April 2004 on some contents of the simplified prospectus as provided for in Schedule C of Annex I to Council Directive 85/611/EEC, 2004/384/EC

These European legal acts amended Directive 85/611/EEC, which entailed a total revision of the IUA and the IUO. The fund center thereby has a law at its disposal that both implements

the European Directives and takes into account the market requirements in the context of international competition. In a close dialogue with the affected interest associations, opportunities and risks in the investment fund area were balanced in an international comparison, designed for the Liechtenstein market, and implemented consistently.

The IUO and the IUA contain several new provisions, namely

- the investment undertaking for qualified investors
- legally fixed licensing deadlines
- investment companies managed themselves or by third parties
- investment undertakings for other values with increased risk
- option of electronic publications
- asset management for individual clients
- European passport for investment undertakings and management companies

Ordinance of 20 December 2005 amending the Investment Undertakings Ordinance

The entry into force of the AMA necessitated amendments to the IUO. These amendments were also used to provide supervisory regulation of aspects of practice arising in connection with the introduction of investment undertakings for qualified investors.

FMA Guideline “Code of Conduct for the Liechtenstein Fund Center”

On 24 October 2005, the Board of the FMA adopted FMA Guideline 2005/3, the “Code of Conduct for the Liechtenstein Fund Center”, which offers protection supplemental to the IUA and the IUO and aims to secure the competitiveness of the fund center.

These rules were also developed in a close dialogue with the interest associations. The supervisory authority and the fund industry developed a consensus on both the content and the form. The Code of Conduct bears comparison with other fund centers and grants the management companies the necessary freedom to successfully market fund units. In particular, the Code of Conduct calls upon management companies to uphold fiduciary duties and due diligence, to employ the necessary resources and procedures, to prevent conflicts of interest, and to ensure information and transparency.

The Code of Conduct entered into force on 1 November 2005. A transition period is provided for until 30 April 2006, during which the management companies and the representatives of foreign investment undertakings must undertake the necessary implementation measures.

2.2.2 Pending regulatory projects as of 31 December 2005

FMA Guideline on “Risk assessment and notification procedure for the use of derivative financial instruments by investment undertakings for transferable securities”

Through the implementation of EU Directives (Management Company Directive) and 2001/108/EC (Product Directive) in the IUA, the FMA is obligated to issue a risk assessment procedure for calculating investment risks, especially in relation to derivative financial instruments for investment undertakings for transferable securities. The FMA therefore developed a draft FMA Guideline that was circulated for consultations on 25 August 2005. The consultation period ended on 7 October 2005. The results of the consultations were discussed with the involved interest associations. For purposes of a practice-oriented adaptation of

this FMA Guidelines, a working group composed of representatives of the interest associations and the FMA was constituted. The goal is to issue the FMA Guidelines in the 2nd quarter of 2006 and to implement the provisions before the end of the year.

FMA Guidelines on “Calculation method for the total expense ratio (TER)”

In the interest of investor protection, the investment companies must ensure appropriate cost transparency vis-à-vis their investors. According to article 11 of the IUO, the investment undertakings must disclose all costs and commissions, in particular the total expense ratio, in their business and half-yearly reports. In October 2005, a comparison was conducted of the European recommendation on the simplified prospectus (2004/384/EC), the Austrian ordinance on the content of prospectuses, and the Swiss guideline of the Swiss Funds Association on the calculation and disclosure of the TER. The FMA then decided to draft an FMA Guideline on the calculation method for the TER. In this context, the FMA will review whether other indicators, such as the portfolio turnover rate (PTR) should also be incorporated into this guideline. The FMA plans to make the draft available to interested associations for feedback at the beginning of the 3rd quarter of 2006, so that the guideline could potentially enter into force at the beginning of the 4th quarter of 2006.

Amendment of the FMA Fee Ordinance

Because of the changed legal conditions in the IUA, the Fee Ordinance should also be amended. There are numerous acts that are now subject to approval by the FMA. Additionally, management companies now also receive a separate license and a separate European passport. The different types

of investment undertakings have further diversified, so that the work involved in processing a license may vary.

The FMA will strive to develop a differentiated fee system indexed to the work involved and will submit the draft to the Government for approval. The FMA will seek out dialogue with the interest associations in this context.

2.3 Insurance Undertakings

2.3.1 Completed regulatory projects as of 31 December 2005

Implementation of the Solvency I Directive

The Ordinance of 10 May 2005 amending the Insurance Supervision Ordinance, which entered into force on 17 May 2005, implemented Directives 2002/12/EC (replaced by Directive 2002/83/EC) and 2002/13/EC of the European Parliament and Council of 5 March 2002 as regards the solvency margin requirements for life and non-life insurance undertakings (Solvency I) into Liechtenstein law. The goal of the Directives is to tighten the existing provisions on the solvency margin, for better protection of the interests of policyholders. In particular, the Directives significantly increase the current absolute minimum amounts of the required capital (minimum guarantee fund). Moreover, the FMA is granted more far-reaching powers to take corrective measures if the rights of policyholders are in danger, in order to facilitate intervention as early as possible. Insurance undertakings must apply the new solvency requirements for the first time beginning with the 2005 business year.

Implementation of the Winding-up Directive

Pursuant to its membership in the European Economic Area, Liechtenstein is required to implement Directive 2001/17/EC of 19 March 2001 on the reorganization and winding-up of insurance undertakings. This Directive provides rules for the cross-border reorganization and liquidation procedure for insurance undertakings. In particular, the rationale for the directive is that these insurance undertakings may operate throughout the entire European Economic Area due to their single license, and the undertakings and their branches therefore constitute a unit. This directive aims to ensure that the reorganization measures and liquidation procedures are effective across national borders. This means that there will no longer be multiple reorganization measures or liquidation procedures running in parallel in different States of the EEA, but rather that only one procedure will be conducted in one State with respect to a particular insurance undertaking. The procedure takes place in Liechtenstein if the insurance undertaking has been granted a license in Liechtenstein.

To make it easier for creditors to assert their rights and claims as part of a foreign reorganization measure or liquidation procedure, the Directive envisages communication requirements for authorities, regulates assertions of claims, and strengthens the position of creditors of insurance claims. The Directive has been implemented by means of the newly included articles 59a et seq. of the ISA. They entered into force on 24 January 2005 and will be applied to procedures for the first time that are initiated after the entry into force of the new provisions.

Amendment of the FMA Fee Ordinance

The ordinance of 18 October 2005 amended the FMA Fee Ordinance with respect to the supervision fees for insurance undertakings. The goals of the amendment are in particular to limit supervision fees, for purposes of making them more predictable for insurance undertakings with a corresponding premium revenue, and also to take into account the balance sheet totals of the insurance undertakings when calculating supervision fees, for purposes of achieving a fairer distribution.

In principle, supervision fees for insurance undertakings still consist of a fixed basic fee and a supplemental fee. As of the 2005 business year (the fee for which will be levied in the 2006 business year), the basic fee now amounts to CHF 25,000 (previously: CHF 10,000). In the case of captives, the basic fee continues to be CHF 10,000, since captives necessitate considerably less supervision work for the FMA. The calculation of the supplemental fee will now no longer depend exclusively on the gross premiums written, but additionally also on the balance sheet total, which also encompasses the capital investments under management. The reason for this is the increased responsibility of the FMA when the capital investment and the balance sheet totals of an insurance undertaking are higher. The supplemental fee now amounts to 0.1‰ of the gross premiums written (previously: 0.5‰) and 0.1‰ of the balance sheet total. The upper threshold of the supplemental fee is CHF 100,000, so that in particular insurance undertakings with very high premium revenue are not required to pay unreasonably high fees. The total annual threshold for supervision fees is now CHF 125,000.

In order to grant insurance undertakings fee relief already in 2005, the supervision fee for the 2004 business year was lowered retroactively and fixed as follows: The basic fee for the 2004 business year remained at CHF 10,000, and the supplemental fee was reduced for one year only to 0.3‰ of gross premiums written (previously 0.5‰). This entailed a reduction of the supplemental fee by 40%.

Total revision of the Building Insurance Act and Ordinance

The revision of the Law on the Insurance Protection of Buildings against Fire Damage and Elementary Loss (Building Insurance Act) and the corresponding ordinance (Building Insurance Ordinance), both of which entered into force on 28 January 2005, takes into account that – in addition to Swiss and Liechtenstein undertakings – insurance undertakings domiciled in another Member State of the EEA Agreement offer fire and natural hazard insurance in the Principality of Liechtenstein. In order to continue to take into account the solidarity concept with respect to natural hazard insurance, uniform conditions apply to all insurance undertakings operating in this mandatory insurance field with respect to scope of coverage and premium rates. The objective of the revision is to continue to ensure nationwide coverage against damages from natural hazards at acceptable prices.

FMA Guidelines

– FMA Guideline 2005/2 (Mandatory building insurance – Scope and special rules concerning the definition of building)

The passage of the Law on the Insurance Protection of Buildings against Fire Damage and Elementary Loss (Building Insurance Act) has created new provisions in the Principality of Liechtenstein



concerning mandatory insurance for buildings against damages caused by fire and natural hazards. The Guideline helps clarify special rules and questions of definition and scope, thereby effecting legal certainty and efficient insurance protection. This Guideline was adopted by the FMA Board on 21 June 2005 and entered into force on the same day.

2.3.2 Pending regulatory projects as of 31 December 2005

Implementation of the Insurance Mediation Directive

The implementation of the Insurance Mediation Directive (Directive 2002/92/EC) introduces new licensing requirements for insurance mediators in Liechtenstein. The primary goal of the Directive is to enable cross-border mediation within the framework of the freedom of establishment and the free movement of services by means of uniform registration and supervision of mediators. The interests of policyholders are to be safeguarded through increased demands on the professional and specialized knowledge of mediators and through comprehensive information and

counseling obligations of insurance mediators. The consultation period for the creation of the new Insurance Mediation Act ran until the end of November 2005. Entry into force of the new Insurance Mediation Act is expected in July 2006.

Implementation of the Pension Fund Directive

The implementation of the Directive on the activities and supervision of institutions for occupational retirement provision (Pension Funds Directive, IORP-Directive, Directive 2003/41/EC) has created new provisions in the Principality of Liechtenstein for institutions for occupational retirement provision with capital cover, distinct from the Occupational Pension Fund Act, allowing such institutions to offer cross-border retirement solutions thanks to EEA-wide recognition. Information requirements vis-à-vis future claimants, beneficiaries, and the supervisory authority as well as investment provisions fulfilling the principle of prudence guarantee transparency and generate confidence in the Liechtenstein financial center.

Entry into force of the Law on the Supervision of Institutions for Occupational Retirement Provision is expected for the beginning of 2007.

2.4 Pension Funds

2.4.1 Completed regulatory projects as of 31 December 2005

Revision of the OPA, including total revision of the OOPA and amendment of the FMA Fee Ordinance

The revised OPA and the associated OOPA entered into force on 1 January 2006. The goal

of the legislative revision and the total revision of the implementing ordinance is primarily to strengthen insurance interests by introducing comprehensive transparency requirements, pension-specific accounting requirements, and information requirements for the pension funds. To safeguard policyholder claims in the event of insolvency of a pension fund, a safety fund is now required. The rights of the associated employers and their employees are strengthened by introducing rules in the event that insurance contracts are cancelled. To ensure special protection of policyholders in the event of the bankruptcy of an employer, the Bankruptcy Rules have also been supplemented by including all claims of pension funds vis-à-vis the associated employers in the first bankruptcy class. Finally, the amendment to the FMA Fee Ordinance has created the legal foundation for the levy of supervision taxes and fees for the FMA's activities relating to the supervision of pension funds.

2.4.2 Pending regulatory projects as of 31 December 2005

FMA Guidelines on implementation of the OPA revision

In the context of implementation of the OPA revision, the FMA is issuing guidelines on the procedure and point in time for verification of the association requirement for employers and on the documents to be submitted, as well as on the business report and reporting to the FMA.

Entry into force is expected in 2006.

2.5 Other Financial Service Providers

2.5.1 Pending regulatory projects as of 31 December 2005

Revision of the LA, PTA, PAA, and AACA

In cooperation with the EEA Coordination Unit, the OFSP Division has conducted an EEA compatibility review of the laws and ordinances subject to its execution governing the free professions participating in the financial market, namely the PTA, AACA, LA, and PAA, along with the respective implementing ordinances. The review identified various provisions as potentially incompatible with the EEA. Acting on the review report, the Government commissioned a revision of the potentially incompatible provisions. The revision will simultaneously take the new EU Directive 2005/36/EC on the recognition of professional qualifications into account. The goal is to draft a consultation proposal in 2006.

2.6 Cross-divisional Regulation

2.6.1 Completed regulatory projects as of 31 December 2005

FMA Guidelines

FMA Guideline 2005/1 on the monitoring of business relationships entered into force on 1 February 2005. This guideline is based on article 13, paragraph 1 of the DDA, which requires persons and entities subject to due diligence to monitor their long-term business relationships. Such monitoring is necessary to be able to undertake the inquiries pursuant to article 15 of the DDA. The guideline lays down risk criteria. It also contains an annex with indicators of money laundering.

2.6.2 Pending regulatory projects as of 31 December 2005

Implementation of the Financial Conglomerates Directive

The aim of the Financial Conglomerates Directive (Directive 2002/87/EC) is to provide effective supervision over enterprise groups extending across business sectors, so-called financial conglomerates, that operate across borders and business sectors in the banking, insurance, and investment business. Additionally, the convergence of the supervision standards aims to contribute to the stability of the financial sector and significantly improve the protection of consumers. Already today, member companies of financial conglomerates operate in or from Liechtenstein. The implementation of this legal act will therefore also affect Liechtenstein. A consultation proposal is expected for the autumn of 2006.

Implementation of the Prospectus Directive

The implementation of the Prospectus Directive (Directive 2003/71/EC) in the Prospectus Act establishes new requirements in Liechtenstein for the drafting, approval, and publication of prospectuses. Detailed information and disclosure obligations guarantee transparency for investors and create confidence in the Liechtenstein financial center. Through the EEA-wide recognition of the prospectuses already recognized in an EEA Member State, the procedure on the part of the issuers is simplified and the EEA Single Market is strengthened. Implementation is expected by the beginning of 2007.

Implementation of the Financial Collateral Directive

The Financial Collateral Directive (Directive 2002/47/EC) envisages harmonized rules through-

out the EEA for the use and realization of cash and financial instruments as collateral. Moreover, financial collateral is made exempt from certain requirements of insolvency law, especially with respect to requirements that stand in the way of effective realization of collateral or that inhibit netting arrangements. The Directive aims to contribute to a further integration and greater cost-effectiveness of the financial market and the stability of the financial system throughout the EEA, thereby promoting the free movement of services and capital in the single financial market. Due to the substantive content of the Financial Collateral Directive, namely property law, bankruptcy law, and international private law, implementation has been joined with the reform of property law currently underway. Implementation of this Directive is of great importance to Liechtenstein due to its substantive content. Responsibility for the implementation has been assigned to the Office of Public Registry.

Implementation of the Committee Structure Directive

Directive 2005/1/EC in order to establish a new organizational structure for financial service committees amends several older Directives. The Directive expands the Lamfalussy process, which was originally only envisaged in the securities field, to include the banking and insurance sector. Its practical impact is that the Commission must establish new committee structures for the banking and insurance sector. None of the amendments extend the power of the Commission or the Council to issue implementing measures. For the EFTA/EEA States, this has no direct impact, since they are anyway only able to influence the EU legislative process through so-called “decision shaping”. Implementation is expected in 2006.

Implementation of the Transparency Directive

The Transparency Directive (Directive 2004/109/EC) is a component of the Financial Services Action Plan for the implementation of a financial market framework of the European Union, and it supplements the ordinance already in force in Liechtenstein concerning the application of international accounting standards and the following Directives currently being implemented: Markets in Financial Instruments Directive, Market Abuse Directive, Prospectus Directive. The transparency of securities issuers is of crucial importance for the functioning of the capital markets. The information requirements envisaged in the Transparency Directive aim to facilitate a well-founded assessment of the operating profits and financial situation of securities issuers on the part of investors, and to improve the comparability of securities issuers. This is intended to strengthen the confidence of investors in the securities markets and to increase investor protection and market efficiency. The Transparency Directive lays down requirements for the regular and ongoing publication of information on issuers whose securities are admitted for trade on a regulated market located or operated in the EEA. Since Liechtenstein neither has regulated markets nor its own stock exchange within the meaning of the Transparency Directive, and since no issuers domiciled in Liechtenstein are currently known whose securities are admitted for trade on a regulated market located or operated in the EEA within the meaning of the Transparency Directive, the Transparency Directive is of limited significance for Liechtenstein.

Implementation of the Third Money Laundering Directive

On 25 November 2005, Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (Third Money Laundering Directive) was officially published. The Directive builds on existing EU legal provisions and adopts the 40 FATF³⁾ Recommendations into EU law that were revised in June 2003. The Directive also introduces additional requirements and protection measures for situations with increased risk. For reasons of clarity, the First Money Laundering Directive of 1991 in its amended version of 2001 (Second Money Laundering Directive) has been repealed and replaced by the Third Money Laundering Directive. It is expected that the Third Money Laundering Directive will be incorporated into the EEA Agreement and must therefore be implemented into national law. The incorporation procedure is already underway. The FMA will assess the need for action arising from the Directive with a view to due diligence law and will submit concrete implementation proposals to the Government.

3) The Financial Action Task Force (FATF) is an international body that elaborates standards for the suppression of money laundering and terrorist financing.

EXTERNAL RELATIONS



We cultivate dialogue in our external relations and are recognized nationally and internationally on the basis of our competence and performance.

We are recognized nationally and internationally on the basis of our competence and performance.

We cultivate dialogue in all our national and international external relations.

We represent the interests of the country of Liechtenstein in international bodies and promote cooperation with other supervisory authorities.

We inform our stakeholders transparently and proactively.

We inform the public about our activities.

We nurture the reputation of the FMA and of the Liechtenstein financial market vis-à-vis international bodies and foreign financial market supervisory authorities.

We strive for membership in important international bodies, if this is of use to the FMA and the Liechtenstein financial market.

3 EXTERNAL RELATIONS

The term “external relations” used in the FMA Mission Statement should be understood in a broad sense. The external relations of the FMA are carried out at both the national and the international level.

3.1 National External Relations

External relations at the national level encompass all contacts of the FMA within Liechtenstein. In particular, these include:



- Contacts with the supervised financial market participants: The FMA makes itself available to the financial market participants as needed and also provides certain services, such as responding to inquiries.
- Dialogue with the business associations: The FMA is interested in continuing to develop its supervision and regulation in practice-oriented and competitive ways. This serves both the quality of supervision and regulation and the interests of the financial market.

In 2005, the interest of the FMA in a dialogue with the business associations manifested itself especially in a close integration of the associations in the regulatory projects and in the participation of the FMA in sector-specific projects. For instance, the drafting of the IUA, the creation of investment undertakings for qualified investors, and the establishment of a code of conduct for the Liechtenstein fund center arose from close collaboration with the business associations. Representatives of the FMA also held several workshops with the Bankers Association, including on the new AMA, and they conducted due diligence training for the Association of Auditors.

- Dialogue with “practice”: To acquaint financial market participants and interested circles with supervisory and regulatory topics and for purposes of transparent information policy, FMA staff members are strongly integrated in the training programs of the Liechtenstein University of Applied Sciences and the Institute for Compliance and Quality Management (ICQM). The FMA has made its staff members available for lectures and as instructors for courses of study. In 2005, FMA speakers held ten lectures, in particular relating to changes in insurance law (Solvency II, occupational pension funds) and the new due diligence legislation. The Director of the OFSP Division serves as an instructor at the Liechtenstein University of Applied Sciences in the field of due diligence law.
- High-ranking officials of the FMA also regularly cultivate contacts with the Government and Parliament. This is important since topics relevant to the financial market may also be relevant to the national economy and (foreign) policy.

- The FMA also works closely together with the authorities of the Liechtenstein National Administration by way of national information sharing.

3.2 International External Relations

The international external relations of the FMA are highly diversified.

Bilateral international external relations

These include the traditionally close relations between Switzerland and Liechtenstein in financial market affairs, which manifest themselves primarily through the Currency Treaty. On the basis of this treaty, the Swiss National Bank acts as the “national bank” for the CHF currency area (Switzerland-Liechtenstein). Moreover, the bilateral Direct Insurance Agreement between Switzerland and Liechtenstein achieves equality between Liechtenstein and Swiss insurance companies with respect to free movement of services and freedom of establishment. The FMA represents Liechtenstein in the Joint Commission of the Direct Insurance Agreement, which is mandated to execute the agreement and take the decisions provided for in the cases envisaged by the agreement. Bilateral external relations also include bilateral contacts with foreign supervisory authorities that the FMA cultivates through informal contacts and international information sharing. In particular, these authorities include the Swiss Federal Banking Commission (SFBC), the FMA Austria, and the German Financial Supervisory Authority (BaFin). This contact has also been institutionalized in the form of the annual “Four Country Meeting of the German-Language Supervisory Authorities” (DACHL).



European external relations

Liechtenstein’s membership in the EEA entails that Liechtenstein follows EEA-relevant developments very closely and is primarily represented in European bodies for this purpose. The Government may commission the FMA to represent interests relevant to Liechtenstein’s financial market in international bodies. Participation is on the basis of a list adopted annually by the Government, containing the bodies/meetings to be covered. In 2005, staff members of the FMA participated in a total of 57 international meetings. As needed,



3 EXTERNAL RELATIONS

the FMA coordinates the positions taken with the responsible Ministry, the EEA Coordination Unit and other offices of the National Administration and submits the relevant meetings reports. FMA participation in the following international bodies is of particular note:

- CEBS⁴⁾ – Committee of European Banking Supervisors
- EBC⁵⁾ – European Banking Committee
- Groupe de Contact⁶⁾ – and relevant subcommittees
- ESC⁷⁾ – European Securities Committee
- EIOPC⁸⁾ – European Insurance and Pensions Committee and relevant working groups
- CEIOPS⁹⁾ – Committee of European Insurance and Occupational Pensions Supervisors and relevant working groups
- Committee on the Prevention of Money Laundering and Terrorist Financing¹⁰⁾

Liechtenstein only has observer status in EU meetings, i.e., no voting rights. Nevertheless, these meetings are an excellent means to obtain first-hand information and to establish international working contacts. The aforementioned bodies are of special significance in that they perform an advisory role vis-à-vis the EU Commission in the drafting of legal foundations.

Liechtenstein is a full member only of the Working Group on Financial Services (WGFS). In this working group, Liechtenstein holds the chair until the end of 2006, represented by the Head of the Integrative and International Affairs Unit. This is a working group at the EFTA/EEA level, composed of representatives of the three EFTA/EEA Member States Norway, Iceland, and Liechtenstein. Switzerland has observer status. The responsibility of this working group is to analyze EU legal acts from the drafting stage through incorporation into the EEA Agreement (EEAA).

Close contacts exist in this regard with the EU Commission, which gives presentations in the framework of the Working Group and is available for discussions.

4) Regulatory Level 2 Committee in the so-called “Lamfalussy process”. The Lamfalussy process is a four-level process aimed at accelerating the EU legislative procedure. The following responsibilities are divided among these four levels: Level 1: Proposal for framework legislation by the EU commission and subsequent adoption by the European Parliament and the Council; Level 2: Adoption of the relevant implementing measures for the framework enactment; Level 3: Implementation and coordinated application of the adopted enactment; Level 4: Supervision of implementation by the EU Commission (only for EU Member States; not relevant to Liechtenstein). The responsibility of CEBS: Drafting of regulatory proposals, undertaking of consultations, advising of the Commission; CEBS also fulfills responsibilities at Level 3.

5) EU Committee at Level 2, responsibility: Voting on regulatory proposals in the banking field.

6) Assistance to CEBS in questions of banking supervision.

7) EU Committee at Level 2, responsibility: Voting on regulatory proposals in the securities field.

8) EU Committee at Level 2, responsibility: Voting on regulatory proposals in the insurance and pensions field.

9) Level 3 Committee in the insurance and pensions field, responsibility: Drafting of regulatory proposals, undertaking of consultations, advising of the Commission; CEIOPS also fulfills responsibilities at Level 2.

10) EU working group on the suppression of money laundering and terrorist financing.

With respect to the suppression of money laundering and terrorist financing, it should be mentioned that Liechtenstein may not be a member of the FATF, but it is a member of Moneyval, a subcommittee of the Council of Europe. The CEO of the FMA heads the Liechtenstein delegation. In March 2005, he acted as a money laundering instructor for Moneyval and helped train the assessors for the third evaluation round. He then took part as a Financial Expert during the Moneyval assessment of Cyprus in April 2005.

Global external relations

In particular, these include the relations relevant to the financial market that arise through Liechtenstein's membership in international organizations, especially the UN and the World Trade Organization (WTO). Pursuant to its UN membership, Liechtenstein is in particular called upon to implement UN sanctions relating to the suppression of terrorism, as well as economic and financial embargos. In this area, the FMA ensures adequate information for the financial market participants. With respect to the WTO, the FMA offers assistance to the competent State authorities in negotiating the ongoing liberalization rounds for services in the financial sector. The FMA is also a member of the International Association of Insurance Supervisors (IAIS), which now encompasses about 180 jurisdictions.

The Offshore Financial Center Assessment conducted in October 2002 is of significance with respect to the activities of the IMF. The IMF has committed itself to the promotion of international cooperation in the field of monetary policy. Against this background, the IMF regularly conducts assessments with the aim of identifying weaknesses that could endanger the stability of the international financial systems. In essence,



the IMF reviews compliance with the following international standards:

- Basel Core Principles for Effective Banking Supervision of the Basel Committee on Banking Supervision (BIS)
- Insurance Core Principles of the IAIS
- Objectives and Principles of the IOSCO
- 40 Recommendations of FATF and the (then) 8 Special Recommendations of FATF on Terrorist Financing

3 EXTERNAL RELATIONS

In particular, the IMF recommended that an independent and integrated supervisory authority be created to strengthen supervision. This step was already in planning at the time of the assessment. The IMF recommended that the supervisory functions, which were distributed at the time among the FSA, the Insurance Supervisory Authority of the Office of Economic Affairs, and the DDU, be integrated into a single authority. This most important recommendation of the IMF was fully implemented with the creation of the FMA and its assumption of operational activities on 1 January 2005.

The most important positive findings of the IMF assessment can be summarized as follows:

– **High-quality and modern legislation**

In every assessed area, Liechtenstein has high-quality, modern legislation, which thereby provides an excellent foundation for strong and effective supervision activities. This assessment is extraordinarily valuable, since it confirms that Liechtenstein has done its homework over the past years.

– **“High level of compliance” in the fight against money laundering**

In the fight against money laundering and the financing of terrorism, an overall “high level of compliance” with international standards was found. The report acknowledged in particular that the authorities responsible at the time of the assessment, namely the DDA and the FIU, have been restructured and decisively strengthened, so that this area has gained in both substance and clout. With this assessment, Liechtenstein attained an additional international recognition by the IMF, confirming the international recognition of its successful measures to fight money laundering and the financing of terrorism by the FATF and Moneyval (subcommittee of the Council of Europe, formerly PC-R-EV). In particular the efficiency already attained in 2002 with respect to the prevention and suppression of money laundering can be further strengthened through the utilization of supervisory synergies within the FMA.



– **Information sharing**

The IMF confirmed in 2002 that Liechtenstein's information sharing with foreign supervisory authorities, pursuant to recent jurisprudence, fulfills the EU requirements. However, further development of information sharing practice is subject to a dynamic process in this field of emerging international standards. The FMA must take these developments into account appropriately, in light of international recognition of Liechtenstein supervision and therefore of the Liechtenstein financial market and ultimately also of its actors.

The full text of the IMF report can be accessed at www.imf.org or www.fma-li.li (International/Worldwide/IMF).



ENTERPRISE



We are independent, internally organized according to private sector principles, client-oriented, and we distinguish ourselves with exceptional quality and pragmatic solutions.

We are independent and not bound by any instructions in the performance of our activities.

We make use of synergies through our structure as an integrated financial market supervisory authority (extending across specialized areas).

Internally, we are organized according to private sector principles, and we are a learning organization.

We distinguish ourselves with the exceptional quality of our services and with competence, dynamism, and flexibility.

We orient ourselves according to the needs of the clients, taking into account best business practices, and we develop pragmatic solutions.

We act in a goal-oriented manner and determine focus areas and priorities accordingly.

We work efficiently and effectively and only invest resources where necessary and justifiable.

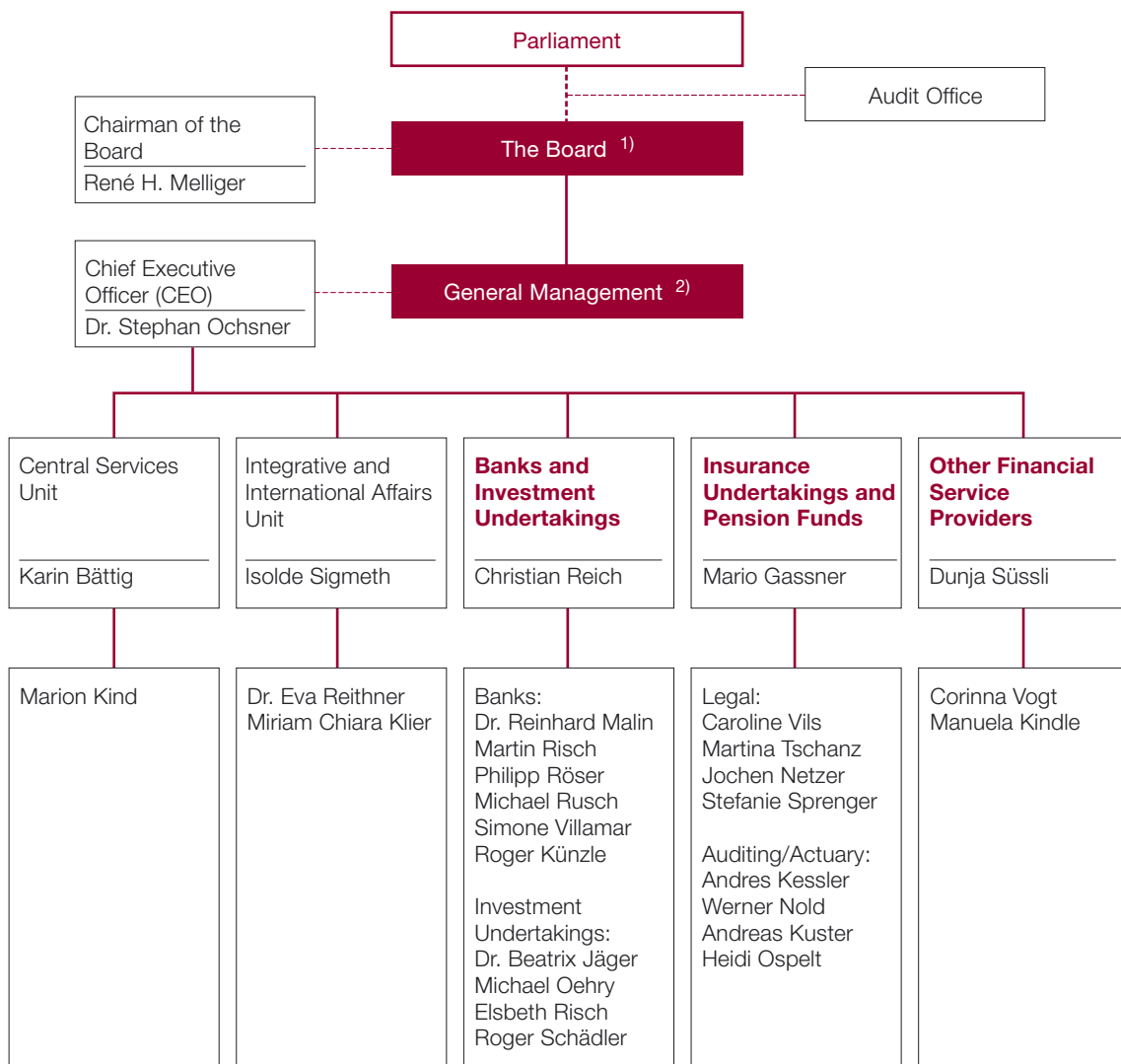
We are open to change.

We are oriented toward the future and develop sustainable solutions.

We strive for full funding by the financial market participants.

FMA Financial Market Authority Liechtenstein

Structure of the organization



1) The Board (2005–2009)
 René H. Melliger, Chairman (acting full-time)
 Dr. Jochen Hadermann, Vice Chairman
 Dr. Martin Batliner
 Dr. Hans Haumer
 Dr. Stefan Jaeger

2) General Management
 Dr. Stephan Ochsner, CEO
 Mario Gassner, Deputy of the CEO
 Christian Reich
 Dunja Süssli

The FMA is an integrated and independent supervisory authority conforming to international standards. As an establishment under public law, it has its own legal personality and fulfills a sovereign mandate, i.e., it takes on responsibilities of the State. Integrated means that all supervisory functions in relation to the Liechtenstein financial market are the responsibility of a single authority. In the fulfillment of its responsibilities defined by law, the FMA is independent of the Government and the supervised financial market participants, but it is accountable to Parliament.

The FMA bases its organization and structure on that of a modern enterprise. Its organization is slender and oriented according to the needs of its clients, in accordance with the service mentality it aims to realize.

The organs of the FMA are the Board, the General Management, and the Audit Office. The Board exercises overall direction, supervision, and control of the activities of the General Management, which is responsible for operational aspects. The Board also is responsible for formulating and enforcing the strategy of the FMA, and for issuing decisions and orders of fundamental or pre-judicial importance. The General Management is responsible for the everyday operations of the FMA. It ensures a lawful, goal-oriented, and economic fulfillment of its responsibilities. The function of Audit Office is exercised by the National Audit Office. It reports annually to the Liechtenstein Parliament on its auditing activities. If unusual incidents arise, the Audit Office reports immediately to Parliament. The operational fields of the FMA are administered by the Banks and Investment Undertakings, Insurance Undertakings and Pension Funds, and Other Financial



Service Providers Divisions. The FMA also has two units that fulfill an integrative and supporting function. These are the Integrative and International Affairs Unit and the Central Services Unit.

4.1 Divisions

The FMA has three specialized operational divisions:

- Banks and Investment Undertakings Division
- Insurance Undertakings and Pension Funds Division
- Other Financial Service Providers Division

See, in particular, chapter 1 on Supervision and chapter 2 on Regulation for an overview of the responsibilities of these divisions.

4.2 Integrative Units

4.2.1 Integrative and International Affairs Unit

The IIAU was created at the same time as the FMA. The initial goal was therefore to define its responsibilities and the manner in which they were to be fulfilled and to ensure a corresponding internal organization. The IIAU is responsible for all integrative and certain international activities within the FMA. Integrative responsibilities are those affecting more than one division or affecting all divisions with respect to a cross-divisional subject matter, so that they cannot be explicitly assigned to a single division, as well as topics requiring uniform treatment for other



reasons. In particular, integrative responsibilities include ensuring uniform standards within the FMA and with respect to the external presence of the FMA, planning and conducting information and continuing education events, publishing supervision practice (article 5, paragraph 3 of the FMA Act), interpreting the DDA and other cross-divisional legal norms in a homogeneous manner, and recommending and preparing the necessary cross-divisional rules and regulations.

International responsibilities arise in connection with international cooperation with foreign authorities and international organizations/standards-setters (WTO, FATF, IMF, IOSCO, etc.) and in connection with international treaties (e.g., EEAA, Currency Treaty with Switzerland, etc.) and conventions (e.g., EFTA Convention). The IIAU takes part in international meetings and conferences affecting multiple divisions. Its scope of responsibility also encompasses the preparation, coordination, and accompanying of domestic assessments, the evaluation of final reports, and the drafting of proposals for any follow-up measures. Furthermore, the IIAU may participate in the performance of foreign assessments. It sees to the publication of international economic measures, as well as associated legal acts and various lists, e.g., terrorist lists.

The IIAU administered the following integrative and international core projects in 2005:

- Development of a reporting strategy for providing information to the General Management and the Board on the course of business of the FMA and as a planning tool for the entire FMA
- Development and support of FMA Knowledge Management (cross-divisional know-how transfer relating to the DDA, training of staff members in the use of worldwide databases, provision of a DDA database with all DDA inquiries answered by the FMA, development of an FMA-specific compendium of legal norms, initiation of the development and establishment of the FMA library)
- Introduction of an employee handbook, including instruction system
- Organization of human resources, including introduction of a personnel management tool

- Participation in several special audits and extraordinary inspections pursuant to the DDA, providing support to the divisions
- Performance of cross-divisional legal clarifications, especially in relation to combating abuse
- Drafting of opinions and reports of the FMA
- Content management for the FMA website

In the last quarter of 2005, the IIAU dealt with 4 cross-divisional cases of abuse:

- In 1 case, the FMA received an order issued by the SFBC, according to which a Swiss and a Liechtenstein limited company were accused of unlawful acceptance of public assets. As part of criminal proceedings already pending in Liechtenstein, the FMA reviewed the relevant files. Since violations of the BA and the DDA could not be ruled out, the FMA ordered an extraordinary audit of the Liechtenstein limited company and its organs. The case had not been concluded by the end of December 2005.
- In 1 other case, the FMA received a letter from the Magistrate's Office of the canton of Schwyz. This letter contained information about an ongoing criminal investigation that was being conducted against a Swiss limited company in connection with the distribution of securities of another company. The distributed units had turned out to be worthless. In this connection, the authorities had found evidence that a Liechtenstein establishment and two of its employees may also have been involved in these distribution activities. The FMA subsequently initiated inquiries that resulted in the need for an extraordinary audit at the end of December 2005. The audit mandate was being prepared for the beginning of 2006.



- Through its media monitoring activities, the FMA initiated inquiries relating to the Amis case. A Cayman Islands company involved in this case was allegedly held by a Liechtenstein limited company. Commission payments were alleged to have been made via this company and two other Liechtenstein companies. In this regard, it must be assumed that these commission payments were obtained on the basis of fraudulent activities. Since the investor assets were not pooled in Liechtenstein companies or in the accounts of Liechtenstein financial intermediaries, since the Liechtenstein companies also did not perform any direct trustee functions, and since no Liechtenstein investment funds were affected, no supervision procedure arising from abuse pursuant to a supervision law could be initiated. No report had to be submitted to the FIU, since the FIU was already informed and the Liechtenstein Office of the Public Prosecutor was already investigating the case. Nevertheless, the FMA decided to prepare a mandate for an extraordinary audit for the beginning of 2006, based on the facts available at the end of December 2005.

- In the 4th case, the FMA received several letters from an American law firm, the clients of which were minority shareholders of a limited company domiciled in Barbados. Two Liechtenstein establishments were mentioned as majority shareholders, the representatives of which included a Liechtenstein trust company. The two Liechtenstein establishments had allegedly been involved in the sale of letters/lines of credit that turned out to be worthless. Because of this, the shareholders of the limited company and its investors had suffered a considerable loss of assets. When the minority shareholders of the limited company demanded back their investments, repayment had been denied. Based on this information, the FMA decided to submit a report to the FIU pursuant to article 16, paragraph 1 of the DDA in December 2005, since inquiries had indicated that a connection with money laundering or a predicate offense of money laundering, organized crime, or terrorist financing may have existed. In addition, the FMA prepared to order additional measures, in particular the performance of an extraordinary audit. The extraordinary audit had not been concluded by the end of December 2005.
- In 1 other case, the FMA was forwarded an e-mail message that originally had been sent to the e-mail address office@liechtenstein.li of the Press and Information Office. According to this e-mail message, a person from Ireland was requesting contact, since a company domiciled in Ireland was supposedly planning a large construction project in Liechtenstein and wanting to discuss this with the competent authorities. The figures in the e-mail message concerning the construction project were unrealistically high. Additional inquiries by the FMA found that the sender of the e-mail was

soliciting investors on the Internet in Ireland with a similar construction project. Based on the available information, the FMA assumed that the sender of the e-mail message apparently required written confirmation by an authority or some other State office, in order to present this confirmation to his investors and make them believe that he was in contact with the competent authorities of the country. For this reason, a report was immediately submitted to the FIU.

4.2.2 Central Services Unit

The scope of activity of the Central Services Units mainly covers the following core responsibilities and processes:

- Reception/care of clients
- Receiving telephone calls made to the switchboard, referring telephone calls, and general provision of information
- Distribution of mail (opening and forwarding mail to the individual divisions and units) and organization of outgoing mail
- Assistance to the Chairman of the Board and the CEO
- Administrative support of General Management and Board meetings
- Administration of personnel files and time recording of FMA staff
- Administration, coordination, and verification of services performed by the National Administration or third parties (e.g., operation and maintenance of IT systems and processes, communication including requisite security, provision of rooms and infrastructure)
- Ongoing budget control and reporting; supervision of payments; coordination of financial accounting and billing of charges with the National Administration; keeping of cash book
- Organization of FMA events and booking/organization of business trips

- Administration of office materials (procurement and disposal of office supplies)
- Execution of adjustments to the FMA website
- Administration and updating of master file data
- Periodic compilation of lists, statistics, and reports

The following projects were successfully concluded in 2005:

- Compilation of checklists to facilitate workflows (daily routines, preparation of meetings, etc.)
- Establishment of optimal infrastructure in the meeting rooms (whiteboard with e-beam system, flipcharts, moderator equipment, etc.)



4.3 Finances

Introduction

The Financial Market Authority (FMA) was entered into the Public Registry on 13 December 2004 as an establishment under public law with a capital of CHF 2 million, in accordance with article 2 of the FMA Act.

In December 2004, the Liechtenstein Parliament adopted the budget for the start-up year 2005 previously approved by the Board (1 January to 31 December 2005) with a State contribution of CHF 4.09 million in accordance with article 29 of the FMA Act.

Accounting

Accounting is administered by the Office of Financial Accounting in a separate accounting group pursuant to a service agreement with the State of Liechtenstein. As an FMA-internal management instrument, a management income statement (MIS) is used to separate out income and expenses by income and cost units in the sense of a break-even analysis, along with profit and cost centers.

Budget and account statement 2005 (1 January – 31 December 2005) in 1000 CHF

Income/Expenses	Budget 2005	Account statement 2005
Income from supervision taxes and fees	2'000	2'553
State contribution	4'090	4'090
Total income	<u>6'090</u>	<u>6'643</u>
Personnel expenses	4'520	4'605
Material expenses	1'395	1'220
Depreciation of furnishings and IT	175	121
Total expenses	<u>6'090</u>	<u>5'946</u>
Surplus	<u>—</u>	<u>697</u>

The Government resolved to pay the budgeted State contribution until the reserves amount to 50% of the budgeted self-generated income, i.e., supervision taxes and fees. The 2005 surplus can therefore be allocated to reserves.

Balance sheet as of 31 December 2005 in 1000 CHF

ASSETS		LIABILITIES	
Accounts receivable from the State	2'497	Capital	2'000
Debtors	11	Reserves (surplus 2005)	<u>697</u>
Furnishings and IT	484	Own funds	<u>2'697</u>
Transitory assets	13	Provisions	80
		Transitory liabilities	228
Total assets	<u>3'005</u>	Total liabilities	<u>3'005</u>

The 2005 annual account statement of the FMA was reviewed by the National Audit Office

4.4 Public Outreach

The FMA attaches great importance to the client- and user-friendliness of its website and conducts ongoing quality controls and improvements in this regard. The FMA website was avidly used as a know-how base in 2005.

Under the “FMA Service Point” on the home page, the “News” caption links to all useful new information, especially FMA Communications on supervisory practice, official publications, information on regulatory changes, etc. This information is also provided in the form of electronic newsletters. Interested persons can obtain these through an electronic subscription service. All publications of the FMA, such as FMA Communications, FMA Guidelines, circulars, fact sheets, forms, lists, and statistics are made available in electronic form on the FMA website. In addition, all legal foundations relevant to the financial market are available electronically.

As part of its media work, the FMA informed the public in 2005 on the first 100 days of its operational activity. Great importance was attached to the media in the first business year, which manifested itself in the publication of numerous interviews and specialized articles.



Karin Bättig



Martin Batliner



Mario Gassner



Jochen Hadermann



Hans Haumer



Stefan Jaeger



Beatrix Jäger



Andres Kessler



Marion Kind



Manuela Kindle



Miriam Chiara Klier



Roger Künzle



Andreas Kuster



Reinhard Malin



René H. Melliger



Jochen Netzer



Werner Nold



Stephan Ochsner



Michael Oehry



Heidi Ospelt



Christian Reich



Eva Reithner



Martin Risch



Elsbeth Risch



Philipp Röser



Michael Rusch



Roger Schädler



Isolde Sigmeth



Stefanie Sprenger



Dunja Süssli



Martina Tschanz



Simone Villamar



Caroline Vils



Corinna Vogt

TEAM

We are a team, actively value each other in our interactions, identify with our goals and responsibilities, act in an entrepreneurial manner, and are proud to make a contribution to success.

We are a team, actively valuing each other in our interactions and supporting each other.

We communicate openly and directly and provide active feedback.

We address conflicts and use them as an engine for progress.

We identify with our goals and responsibilities and are proud to make a contribution to success.

We are characterized by a strong willingness to perform.

We work within the framework of an attractive environment and cultivate a positive working climate.

We pay attention to our physical and mental health.

We actively support basic and continuing training and education.

We are role models, think and act in an entrepreneurial manner, and we distinguish ourselves with leadership, integrity, and social competence.

5.1 FMA Team

After the staffing gaps identified by the IMF in 2002 were filled already in 2003/2004, all staff members of the FSA, the Insurance Supervisory Authority of the Office of Economic Affairs, and the DDU were incorporated into the FMA. With the assumption of its operations, the FMA also took over all human resources responsibilities. The FMA developed its own tools for these tasks. The IIAU coordinated the organization of FMA human resources. In addition to this administrative focus, team development and leadership and the organization of the first performance dialogue with the staff members constituted the central focus areas for the management level.

5.2 Team Development and Leadership

Looking back, it can be said that the great challenge of forming a single team out of the staff members of three different administrative offices was mastered extremely well. An expert facilitated this process in a series of seminars lasting a total of 6 days. The leadership capacities of FMA ex-

cutives were promoted in this connection through coaching measures. In addition, numerous events were organized for staff members to advance integration within the FMA.

5.3 Specialized Training

Along with the commitment to service mentality and identification with the FMA and its responsibilities, the FMA expects high expertise and social competence of its staff members. The FMA views itself as a learning organization, which requires the willingness of staff members to undergo basic and continuing training. Especially within the BIU Division, the FMA witnessed numerous training successes of its staff members in 2005. In its 2002 assessment, the IMF had recommended a strengthening of training measures, in particular in the banking field. The FMA has implemented this recommendation. Three staff members successfully underwent continuing training in the field of bank auditing. Two staff members completed seminars on the topic of International Financial Reporting Standards (IFRS). In the Investment Undertakings Section, the



following training successes were achieved: One staff member completed her training as a Fund Officer, and another staff member completed his masters studies at the Liechtenstein University of Applied Sciences with a Master of Business Administration Financial Services degree.

5.4 Staff Figures

On 1 January 2006, the FMA encompassed 26 positions, 25 of which were filled. This figure does not include the full-time Chairman of the Board. 3 employees left the FMA; these positions were subsequently filled. The Banks and Investment Undertakings Division was allocated 2 new positions – not effective until 2006, however – and the OFSP Division and the Central Services Unit were allocated 1 joint position. This will increase the staffing level to 29 in 2006.



STATISTICS

A) Supervision

1. Supervision and execution of laws

The FMA is responsible for supervision and execution of the following laws (including implementing ordinances):

- 1) Law on Banks and Finance Companies (Banking Act)
- 2) Law on the Business of E-Money Institutions (E-Money Act)
- 3) Law on the Liechtensteinische Landesbank
- 4) Law on the Execution of Cross Border Credit Transfers (Financial Transfers Act)
- 5) Law on Settlements Finality in Payment and Securities Delivery Settlement Systems (Finality Act)
- 6) Law on the Disclosure of Major Holdings in Listed Companies (Disclosure Act)
- 7) Law on the Drawing-up, Scrutiny and Distribution of the Prospectus to be published at Public Offerings of Securities (Prospectus Act)
- 8) Law on Investment Undertakings (Investment Undertakings Act)
- 9) Law on the Liechtenstein Postal System (Postal Act)
- 10) Law on Lawyers (Lawyers Act)
- 11) Law on Professional Trustees (Professional Trustees Act)
- 12) Law on Auditors and Auditing Companies (Auditors and Auditing Companies Act)
- 13) Law on Patent Attorneys (Patent Attorneys Act)
- 14) Law on the Supervision of Insurance Undertakings (Insurance Undertakings Act)
- 15) Law on Professional Due Diligence in Financial Transactions (Due Diligence Act)
- 16) Law on Occupational Pension (Occupational Pension Act)
- 17) Law on the Insurance Protection of Buildings against Fire Damage and Elementary Loss (Building Insurance Act)
- 18) Law on Asset Management (Asset Management Act), effective 1 January 2006

STATISTICS

2. Financial market participants as of 31 December 2005

	2003	2004	2005	Increase 04/05*
Banks / Finance companies / Liechtenstein Postal Service				
Banks	16	16	16	0
Finance companies	1	0	0	0
Liechtenstein Postal Service	1	1	1	0
Audit offices pursuant to the Banking Act	8	9	9	0
Investment undertakings				
Domestic investment undertakings	107	141	164	23
of which segmented	36	42	45	3
with a total of segments (individual funds)	113	141	157	16
Foreign investment undertakings	192	208	239	31
of which segmented	45	52	56	4
with a total of segments (individual funds)	492	580	659	79
Audit offices pursuant to the IUA	9	9	10	1
Insurance undertakings				
Insurance companies domiciled in Liechtenstein	23	28	31	3
Subsidiaries of Swiss undertakings	31	26	23	-3
Subsidiaries of EEA undertakings	0	1	1	0
Free movement of services of EEA and Swiss undertakings	180	201	225	24
Audit offices pursuant to the ISA	10	10	10	0
Pension funds				
Pension funds	40	40	41	1
Other financial service providers				
Professional trustees	79	82	86	4
Professional trustees with restricted license	20	23	27	4
Trust companies	279	284	295	11
Trust companies with restricted license	8	10	13	3
Auditors	20	23	24	1
Auditors engaging in free movement of services	-	-	2	2
Auditing companies	28	28	26	-2
Auditing companies engaging in free movement of services	12	18	20	2
Lawyers	103	110	116	6
Registrable Liechtenstein lawyers	45	48	55	7
Resident European lawyers	13	18	18	0
Law firms	27	27	28	1
Branches of law firms	-	-	1	1
Trainee lawyers	61	58	64	6
Legal agents	5	5	5	0
Patent attorneys	16	12	13	1
Patent attorney firms	5	5	5	0
Persons with a certification according to art.180a PGR	428	438	461	23
Exchange offices	1	1	1	0
Real estate brokers	**	**	16	16
Dealers in valuable goods and auctioneers	**	**	17	17
Gambling houses	**	**	0	0
Other persons and entities subject to due diligence requirements	**	**	21	21
TOTAL (including double counts)	1768	1880	2084	204

* consolidated

** subject to the DDA since 1 February 2005

3. Net assets under management as of 31 December 2005

in billion CHF	2004	2005	Increase in %
Banks	119.4	148.7	+24.5
Investment undertakings (funds)	15.6	20.6	+32.1
Insurance undertakings	5.1	9.4	+84.3
Pension funds	2.8	3.0	+7.1
Total	142.9	181.7	+27.1

4. Licenses

4.1 BIU Division

Banks	2005
Grants (Banking Act)	–
Grants (Prospectus Act)	5
Amendments (Banking Act and Prospectus Act)	35
Rejections	–
Withdrawals	–
Deletions	–

Audit offices pursuant to the Banking Act	2005
Grants	–
Amendments	–
Rejections	–
Withdrawals	–
Deletions	–

Investment undertakings (domestic)	2005
Grants	36
Amendments	56
Rejections	–
Withdrawals	–
Deletions	13

STATISTICS

Investment undertakings (foreign)	2005
Grants	31
Amendments	10
Rejections	–
Withdrawals	–
Deletions	–

Audit offices pursuant to the IUA	2005
Grants	1
Amendments	–
Rejections	–
Withdrawals	–
Deletions	–

4.2 IUPF Division

Insurance undertakings	2005
Grants	5
Amendments	34
Rejections	–
Withdrawals	1
Deletions	1

Pension funds	2005
Grants	–
Amendments	7
Rejections	–
Withdrawals	–
Deletions	1

Audit offices pursuant to the ISA	2005
Grants	–
Amendments	1
Rejections	1
Withdrawals	–
Deletions	–

4.3 OFSP Division

Professional trustees	2005
Grants	34
Amendments	5
Rejections	–
Withdrawals	–
Deletions	5
Admissions to examinations	7
Non-admissions to examinations	1

Auditors and auditing companies	2005
Grants	10
Amendments	1
Rejections	1
Withdrawals	–
Deletions	6
Admissions to examinations	5
Non-admissions to examinations	–

Lawyers	2005
Grants	26
Amendments	22
Rejections	1
Withdrawals	–
Deletions	14
Admissions to examinations	17
Non-admissions to examinations	–

Patent attorneys	2005
Grants	1
Amendments	–
Rejections	–
Withdrawals	–
Deletions	–
Admissions to examinations	1
Non-admissions to examinations	–

5. Review of audit reports 2005

	Prudential	Pursuant to DDA
Banks	16	16
Investment undertakings (domestic)	105	2*
Insurance undertakings	22	12**
Pension funds	41	–
Other financial service providers	–	321

* There are only two investment undertakings that do not fall within the scope of the DDA exemption.

** Only life insurers are subject to due diligence requirements.

6. Measures pursuant to supervision law/Sanctions

	2005
Measures pursuant to supervision law/sanctions by the FMA	7
Reports to the Office of the Public Prosecutor	4
Reports to the FIU	2
Total	13

7. Requests for information sharing

	2003	2004	2005
Requests received from foreign authorities	17	30	12
Requests completed	6	17	26
Transmission of information (number of affected clients)	28	41	13

8. Combating abuse

Number of cases of abuse	2005
BIU	13
IUPF in general	28
IUPF as complaints office	13
OFSP	11
IIAU	4
Total	69

9. Complaints

Division	concluded	pending (31 December 2005)
BIU		
– FMA Complaints Commission	–	7
– Administrative Court	–	–
– Constitutional Court	–	2
OFSP		
– FMA Complaints Commission	1	1
– Administrative Court	1	3
– Constitutional Court	1	–
Total	3	13

B) External Relations

Participation in international meetings and assessments	2005
BIU	13
IUPF	33
OFSP	6
IIAU	5
Total	57

ABBREVIATIONS

Abbreviations

A	Austrian / Austrian nationality
AACA	Law on Auditors and Auditing Companies
AFM	<i>Autoriteit Financiële Markten</i> (Netherlands Authority for the Financial Markets)
AG	<i>Aktiengesellschaft</i> (limited company)
AHV/IV	Old Age and Survivors' Insurance/Disability Insurance
AMA	Asset Management Act
AMO	Asset Management Ordinance
art.	article
BaFin	German Financial Supervisory Authority
BEHG	Swiss Federal Act on Stock Exchanges and Securities Trading
BIS	Bank of International Settlement
BIU	Banks and Investment Undertakings
BörseG	<i>Börsegesetz</i> (Austrian Stock Exchange Act)
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CEO	Chief Executive Officer
CESR	Committee of European Securities Regulators
cf.	<i>confer</i> (compare)
CH	Switzerland/Swiss nationality
CHF	Swiss francs
CSSF	<i>Commission de surveillance du secteur financier</i> (Luxembourg)
DACHL	Four Country Meeting of the German-Language Supervisory Authorities
DDA	Law on Professional Due Diligence in Financial Transactions (Due Diligence Act)
DDO	Due Diligence Ordinance
DDU	Due Diligence Unit
Dipl.-Jur.	<i>Diplom-Jurist</i> (law degree)
Dr.	Doctor
Dr. iur.	Doctor of Law
Dr. oec.	Doctor of Economics
EBC	European Banking Committee
EC	European Community
EEA	European Economic Area
EEAA	EEA Agreement
EEC	European Economic Community
EFTA	European Free Trade Association
e.g.	<i>exempli gratia</i> (for example)
EIOPC	European Insurance and Occupational Pensions Committee

ABBREVIATIONS

ESC	European Securities Committee
et seq.	<i>et sequentes</i> (and following)
etc.	<i>et cetera</i>
EU	European Union
FATF	Financial Action Task Force
FI	<i>Finansinspektionen</i> (Swedish Financial Supervisory Authority)
FiRE	Financial Reporting
FIU	Financial Intelligence Unit
FL	<i>Fürstentum Liechtenstein</i> (Principality of Liechtenstein)
FMA	Financial Market Authority Liechtenstein
FMAA	Law on the Financial Market Authority (FMA Act)
FSA	Financial Services Authority (UK or formerly Liechtenstein)
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
ICQM	Institute for Compliance and Quality Management
i.e.	<i>id est</i> (that is)
IFRS	International Financial Reporting Standards
IIAU	Integrative and International Affairs Unit
IMF	International Monetary Fund
IORP	Institution for Occupational Retirement Provision
IOSCO	International Organization of Securities Commissions
ISA	Insurance Supervision Act
ISO	Insurance Supervision Ordinance
IT	Information Technology
IUA	Investment Undertaking Act
IUO	Ordinance on Investment Undertakings
IUPF	Insurance Undertakings and Pension Funds
LA	Lawyers Act
LBA	Liechtenstein Bankers Association
LIFA	Liechtenstein Investment Fund Association
LIFT	Liechtenstein Investment Fund Think-Tank
MiFID	Markets in Financial Instruments Directive
MoU	Memorandum of Understanding
No.	number
OFSP	Other Financial Service Providers
OGAW	<i>Organismus für gemeinsame Anlagen</i> (UCITS)
OOPA	Ordinance on the Occupational Pensions Act
OPA	Occupational Pensions Act
OSC	Ontario Securities Commission

para.	paragraph
PAA	Patent Attorneys Act
PC-R-EV	Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures
PGR	<i>Personen- und Gesellschaftsrecht</i> (Law on Persons and Companies)
PIN	Personal Identification Number
PTA	Professional Trustees Act
PTR	Portfolio Turnover Rate
RAS	Risk Assessment System
SFA	Swiss Funds Association
SFBC	Swiss Federal Banking Commission
SNB	Swiss National Bank
subpara.	subparagraph
TAN	Transaction Number
TER	Total Expense Ratio
Trust reg.	Trust registered
UCITS	Undertaking for Collective Investments in Transferable Securities
UK	United Kingdom
UN	United Nations
USA	United States of America
VBI	<i>Verwaltungs- und Beschwerdeinstanz</i> (Administrative Court)
WGFS	Working Group on Financial Services
WpHG	<i>Wertpapierhandelsgesetz</i> (German Securities Trading Act)
WTO	World Trade Organization

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