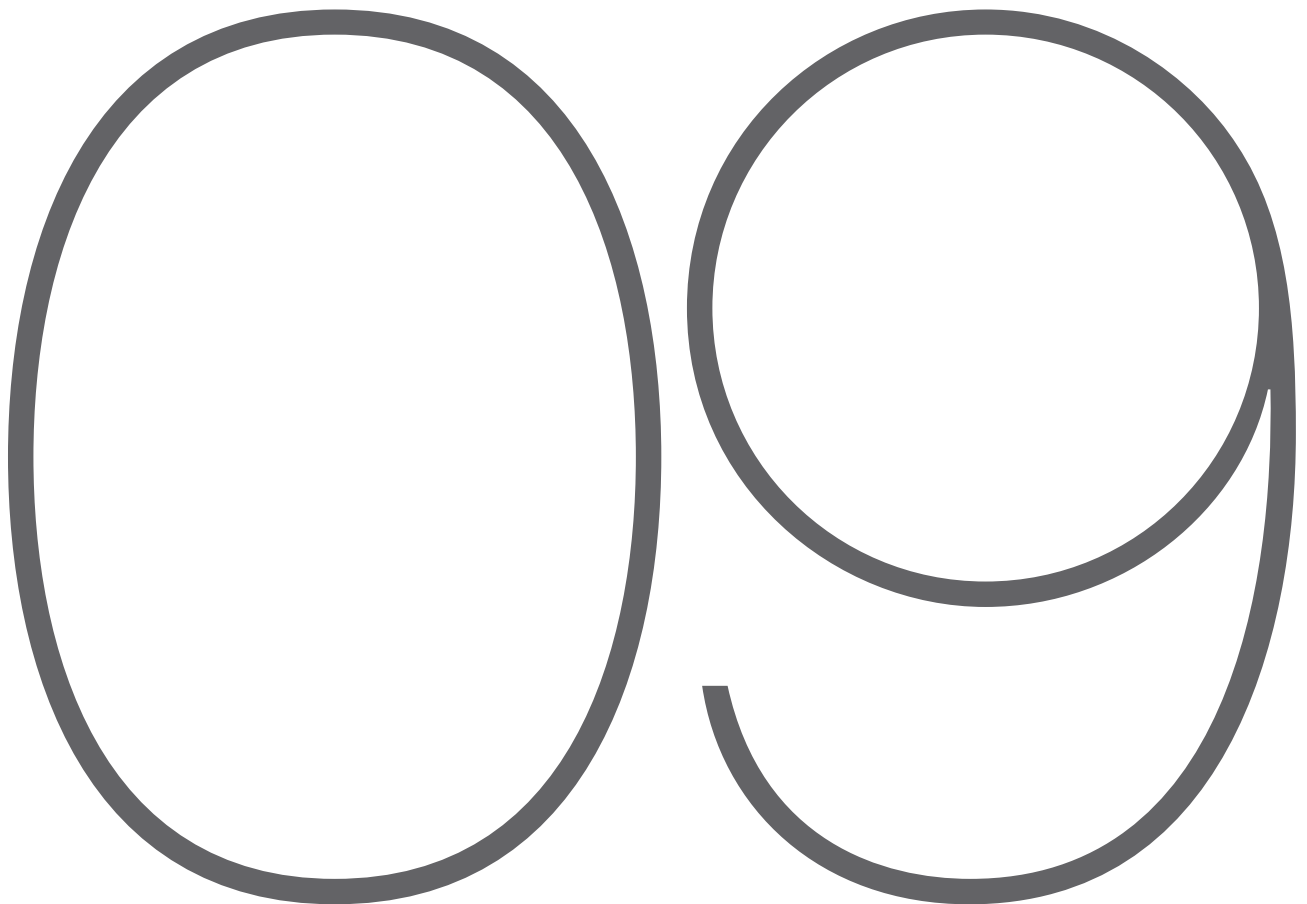
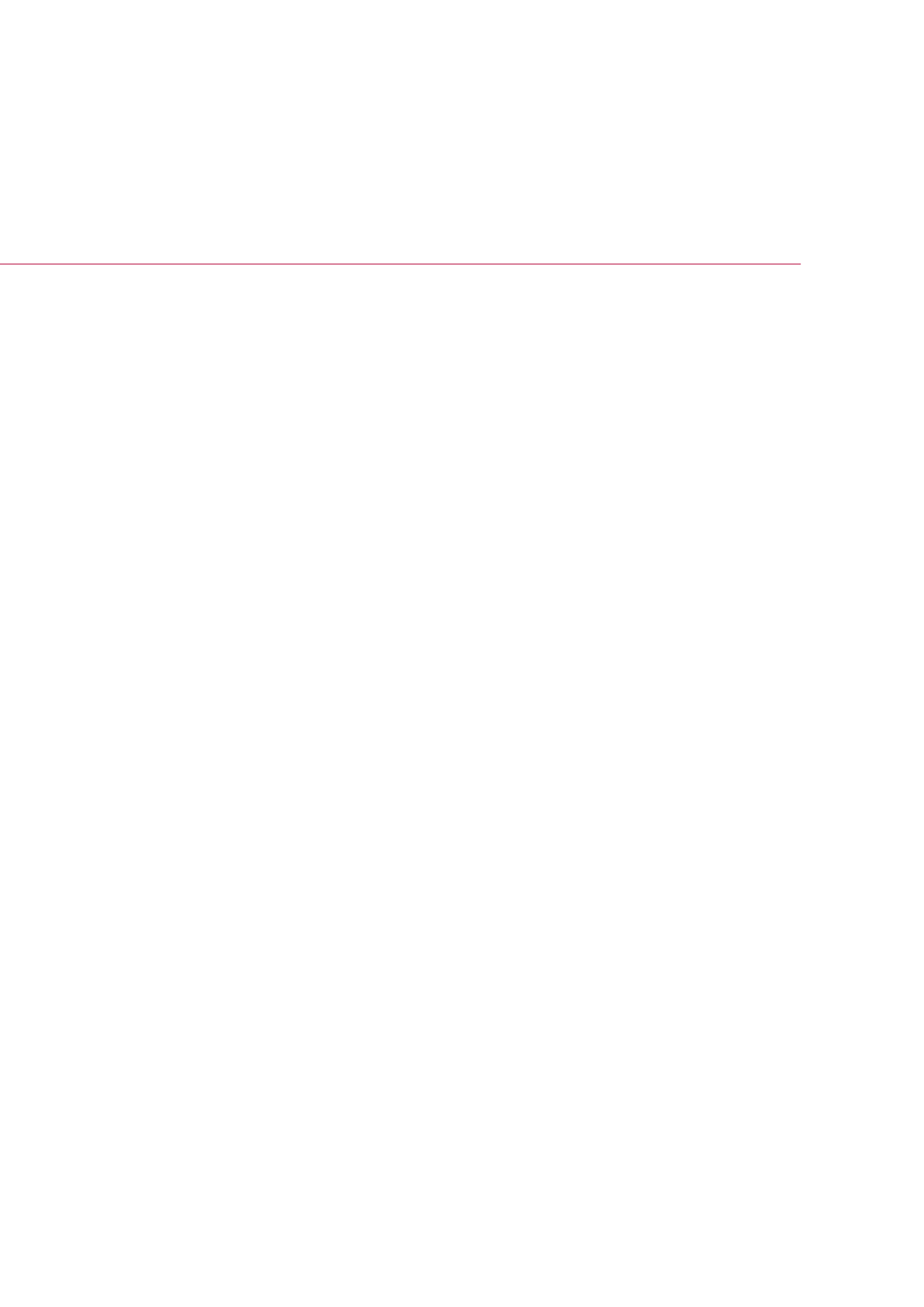




**FMA**

Financial Market Authority  
Liechtenstein





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Vision

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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.

# Core Principles

# 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 BOARD



Michael Lauber  
Chairman of the Board

“Where would we go  
if all of us said where would we go  
and none of us went to see  
where we would go if we went.”

Kurt Marti, Berne Author



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Kurt Marti's statement was written in the middle of the past century. Especially in times like these, this quote might serve to actively design the future of the Liechtenstein financial center after the major turning point. Marti's call to go and see indeed means taking a departing step and implies the promise to be rewarded.

The preparation for and then the actual Liechtenstein Declaration in March 2009 to intensify international cooperation in tax matter are an important basis for this departing step. Said declaration restored credibility in the financial market, which every market needs to be successful in the long term. The annual reports of the financial institutions and their predictions spread cautious optimism and show that the financial center is again ready to grow. Indeed, these are signs of confidence. However, we must keep our vision clear. Apart from maintaining the proven products, the financial stakeholders are forced to develop new business models in order to compete with other financial centers in the long run.

In December of 2009, the Liechtenstein Parliament appointed the Board for a new period of mandate. We thank the deputies for their trust. The FMA is an important factor for success and reputation in the internationally highly linked financial center. Therefore, the newly appointed Board avouches for a strong, internationally linked supervision authority. For that reason, the FMA has to constantly adapt its structures to the international developments and has to be recognized abroad. Receiving respect is a constant mission. Therefore, it is the FMA's duty and responsibility to continue sending warning signals, to consistently punish infringements, and, at the same time, suggest success-promising new business models.

Through the adoption of the "owner strategy" by the Government in March 2009, the FMA was granted clear guidelines within which to comply with its operative obligations and to act independently. Being a strong supervision authority, the FMA provides legal security to the financial stakeholders. Based on the owner strategy, the FMA can advise the government in strategic matters regarding the financial market. We want to avail ourselves of this opportunity and introduce our know-how.

One final word with regard to the most vital parameters for success of the Liechtenstein financial center: stability and reputation. The safeguarding of stability we estimate as the core responsibility of the FMA. Therefore, the authority has to diagnose risks at their early stages and act in due time. Furthermore, a good reputation is a vital element for stability. Should the financial center go the way as described by Kurt Marti and discover new paths, we must take into account the good reputation that the financial center enjoys.



Michael Lauber, Chairman of the Board

# GENERAL MANAGEMENT



Mario Gassner  
CEO

2009 was marked by a period of stabilization of the international financial markets. As recently as autumn 2008, the international financial system had barely escaped a collapse. Also the global economy recovered sooner than expected. Nevertheless, the positive developments cannot hide the fact that the risks for the economical and financial systems continue to remain high.

The stability of the Liechtenstein financial institutions was safeguarded at all times. This is an aspect in favor of the low-risk business models of the Liechtenstein banking sector. Moreover, the institutions are equipped with strong equity capital and a high liquidity ratio. For the second time in succession, however, most banks recorded a net cash drain. Different events in the past few years, such as the data theft, the tax debate or the financial crisis put the financial center under pressure. Fortunately, funds and life insurances recorded considerable growth. These trends and the recovery of the financial markets led to an increase of clients' assets under management of 17%, compared to the previous year.

The financial crisis and the resulting global economical crisis have induced the governments to develop tougher standards concerning the regulation of the financial markets and their supervision. Weaknesses in the European supervision structure led the European Union to establish a European supervision authority. Said authority was granted a widened scope of responsibility based on which effects on the Liechtenstein financial center are to be expected. The FMA actively observes these developments in order to countervail in due time possible disadvantages for the Liechtenstein financial intermediaries.

The FMA increased its risk-focused supervision approach and, by doing so, followed an international trend. In its approach, the FMA turned its attention to the data safety of the financial intermediaries. A widespread audit documented the already high level of standards. Supervision of data safety will be incorporated into the annual audit of the financial institutions. Like related authorities, the FMA has dedicated its attention to the analysis of systemic risks. The Liechtenstein banking sector is highly concentrated in three large institutions and, compared to the country's GDP, the sum of their assets is a multiple higher. Not only for reasons of client protection and for reputational reasons but also based on the before-mentioned fact will we have to attach greatest importance to the stability of the financial institutions. These institutions are well-positioned in international competition with their comparatively low-risk business model and their solid equity base.

After two difficult years for the Liechtenstein financial center, we can have a cautiously optimistic outlook for 2010. The fact that the financial center has remained stable even during the global financial crisis is strengthening the clients' trust in it and is a good basis for the expected global upswing.



Mario Gassner, CEO

# Development of the national and international financial markets

After the first global recession in decades, it was the authorities' decisive action that led to the stabilization of the economic situation. Since March 2009, low interest rates and decreased investors' insecurity have contributed to a general recovery of the international financial markets. Despite the fact that the risks in the economical and financial systems continue to remain high, several markets have shown high estimations following the price gains in the past few months.

In September of 2008, the international financial system was at the verge of a breakdown. As a result of the insolvency of the US investment bank Lehman Brothers, dramatic distortions of the global financial markets arose. Along with the rapid loss of trust and the enormously increased insecurity, the stakeholders were gradually more reluctant to take risks. This led to an incomparable increase of risk premiums. In core refinancing sectors, liquidity ran dry.

These severe distortions of the financial markets in the western world over the past few decades had serious consequences for the real economy. The number of company insolvencies increased dramatically while global trade and industrial production partly broke down. Along with a slump of global growth, which had not been experienced in half a century, the financial crisis threatened to end up in a hardly controllable downward spiral.

All over the world, states took action to strengthen liquidity and the equity base of the banking sector. In many countries, guaranteed limits for saving deposits were increased and partly expanded to include bonds of all financial institutions of the country, or to selected banks. In the most important industrial companies, the governments allocated an average of about 29% of GDP to stabilize the financial sector.

## **High indebtedness of the states**

Many governments approved programs to give cyclical incentives. According to the estimations of the IMF, in most major industrial countries these programs were 1% of GDP in 2009 and 0.8% of GDP in 2010. The public authorities have been strongly affected by the total of the approved measures. According to the estimations of the IMF, the gross indebtedness of the G-20 countries will rise from 78.2% in 2007 to 106.7% in 2010. In the upcoming years, the primary responsibility of the governments will be to stabilize the national budgets and to reduce the indebtedness to a sustainable base.

The central banks drastically decreased interest rates, which still are close to zero in the most important industrial countries. Important central banks such as the Federal Reserve or the Bank of England even decided to sell certain securities such as government bonds, corporate bonds or asset-backed securities (ABS) and thereby enhanced the stabilization of the markets and the reduction of the risk premiums that were at the beginning of 2009 still inflated.

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### **Recovery of the financial markets**

Following that time, a recovery of the financial markets could be perceived. Activity in the primary markets has revived in many areas, whereby the possibilities for many debtors to refinance through the capital markets perceptibly improved. The upswing of the financial markets increased the profits of the financial markets, especially in the area of investment banking, and facilitated the borrowing of capital in the financial markets, despite the fact that the value adjustments of credits continue in many centers. In view of an improved solvency, many banks were capable of emitting bonds that often were no longer guaranteed by the public authorities, as had still often been the case at the beginning of the year 2009.

In the second half of the year 2009, the predictions for growth also for export-oriented Liechtenstein noticeably improved. However, a sufficient risk-bearing capacity of the financial institutions and the full functionality of the markets have not been restored yet. The financing conditions in the money and capital markets have perceptibly improved in the past few months. Frictions in different market areas continue to remain, such as in the area of securitization. Worldwide, many debtors will possess an enormously high need for refinancing in the upcoming years, especially in the area of commercial real estate. And while capital costs are low, the risk for financial stakeholders remains of building high-risk positions which might have to be cancelled abruptly when interest rates change.

### **Solid Liechtenstein financial market**

In international comparison, Liechtenstein financial institutions have survived the storm quite well that hit the global economic and financial system for the past two and a half years. Banks have remained completely stable and fully functional. They are marked by tier 1 capital ratios which are above internationally required standards. Also other financial intermediaries part of the Liechtenstein financial center such as insurance companies, securities firms and investment undertakings have been solvent and fully functional. No financial intermediary had to rely on government support. Therefore, Liechtenstein has been one of the few European countries where no supportive measures for the financial sector have become necessary.

Despite the generally cautious but positive conclusion drawn from it, it is obvious that the Liechtenstein financial center is facing great challenges. The banking sector is suffering from net cash drains of clients' assets. The net cash drain amounted to CHF 7.0 billion in 2009 (4.1% of the clients' assets under management), whereas it amounted to CHF 5.3 billion in 2008.

Banks are required to take measures and develop strategies in order to stop this development. Approaches in that respect do exist, such as the successfully launched "Liechtenstein Microfinance Initiative". Nevertheless, further efforts will be necessary to develop the financial center in the long term. It may be interpreted as proof of the investors' trust in the market that a new bank was established in November of 2009, the first in years. Equally gratifying is the development of the insurances which record high

growth rates of premium volumes. However, the importance of the sector in relation to the financial center is too low to provide it with great incentives for growth.

The FMA has been active in the financial crisis and has contributed to the stability of the Liechtenstein financial market by adopting a series of measures. Thereby, risks have been actively controlled by initiating accurate investigations and a now intensified market research, which included regular surveys at banks regarding their risk structure and their exposure and by elaborating gradual provision planning. Thereby, the FMA has worked closely with international associate authorities and economic and scientific experts, which has proven to be an important trust-building and stabilizing measure. Furthermore, the FMA carried out stress tests which were laid out in the style of the analyses carried out by the Swiss National Bank. They showed that the banks are stocked with an adequate capital reserve.

### **Development of the market**

The clients' assets under management with the financial intermediaries in the Liechtenstein financial center increased by 17% in 2009, after decreasing by 19% in 2008 due to the financial crisis. The financial intermediaries benefited from the positive development and the abating of the financial crisis in 2009. The highest growth rates were recorded in investment undertakings (+41%) and the insurance sector (+38%); only the pension schemes recorded a slight decrease of the clients' assets (-3%). The investment undertakings benefited from the liquid means which had been parked as bank deposit for the time being and which were again shifted into investment undertakings or other investment instruments in the course of the year 2009, as a sign of the reduced investors' insecurity. Insurers profit from the tax amnesty in Italy ("Scudo Fiscale"). The Scudo allowed Italian citizens to fiscally legalize undeclared assets from abroad in return for a payment of a 5% compensation tax fee whereby many clients shifted their bank-held assets into life insurances.

### Development of net clients' assets under management

In billion CHF	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	Change in % 2008/2009
Banks/investment firms	119.4	148.7	173.4	201.3	156.7	172.5	10%
Investment undertakings (funds)	15.6	20.6	26.7	30.4	26.4	37.3	41%
Asset management companies	–	–	11.2	21.5	19.0	22.5	19%
Insurance undertakings	5.1	10.2	14.8	21.3	18.8	25.9 <sup>1)</sup>	38%
Pension schemes	2.8	3.1	2.9	3.2	3.5	3.4 <sup>1)</sup>	–3%
<b>Total<sup>2)</sup></b>	<b>142.9</b>	<b>182.6</b>	<b>229.0</b>	<b>277.7</b>	<b>224.3</b>	<b>261.6</b>	<b>17%</b>
<b>Yearly change of the totals in %</b>		<b>28%</b>	<b>25%</b>	<b>21%</b>	<b>–19%</b>	<b>17%</b>	

<sup>1)</sup> Provisional figures for 2009

<sup>2)</sup> The column total includes double counts since the information for the banks also includes assets under management of other financial intermediaries (i.e. investment undertakings).

In 2009, the number of financial intermediaries in the Liechtenstein financial center slightly increased to 2,126 as the most recently recorded figure. The investment undertakings documented the highest increase in absolute figures (+48) whereas the number of insurers and pension schemes marginally declined (each –1).

### Development of financial market participants

Financial market participants	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	Change in absolute figures 2008/2009
Banks/investment firms	16	16	16	15	16	1
Investment undertakings (funds)	166	208	303	363	411	48
Asset management companies	–	48	90	102	102	0
Insurers	32	35	37	42	41	–1
Insurance intermediaries	–	3	35	64	70	6
Pension schemes	41	39	36	34	33	–1
Pension funds	–	–	2	4	5	1
Other financial intermediaries	1,314	1,372	1,373	1,411	1,448	37
<b>Total</b>	<b>1,569</b>	<b>1,721</b>	<b>1,892</b>	<b>2,035</b>	<b>2,126</b>	<b>91</b>

# International developments in regulation and supervision

The events in the financial markets since the outbreak of the American subprime crisis in 2007 not only affected the global financial markets. The financial market crisis pulled the global economy into a crisis whose consequences, i.e. the high national debt or the increasing unemployment in the industrial states, will continue to linger and to impede economic growth. Along with the massive governmental intervention to support the financial system and the nationalization of numerous important financial institutions, a fierce debate at the highest level on the future regulation of the financial markets and its supervision erupted. They have the common goal of implementing stronger regulations and an effective supervision system in order to avoid future financial market crises. The Liechtenstein financial center is directly affected by this trend in the area of regulation and supervision.

## **Declaration of the G-20 states**

In their declaration on the occasion of the Pittsburgh Summit in September 2009, the G-20 states announced an increase of political pressure on jurisdictions which do not comply with the international tax, money laundering and supervision standards. The OECD Global Forum on Transparency and Exchange of Information (GFTEI) in the area of taxes, the Financial Action Task Force (FATF) in the area of money laundering, and the Financial Stability Board (FSB) in the area of supervision were instructed to detect non-cooperative states through so-called peer reviews. Consequently, measures against these states are taken, mostly by putting them on a black list.

## **Taxes**

As early as in the midyear of 2008, Liechtenstein was proactive and offered the OECD standard in international cooperation regarding tax affairs within the framework of appropriate bilateral agreements. In March 2009, the Liechtenstein Government bindingly acknowledged the OECD tax cooperation standard and announced negotiations for bilateral agreements to cooperate with regard to tax offenses with interested states. In the meantime, the Principality of Liechtenstein has finalized over a dozen double taxation agreements and tax information exchange agreements. Therefore, the OECD eliminated Liechtenstein from the grey list of tax havens and put Liechtenstein on the white list on 11 November 2009.

## **Money laundering**

The topic of money laundering has again become an internationally hot topic after the Declaration of the G-20. Even after the successful implementation of the 3rd EU money laundering directive, Liechtenstein is still under international observation and further progress in this area is expected. Only by achieving further progress can we be sure to keep permanently off possible new lists. Further important measures to implement the FATF standards have been introduced by the Government already. It is important to mention the governmental bill for criminal liability of legal entities and the expansion of the list of predicate offenses. Especially against this background, the FMA attaches great importance to the consistent enforcement of the due diligence legislation. In its international contacts, the FMA's concern is the recognition of the implemented standards in Liechtenstein.



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### **Supervision standards and cooperation**

The role of the FSB was considerably upgraded at the Summit of the G-20 on 2 April 2009. The FSB was instructed to promote compliance with the international standards in the area of financial market authorities worldwide. The FSB's main focus is on international cooperation and the exchange of information. Compliance with these standards is supervised by the FSB on the basis of relevant standards issued by the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS). With respect to these standards, Liechtenstein refers to positive results within the international framework of the last few assessments by the IMF in 2007 and of the measures taken to rectify shortcomings.

### **New European financial supervision system**

Along with the financial crisis, the weaknesses of the single and systemic supervision in the European Union have become evident. Therefore, a proposal for a new European supervision system was elaborated. The ECOFIN agreed to the basic structure of the new European supervision architecture in December 2009.

Within the framework of the macro supervision, it is planned to create a European Systemic Risk Board. The ESRB's main task will be to introduce an early-warning risk system and to prevent systemwide risks. Within the framework of micro supervision, it is planned to create a European system for financial supervision by 2011 where national financial authorities are intended to cooperate in a network system with new European financial authorities. These new European financial authorities will be established by upgrading the existing European Level 3 Committees (CEBS, CESR, CEIOPS). They are envisaged to develop binding technical standards regarding the application of Community Law and thereby to provide a harmonized supervision practice. Moreover, they will be authorized to take binding decisions under certain circumstances towards national supervision authorities (i.e. disagreements between national supervision authorities).

Due to the expanded powers, the new supervision authorities' activities will become highly important for Liechtenstein. Cooperation in European committees will become even more vital for Liechtenstein than it has been so far. Receiving information on developments in supervision practice is important to prevent competitive disadvantages. Yet it is not fully clarified what the exact scope of the cooperation between EEA-EFTA and EU countries within the new financial supervision system will be. It is intended to grant participation in the form of an observer status to the EEA countries, similar to what already exists.

### **Offshore centers under pressure**

The new framework conditions and rules put especially those international financial centers under pressure whose business model is focused on offshore business activities and envisions the farreaching protection of the clients' privacy. While negotiations are continued on a political level, the financial market participants

## CORE TOPICS

are facing the task to reconsider their strategies and business models, to adapt them and to reposition themselves. This transformational process of the financial center proves to be extraordinarily complex. On the one hand, a multitude of international and national standards have to be implemented which were adopted as a reaction to the financial and economic crisis and continue to be adopted and whose practical application is still untested. On the other hand, the clients' needs must be borne in mind and must be brought in line with the new circumstances. Moreover, a competition is developing between the different financial centers, may they be small offshore centers or major global financial centers. All this leads to a multitude of chances but also risks when reorienting the financial center. It is the Financial Market Authority's responsibility to assess the risks of the new business models, to control the risks and minimize them. In the field of tension between supervision, regulation and opening of new business possibilities, the FMA puts special emphasis on reputational, legal and systemic risks.

# Systemic risks of the financial center and risk control

## **Controlling systemic risks of the financial center**

The latest financial crisis has proven for Liechtenstein that the financial institutions are well-positioned for times of crisis. While numerous countries' governments and central banks massively had to support their financial system in the crisis, no financial institution operating in the Liechtenstein financial center had to rely on government support. This is due to the fact that the banks' core businesses are low-risk and that the banks, in international comparison, are equipped with a considerable equity capital position. However, it has to be stated that systemic risks do exist. They are primarily risks of the major banks and are due to the overwhelming relative size, which is a multiple of the Liechtenstein GDP. To safeguard the stability of the financial sector, the FMA intensifies the taking into account of systemic risks in its supervision activity. The business model of the Liechtenstein financial center focuses on Private Banking and Wealth Management. The financial institutions primarily serve as asset managers and only include risks of a very limited dimension on their balance sheet. They generate income mostly from fees and commissions and hardly operate in proprietary trading.

## **Importance of the Liechtenstein financial sector**

The Liechtenstein financial sector is of great economic importance. It contributes a total of about 29% to GDP and generates close to 40% of the public revenues. About 15% of all employees work in the financial sector. The banking sector is highly concentrated and plays a leading role for the financial center. The balance sheet total of the operating banks in Liechtenstein at the end of 2007 was about CHF 50 billion, and therefore about nine times the Liechtenstein GDP. This ratio is significantly higher than in other developed economies. The banking sector is dominated by the three financial institutions LGT Group, LLB Group and VP Bank Group, which in sum have a market share of about 85%, and thereby are a particular challenge for the stability of the financial market.

## **Systemic risks in the Liechtenstein financial center**

The collapse of one or even several financial institutions and any necessary bailout on an international scale would ask too much of the Liechtenstein economy. After all, the balance sheet totals of the major financial institutions exceed the national budget by a multiple. The consequences for the real economy would sustainably jeopardize the public sector's solvency and the achieved prosperity. All this highlights the necessity to make a possible collapse of certain financial institutions less probable, or even to prevent it. To achieve said goal, sufficient equity capital is necessary to be able to independently absorb losses in crises.

## International comparison of size and concentration of the banking sector (2007 and 2008)

	size of financial sector (ratio of total assets to yearly GDP)	concentration (total assets of the 3 most important banks in % of their total assets)
Luxembourg*	30	n.i.
Iceland	11	n.i.
Liechtenstein	9	85
Switzerland	8.2	76
Hong Kong	6.5	n.i.
Belgium	6.3	89
The Netherlands	5.3	93
United Kingdom	4.3	72
Germany	3.4	41
Sweden	3.3	82
Japan	1.9	52
Canada	1.8	58
Italy	1.6	75
USA	0.9	46

\* 2006

n.i. = no information

Sources: Swiss National Bank, Financial Stability Report 2009, page 30

Hong Kong Monetary Authority, Liechtenstein Government Spokesperson's Office,

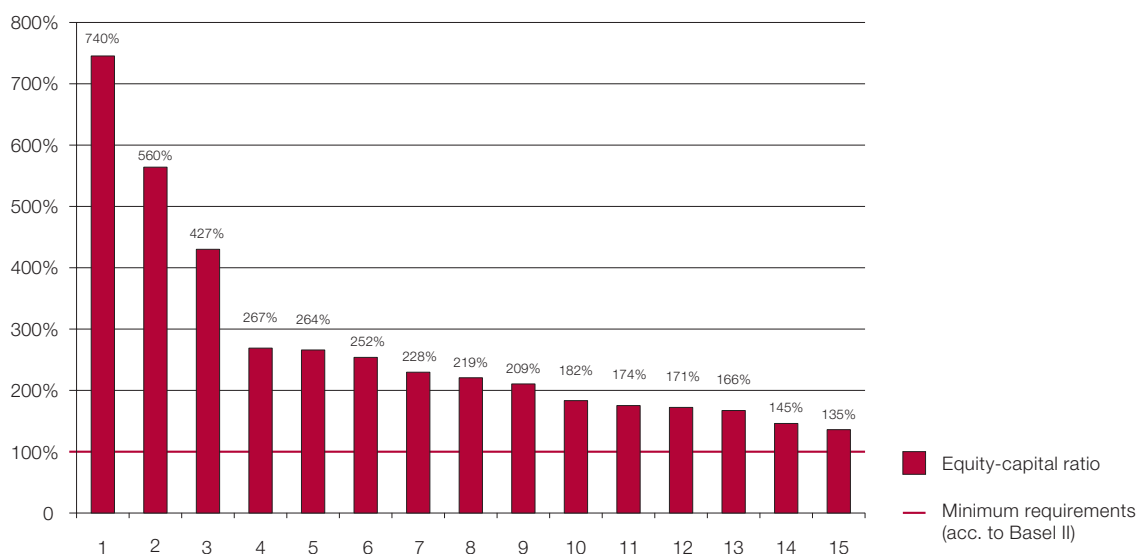
Central Bank of Iceland, Financial Market Authority Liechtenstein.

**Liechtenstein banks' solid and qualitatively high-value equity capital**

Liechtenstein banks are required to back up the risks calculated according to the international standards (Basel II) with own resources. Indeed, Liechtenstein banks, on average, hold twice the required amount of equity capital on a voluntary basis. The ratio of creditable equity capital in relation to the required equity capital is 221% (weighted average), when taking the entire Liechtenstein banking center into account.

The leverage ratio, i.e. the risk-independent, nominal debt equity ratio, is an easily determinable risk indicator. Its advantage is its independence of complex models and diverging risk weighting. Swiss supervision authorities have lately adopted a leverage ratio which is applied on the major banks UBS and Credit Suisse. The ratio of core capital to balance sheet total expressed as the leverage ratio was fixed at least 3% at group level and at least 4% at the level of the individual institutions.

### The Liechtenstein commercial banks' equity-capital ratio (as per 31 December 2009)



Source FMA

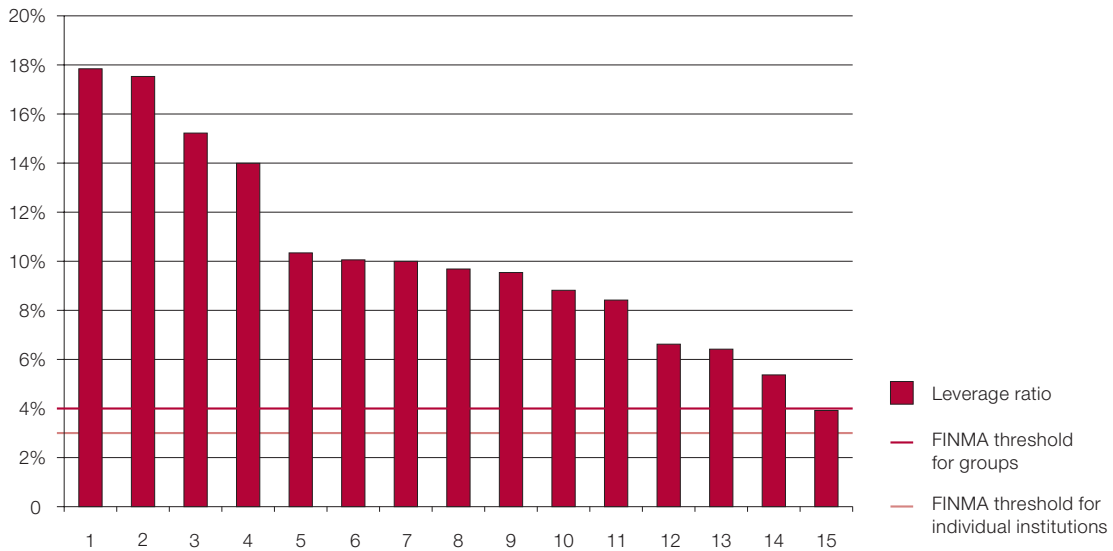
All financial institutions operating in Liechtenstein would comply with this requirement on a voluntary basis, except for one, which is just above the defined threshold at 3.9%. The leverage is 9.4% (weighted average) when taking into account the entire Liechtenstein banking sector.

The Basel Committee has recently recommended phasing out hybrid capital and to no longer credit subordinated bonds as capital (tier 2). The creditable equity funds of Liechtenstein banks mainly comprise equity capital. When taking into account the entire banking center, the creditable equity funds only comprise about 1% of hybrid capital. A possible decision to no longer credit certain subordinated loans to the capital would, therefore, have little effect on the Liechtenstein banking sector.

#### **FMA's risk-based supervision**

On an international level, discussions are held concerning different proposals to improve financial stability. The FMA intensively follows and actively participates in these discussions. The Liechtenstein supervision authority does not consider itself a pioneer, but follows an international development that is evolving especially in the European Union and in Switzerland.

The Liechtenstein commercial banks' leverage ratio (as per 31 December 2009)



Note: FINMA threshold according to Ordinance of November 2008; not binding for Liechtenstein banks  
 Source FMA

From the FMA's point of view, the Liechtenstein financial center must be at the international top level when it comes to stability of the authorized and supervised financial institutions. This is in line with the international competitiveness of the national banks. The best competition argument in favor of the banking center is that the banking center is stable and reliable.

Safeguarding the stability of the Liechtenstein financial center requires a strong and intensive supervision which is capable of acting efficiently and effectively. Within its risk-based supervision, the FMA strengthens its supervision activity regarding those institutions which are identified as comparatively high-risk and system-relevant. The FMA reserves the possibility to exceed international standards if a system-relevant financial institution is threatening to collapse.



# SUPERVISION



Various supervision activities carried out by the FMA were connected to the financial market crisis. Fortunately, the international financial markets have largely recovered since March 2009 while the international financial system was still at the verge of a breakdown in September 2008. Certain measures such as extraordinary reportings of the financial institutions to the FMA could therefore be relaxed. The Liechtenstein financial center proves to be stable and solid, even in these difficult times. Nevertheless, the FMA considers the risks to remain high for the international economic and financial system. Therefore, the FMA focuses more intensively on systemic risks and strengthens the risk-based supervision approach.

With entry into force of the revised Due Diligence Act as per 1 March 2009, various financial intermediaries subject to said Act have been facing new duties. The FMA, therefore, has strengthened the due diligence inspections and has sensitized the financial stakeholders to the prevention of money laundering. Moreover, in 2009 several major supervisory cases could be closed.

When it became official in 2008 that client data had been stolen in Liechtenstein, the FMA conducted data safety audits with the financial intermediaries. The analysis of the audit reports in spring of 2009 showed that the financial intermediaries are equipped with a high standard of data safety. The financial intermediaries are requested to resolve the detected shortcomings and to report to the FMA. The consequent reassessment of the data safety will be incorporated into the yearly audit of the financial institutions. This is to safeguard a continuous inspection of the data safety.

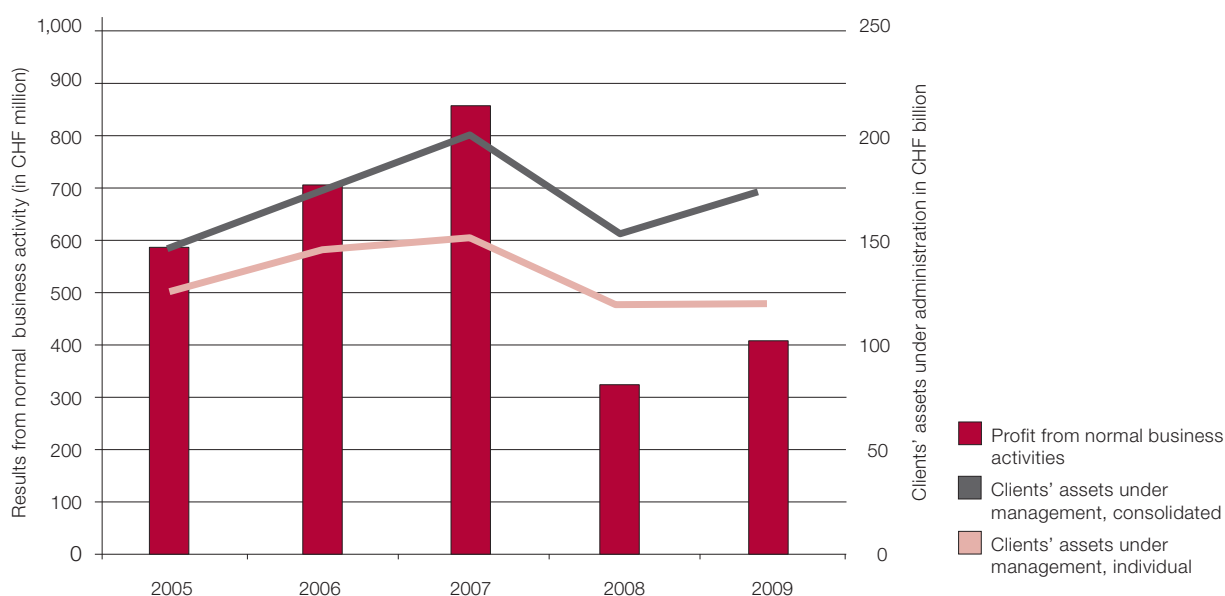
## 1.1 Banking Supervision

### Liechtenstein banking center

As a result of the high equity-capital ratio, of the conservative investment policy and of high liquidity reserves, the Liechtenstein banking center distinguishes itself by stability. Therefore, not a single banking institution had to rely on government support. Indeed, the revenues declined based on the economic development, but all active banking institutions obtained positive results from their regular business activities. They rose by 20% compared to the previous year and amounted to a consolidated CHF 424.6 million. The assets under management rose by 10% and amounted to CHF 172.5 billion by end of December 2009.



### Clients' assets under management and results from normal business activity



The bank clients became insecure after the tax discussions and the international pressure on the Liechtenstein banking secrecy. This led to a considerable outflow of clients' assets, which, however, could be compensated by net inflows of new assets in other locations and by price recoveries of the stock exchanges. By concluding the requested amount of OECD-compliant taxation agreements, Liechtenstein was eliminated from the grey list and put on the white list.

Liechtenstein's banking center continues to offer a high degree of privacy with a legally embedded banking secrecy. The framework conditions for banks remain attractive. Proof for this is the granting of a license to a new institution. Since Liechtenstein belongs to both the Swiss economic area and the European Economic Area, local financial intermediaries with an international focus are presented with interesting possibilities. The high quality standards, the political stability and the resistance to critical

situations characterize the Liechtenstein banking center. As per 31 December 2009, 16 institutions dispose of a banking license whereby one banking institution executed a voluntary liquidation process and another banking institution has not yet started to operate.

#### Granting of licenses

The FMA granted a license to Lamda Privatbank, Vaduz, as per 10 November 2009 to conduct banking operations. Pursuant to art.27 of the Banking Act (BankG), commencement of business operations is planned within one year.

Due to several requests for legal assistance received by the FMA since late autumn of 2007 and based on subsequent media reports concerning market manipulations of the Alpe Adria Privatbank AG and further information regarding market manipulation in fall of 2008, the FMA conducted a supervisory audit against said bank. The analyses

of this audit were available in January 2009 and disclosed shortcomings according to the Banking Act but also in the area of due diligence regulations. Based on the presented audit analyses, the FMA requested the bank's responsible persons to take measures. The Alpe Adria Privatbank AG thereafter in its general assembly on 28 April 2009 decided to give up business operations in Liechtenstein and to initiate voluntary liquidation. Banking

activities will be properly continued by the determined liquidator until the voluntary liquidation is wound up. The FMA closely follows the entire process. The liquidation is expected to be finalized not before 2010.

Furthermore, Mazars Coresa AG domiciled in Geneva was granted the license to act as auditor for banks and securities firms.

### Changes to banking licenses

	2009	2008
Licenses	1	0
Change of governing bodies (GM/MB)	20	43
Change of internal audit department	1	2
Changes to statutes subject to approval	1	2
Changes to business regulations subject to approval	4	2
Change of external audit office	1	1
Change of qualified participations of a bank	4	0
Notification on free movement of services	24	1
Change of company name	3	3
Expanded banking licenses	0	0
<b>Total</b>	<b>59</b>	<b>54</b>

### Auditing

In the dual supervision system, the FMA strongly bases its supervision of banks and securities firms on the reporting of the auditing companies. The reportings' analysis according to the Banking Act as per 31 December 2008 showed that 34 complaints had been filed. In the year before, 23 complaints were filed.

### Conversations with management

For the first time, there were talks held with the management of auditing companies under the

Banking Act in addition to conversations with bank managements. Major topics discussed included current topics and the mutual assessment of cooperation. As in previous years, the FMA held at least one talk with the banks' management offices and members of the executive boards.

### Inspections pursuant to the Due Diligence Act

The regular inspections requested by the FMA are conducted by the auditing companies in accordance with the Due Diligence Act. The number of complaints increased from 17 to 21 compared to the

previous year. Additionally, the FMA mandated extraordinary inspections or conducted them itself.

### Accompanying auditors

In the second quarter of the year, the FMA accompanied four auditing companies in their due diligence inspections. During the inspection, the FMA performed no audit procedures on its own.

### Auditors' workshop

At the end of February, the yearly bank auditors' workshop took place. Topics discussed included data safety and the MiFID examination in 2008, the financial market crisis, amendments to the law such as the implementation of the 3rd Money Laundering Directive and the Statutory Audit Directive. A major component of the workshops was the reporting of the auditors to the FMA pursuant to art. 36 BankG (Banking Act).

At the end of November, a further auditors' workshop took place which was mainly dedicated to the inspections in accordance with the Due Diligence Act. Thereby, information on legal reforms and regulatory guidelines by the FMA was distributed. The objective of the workshop was to develop a common understanding of the documentation of audit analyses in a sample inspection report.

### Statutory Audit Directive

The FMA's cooperation in implementing the Statutory Audit Directive 2006/43/EC has been largely finalized. Particularly, amendments have been implemented in the AACA (Auditors and Auditing Companies Act). These amendments resulted in adaptations of relevant regulations in the areas of expertise.

### Notification system

As a result of the financial crisis, the FMA instituted an extraordinary reporting in 2008. In the beginning it was introduced as a weekly reporting. When the first tendencies were evaluated, it was reduced to a monthly reporting. In the course of the financial markets' partial calming-down, the extraordinary reporting was discontinued in the middle of 2009.

Said reportings were the basis for stress tests which were conducted by the FMA in March 2009. The FMA thereby focused on the situation of the financing system whereby the losses of the fair market values of collateral loans, of write-downs on receivables, etc. and aspects of the Liechtenstein banks' profit situation were taken into account. The tests proved that the stability of the Liechtenstein institutions had at no time been jeopardized. All calculated scenarios proved a continuously solid capital adequacy. Moreover, the liquidity supply was granted at all times.

The regular notification system was – among other reasons also due to the financial crisis – expanded by means of new notification duties. The early-information reportings were equipped with essential elements to evaluate the banks' risks. Parts of this information also form the basis for the risk dialogue to be established in 2010. The ordinary notifications on interest rate shock and gap analysis represent vital instruments to analyse individual parts of the banks.

### Refining of the notification platform

In June 2009, the refined notification system was presented in a workshop. The organizational amendments and the outlook on future developments were presented and different regulatory aspects were highlighted.

The refined electronic notification platform contributes to the efficient designing of the processes and offers additional improvements for the banks. Moreover, the workload for data preparation was reduced and the quality of analyses increased. The figures periodically reported by the banks are automatically fed into a database and form, inter alia, the basis for various reportings and for risk assessments of banks.

### Supervision

In the case that the FMA, within the framework of its ongoing supervision activity, is notified of an insufficient implementation of regulations according to banking law, it takes the necessary measures to restore the lawful status.

Triggers for such measures are complaints from audit reports, press releases, inquiries from other supervision authorities and further relevant indications. In 2009, the FMA conducted investigations concerning suspicions of market manipulation, violations of the Due Diligence Act, deficiencies in the IT organizational structure and questions regarding properly performed outsourcings. In the area of supervision activities of auditing companies, the FMA intensified its supervision by applying onsite inspections. Furthermore, it opened an investigation against an auditing company. Also, the FMA was able to finalize extensive investigations which had originated in previous years.

In the area of banking supervision, the FMA did not impose any penalties in the year under report. However, it reported several infringements to the Office of the Public Prosecutor and notified the FIU.

### Combating abuse

Providing banking, financial and securities services in Liechtenstein is subject to approval. Therefore, services must not be provided without the relevant licenses and infringements will be reported to the Liechtenstein Court of Justice. The FMA monitors compliance with said prohibition. For this purpose, it pursues any indication that might lead to activities of financial service providers without licenses. In particular, the FMA takes into account the relevant notifications of financial market members.

In April of 2009, the FMA had to intervene due to unauthorized activity of a foreign company without license. This company provided banking services without permission. In doing so, the enterprise claimed to have its head office in Liechtenstein. The FMA transferred the case, based on the investigations, to the prosecuting authorities for further inquiries.

A further FMA investigation concerned several Liechtenstein financial intermediaries. They were suspected of serving a criminal association as a vehicle for market-abuse activities. This investigation was concluded in 2009.

### Operational focus areas

#### Notifications of risks

Art. 25 pars. 1 and 2 of the Ordinance concerning Capital Adequacy and Risk Diversification for Banks and Securities Traders (ERV) requires an appropriate capital adequacy and risk diversification for banks and investment firms. In its Communication No. 10/2009, the FMA covered the basics for a risk-appropriate capital adequacy as well as strategies and procedures for risk protection. Adaptations due to the financial crisis were already included in the Communication. The Communication entered into force on 1 January 2010.

### Sample audit report

When analyzing the audit reports in the past few years, the FMA repeatedly noticed that the depth of reporting strongly varied between the different auditing companies, especially with regard to the latitude of judgment whether a case was to be reported. This fact complicated the FMA's task to identify weaknesses fully and in a timely manner and to introduce the relevant measures. The FMA Communication, therefore, specified the reporting structure in appendix V and defined the procedure of a risk analysis as well as the documentation of a risk-based audit strategy in its new sample audit report. FMA Communication 13/2009 was published on 16 December 2009.

### Risk-based supervision

The financial intermediaries are expected to supervise their own risk appropriately. Therefore, a pilot project of a standardized risk-evaluation system was elaborated. Numeric values were fed into a so-called risk radar and were evaluated in a report. The results of the risk radar and the qualitative criteria were interpreted by the Banking Supervision Department. Within the project, the supervision processes were analysed in their actual state and, thereupon, the risk-based target state was defined.

### Consolidated supervision

The strong cross-linkage and the internationalization of the financial institutions operating in the Liechtenstein center calls for adapted supervision and the risk consideration in a group context. This requires a strengthened cooperation of the supervision authorities in the different countries. Due to Liechtenstein's membership in the EEA and the respective legal framework conditions, a consolidated supervision for Liechtenstein proves to be challenging. During the reporting period, interfaces in supervision practice were analysed

and target states were designed. The respective findings are being incorporated into the current supervision practice.

### New financial intermediary

The implementation of the European Community Directive 2007/64/EC into the national Payment Services Directive (PSD) as per 1 November 2009 enabled Liechtenstein to submit a request for approval of a new financial intermediary, the so-called payment institution. The FMA is responsible for approving and supervising this new financial intermediary. The supervision of payment flows and activities will be especially challenging due to Liechtenstein's complex situation of being part of the Customs Union Treaty with Switzerland and, at the same time, being a member of the EEA. As per 31 December 2009, no financial institution was approved in Liechtenstein.

### Outlook 2010

By intensifying the supervision focus on essential risks and against the background of the financial crisis, risk topics will be increasingly be dealt with in 2010. One major focus will be, among others,



on cross-border risks of banks and systemic relevancies. The topic of systemic relevance was analysed in 2009 in-depth. The financial intermediaries and their relevant audiences have now been made aware of this matter. Also in this area, a yearly held risk dialogue is intended to take place with the banks. These talks involve discussion with the banks' managements and responsible persons for general and bank-specific risks. The risk dialogue is part of the project "Risk-based Supervision", which will be concluded in 2010. The project "Consolidated Supervision" will be implemented in 2010 in order to give appropriate consideration to the increasing cross-linkage and internationalization of Liechtenstein institutions in the supervision system.

In the area of auditing, the audit companies, pursuant to the implementation of the Directive 2006/43/EC, are required to audit according to the international auditing standards based on the Auditors and Auditing Companies Act (AACCA). The FMA will now supervise the audit companies and e.g. conduct quality inspections.

## 1.2 Securities Supervision

### Investment undertakings

#### Liechtenstein as a fund center

Particularly when turbulent times shake the financial markets, investment undertakings (IUs) have proven to be an important investment product for investors and the Liechtenstein financial market. This is very clearly reflected in the development of the fund assets under management increasing from about CHF 10 billion to CHF 37.3 billion. At the end of 2009, 411 national IUs, i.e. 618 individual assets were registered. 27 managing companies (MCs) administer them, which comprise 21 funds managements and 6 self-governing investment undertakings.

The Liechtenstein fund center also increasingly distinguishes itself as a distribution center for international IUs. At the end of 2009, 193 international IUs with a total of 1,068 individual assets were granted distribution rights.

These involved 95 UCITS-compliant IUs and 98 non-UCITS from the EEA or IUs from third countries. In the meantime, 6 international MCs have notified the free circulation of services in Liechtenstein. Moreover, in 2009, topics such as hedge funds, funds-of-hedge-funds, real estate funds, investment in cat bonds and branch offices in the EEA arose in the center.

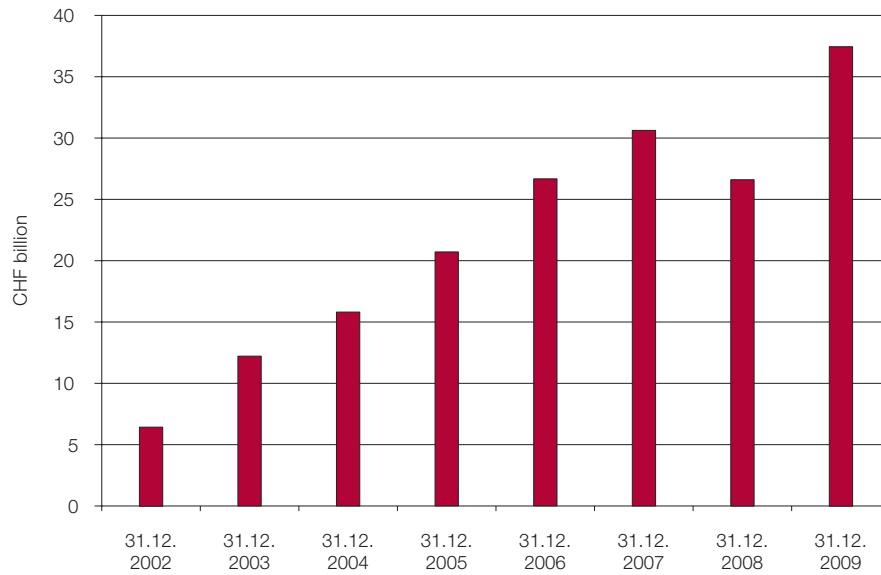
### Licenses and certificates

#### Licenses for national IUs

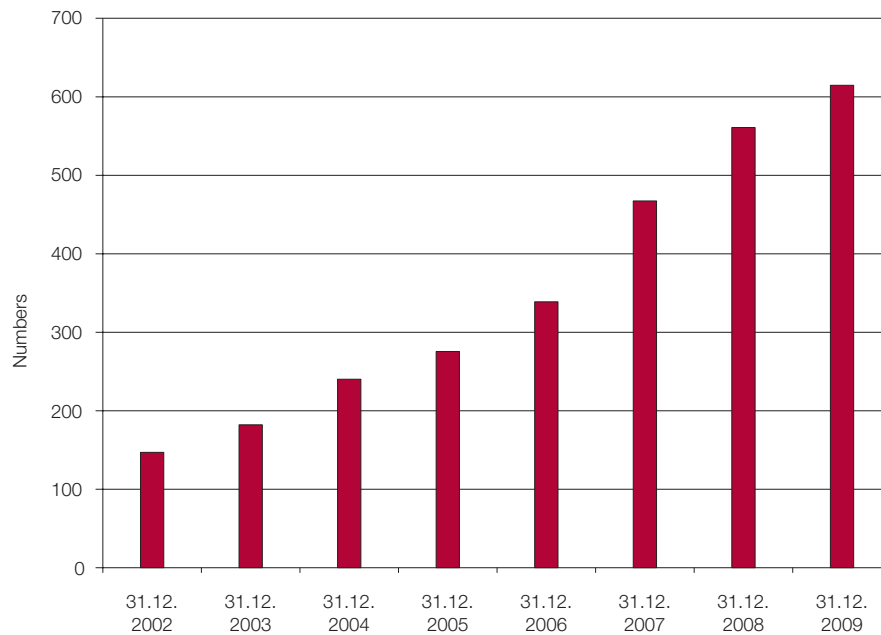
The FMA granted 46 licenses to national IUs of which three were investment undertakings in the legal form of a corporation with variable capital, whereas the others were investment undertakings in the legal form of a collective trusteeship. Two of these IUs approved as closed-end funds pursuant to

## SUPERVISION

### Development of net assets under the management of domestic investment undertakings



### Development of individual assets of domestic IUs





the Securities Prospectus Act were published in a prospectus. Beyond that, a fund management was approved and 48 IUs were certified as qualified investors. Taking into account liquidations and dissolutions, the number of Liechtenstein IUs rose from 48 to 411 as per end of 2009.

195 prospectus changes were approved (including changes of IU prospectuses for qualified investors). This implies the creation of 23 new segments, 60 changes of delegations, 8 changes of deposit banks and auditing companies, several transfers of external assets into Liechtenstein IUs and 20 changes of individual assets names.

#### Granting of licenses to foreign IUs.

The number of foreign IUs with a distribution license granted for Liechtenstein diminished to 191 by taking into account mergers, launches that did not take place and liquidations; on the basis of individual assets the number amounted to 1,068. Changes in this respect mainly involve granting licenses/closing down of distribution sites, liquidations of (sub)funds, changes of business names and mergers.

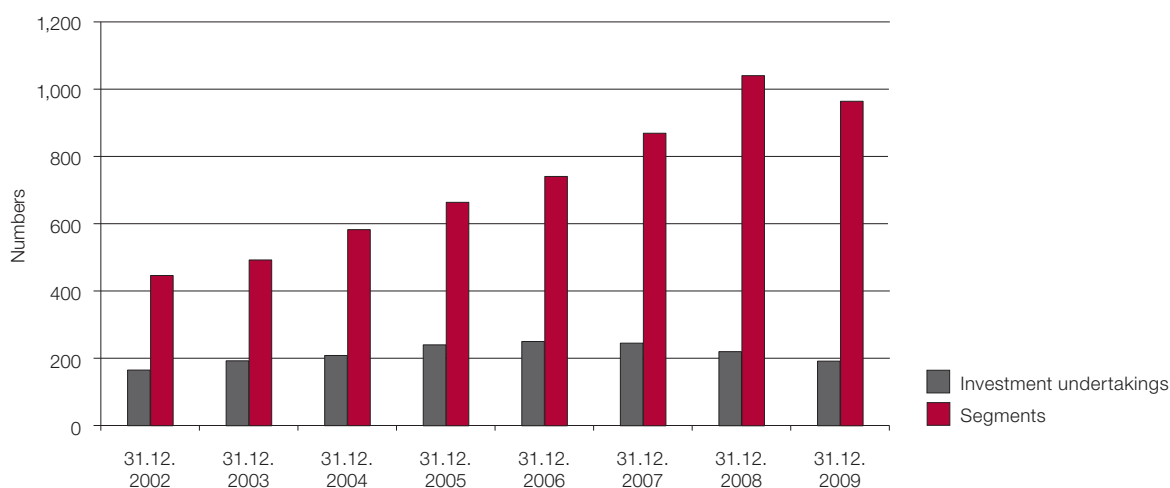
#### Licenses for authorized distributors

Apart from the listed authorized distributors in the Investment Undertakings Act (IUA) which are entitled based on their special legislative permission to distribute funds units, there were eleven legal entities and one individual person, based on explicit licenses, authorized to conduct distribution activities. This includes one legal entity more than in the previous year.

### Management companies and investment undertakings (figures per category of licenses granted according to the IUA)

	31.12.2007	31.12.2008	31.12.2009	+/-
Active management companies	27	28	27	-1
of which are fund managements	20	21	21	0
of which are investment undertakings	7	7	6	-1
Domestic IUs	303	363	411	48
of which IUs for securities	97	127	127	0
of which IUs for other assets	137	157	173	16
of which IUs for qualified investors	69	79	111	32
Foreign IUs	246	219	191	-26
of which segmented	67	74	76	2
with a total of segments (individual assets)	862	917	956	-75
Audit companies	10	12	11	-1

**Development of authorized foreign investment undertakings**



**Ongoing supervision**

**Audit system**

Within the framework of the indirect supervision system, 279 audit reports were evaluated pursuant to the IUA. The reports included 98 complaints. Based on the audit report recommendations or peculiarities in license applications, the securities supervision department mandated statutory auditors to conduct a total of 17 audits. In the course of the next regular audit, the situation will be inspected and will be separately stated in the audit report. Within the framework of the direct supervision system, on-site inspections took place and eleven management talks with MCs were held. Furthermore, a management talk with an audit company was held.

**Notification system**

Apart from the audit reports, that management companies are required to submit further periodic reports on the administered IUs to the FMA and publish them. These include semi-annual, approved financial statements and quarterly notifications

which, among other topics, inform on the change of net assets and the number of shares. 2,063 quarterly notifications were recorded and evaluated.

**Supervision practice**

Securities Supervision takes supervisory measures in case of unsatisfactory compliance or of violation of provisions prescribed in the fund law to restore the lawful status. The majority of measures taken were connected to the shortage of the lawful minimum net assets. One of the MCs showed significant organizational shortcomings which led to problems in several individual funds. The FMA discussed the shortcomings with the MCs and elaborated a concrete catalogue of measures to be implemented step-by-step.

**Combating abuse**

When combating abuse in the area of IUs, it is all about safeguarding the application of appropriate distribution modalities of domestic and foreign IUs and their authorized distributors. Several companies were instructed to adapt their web presence

accordingly. Furthermore, business names and purposes were checked prior to taking up business operations to ensure that no supervisory provision was violated.

The fading trust in financial investors such as shares and structured products and the sharp price increases are leading to a growing demand of different investment forms in physical precious metals. The FMA detected a considerable potential of abuse and, therefore, investigated business models of different providers. They each comprised trade business combined with storage contracts for precious metal. It was the FMA's opinion to subordinate such activities to the IUA, i.a. by arguing that the IUA permits funds that physically hold precious metals and that the FMA has already approved such funds. However, this did not become the prevailing legal opinion.

Account movements of one provider showed usage of incoming assets that were presumably not according to the contracts. The FMA reported this case to

the Liechtenstein Office of the Public Prosecutor. Potential investors would be best advised to carefully select their business partners.

### Operational focus areas

#### Side Pockets

In the course of the financial market crisis, gradually more illiquid securities were detected at Liechtenstein IUs. These partly blocked the evaluation of the total portfolio and therefore blocked the share trade although the major part of the portfolio could be evaluated and was liquid. In this respect, the possibility of splitting off illiquid assets was highly welcomed by the market.

Based on current law, the separation of illiquid assets is possible. A so-called side pocket is approved for an IU. Thereby, a possibly unsegmented IU will be converted into a segmented IU and the original fund assets, except the illiquid titles, will be incorporated into the new segment. The original IU's illiquid titles will be further administrated in the side pocket, independently from the remaining

### Complaints by categories

Category	Number of complaints
Active violation of investment policies	5
Passive violation of investment policies	34
Complaints regarding loans	8
Complaints regarding liquidation procedures	2
Undercutting of the lawful minimum net asset amount	9
Calculation of the net asset income / accounting	12
Complaints regarding risk inspections	6
Complaints regarding notification obligations	22
<b>Total</b>	<b>98</b>

fund assets. This second segment is to be liquidated right after its constitution and distributes the liquidation profit as soon as the enclosed titles are tradable again.

### Liquidation procedure

Securities Supervision follows the liquidation procedures of individual assets and of IUs, and releases the final payments to the investors based on the reviewed liquidation balance sheet. The liquidation procedure has been completely put into practice and, based on this, a new guideline for liquidation procedures will be published.

### Time-to-market project (electronic audit template)

In May 2009, an electronic audit template for investment funds was introduced. The handling of the submitted applications has been thereby significantly accelerated. Most fund MCs have taken advantage of this offer.

### Auditors' workshop

Based on the financial market crisis' effects, an extraordinary auditors' workshop took place in June of 2009, where concrete measures by Securities Supervision, such as partial payments during liquidations and side pockets, were presented and discussed with the auditors present.

### LIFT

The Liechtenstein Investment Fund Think Tank (LIFT) originated in 2005 as a platform for initiative and exchange and is represented by members of the LAFV (the Liechtenstein Investment Fund Association), the LBA (the Liechtenstein Bankers Association) and the FMA. In 2009, the LIFT was productively cooperating in different projects, particularly in the amendments of the guidelines.

## Outlook for 2010

### Project on the fund center in 2011

The governmental project on the fund center for 2011 is intended to increase the fund center's competitiveness, to distinctively raise the market share in Europe and to safeguard the timely implementation of the EU directives. On invitation, the FMA will take part in work groups. Mainly, it is about the timely implementation of the directive 2009/65/EC (UCITS IV) including the below listed topics: Provisions for introducing the EU passport for MCs; improving the notification procedure for UCITS funds; provisions on fund pooling; provisions on national and international fund mergers; creating a Key Investor Information which is intended to substitute the simplified prospectus for IUs.

### IU for qualified investors

As per 31 December 2009, there were 111 IUs certified to act as qualified investors with a total volume of close to CHF 3 billion. A prompt market entry while complying with legal restrictions is most important for IUs for qualified investors. In doing so, the MC's and audit companies' self-responsibility plays the central role. The respective supervision processes in securities supervision are to be improved in order to continue safeguarding an adequate supervision with the existing resources.

### IU/AM database project

The newly designed and introduced database in the area of IU supervision is intended to be continuously expanded during the year 2010 and will feature additional functions. The installed data collection primarily enables the optimization and the scaling of the supervision processes. At the same time the quality of services improves, reporting periodicity increases and response intervals decrease.

### Settling conflicts of interest (Administration / deposit bank)

Despite the organizational separation of the roles, conflicts of interests and the remaining of errors may not be excluded on the part of the deposit bank in fulfilling both functions. Hence, as many conflicts of interest as possible are intended to be identified and addressed in 2010 if one company has to fill both roles. The settling of conflicts is especially important when considering the UCITS IV provisions to be implemented and the problems detected in practice.

### Partial automation of the notification system

In 2010, the IU's quarterly notifications are intended to be collected on an electronic platform of the Liechtenstein Investment Fund Association (LAFV) and then transmitted to the FMA. The FMA was involved in the LAFV project. Appropriate interfaces were discussed and implemented.

### Extension of management talks

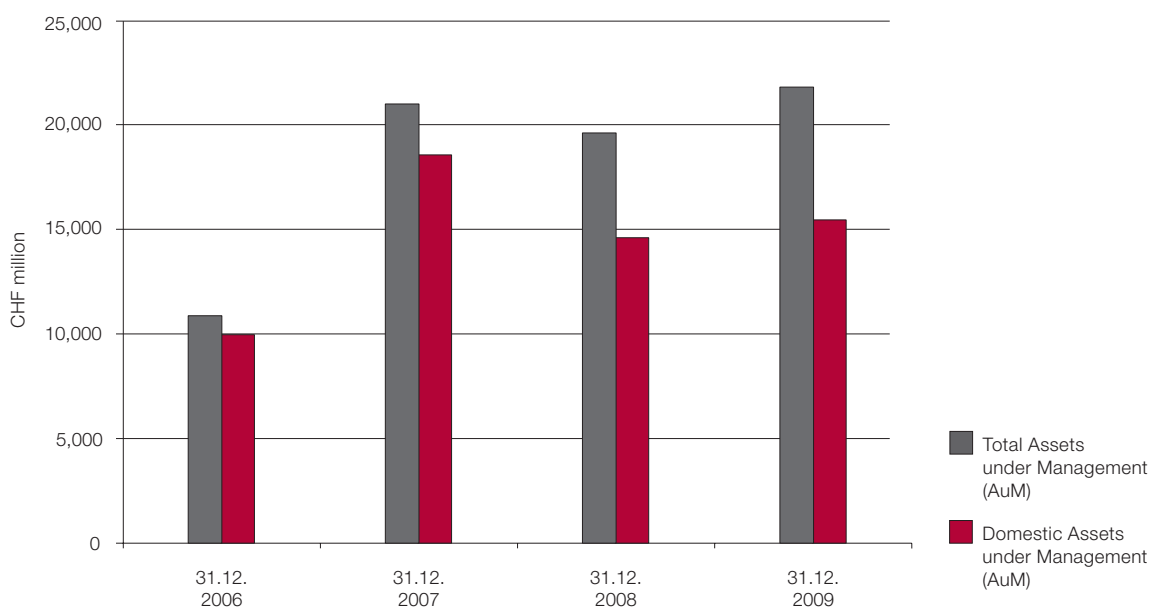
So far, in the area of securities supervision, management talks had only been held with audited companies. Henceforth, management and experts' talks will gradually be increased with auditing companies.

### Liechtenstein as AM center

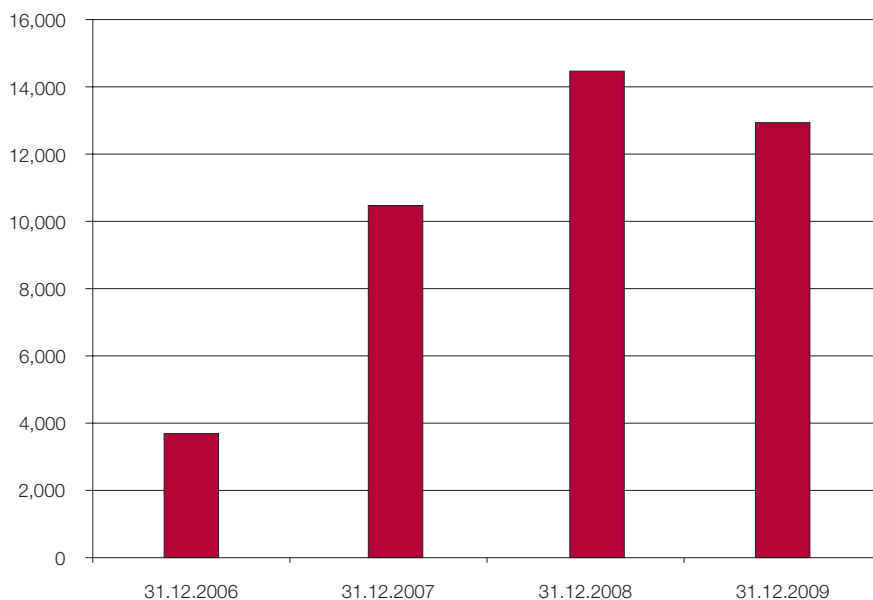
At the end of 2009, 102 asset management companies (AMC) had a license to operate as AMC. So, the number of operating AMCs in Liechtenstein remained stable compared to the end of 2008. After the Asset Management Act (AMA) came into force as partial implementation of the Directive 2004/39/EC (MiFID) as per 1 January 2006 and since the number of companies grew constantly, a consolidation took place in 2009.

The authorized AMC employed 376 persons at the end of 2009 and were in charge of 13,168 client

## Development of assets under management by Asset Management Companies (AMC)



**Development of client relations of Asset Management Companies**



mandates, having signed asset management agreements in 11,433 mandates. The administered client assets by AMC amounted to CHF 22.49 billion whereof CHF 15.74 billion were administered by Liechtenstein banks. Since 1 November 2009, the AM clients can address their complaints to a specially established arbitration office.

**Licenses granted**

The FMA granted 11 licenses to AMC in 2009. Due to the withdrawal of 11 licenses, the total amount of granted licenses to AMC remained the same. 5 submitted applications were withdrawn. The AMC reported 80 changes of existing licenses. Thereby, the changes concerned 18 changes of shareholders, 39 changes of directors, 17 changes of business names or articles of association, and 6 changes of

auditing companies. 32 applications for notification were submitted to the FMA, whereby 11 foreign supervision authorities were notified.

Within the framework of granted licenses, the FMA faced the following topics:

- lacking professional qualification of members of the general management, especially of a qualified general manager. Based on discussions held, the respective persons were replaced during the ongoing application process.
- landmark decisions within the fit & proper test concerning the handling of pending penal proceedings and convictions. An application was suspended and, after talks held, withdrawn by the applicant.

### AMC supervision

#### Regular audits in accordance with AMA

The FMA received 93 audit reports pursuant to AMA. The major focus of the audits included the separation of AMA/Trust Enterprises and the compliance with the provisions adopted on 1 November 2007 on the remaining MiFID implementation. The audit companies presented complaints and recommendation with regard to 56 AMC.

#### Notification system

The notification discipline of AMC to the FMA improved compared to the previous year. Yet to be improved is the notification discipline of newly authorized AMC. The FMA reminds the AMC of their notification obligation before the date is due.

#### Supervisory measures

As per 31 December 2008, 11 AMC fell short of the necessary equity capital. The FMA requested the AMC to restore the lawful status. The equity capital was increased by capital contributions and by write-downs of shareholder loans and was certified by auditors. Only two AMC were not capable of

restoring their equity capital by the end of 2009. A well-capitalized AM infringed against the equity capital regulations because it granted a shareholders loan to a majority shareholder in the amount of just under the equity capital level. The FMA intervened and the shareholder loan was immediately paid back by the majority shareholder.

In one case the FMA discovered that an AM had not commenced its business operations despite its license granted in 2007. By taking over clients from another company, the AMC commenced its operations within the short deadline given.

The FMA criticized one AMC for not having its administrative center domiciled in Liechtenstein and for being exclusively operating abroad. After the FMA intervention, the AMC was liquidated.

Despite the obligation to notify, several AMCs did not present notifications of changes in capital stock, changes of directors, of general management and of audit companies to the FMA. FMA sources to detect such unauthorized changes are the audit reports

### Complaints

Classification	Number of complaints as per 31.12.2008
Recording and storage duty/ client	1
Recording and storage duty/ AMC	1
Decisive shareholders (qualified share)	2
Administrative Board and shareholder	3
Organizational standards	3
Orderly annual report	10
Compliance with equity capital standards	11
Rules of good conduct	17
<b>Total</b>	<b>48</b>

### Recommendations

Classification	Number of recommendations as per 31.12.2008
Administrative Board and shareholder	1
Decisive shareholders (qualified share)	1
Recording and storage duty/ AMC	1
Recording and storage duty/ clients	1
Business activity	1
Orderly annual report	2
Administrative center, branches	4
Organizational Standards	14
Rules of good conduct	43
<b>Total</b>	<b>68</b>

and partly the Announcements by Liechtenstein Office of Land and Public Registration. In retrospect, the FMA authorized all changes and warned the AMC.

After an extensive audit by a third, independent audit company and after the presentation of the audit findings, one AMC decided to return its license and to initiate the liquidation process. The findings proved that the AMC and its general manager were involved in unauthorized business with penny stocks. The FMA reported this case to the Liechtenstein Office of the Public Prosecutor. A warranty letter was issued to the general manager.

In one case the auditors stated that an AMC had taken over client mandates from an unauthorized company but that the clients were primarily advised and attended by the same unauthorized company. The AMC cut relations to the clients in question after the FMA intervened and investigated. The case was closed without imposing any sanctions.

### **Sanctions / complaints**

The AMC supervision authority reported three offenses to the Office of the Public Prosecutor. The violations included unauthorized providing of asset management services without license and the unauthorized providing of buy and sell recommendations without license. In the third case a company unlicensed to work as an AMC used terms on its website that allowed the presumption that the company operated as AMC.

### **Combating abuse**

In combating abuse, the securities supervision division investigates whether activities subject to supervision, such as asset management services and investment advisory services, are carried out in or out of Liechtenstein without permission.

Apart from actively combating abuse, the FMA also bases its measures on indications from the market. The enforcement of the AMA especially applies when loosening the historically based linkage between trust officers and asset managers. In 2009, the FMA demanded 40 companies to adapt their company purposes, the company names and the internet presence once indications of asset management activities arose. For this purpose, 19 onsite inspections were conducted. Based on the inspection results, four reports of offenses were made to the Office of the Public Prosecutor.

In one case, a potential client transmitted the fact sheet of an investment product to the FMA which promised a guaranteed return of 5–6% and a capital guarantee on the investment. The offering company, however, was not in possession of a license. In an on-site inspection, the FMA confiscated the essential information and documents, evaluated them and, thereupon, pronounced the immediate unwinding of the transactions and the prohibition of further business activities. In other cases, applications for activities subject to supervision were submitted, but no actual activity was carried out in or out of Liechtenstein. In these cases, the FMA prohibited the respective advertising efforts in order to avoid the taking up of an abusive activity.

### **Operational focus areas**

#### **Separation AMA/PTA**

By creating the AMA, professional careers were separated pursuant to the AMA and Professional Trustees Act (PTA). The focus of the adaptations was dedicated to the revision and the adjustment of the company's purpose entries by trust enterprises which partly had to be enforced by means of a court order. With regard to the companies' transfer out of the Trust Law into the AMA, the audit companies



applied main focus checks in their ordinary audits of the companies. A set of authorized companies and companies business purposes is intended to be finalized by 2010 and published.

### Implementation of the DDO

Based on an extensive adaptation of the Due Diligence Ordinance (DDO), the FMA released a specific communication for AM and published guidelines for the audit reports.

### Publications of AMC general managers

As consequence of the report on the IMF assessment in 2007, the FMA published a list of “qualified general managers of asset management companies” in 2009 for the first time, which was established in cooperation with the Association of Independent Asset Managers in Liechtenstein (Verein unabhängiger Vermögensverwalter in Liechtenstein, VuVL). This extended transparency primarily serves the protection of the investor.

### Registration and storage duties

Based on an amendment of the AMA and on increasing market requests, a newsletter was elaborated in cooperation with the VuVL in July 2009 which regulates the topics “registration and storage duties” in detail. In this context, AMC were asked to inform on branches in third countries which represent them on the local markets.

### International cooperation

The AMC operate in international business and are, therefore, particularly active in the German-speaking countries. Hence, the FMA cultivates good dialogue with foreign supervision authorities. In particular, the FMA cultivates a close and constructive exchange on supervisory themes with the representatives of the German, Austrian and Swiss supervision authorities.

## Outlook 2010

### Consolidation

After the years of growth and the implementation of several legal changes, in 2010 the authorisation and supervision processes will be checked and revised. The findings therefrom will increase further efficiency. Furthermore, ongoing topics in question such as the problem of shell companies will be taken up and clarified.

### Intensifying of cooperation

The cooperation on national (associations, authorities) and international levels (partner authorities, international institutions) was intensified based on the gradually more complex cases and to enhance the know-how.

### Securities prospectus

#### Authorisation

The approval activity for securities prospectus pursuant to the Securities Prospectus Law (SPL) was again very low in 2010. Since Liechtenstein does not have a stock exchange, the emission activity is low from securities that require a public offer. In 2009, an addendum to the SPA was approved.

The range of foreign structured products which were notified by an EU country in Liechtenstein strongly declined in 2009. This lack of interest was caused by the financial crisis. In 2009, the final conditions for only three structured products (previous year: ten) were submitted to the FMA. During 2008, the notifications by foreign supervision authorities for basic products of issues of structured products varied. Often, no public offer took place.

### Combating abuse

In the area of combating abuse, the FMA took action in accordance with SPA in two cases. In one case, a company, without holding a securities

## SUPERVISION

prospectus, issued cost-free subscription warrants to further buy company shares. The FMA was able to immediately stop this offer and obliged the company to establish a securities prospectus when altering the subscription warrants. Since cost-free subscription warrants were issued in several countries, this case entailed a close cooperation with the Austrian and German supervision authorities. In another case, the FMA took action against a company offering company activities on its website. The offering in question was immediately withdrawn after the FMA intervened.

### **Outlook 2010**

In 2010, the securities supervision division will elaborate a guideline to the SPA and will nationally adapt the EU Prospectus Directive applicable to the SPA in such manner that legal clarity for the interpretation and application prevails for the financial provider.

### **Administrative assistance in the area of market manipulation**

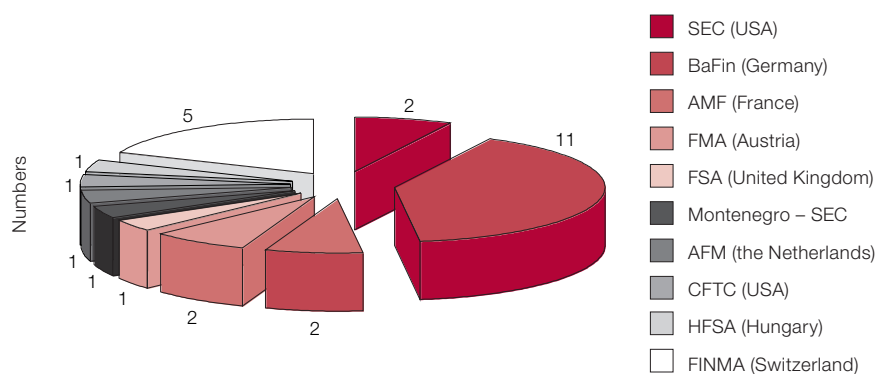
A total of 27 requests for administrative assistance by foreign supervision activities were submitted to the FMA while a total of 30 administrative assistance procedures (incl. previous year requests) could be finalized. In comparison to the previous year, which was marked by an extraordinarily high number of administrative assistance procedures, in 2009 the number of administrative assistance procedures diminished by nearly a quarter. At the same time, the number of closed cases was 50% higher.

Procedural provisions such as the obligation to inform clients and their right to appeal again led in 2009 to extensive deferrals of procedures in administrative assistance procedures and left the FMA with considerable additional work. Despite that fact

that these deferrals led to process durations of several months, the FMA was able to keep the interval between request submittance and closure of the procedure by an average of three months in 2009. Nevertheless, the Liechtenstein administrative assistance procedure is perceived as extremely exhausting and time-consuming. This perception gradually hinders the FMA in its endeavor to become a member in the International Organization of Organization of Securities Commissions (IOSCO).

Given the nearly 100 ordinances enacted in 2009, the resulting procedural documents, sometimes comprising several folders, and the fact that more than 50% of the ordinances were appealed and since the appeal's procedures had to be followed by the FMA, the FMA was again faced with a significantly increased deployment of resources.

### Administrative assistance request by authorities regarding market manipulation



### 1.3 Insurance Undertakings

#### Liechtenstein insurance center

At the end of 2009, a total of 41 (previous year: 42) insurance undertakings (22 life, 14 non-life and 5 reinsurance undertakings) were domiciled and operational in Liechtenstein. 12 companies operated as self-insurances (so-called captives), of which were 7 direct insurers and 5 operated as reinsurers.

The main business of the Liechtenstein insurance undertakings is life insurance, especially fundlinked and unit-linked life insurance. The insurances against loss and damage cover all insurance sectors. The reinsurance undertakings are all captives.

#### Development of insurance undertakings

Licensing categories	31.12. 2003	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009
Non-life insurance	6	7	9	13	13	14	14
Life insurance	12	15	17	17	19	23	22
Reinsurance	5	6	5	5	5	5	5
Total licenses	23	28	31	35	37	42	41

## SUPERVISION

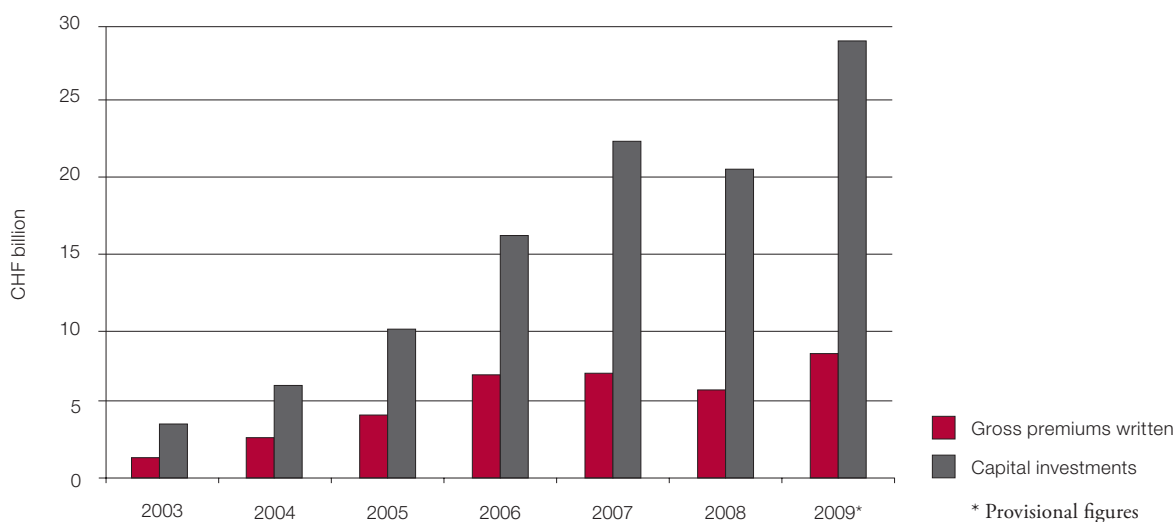
In 2009, Liechtenstein insurance undertakings maintained a total of five branches in EEA member states, three branches in Switzerland and one in Singapore. A total of 22 Swiss insurances and an insurance company domiciled in an EEA member state maintained a branch in Liechtenstein.

The provisional figures of the business year 2009 show a gratifying development of the insurance center. The premium income amounted to CHF 8.98 billion in 2009, in contrast to CHF 5.94 billion in 2008. This corresponds to an increase of 51%. The premiums received divide into life insurances of about CHF 8.45 billion (94%), into indemnity insurances of about CHF 483 million (5%) and into reinsurances of about CHF 48.5 million (1%). For the business year 2010, the companies remain

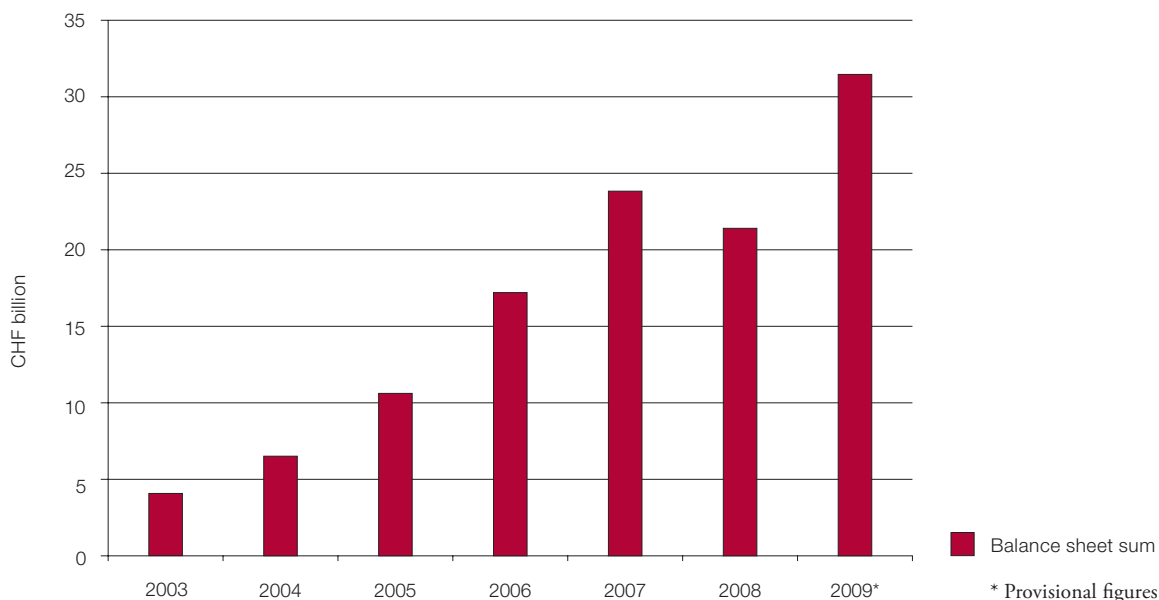
cautious. The capital investments for clients' insurances, either fund-linked or unit-linked, amounted to CHF 27 billion in 2009. The balance sheet sum of all insurance undertakings domiciled in Liechtenstein increased from CHF 21.4 billion to CHF 31.6 billion.

The solvency margin of all insurances is covered by sufficient equity capital; nonetheless, further clarifications will be carried out with regard to one company. The equity capital of all companies increased in total by 8% from nearly CHF 737 million at the end of 2008 to CHF 796 million at the end of 2009. The number of insurance undertakings' employees rose from 463 at the end of 2008 to 507 at the end of 2009.

### Development of written gross premiums and capital investments of insurance undertakings



### Development of insurance undertakings' balance sheet sum



#### Authorisations

##### Authorisation issued / withdrawn

In 2009, the FMA granted a license to a captive to operate as insurance company pursuant to the Insurance Supervision Act (ISA). Furthermore, two Liechtenstein insurance undertakings (a captive and a life insurance) voluntarily waived the right of authorisation to operate in Liechtenstein based on economic and structural considerations. Both companies were suspended from supervision by the FMA. The FMA is entitled to acknowledge audit companies pursuant to the ISA. In 2009, no new license was granted.

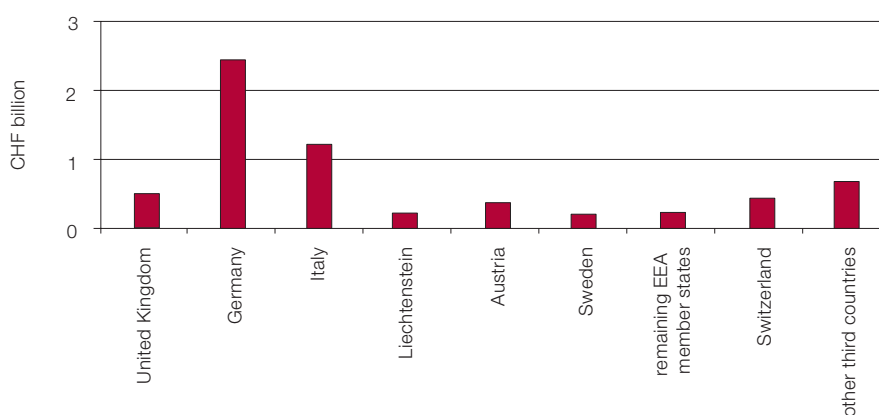
##### Cross-border exchange of services

By end-2009, 375 (previous year: 344) insurance undertakings from different EEA countries and from Switzerland reported their commencement of cross-border services to the FMA via the supervision authority in their country of domicile.

In the area of indemnity insurances, the insurance services in Switzerland were exclusively provided by using the free movement of services. Despite the financial crisis, the gross premium amount by Liechtenstein insurance undertakings generated in Switzerland rose by 16% to CHF 109.6 million whereas 90% of these gross premiums are to be assigned to the captives. In the life insurance business the income of gross premiums decreased compared to the business year 2007 by nearly 10% from CHF 317 million to CHF 284 million. 93% of the life insurance business was done by using the free movement of services.

The premium share generated in Switzerland amounted to only 5% compared to the total of premiums (following Germany, Italy and Great Britain). Swiss insurance undertakings with cross-border activities in Liechtenstein within the free movement of services and via their branches generated income in the area of indemnity insurances

**Cross-border activity of Liechtenstein insurance undertakings, broken down by countries (based on the written gross premiums) in 2008**



of nearly CHF 177 million (prov.). Here too, a tendency towards the free movement of services can be perceived. While in 2004 still about 60% of premiums were generated via branches, said share sank in the year under report 2008 to 34%.

### Audit system

#### Regular audits pursuant to ISA

From regular auditing of insurance undertakings' reports, the following results arose:

- three life insurances disposed of a level of equity capital (opposite to the FMA practice) lower than the capital stock. The companies in question had taken appropriate measures by the end of 2009 and had improved the situation by increasing the equity capital;
- in an audit report, a reservation regarding the intrinsic value of a loan was pronounced;
- an audit company referred in its audit report to a mismatching in a securities stock

In relation with the reporting, the FMA also supervised the compliance with authorisation requirements. During the auditing of the 2008 report, it

was stated that, compared to the previous year, all companies domiciled in Liechtenstein complied with the authorisation requirements. Furthermore, no infringements of notifications duties to the FMA with regard to possible business plan changes were detected.

#### Regular DDA audits

Life insurances are subject to the personal and material scope of the DDA in accordance with art. 3, par. 1, [d] and art. 4 DDA. In the year under report, 20 insurance undertakings were subject to regular due diligence inspections.

In one company, the auditors stated that no adaptations regarding identification of the contractual partner pursuant to the new DDA had taken place. The FMA filed a complaint against this company and requested the company to restore the lawful status.

Generally speaking, particularly objections in terms of the PEP policy (politically exposed persons) and the alignment with the Taliban Ordinance and the Bush list or similar lists were noted. Based on the

reports by the auditors on due diligence inspections in 2009, one life insurance company had submitted six notifications to the FIU pursuant to art. 16, par. 1 DDA.

#### **Regular on-site inspections and on-site talks**

In 2009, the major topics in ordinary on-site inspections of life insurance or indemnity insurance undertakings lay on the reinsurance policy and the reinsurance program, the insurance-related reserves, the insurance-related basics and the legal risks. Additionally, the due diligence audit of life insurance undertakings and the location of the administrative office were the central points of the regular audits.

As complimentary measure to the on-site inspections, on-site talks with life insurance and property insurance undertakings were held. Usually, they are also held at the companies' offices, but are comparatively less extensive. Major topics of such inspections are the assessment of the current and future business situation, the availability of new markets, the development of new products and the investment activity and the investment of the equity capital.

#### **Supervision practice**

During the ongoing supervision activity in the year under report, the FMA held four extraordinary on-site talks. Reasons for these talks were on the one hand clients' complaints, resp. pending court proceedings, on the other hand, infringements against authorisation requirements and accounting regulations. In one of the mentioned cases, the insurance company was requested by court order to restore the lawful status.

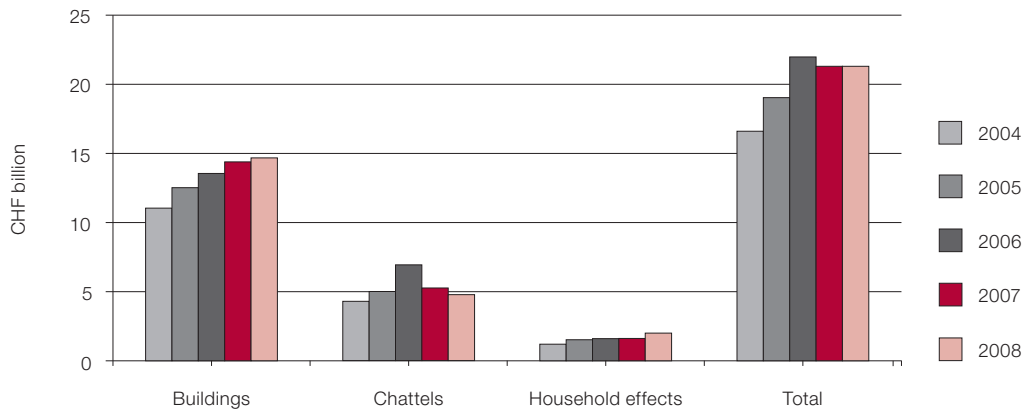
#### **FMA as complaints body**

In the year under report, 26 complaints were submitted by insurance holders. The majority of complaints referred to the negative performance of life insurances related to funds, followed by complaints regarding incorrect advisory services by involved insurance intermediaries.

#### **Compulsory insurance of buildings**

As per 31 December 2008, a total of 17 insurance undertakings in Liechtenstein operated in the compulsory building insurance sector. Thereof 5 companies were domiciled in an EEA member state and 12 in Switzerland. The fire insurance sum of Liechtenstein buildings amounted as per 31 December 2008 to CHF 14.77 billion for buildings (2007: CHF 14.38 billion), for household goods CHF 1.66 billion (2007: CHF 1.62 billion) and for remaining movables CHF 4.82 billion (2007: CHF 5.23 billion). The fire insurance sum total in 2008 amounted to CHF 21.26 billion (2007: CHF 21.23 billion). The premium income of the fire insurance company in 2008 amounted to CHF 8.6 million (2007: CHF 8.7 million). Total premium earnings of CHF 16.9 million were recorded for compulsory building insurances. On the other hand, payments for damages in the amount of CHF 3.8 million (for fire damages CHF 3.5 million and for natural hazards CHF 0.3 million) were made.

### Fire insurance sum for building insurance



### Operational focus areas 2009

The Risk Assessment System for insurances developed in 2008 was instituted in 2009 and practically applied for the first time. On-site inspections and on-site talks were intensified and situation-related surveys increasingly carried out. Also the implementation of the Framework Directive Solvency II was tackled.

### Outlook 2010

The operational focus in 2010 is primarily marked by the implementation of the Solvency II Directive by 2013. They include:

- preparing and holding the fifth Quantitative Impact Study (QIS5) taking place between August and October;
- implementing the Solvency II-Directive into national law;
- adapting the supervision practice to the requirements of Solvency II;
- refining the supervision instruments such as on-site inspections and on-site talks

Furthermore, it is planned in 2010, to enact requirements for the contents of the additional report to the audit report.

### Insurance intermediaries

#### Authorisations

##### Authorisations issued / withdrawn

The Insurance Mediation Act (IMA) came into force on 1 July 2006. Therefore, the focus in the years 2007 and 2008 was mainly on the granting of new licenses. In 2009, the number of license applications declined for the first time and a total of 9 licenses were granted. 3 license holders ceased their activity as insurance intermediaries. Therefore, at the end of 2009, the FMA supervised a total of 70 authorized and registered insurance intermediaries, which were divided into 61 legal entities, 4 single-member companies and 5 natural persons. Of the 70 registered insurance intermediaries 57 operated as insurance broker and 13 as insurance agents.

##### Cross-border movement of services

Based on the freedom of services, the cross-border activity was primarily applied in Germany (38% of all insurance intermediaries), followed by Switzerland and Austria (each 31%). So far, no insurance intermediary operated pursuant to the freedom of establishment.



## Ongoing supervision

### Reporting

In 2009, the FMA received a total of 63 reportings. As in 2008, numerous reports were not submitted in due time, were incomplete or inconsistent. With insurance intermediaries operating for a longer time period, the processes have been implemented better. Hence, the reporting for the business year 2008 could only be finalized in September 2009 with the following result:

- 9 insurance intermediaries had no business activity in 2008;
- 2 insurance intermediaries operated on a cross-border level, without previously notifying the FMA;
- 3 insurance intermediaries did not notify of a license change according to art. 19, par. 2 of the IIA;
- all authorized insurance intermediaries in the business year of 2007 had to present proof of appropriate further education. 15 insurance intermediaries could not present said proof.

### Regular on-site inspections

In 2009, four on-site inspections were carried out. Subject to examination were particularly the compliance of application requirements, the organization, the information and consultancy obligations and the compliance with the revised Due Diligence Act (DDA). In three on-site inspections, possible supervisory measures were investigated. Generally, it was stated that the compliance with the new DDA still presents difficulties to the insurance intermediaries.

### Combating abuse

Based on their business purpose registered in the Liechtenstein Public Registry, four companies

were examined whether they had operated or still did operate as insurance intermediaries without having the relevant license. The suspicions did not prove to be true and the FMA requested the companies to adapt their business purpose in the Public Registry.

In one procedure, the FMA was informed that a natural person provided insurance intermediaries services. The investigations did not support this notification. In a further procedure, a now insolvent company is also suspected of providing insurance intermediaries services without having been granted a license by the FMA. The investigations had not been finalized by the end of 2009.

### Operational focus areas

The operational focus was on the realization of reports and the on-site inspections.

In cooperation with the Hochschule Liechtenstein (Liechtenstein University of Applied Sciences) and with the support of the Liechtenstein Insurance Brokers Association, the first Insurance Intermediaries Forum was held. The forum was intended to provide further education for the insurance intermediaries' activity within the legal provisions. The focus of said event was on the legal framework conditions and the information and consultancy obligations of the insurance intermediaries.

In line with the current DDA, the interbranch agreement was elaborated in cooperation with the Association of Liechtenstein Insurance Brokers. The branch-specific guideline primarily supports the insurance brokers in interpreting the DDA and the DDO. Moreover, it addresses branch-specific questions related to the due diligence obligations.

**Outlook 2010**

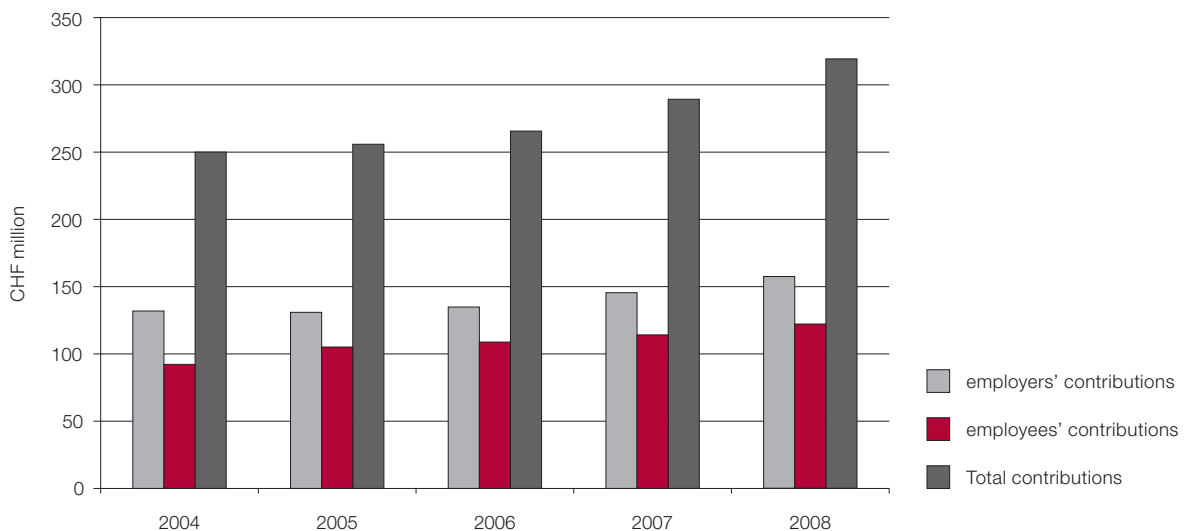
The operational focus in 2010 will be the further education of insurance brokers, the first due diligence inspections at the insurance brokers' offices carried out by external auditors and the intensifying of on-site inspections. Having passed the revised directive 2002/92/EC on insurance intermediation, the FMA will initiate its implementation process.

**1.4 Pension Funds Supervision**

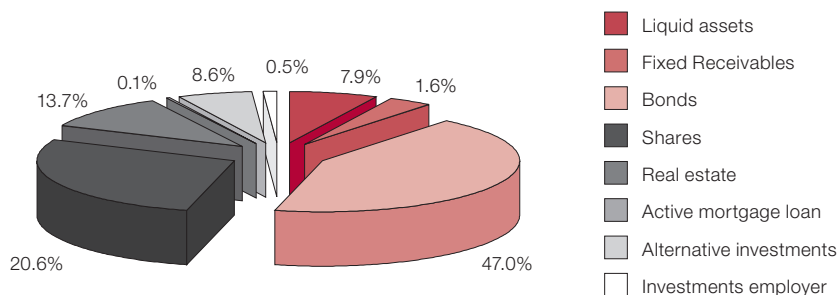
**Liechtenstein as pension schemes center**

At the end of 2009, 33 (previous year: 34) pension schemes operated in Liechtenstein. They consisted of nine collective foundations, 23 firm-owned pension schemes institutions and the retirement insurances for state employees. The latter has been subordinate to the FMA supervision since 1 January 2009. The pure defined benefit plan was applied by four pension schemes; most, however, preferred the defined contribution plan for the retirement savings and the defined benefit plan for the risk benefits. In six collective foundations is one of the founder companies a Swiss life insurance company. In 2008, the employees' contributions amounted to CHF 125.5 million and the employers' contributions amounted to CHF 159.1 million, totaling CHF 319.3 million (incl. special and additional contributions and deposits in employees' contribution reserves).

**Development of employers' and employees' contributions**



**Pension Schemes: Divided into investments in 2008 according to investment categories**



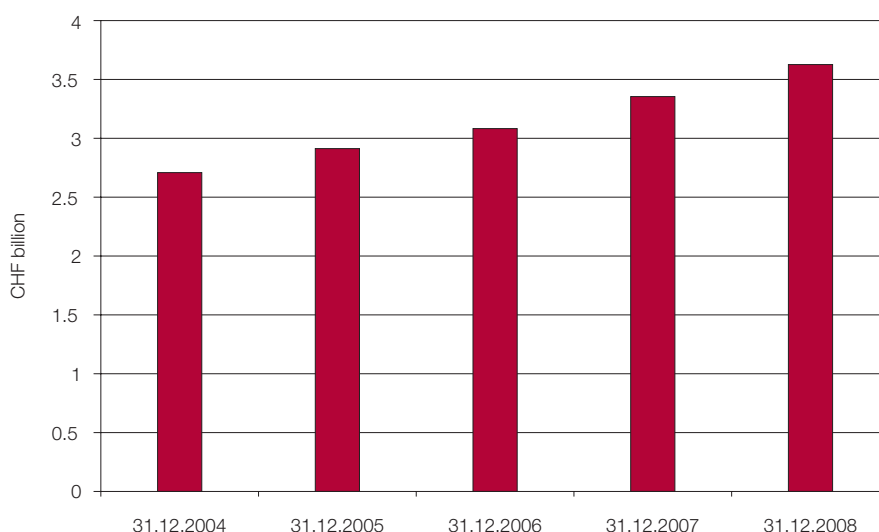
The number of persons insured amounted to a total of 35,867 persons at the end of 2008. In collective foundations, 19,699 persons were insured (55%), in the company-owned pensions fund institutions 12,292 persons were insured (34%) and in the retirement insurance for the state personnel 3,876 persons were insured (11%).

The position “pension schemes capital and technical reserves” amounted to CHF 3.66 billion (previous year 3.34 billion) as per 31 December 2009, which

are divided into CHF 1.05 billion on the retirement capital of collective foundations, CHF 1.97 billion on the retirement capital of company-owned pension schemes and CHF 0.64 billion on the retirement capital of the retirement insurance for state personnel. In 2008, the interest rates on the retirement capitals invested by the pension schemes oscillated between 2.0% and 5.0%.

The evaluations of the semi-annual reportings as per 31 December 2009 showed that the situation

**Development of the pension fund capital**



of the pension schemes in the business year 2009 considerably improved as a result of the relaxed situation on the financial markets.

At the end of 2009, two pension schemes reported an inconsiderable underfunding and one pension scheme a considerable underfunding. The first institution possessed coverage of above 95%. In the case of the pension schemes showing a considerable underfunding, the FMA followed the initiated measures very closely.

### **Regular audits**

#### **Reporting 2008**

The pension schemes must report to the FMA on their business activity in the previous year by 30 June the latest. In the business year 2008, the financial market crisis also affected the investment result of the pension schemes. In 13 audit reports, a reservation, i.e. a restriction, was stated due to the underfunding as per 31 December 2009: in these institutions, the coverage ratio ranged between 85% and 97.7%. Four of these pension schemes disposed of a coverage ratio of below 90% (significant underfunding) and nine pension schemes disposed of a coverage ratio between 90% and 100% (insignificant underfunding). Whenever an underfunding was detected, the pension schemes were requested to separately inform the FMA about the reasons and the measures planned to fix the underfunding. The underfundings were exclusively reduced to the decreased values of the investments. The most common restoration measure taken was paying zero interest on savings assets. In the course of 2009, the measures showed the first positive results. The pension schemes of the three of the largest Liechtenstein employers are domiciled in Switzerland. These are subordinate to the Swiss supervision authority. In these cases, a report was also forwarded to the FMA in coordination with

the Swiss authority. The two supervision authorities collaborated in the audit results.

The FMA reviewed the submitted reports and supervised the compliance with the legal and regulatory provisions. In most of the cases, the audit reports were submitted in due time, but mostly incomplete. The documents were in most cases correct. In some cases, the pension schemes had to be requested to formally correct or complement the reporting form. The FMA closed the audit term for the business year 2008 in August of 2009.

#### **Regular on-site inspections and on-site talks**

The FMA conducted on-site inspections at pension schemes. The focus of the on-site inspections lay on the review of organization and administration, the general management, the investments and the development of the coverage ratio. Apart from that, the notifications submitted to the security pension funds and to the administrative system were checked on a random basis. Main focus in the on-site talks was on the assessment of the current situation, particularly the development of the coverage ratio, the investment situation and the applied actuarial fundamentals.

#### **Vested benefits accounts**

In the year under report 2009, three banks kept vested benefits accounts. As per 31 December 2009, 7,047 (2008: 5,029) of such accounts were kept with a managed capital of CHF 177.1 million (2008: 135.4 million). The average of the vested pension benefits amounted to CHF 25,128 (2008: 26,914). The interest rate of the vested benefits accounts in 2009 was between 1.5% and 2.0%.

### Association inspection

Since 2008 and based on the FMA regulation 2008/1, the association inspection is conducted by the Old-Age and Survivors' Insurance Authority (AHV). The content of this inspection is whether all employers registered with the AHV are properly associated with a pension scheme. The FMA is responsible for the so-called reassociation inspection. If a pension scheme notifies the FMA that an association agreement with an employer has been terminated, the FMA reviews whether that employer still employs persons subject to the insurance requirement and has thus joined a new pension scheme. In 2009, the FMA conducted 75 (2008: 81) such association inspections. In five cases, the FMA ordered a compulsory association of an employer with a collective foundation.

### Cash payments of vested benefits

The FMA is responsible of the processing of cash payment applications under the OPA (Occupational Pensions Act). The FMA verifies whether the requirements for a cash payment are met and whether a cash payment is therefore possible. Furthermore, the FMA issues confirmations for self-employed persons, who are not subject to the compulsory insurance requirements under the Occupational Pensions Act.

In 2009, the FMA dealt with a total of 247 (previous year: 191) cash payment applications, pursuant to which the cash payment was approved in 110 (previous year: 76) cases and not approved in 62 (previous year 53) cases. 75 applications could not be finalized by 31 December 2009. Main reasons for the cash payments were the assumption of self-employment and departure from the Liechtenstein/Swiss economic area. In total, the FMA decided on vested benefits in the amount of CHF 5.25 million (previous year: 6.57 million).

### Combating abuse

Pursuant to art. 7, par. 5 OPA, the pension schemes must notify the supervisory authority within three months if the employer is in default on the contribution payment. In 2009, 137 (previous year: 62) notifications on contribution payments in default were presented to the FMA. The FMA then demands the employer make the payment and threatens to file charges if the payment is not paid. As a consequence of such contributions in default, a total of 21 (previous year: 10) cases arose in which, pursuant to art. 25, par. 1 OPA, the situation was referred to the Office of the Public Prosecutor.

### Operative focus areas 2009

Main focus is on the supervision of pension schemes showing underfunding. Quarterly notifications on the liquidity ratio and the demand for restoration measures were prime focus areas. Pension schemes with a considerable underfunding were either requested to take the necessary measures or the recommended measures were closely followed. A further subject was the introduction of the Risk Assessment System developed in 2008 being part of the risk-based supervision. On-site talks and inspections were further expanded.

### Outlook 2010

Upon the introduction of the Risk Assessment System, it will be calibrated and further developed in 2010. In the current supervision practice, on-site inspections and on-site talks have proved themselves as supervision instruments and will be again intensified in different focus areas in 2010. Furthermore, it is planned to enact provisions concerning the inspection areas to be included in the reports of the audit authorities.

### **Pension funds**

#### **Liechtenstein pension funds center**

The Law on the Supervision of Institutions for Occupational Retirement Provision (Occupational Pensions Act) governs institutions that offer occupational retirement provision in Liechtenstein or from Liechtenstein and may operate cross-border within the European area. Unlike pension schemes operating under the Occupational Pensions Act, pension funds are exclusively operating in the non-compulsory area. As a result of the existing infrastructure, the know-how related to occupational retirement provisions and flexible framework legislation, Liechtenstein is a location offering a good starting point for the constitution of pan-European pension funds.

#### **Licensing of business activity**

In Liechtenstein, five pension funds have been granted a license. A further application was submitted and was about to be approved by end 2009. Two are pension schemes which had been subject to the OPA prior to entry into force of the PFA but now fall within the scope of the PFA.

#### **Cross-border movement of services**

Pension funds licensed in Liechtenstein may also be sponsored by undertakings domiciled in another contracting party to the EEA and therefore be operating cross-border. A Liechtenstein institution wanting to accept a sponsoring undertaking domiciled in another contracting party to the EEA must obtain approval by the FMA. Business activities may only be assumed once the FMA has notified the supervisory authority of the host country.

Two Liechtenstein pension funds are currently engaged in cross-border operations in Germany. The remaining pension funds are primarily operating in third countries outside the EEA. In the

year under report 2009, 94 (2008: 64) sponsoring undertakings were notified.

#### **Ongoing supervision**

The pension funds domiciled in Liechtenstein within the regular inspection were requested to submit their annual business report 2008 by 30 April 2009 to the FMA. The FMA investigated the submitted documents and supervised the compliance with the legal and regulatory provisions and finalized the inspections for the year 2008 in July 2009. For the first time, pension funds were additionally requested to submit semi-annual reportings.

#### **Outlook 2010**

Focus area in 2010 is the development of a comprehensive notification tool ensuring a comprehensive yearly notification and limited notification during the year which also includes a risk assessment system. Based on this data, development of pension funds will be observed more intensively and possible problems of individual pensions funds will be detected in due time. Said tool will be applied for notifications in 2010 for the first time.

### **1.5 Other Financial Service Providers Supervision**

The area of OFSP assumes the supervision of other financial intermediaries subject to due diligence and admissions to examination and professional licenses concerning the liberal professions participating in the financial market. Based on these mandates, the OFSP division executes the following laws and the implementing ordinances: Law on occupational supervisory obligation to prevent money laundering, organized crime and terror financing (DDA); Professional Trustees Act (PTA); Auditors and Auditing Companies Act; Lawyers Act (LA); Patent Attorneys Act (PAA).

### **Admission to examinations – Licenses / professional licenses**

#### **Professional licenses**

In 2009, a total of 24 applications for admission to the various professional examinations and aptitude tests were submitted to the OFSP division. In all cases, the applicants were admitted to the examination. Three applications were withdrawn (LA). Fifteen of the total of 22 candidates (68%) successfully passed the examination. In the previous year, 25 of 33 (66%) did so.

#### **Licenses / professional licensing**

In 2009, the OFSP division granted 111 licenses allowing natural or legal persons to engage in one of the liberal professions participating in the financial market. In 35 cases, changes were made to existing licenses upon application. The most frequent were changes to the company name or of the responsible general manager. In addition, 48 licenses were cancelled.

#### **Lawyers**

The total number of persons with a license under the Lawyers Act was 332 as of 31 December 2009. Since 2003, the number of lawyers (working as natural persons) and registrable lawyers has increased, a trend that continued in the year under report. In comparison with the previous year, the number of resident EEA lawyers and trainee lawyers slightly increased again.

#### **Trustees**

Compared with the previous year, the number of licensed trust companies, of professional trustees (working as natural persons) and the restricted trustees remained constant in 2009. The number of restricted trust companies showed a slight increase to the previous year. The number of persons with licenses under the PTA was 395 at the end of 2009.

Changes to licenses primarily occurred as a consequence of various changes of general managers of trust companies and changes to business names.

#### **Patent attorneys**

The number of natural persons licensed under the PAA remained constant in 2009. In comparison to the previous year, one of the patent attorneys firms was liquidated. The total number of persons with a license under the PAA was 13 as per 31 December 2009.

#### **Auditors and auditing companies**

With respect to Liechtenstein auditors, the number of persons licensed under the AACA slightly increased. With respect to auditing companies, the number did not change. The number of auditing companies engaged in free movement of services increased with two companies; the number of auditors engaged in free movement of services remained constant. The total of persons licensed under the AACA was 78 as per 31 December 2009.

#### **DDA supervision**

Based on an IMF recommendation to involve more largely the FMA in on-site investigations, the OFSP division increasingly accompanied due diligence investigations in 2009. A total of 18 regular investigations were accompanied by the FMA, which is 22% of all regular due diligence investigations. The goal of this direct exchange with persons subject to due diligence and with due diligence auditors is to improve coordination between the FMA and the auditors with respect to due diligence compliance, to quality controls regarding the compliance with the DDA and the detection of the financial intermediaries' problems and needs in practice.

## SUPERVISION

### OFSPs subject to due diligence

OFSPs subject to due diligence as of 31 December	2005	2006	2007	2008	2009
Lawyers	163	169	173	187	201
Legal agents	5	5	5	5	5
Professional trustees	421	403	389	392	395
Auditors	72	73	73	75	78
Persons with a license under art. 180a PGR	461	495	505	513	532
Exchange offices	1	2	2	0	0
Real estate brokers	16	18	18	21	24
Dealers in high-value goods	17	37	38	39	42
Other persons subject to due diligence	21	27	28	30	32
<b>Total</b>	<b>1,177</b>	<b>1,229</b>	<b>1,231</b>	<b>1,262</b>	<b>1,309</b>

#### Regular due diligence inspections

In the inspections of 2009, a total of 391 financial intermediaries were addressed (2008: 507), of which, according to their own information, 236 were involved in financial business activities which were collected in 87 investigation groups. The number of investigations was related to the general size of the 2009 investigations and was not related to a decrease of persons subject to due diligence.

The FMA generally stated that the financial intermediaries made great efforts in implementing the due diligence legislation. Improvements and deficiencies regarding compliance and implementation of due diligence were especially observed in the areas of "Profile of business relations" and PEP (Politically Exposed Persons) policy. The auditors' recommendations to the persons subject to due diligence further improve the achieved standards. A total of 230 complaints were registered. All audit reports were evaluated and analysed by the FMA. All audited financial intermediaries were informed in writing of the investigation's final result.

#### Extraordinary due diligence inspections

The OFSP division conducted a total of 18 extraordinary due diligence investigations. Eight investigations were conducted due to detected supervisory deficiencies. Based on the circumstances which would endanger Liechtenstein's reputation as financial center, eight financial intermediaries were audited. The suspicion of operating in activities subject to approval without the respective license led to two further investigations.

#### Supervision practice

##### Reports to the FIU / referrals to the Office of the Public Prosecutor (OPP)

A total of two referrals to the Office of the Public Prosecutor were made by the OFSP division in 2009.

#### Combating abuse

In combating abuse, the OFSP division increasingly relies on preventive measures by cooperating with the competent authorities, by using information campaigns and media monitoring. The deficien-



cies criticized by the OFSP division were quickly restored by the persons concerned. In the cases of abuse, an international relation was detected increasingly making use of the medium internet.

### **Operational focus areas**

The cooperation between the FMA and the different business associations of the sectors and National Administration authorities was intensified in 2009 by implementing the risk-based supervision approach in connection with the implementation of the third money laundering directive. The results of this intensified cooperation reflect in the elaboration of several sector-specific guidelines – i.e. for the trust and the auditing sector – and communication on due diligence topics. At the same time, the FMA audit report sample was revised and is now available in a user-friendly electronic form. In view of the first investigation round under the revised Due Diligence Act, the auditors were prepared for it in a specific workshop. Within a special DDA workshop organized by the FMA, the auditors were instructed for the upcoming first investigation round under the revised DDA for the year 2010.

Due to a restructuring process in the area of due diligence, the FMA website became more user-friendly. A new category “FAQ” related to due diligence was created. Hence, the website was enhanced as a frequently used information and communication platform.

### **Outlook 2010**

In 2010, the focus will be on the implementation of the Statutory Audit Directive and the resulting development of a quality management system of auditors and auditing companies. In this context, a successful cooperation with the business associations and the financial intermediaries will be enhanced.

With the entry into force of the revised Due Diligence Act on 1 March 2009, new obligations result from this change for the financial intermediaries subject to the DDA; e.g. for the so-called dealers in high-value goods. The FMA's task will be to supervise the persons and companies subject to due diligence within the regular due diligence investigation taking place in 2009 and to sensitize for the prevention of money laundering.

# REGULATION

The experiences arisen from the financial crisis have induced the G-20 states and the European Union to initiate extensive regulation projects to enhance financial market stability. In the area of supervision, the compliance with international standards, the international cooperation and the information exchange will be promoted between the countries. The EU intends to constitute a European Financial Market Supervision System. These developments directly affect the internationally linked Liechtenstein financial center. The FMA closely follows the regulation project in order to safeguard the interests of Liechtenstein.

On 1 March 2009, the new Due Diligence Act came into force within the framework of implementing the third EU Money Laundering Directive. Money Laundering has internationally gained momentum due to the G-20 Declaration and Liechtenstein is expected to achieve further progress. In the insurance sector, the revision of the Insurance Supervision Act (ISA) was finalized by the end of 2009. On 25 September 2009, the Framework Directive Solvency II was adopted by European Parliament.

The Government decided in summer of 2009 to remandate the National Administration authorities with the regulation activity which had been a FMA mandate so far. It is intended to constitute an organization unit within the administration authorities. During the transition phase, the FMA continues to assume responsibility for ongoing regulation projects and supports the know-how transfer. Also afterwards, the FMA will continue to actively participate in regulation projects and will continue to provide its knowledge. The implementation of the regulatory provisions within the supervision activity remains within FMA responsibility.

## 2.1 Banking and Securities Supervision

The regulation activity in the area of banking and securities supervision was focused on the implementation of several EU Directives into national law. Apart from that, further regulation projects such as the partial modification of the Disclosure Act were finalized and numerous FMA guidelines were adapted.

### Concluded regulatory projects

#### Implementation of the Directive 2007/44/EC

The Directive 2007/44/EC harmonized the supervisory evaluation of income and increase of participations in financial sector undertakings, i.e. the supervisory handling of qualified participations in prudentially supervised financial intermediaries.

The implementation of said directive was carried out by partial revisions of laws and ordinance in the areas of banking, asset management and insurance supervision. For the sake of uniformity and in accordance with the market, these rules for investment undertakings were declared applicable. The content of the provisions include formal (inspection procedures) and material aspects (investigation criteria) of the aforementioned supervisory evaluation. These amendments entered into force on 1 July 2009 on legislative level and on 29 September 2009 on ordinance level.

#### Implementation of the Directive 2007/64/EC

The Directive 2007/64/EC on the payments services in the domestic market (Payment Services Directive; PSD) intends an extensively harmonized, simple and efficient regulation of the payments services within the EEA and included supervisory provisions and provisions subject to private law. It addresses the payment services provider and the payment services user. By implementing the PSD

in Liechtenstein a new financial intermediary was created in the form of a payment institute. The PSD implementation was effected by creating the Payment Services Act (PSA) and the Payment Services Ordinance (PSO). Both enactments came into force on 1 November 2009.

### **Partial implementation of the Directive 2009/14/EC (1st phase)**

The directive 2009/14/EC (deposit-guarantee scheme, DGS) had to, has to respectively, transferred into national law in two phases. During the first phase, the amount of coverage, i.e. the deposit amount secured due to the deposit-guarantee system, must be increased. To implement the DGS, the Government constituted a work group in which also the FMA is represented. Based on competitive considerations, the work group decided to increase the amount of coverage to CHF 100,000, and not to keep it at CHF 50,000 as required by the DGS. The entailed modifications in the banking law and the banking ordinance entered into force on 1 July 2009.

### **FMA communication on adequate equity-capital ratio and risk management**

With the FMA communication published in the fourth quarter of 2009 on adequate equity-capital ratio and risk management (risk communication), the affected financial intermediaries were provided with an instrument which should simplify the compliance with the equity-capital and the risk provisions, especially within pillar II. Additionally, the risk communication includes information on essential risk management items thus offering support with respect to a common understanding of adequacy for appropriate conducting measures. To achieve this common understanding, the risk communication was discussed with the financial stakeholders in-depth before enactment.

### **Pending regulatory projects**

#### **Partial implementation of the Directive 2009/14/EC (2nd phase)**

In the second phase of the DSG implementation, the deadlines for determining and paying out receivables within the deposit guarantee scheme will be reduced significantly. Also the second phase of the DSG will be implemented by the aforementioned work group. The necessary amendments on legislative and ordinance level shall enter into force on 1 January 2011.

#### **Implementation of the Directive 2009/27/EC, 2009/83/EC and 2009/111/EC (CRD I & II)**

The CRD I & II modify the directives 2006/48/EC and 2006/49/EC known as Basel II directive by partially revising and supplementing the therein stated equity-capital and risk management provisions and, beyond that, expanding and regulating in more detail the international cooperation of supervision authorities. CRD I and II are to be implemented by 31 October 2010 and must be entered into force by 1 January 2011. In the foreseeable future, the enactments of CRD III, IV and V are to be expected.

#### **Implementation of Directive 2009/44/EC**

The Directive 2009/44/EC (Finality Directive) regulates the harmonized efficiency of “finality in payment and securities settlement systems” within the entire EEA, regulates the “settlement” and the connected relevant financial guarantees. Implementing the Finality Directive will entail a modification of the Finality Act and Property Law. The new provisions must be applied by 1 July 2011 the latest.

### Implementation of Directive 2009/65/EC

The Directive 2009/65/EG (UCITS IV) intends the amended regulation of investment undertakings and determines a profound revision of the existing relevant enactments, especially the Investment Undertakings Act and the Investment Undertakings Ordinance. The corresponding modifications will enter into force on 1 July 2011. Implementation of this directive into national law is part of the project "Liechtenstein Fund Center 2011" initiated by the Government. This project intends to benefit from the existing opportunities out of the Directive UCITS IV and the further regulations for the Liechtenstein Fund Center.

### Implementation of the Directive 2009/110/EC

With the Directive 2009/110/EC (Directive on electronic money) the electronic money business and particularly the supervision of electronic money institutions is restructured. While the existing directive primarily based on the banking directive, the new electronic money directive is principally dominated by the provisions of the payment services directive. The transposition of the Electronic Money Directive must be implemented by 30 April 2011.

### FMA communication on warranties

The question of warranties of the Liechtenstein financial intermediaries' warrantors has always played an important role in supervision practice and continues to do so. For the sake of legal security and foreseeability, the FMA intends to enact a FMA communication on the supervisory assessment of warranties. The FMA communication intends to inform the market how the FMA interprets the warranty letter and which criteria, information and documents lay the basis for answering the warranty question.

## 2.2 Insurance Supervision

### Concluded regulatory projects

#### Revision of the Insurance Supervision Act (ISA)

The revision of the ISA and the Ordinance was completed at the end of 2009. It became necessary primarily due to the implementation of the Reinsurance Directive into the Liechtenstein Law. At the same time, it was used to legislate further urgent postulates which had arisen from existing supervision practices. The revised legislation entered into force on 1 January 2010. The changes primarily concern the expanding of supervision activity of the home-land authority on reinsurance undertakings, the admission of special purpose vehicles, the release from insurance undertakings secrecy by insured persons, the adaptation of minimum guarantee funds and solvency range, the introduction of obligation to appoint an actuary for damage insurance undertakings and the increased obligation for insurance undertakings to include risk management and the concretion of the FMA tasks and competencies of measures.

### Pending regulatory projects

#### Implementing the Directive Solvency II

On 25 September 2009, the Framework Directive Solvency II was adopted by the European Parliament. Solvency II entails a total revision of the ISA and of the Ordinance. The goal of the directive is to improve the consumer protection, to enhance the market integration and to improve international competitiveness of the European direct insurers and reinsurers. Additionally, the requirements of the equity capital will be redefined in consideration of all risks. The EU framework directive must be transferred into national law by 31 October 2012.

# EXTERNAL RELATIONS

### 3.1 National External Relations

The financial crisis especially required a tight supervision of the financial institutions in the first half of the year. With the stabilization of the global financial markets throughout the year, different measures such as extraordinary reportings could be relaxed. The stability of institutions was safeguarded at all times in 2009. The regular exchange with economic and professional associations proved to be vital for the FMA work.

On 4 June 2009, the FMA held its annual media conference. The FMA presented the domestic and foreign media a stable financial center whose financial institutions were characterized by solid tier-1 ratios and liquidity, but were also marked by a certain amount of asset outflows. On 9 December 2009, the FMA hosted an event on “Protected Cell Companies” (PCC). Experts from Aon, Zurich, Swiss Re and the Zurich University discussed the questions whether PCCs could be a new business field for the Liechtenstein financial center. PCCs are instruments for alternative risk financing.

In fall of 2009, the FMA published the “Praxis 2007/2008” (Practice 2007/2008). The publication serves to inform more profoundly on the FMA supervision practice. It includes anonymous versions of descriptions and extracts of important FMA decisions and ordinances, of resolutions issued by the FMA complaints commission and decisions of the Administrative Court and the Constitutional Court.

The collaboration with the Liechtenstein University of Applied Sciences again proved to be profitable for both sides. FMA experts gave lectures on trust matters, due diligence obligations and the fund center.

### 3.2 International External Relations

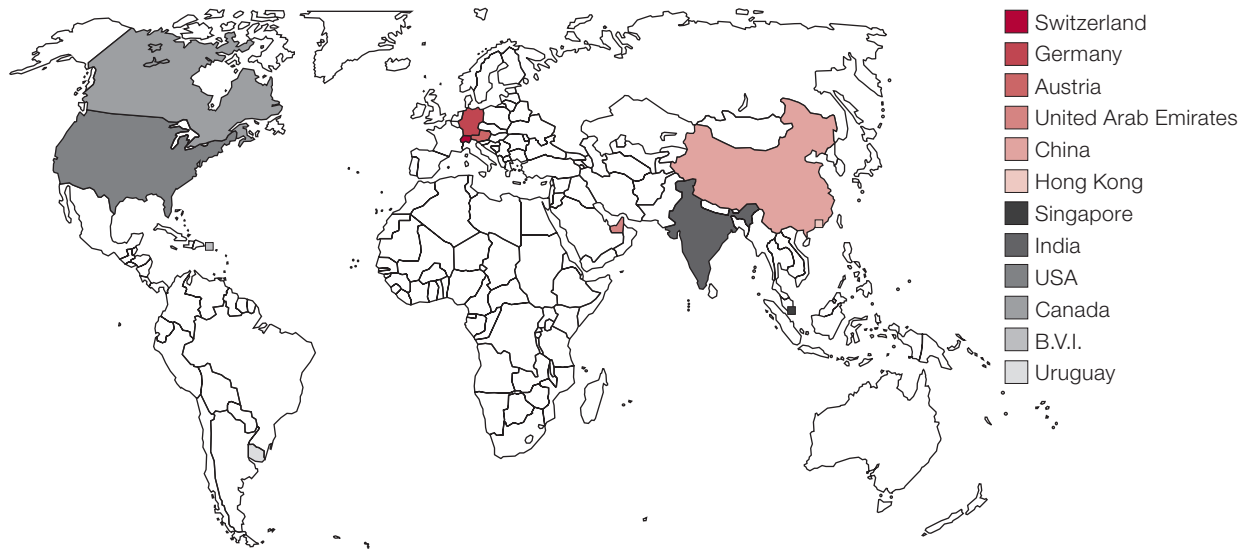
Promoting international cooperation and exchanging of information between supervision authorities is a central concern of the FMA. Apart from the membership in European and international committees, the goal is to institutionalize particularly the contact with related authorities which are of great importance for the Liechtenstein financial market. The strategic partnerships with the supervision authorities of Switzerland, Austria and Germany are to be highlighted. The active FMA cooperation in supervisory committees and the maintenance of bilateral contacts not only promotes the supervision efficiency over internationally operating institutions, but also contributes to the reputation of the Liechtenstein financial center. This is an essential requirement for the access of Liechtenstein financial intermediaries to foreign markets.

#### Global cooperation MONEYVAL

Moneyval is a committee of the Council of Europe, which was constituted in 1997. Being a so-called FATF-style regional body, it supervises the fulfillment of international standards by its member states to prevent money laundering and terror financing. The member states comprise non-OECD countries which are members of the Council of Europe.

Within the framework of mutual on-site investigations by member states, the compliance with FATF standards (40+9 recommendations) are examined. Also Liechtenstein as Moneyval member was examined within the third evaluation round conducted between 2004 and 2009. Liechtenstein was granted a positive certificate regarding its anti-money laundering directive. Within the fourth evaluation term, also Liechtenstein experts participated as examiners from Moneyval member states. This activity

**Bilateral contacts of the FMA**



allows to estimate where Liechtenstein stands in comparison to other countries when it comes to money laundering. At the same time, the insight into the investigation methodology enables an optimum preparation for the next investigation of Liechtenstein within the new evaluation round.

Apart from mutual investigations Moneyval conducts typology studies on methods, tendencies and techniques of money laundering and terror financing. In 2009, studies were conducted on Internet gambling, private retirement provision and insurance sectors, payment transfer services / money exchange and criminal internet payment movements. Moreover, the effects of the global financial crisis on the international prevention of money laundering and terror financing were analysed.

**International Organisation of Securities Commissions (IOSCO)**

The FMA increased its endeavors to become a member of the IOSCO, the International Organisation of Securities Commissions. IOSCO sets standards in the area of securities supervision. A membership with IOSCO increasingly becomes a requirement to access foreign securities markets.

A compulsory requirement for a membership is the signing of the IOSCO Multilateral Memorandum of Understanding (MMoU) which sets the standard for the international information exchange between the supervision authorities.

In June 2009, the FMA organized a meeting between IOSCO representatives and representatives



of the Liechtenstein business associations and of the Liechtenstein government in order to enable a mutual exchange of thoughts and information for legal assistance situations.

The IOSCO representatives have gathered information on legal assistance situation in Liechtenstein for the past two years and have elaborated a respective audit report. This information serves IOSCO as a first decision landmark whether Liechtenstein fulfills the requirements for accession. IOSCO is expected to pronounce its statements on the audit results in the course of 2010.

#### **International Organisation of Insurance Supervisors (IAIS)**

Liechtenstein is an IAIS member. The IAIS primarily considers itself as worldwide setter of standards in the area of insurance supervision. In the 16th meeting of members, the members discussed the effects of the global financial crisis on the insurance economy. Further focus areas were the new international supervision structure, corporate governance, risk management and consumer protection.

#### **International Organisation of Pension Supervisors (IOPS)**

IOPS is the umbrella organisation of supervision authorities on occupational retirement provision. The IOPS aims particularly at the elaboration of international standards, the promoting of international cooperation and the creation of a worldwide forum to exchange information regarding the supervision of occupational pension schemes. The FMA is an IOPS member and takes part in the regular meetings of the technical committee.

#### **Enlarged Contact Group on Supervision on Collective Investment Funds (ECG)**

The ECG is an established voluntary global collaboration of fund supervisors. The annual meetings serve a formal, especially technical exchange of supervision-related topics.

In 2009, 13 member states met on the Isle of Man. Liechtenstein has been a full member since 2006 and participated for the third time. Topics discussed were the regulatory changes on EU level (particularly UCITS IV and AIFM), the market developments based on the financial crisis and the exchange with respect to the supervision practice.

Liechtenstein will host the ECG meeting in 2011. For the Liechtenstein funds and financial center, this will be a special opportunity to position itself in a positive way.

#### **European cooperation**

##### **Level 2**

The so-called level 2 committees (EBC, ESC, EIOPC) support the European Commission in elaborating the technical and detailed implementation provisions to the general legal acts enacted on level 1 by the EU bodies. In general, these committees comprise representatives of national financial



ministries under the general management of the commission. Liechtenstein as EEA member holds an observer status in these technical committees and is partly represented by the government and partly by the FMA.

### **European Securities Committee (ESC)**

The center of the ESC work was the analysis and assessment of the De-Larosière report on a new European financial supervision structure and the implications of its implementation on the European securities law. Furthermore, essential legal acts concerning the securities market were revised such as the market abuse, the prospectus, the UCITS directive and MiFID and possible changes due to the financial market crisis evaluated

### **European Insurance and Occupational Pensions Committee (EIOPC)**

The European Insurance and Occupational Pensions Committee was constituted in 2003 in order to advise the commission when enacting implementation measures for the European insurance and pensions fund directives. Focus areas were in particular the new European Solvency II regime by the EU, the new European supervision structure, guarantee systems to cover insolvencies of insurance undertakings and the revision of the insurance intermediaries' directive.

### **Committee on the Prevention of Money Laundering and Terrorist Financing (CPMLTF)**

This committee is dedicated to the implementing of national standards on the prevention of money laundering – e.g. to the sanction lists of the United Nations or the third money laundering directive – and other topics raised by the FATF.

The work group particularly focuses on the experiences and findings collected by the member states

in connection with the implementation of the third EU money laundering directive. Furthermore, the consequences on the upcoming states' assessment within the fourth FATF evaluation round were discussed. Another point of discussion was the introduction of the new European Financial supervision system and the implementation of the FATF special recommendation IX on the cross-border cash movement.

### **Level 3**

The task of the so-called level 3 committees (CESR, CEBS, CEIOPS) is to ensure a Europe-wide, consistent and equal implementation and application of the regulations elaborated on level 1 and level 2 by developing (so far non-binding) standards and guidelines and, therefore, to promote a unified supervision practice. Along with the harmonization of the legal circumstances of the European financial market supervision law, its application is intended to be harmonized as well.

In December 2009, the ECOFIN decided on the main features of a new European supervision architecture based on which the existing level 3 committees will be expanded to three European supervision authorities. These new authorities will develop binding technical standards regarding the application of the new community law. Beyond that, they will be able to pass binding decisions (e.g. in situations of disagreements between national supervisors).

### **Committee of European Banking Supervisors (CEBS)**

The ongoing global financial crisis largely determined the CEBS activities in 2009. In this context, the CEBS elaborated important preparatory work for the EU roadmap to cope with the financial crisis and the EU contributions at the G-20 sum-

mits. Moreover, CEBS conducted risk assessments and a Europe-wide “stress test” on behalf of the ECOFIN.

Furthermore, the collaboration in the so-called “colleges of supervisors”, in which the supervisors of international system-relevant financial institutions collaborate, was intensified. These colleges are a vital contribution to the prevention of crises. Furthermore, recommendations on publications of balance sheet positions were elaborated which are relevant for the current market situation. Further recommendations by CEBS concern current evaluation and accounting questions and the topic of liquidity management.

#### **Committee of European Securities Supervisors (CESR)**

Also the CESR activity was affected by the financial crisis. Focus areas were the detailed analysis of the failed Lehman Brothers bank, the fraudulent activities in connection with the Madoff case and the supervisory handling of short sales. New topics such as the activities’ supervision of rating agencies expand the CESR scope of work. A focus area is the technical advising of the commission concerning the implementation provisions on the upcoming UCITS IV Directive.

Liechtenstein’s participation in the CESR was refused by referring to Liechtenstein’s legal assistance situation. Yet in 2009, Liechtenstein followed another CESR invitation to report on current developments regarding information exchange in Liechtenstein.

#### **Committee of European Insurance and Occupational Pension Supervisors (CEIOPS)**

Also in 2009, Solvency II was a focus area of the CEIOPS. It was not only center of discussions in the

regular member meetings, but was also tackled in the numerous CEIOPS work groups. Especially notable is the work of the Review Panel, which serves the supervision of compliance with the CEIOPS guidelines and standards in the individual member states. The first review process was conducted in 2009. Further CEIOPS agendas were the effects of the financial crisis (crisis management), the elaboration of the equivalence criteria for the equality evaluation of the reinsurance supervision and the solvency system of third countries and the special regulations on supervising of groups. The collaboration of the FMA in CEIOPS and the respective work groups was intensified. Noteworthy is the collaboration in IGSC (Insurance Group Supervision Committee), in the Financial Requirements Experts Group, in the Internal Model Experts Group and in the IGSRR (Internal Governance, Review and Reporting Experts Group).

#### **3L3 – Anti Money Laundering Task Force (AMLTF)**

The AMLTF was established by three level 3 committees (CEBS, CESR, CEIOPS) in 2006 and ever since has dealt with cross-sector questions on the prevention of money laundering and terror financing. Its tasks include the investigation of legislative regulations on money laundering and on the practical work of the supervision authorities.

The AMLTF finished its compendium on the differences between the supervision practices of the EU authorities when applying the provisions of the third EU money laundering directive. Furthermore, the AMLTF presented its common understanding of money transfers (ordinance (EC) no. 1781/2006) in connection with the FATF special recommendation VII.



### **Passport Experts Group**

The Passport Experts Group consists of representatives of the responsible supervision authorities of all EEA countries in the areas of banking, insurance and securities supervision. The annual meetings serve the purpose to improve the cooperation of supervision authorities with respect to the cross-border activity of supervised financial intermediaries within the European notification system.

### **EFTA Working Group on Financial Services (WGFS)**

On EFTA level, the FMA took part in WGFS reunions in which the EU legal act was discussed that is about to enter the EEA agreement.

### **Four-countries' meeting**

In the framework of the annual four-countries' meeting, the German speaking supervision authorities from Switzerland, Germany, Austria and Liechtenstein exchanged ideas on current supervisory questions. The core topics were leadership issues of the integrated supervision considering the handling of cross-cutting tasks and synergies of the integrated supervision. In the second block of issues on market and securities supervision, the disclosing of participations in listed companies, CESR and the development of the European supervision architecture (consequences of the de-Larosière report) was discussed. The personal and regular exchange on management level of the participating supervision authorities creates a valuable basis for a close collaboration in cross-border supervision affairs.

### **Bilateral cooperation**

In the meetings with the FINMA Switzerland (the Swiss Financial Market Supervisory Authority), the Swiss National Bank, the Swiss Audit Supervision Authority, the FMA Austria, the Austrian National Bank and the German Federal Institute for Financial Services Supervision, questions were debated particularly related to the financial crisis, to consolidated supervision and to current developments of the respective financial market. In a meeting the Hong Kong Monetary Authority (banking supervision) and the HK Securities and Futures Commission (securities supervision), questions related to supervisory collaboration were debated. This regular information exchange with the most important host supervisors is an important, trust-building measure and simplifies the Liechtenstein institutions' activity abroad. At the same time, the information exchange provided a more complete picture of the risk management on group level.

In the course of the periodic meetings between FINMA and the FMA within the existing Direct Insurance Agreement between Liechtenstein and Switzerland, important agenda items of the insurance area were discussed in the year under report. Particularly the issue of elemental damage insurance and – due to the implementation of the reinsurance directive in Liechtenstein – the recognition of equality of the Swiss Reinsurance Supervision was on the agenda. Moreover, the FMA Liechtenstein received a series of foreign delegations in Liechtenstein and presented the Liechtenstein supervision system in detail.

ENTERPRISE

#### 4.1 Organisation

As in the previous year, the number of FMA personnel rose again in 2009. At the end of 2009, it employed 78 persons. By doing so, it enqueues in a trend that has been perceived internationally ever since the outbreak of the financial crisis. The downswing, triggered by the financial crisis, even intensified the efforts of the states to more strongly regulate the financial markets and to enhance supervision of them. While foreign supervision authorities continue to expand, the FMA has entered a phase of consolidation in 2010.

##### Structural organisation

Principally, the structural organisation of the FMA has proved itself even in the period of growth. It reflects the different branches that operate on the financial center. This allows the consideration of the specific branches' needs in the supervision activity of the individual organisational units.

The Executive Assistance Unit, established at the end of 2008, was further expanded in 2009 with a lawyer, an economist and a communication responsible. These specialists fulfill cross-section tasks and support the CEO and the Chairman of the Board.

As the number of personnel increased, also the tasks and responsibilities of the Integrative Affairs Unit increased. Its organisation was divided into the groups, reception, finances/human resources, infrastructure and IT. Thereby, competencies have been clearly divided and the efficiency and effectiveness have been increased.

#### 4.2 Corporate Development

##### Human resources management

The FMA Human Resource Management (HRM) was adapted to the modified framework conditions, was accordingly professionalized and further expanded to safeguard an efficient and effective human resources management. Focus areas were particularly the HRM basics, the HR administration, the inspectioning and reporting and personnel recruitment. The HRM represents a core competence of the FMA and substantially contributes to the overall development of the FMA.

##### Infrastructure

The strong increase in personnel led to bottlenecks in the available premises. The FMA searched for an optimum solution near Vaduz. The best prerequisites for a short-term lease as subtenant of 1.5 years were available to the FMA at Austrasse 59 in Vaduz. For the most part, the premises were furnished and the safety standard corresponded to bank standards. As per 1 April 2009, almost a third of all employees moved into the premises at Austrasse 59. When moving into Immagass in Vaduz as per end of 2010, the entire FMA will again be located in one building.

##### IT

In 2009, the focus was on improving the information security. This project was consistently promoted and implemented with several technical and organisational measures. By moving into the premises at Austrasse 59, the existing IT infrastructure could be consolidated and brought together in an adequate server room. At the same time, the IT support for infrastructure and the technical applications was standardised. The experiences gained were directly incorporated into the planning process for the IT infrastructure of the new building at Immagass.

In view of the future requirements of the FMA IT, an IT strategy was elaborated. The concretion and implementation of the said strategy will be one of the IT focus areas in 2010.

### Security

In 2009, the corner stone for the development of security measures in the area of personnel security. The FMA organized a fire protection course, carried out by the Office of Civil Protection, and a first aid course, carried out by the Samariterverein Vaduz. In each of the courses one person of each department participated. As a result of the constantly increasing security requirements, all employees additionally were trained in information security and in security measures in the office and at work.

### Communication

In the middle of 2009, by hiring the head of the Communications department, the basics for professional internal and external corporate communication were created. With the distortions in the financial markets, the financial market authorities have generally been more exposed to the media. Providing active public relations work, the FMA intends to position itself as a strong supervision authority and therefore to strengthen the financial center's reputation. By increasing the number of personnel, the need for an enhanced internal communication policy has increased as well.

## 4.3 Finances

According to art. 28 of the Financial Market Authority Act, the FMA is financed by a contribution of the state, by supervision taxes and fees on income from providing services.

The parliament approved in its December session of 2008 the estimate for the business year 2009 with a total expenditure amount of CHF 19,252,000. The state contribution amounted to CHF 13,857,000. In the June session, parliament criticized the strong increase of personnel and the increasing financial expenses at the FMA on the occasion of approval of the annual report 2008.

The FMA took this criticism seriously and reviewed and implemented saving measures in 2009. The FMA's annual financial statement 2009 showed total expenses in the amount of CHF 16,849,510 and therefore is with CHF 2,402,490, or 12.5%, below the approved budget 2009 amounting to CHF 19,252,000. The actually obtained state contribution amounts to CHF 11,916,207 and therefore is CHF 1,940,793, or 14%, below the approved





state contribution amounting to CHF 13,857,000. The strong reduction of expenses is made possible through the critical analysis of the job situation, the keeping of vacancies and the savings measures in material expenses. The stabilization of the global financial markets during 2009 further enhanced the positive development.

Personnel expenses in 2009 amounted to CHF 12,231,570 and therefore are with CHF 778,430, or 6%, below the approved budget amounting to CHF 13,010,000. The material expenses are CHF 4,412,185, i.e. CHF 1,614,815, or 26.8%, below budget. This strong reduction is particularly attributable to the reduction of experts fees/experts' opinions and expenses for public relations work and events/representation work. The expenses for experts fees/experts' opinions totally amount to CHF 1,442,742 and therefore are with CHF 1,127,258, or 43.9%, below the approved budget amounting to CHF 2,570,000.

The income of the FMA in 2009 amounted to CHF 7,803,304 and therefore is with CHF 2,408,304 above the budget of CHF 5,395,000. This strong increase of income is due to payments in connection with a supervision case for which expenses had accrued in 2008. At the point of the annual financial statement 2008, this income was not considered based on the prudence principle since the payment entry was still uncertain.

The state contribution 2009 was determined in the Government Decision of 9 February 2010 (RA 2009/2916-7402). It covers the FMA deficit, additionally to the expected investments to be made in the amount of CHF 2,870,000, which will show in the annual financial statement 2009 as profit and will be allocated to the reserves. The Government Decision ensures that the investments can be made and that the FMA disposes of liquid funds.

Balance Sheet as per 31 December 2009 (in CHF)

Assets	2009	2008
<b>Fixed Assets</b>		
<b>Tangible Assets</b>		
IT equipment	124,164.89	103,225.26
Furnishings	125,948.38	283,185.37
<b>Current Assets</b>		
<b>Liquid Assets</b>		
Cash	466.65	255.35
Bank	6,037,066.72	5,920.80
Call Money	–	1,738,000.00
Fixed-term deposits	–	1,000,000.00
<b>Receivables</b>		
Debtors	419,604.60	217,313.89
National Administration offset account	1,094,279.96	–
<b>Accrued Items</b>		
Accountings paid in advance	325,824.74	3,787,591.90
– <i>vis-à-vis Office of Financial Accounting</i>	–	3,500,000.00
– <i>other accounts paid in advance</i>	325,824.74	287,591.90
<b>Total Assets</b>	<b><u>8,127,355.94</u></b>	<b><u>7,135,492.57</u></b>

Liabilities	2009	2008
<b>Equity Capital</b>		
Endowment	2,000,000.00	2,000,000.00
Reserves as of 1 January	1,506,086.49	1,752,110.36
Dissolution of / allocation to reserves	<u>2,870,000.00</u>	<u>– 246,023.87</u>
Own funds	6,376,086.49	3,506,086.49
<b>Provisions</b>		
Provisions	50,000.00	50,000.00
<b>Accounts payable</b>		
Creditors	1,701,269.45	3,340,810.95
National Administration offset account	–	238,595.13
<b>Deferred items</b>		
Accounts receivable in advance	–	–
<b>Total Liabilities</b>	<b><u>8,127,355.94</u></b>	<b><u>7,135,492.57</u></b>

## Income statement 1 January to 31 December 2009 (in CHF)

	2009	Budget 2009	Deviation	2008
<b>Expenses</b>				
<b>Personnel expenses</b>				
Wages	8,794,494.76	9,450,000.00	- 655,505.24	5,676,462.90
Social security contributions	1,588,684.03	1,870,000.00	- 281,315.97	897,639.85
Secondments	603,762.50	350,000.00	253,762.50	367,258.90
Insurance (sickness daily allowances)	64,401.90	70,000.00	-5,598.10	56,989.30
Insurance benefits (sickness daily allowances)	-	-	-	- 29,677.20
Other personnel expenses	619,943.60	650,000.00	- 30,056.40	672,817.70
Basic and continuing training	222,109.85	270,000.00	- 47,890.15	140,037.80
Board	338,173.17	350,000.00	- 11,826.83	636,549.73
<b>Total personnel expenses</b>	<b>12,231,569.81</b>	<b>13,010,000.00</b>	<b>- 778,430.19</b>	<b>8,418,078.98</b>
<b>Material expenses</b>				
Office expenses	201,331.25	160,000.00	41,331.25	126,689.80
Travel expenses	280,414.50	500,000.00	- 219,585.50	274,604.46
Expert fees/opinions	1,442,742.20	2,570,000.00	- 1,127,257.80	2,514,337.25
Auditing companies	4,455,525.45	50,000.00	4,405,525.45	3,646,774.45
Repayments auditing companies	- 4,133,084.85	-	- 4,133,084.85	-
Premises	759,179.15	1,000,000.00	- 240,820.85	471,310.70
IT costs	628,083.30	700,000.00	- 71,916.70	251,874.87
Public outreach	239,235.95	390,000.00	- 150,764.05	216,389.50
Events and representation	25,678.20	170,000.00	- 144,321.80	26,143.35
Membership fees f. associations/institutions	41,134.60	42,000.00	- 865.40	37,738.30
Audit expenses	59,180.49	70,000.00	- 10,819.51	72,873.49
Other expenses	412,764.30	375,000.00	37,764.30	193,625.46
<b>Total material expenses</b>	<b>4,412,184.54</b>	<b>6,027,000.00</b>	<b>- 1,614,815.46</b>	<b>7,832,361.63</b>
<b>Write-downs</b>				
Depreciation on furniture	158,702.29	160,000.00	- 1,297.71	158,409.23
Depreciation on IT	47,053.67	45,000.00	2,053.67	33,455.61
Write-downs on debtors	-	10,000.00	- 10,000.00	-
<b>Total write-downs</b>	<b>205,755.96</b>	<b>215,000.00</b>	<b>- 9,244.04</b>	<b>191,864.84</b>
<b>Total Expenses</b>	<b>16,849,510.31</b>	<b>19,252,000.00</b>	<b>- 2,402,489.69</b>	<b>16,442,305.45</b>
<b>Annual Surplus (allocated to reserves)</b>	<b>2,870,000.00</b>	<b>-</b>	<b>2,870,000.00</b>	<b>-</b>
	<b>19,719,510.31</b>	<b>19,252,000.00</b>		<b>16,442,305.45</b>
<b>Income</b>				
Licensing fees	895,950.00	1,260,000.00	- 364,050.00	1,290,518.40
Supervision taxes	4,121,763.95	3,890,000.00	231,763.95	3,089,088.20
Examination fees	59,180.49	40,000.00	19,180.49	32,000.00
Other fees	354,178.55	170,000.00	184,178.55	277,359.60
Other income	368,903.31	35,000.00	333,903.31	905,315.38
Income unrelated to this period (repayments)	2,003,327.30	-	2,003,327.30	-
<b>Total fees and taxes</b>	<b>7,803,303.60</b>	<b>5,395,000.00</b>	<b>2,408,303.60</b>	<b>5,594,281.58</b>
<b>State contribution</b>	<b>11,916,206.71</b>	<b>13,857,000.00</b>	<b>- 1,940,793.29</b>	<b>10,602,000.00</b>
<b>Total income</b>	<b>19,719,510.31</b>	<b>19,252,000.00</b>	<b>467,510.31</b>	<b>16,196,281.58</b>
<b>Annual deficit (dissolution of reserves)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>246,023.87</b>
	<b>19,719,510.31</b>	<b>19,252,000.00</b>		<b>16,442,305.45</b>

**Notes on the 2009 financial statement**

**Financial accounting principles**

The Annual Report of the Financial Market Authority (FMA) Liechtenstein is governed by the financial accounting principles of the Liechtenstein Law on Persons and Companies (PGR) (art. 32, par. 1 of the FMA Act). The goal of financial accounting is to convey a picture of the asset, financial and income situation of the FMA that corresponds to the actual circumstances (true and fair view). The general valuation principles of the PGR are applied.

**Balancing and valuation methods**

Tangible assets are valued at acquisition costs, reduced by depreciation. Depreciation is linear, based on the acquisition costs. The depreciation rate for IT equipment and furnishings is 20% per annum (linear). Receivables are calculated at par value, minus any required write-downs. No write-downs were necessary in the 2009 business year. Provisions are calculated to take sufficient account

of all recognizable risks according to a reasonable commercial assessment. Accounts payable are valued at par value or at the repayment amount, whichever is higher.

**Foreign exchange rates**

The FMA only invoices in CHF. Liabilities in currencies other than CHF are booked at the applicable daily exchange rate.

**Fire insurance values of tangible assets**

Pursuant to the service agreement between the FMA and the National Administration, tangible assets are insured via the National Administration.

**Receivables**

All receivables have a maturity of less than a year.

**Fixed assets**

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

**Asset Analysis**

	Acquisition costs 01.01.09	Acquisitions	Divestitures	Acquisition costs 31.12.09	Balance 01.01.09	Acquisitions	Divestitures	Balance 31.12.09	Balance 01.01.09	Balance 31.12.09
<b>Tangible assets</b>	<b>Acquisition costs</b>			<b>Write-downs</b>			<b>Book value</b>			
IT equipments	167,278.05	67,993.30	0.00	235,271.35	64,052.79	47,053.67	0.00	111,106.46	103,225.26	124,164.89
Furnitures	791,951.80	1,465.30	0.00	793,417.10	508,766.43	158,702.29	0.00	667,468.72	283,185.37	125,948.38
<b>Total</b>	<b>959,229.85</b>	<b>69,458.60</b>	<b>0.00</b>	<b>1,028,688.45</b>	<b>572,819.22</b>	<b>205,755.96</b>	<b>0.00</b>	<b>778,575.18</b>	<b>386,410.63</b>	<b>250,113.27</b>

### Provisions

As part of accounting under the Law on Persons and Companies (PGR), all provisions are reassessed each year, justified, and adjusted where necessary.

In the 2009 business year, provisions in the amount of CHF 100,000 were established of which CHF 50,000 were dissolved in the previous year as reduced expenses for litigation costs. The other provisions in the amount of CHF 50,000 are being maintained for any future litigation risks. Therefore, provisions totaling CHF 50,000 as per 31 December 2009 remain.

### Long-term liabilities

The FMA will be moving into new premises towards the end of 2009. The FMA signed a corresponding lease contract with a general contractor. The lease contract was signed for a duration of twenty years. The annual rent amounts to about CHF 1.8 million (incl. additional expenses).

### Income unrelated to this period (repayments)

In the 2009 business year, repayments in connection with a supervision case for which expenses had accrued in 2008. At the point of the annual financial statement 2008, this income was not considered based on the prudence principle since the payment entry was still uncertain.

### Remuneration of the Board and members of the General Management

(art. 1092, par. 9 [a] PGR)

#### Board

Total remuneration of Members of the Board in the 2009 business year was CHF 338,173.17. The Members of the Board were appointed by Parliament in its meetings on 15 September 2004 and 20 October 2004 for the 2005–2009 term.

In its decision RA 2004/3114 dated 30 November 2004, the Government specified the remunerations:

- Annual fee of the Chairman
- Annual fee of the Deputy Chairman
- Annual fee of the other three members
- per diem for meetings
- per diem for expenses

In its decision RA 2008/3467-0314 on 16 December 2008, the Government respecified the remuneration of the Chairman due to a workload reduction.

#### General Management

The gross remuneration of Member of the General Management in the 2009 business year amounted to CHF 1,127,963.45, without social security contributions.

The Members of the General Management are appointed by the Board.

The General Management is composed of the following Members:

- CEO
- Deputy of the CEO and Head of Banking and Securities Supervision
- Head of Insurance and Pension Funds Supervision
- Head of Other Financial Service Providers Intermediaries

Miriam Chiara Klier resigned as Head of Other Financial Service Providers Intermediaries (OFSP) and as Member of the General Management on 8 May 2009. Ad interim, Patrik Galliard assumed

her duties until appointment of a successor. The vacant position of the Head of OFSP was filled with the appointment of Dr Roger Quaderer on 1 January 2010. Dr Alexander Imhof was appointed new Head of Insurance and Pension Funds Supervision (IPF) as of 1 June 2009.

**Staff figures**

As of 31 December 2009, the FMA had a total of 78 staff members. Of these staff members, 68 had regular full-time contracts, 8 had part-time contracts and 2 had fixed-term contracts. In addition, it employed 2 trainees. A total of 73.2 full-time positions were filled as of 31 December 2009.

**Overview Staff Members as per 31 December 2009**

	Persons	Jobs
Permanent contracts 100%	68	68
Permanent contracts, part-time	8	5.2
<b>Total full-time contracts</b>	<b>76</b>	<b>73.2</b>
Fixed-term employment	2	1.9
Staff Members as per 31.12.2009	78	75.1
Vacant positions/jobs		3.6
<b>Total FMA</b>		<b>78.7</b>
Trainees	2	2

## Attestation of the National Audit Office



FINANZKONTROLLE  
FÜRSTENTUM LIECHTENSTEIN

Report of the National Audit Office to the Parliament of the Principality of Liechtenstein concerning

### **the Financial Market Authority (FMA) Liechtenstein**

As the audit office within the meaning of article 19 of the Law on the Financial Market Authority (FMA Act), we have audited the accounting, the annual financial statement (balance sheet, income statement, and notes) and the business report of the Financial Market Authority (FMA) Liechtenstein for the business year ending 31 December 2009.

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

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

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

The business report is in accordance with the annual financial statement.

We recommend that the present annual financial statement be approved.

**NATIONAL AUDIT OFFICE**  
of the Principality of Liechtenstein

Cornelia Lang  
*Director*

Oliver Hermann  
*Certified Public Accountant*

Vaduz, 24 March 2010

LIECHTENSTEIN

TEAM



### **Development of the staff members**

As of 31 December 2009, the FMA had 78 staff members. The share of women was 44%. 68 had regular full-time contracts, 8 had part-time contracts and 2 had fixed-term contracts. In addition, it employed 2 trainees. A total of 73.2 full-time positions were occupied as of 31 December 2009. 11 staff members left the FMA. Apart from 3.6 full-time positions, all vacancies could be successfully filled (see table page 58).

The strong increase of staff represented a significant challenge for the FMA. The FMA highly values a careful and comprehensive training in order to ensure a speedy and smooth integration of new members. In addition to enhance team development and to promote a sustainable and uniform corporate culture, which is a vital success factor of the FMA, the FMA also hosts events outside the everyday work.

### **Basic and continuing training**

The ongoing promotion of staff member know-how, especially in profession-related basic and continuing training courses, is a vital success factor of the FMA. Fortunately, staff members were able to attend numerous seminars, courses and trainings despite their significant work load.

### **Changes / promotions**

Miriam Chiara Klier resigned as Head of Other Financial Service Providers Intermediaries (OFSP) and as Member of the General Management on 8 May 2009. Ad interim, Patrik Galliard assumed her duties until appointment of a successor. The vacant position of the Head of OFSP was filled with the appointment of Dr Roger Quaderer on 1 January 2010. Dr Alexander Imhof was appointed new Head of Insurance and Pension Funds Supervision (IPF) by the Board as of 1 June 2009.

Due to Patricia Bärtsch's resignation as Head of the Integrative Affairs Unit (SIA), the Board appointed Martin Schädler as new Head of the Integrative Tasks Unit (SIA) as of 4 April 2009.

### **Staff makeup**

The staff makeup comprises about 40% jurists and 25% economists. In addition, about 10% are specialists such as auditors, banking experts and actuaries. 25% of the staff makeup are officers or staff members with other professional backgrounds.

### **Nationalities**

18% of all staff members are Liechtenstein citizens, 38% are of Swiss nationality, 35% are Austrians and 9% are of German nationality.

# Annex

## Financial market participants under the supervision of the FMA as of 31 December 2009

	2004	2005	2006	2007	2008	2009	Increase 08/09
<b>Banks/Investment firms/Liechtenstein Postal Service</b>							
Banks	16	16	16	16	15	16	1
Investment firms (from 1 November 2007)	–	–	–	0	0	0	0
Liechtenstein Postal Service	1	1	1	1	1	1	0
Audit offices pursuant to the Banking Act	9	9	9	10	8	8	0
<b>Asset management companies</b>							
Asset management companies (from 1 January 2006)	–	–	48	90	102	102	0
<b>Investment undertakings</b>							
Active management companies	–	–	28	27	28	27	– 1
of which fund management companies			19	20	21	21	
of which investment companies			9	7	7	6	
Domestic investment undertakings	141	166	208	303	363	411	48
of which segmented	42	45	48	59	72	78	
with a total of segments (individual funds)	141	156	179	224	269	285	
Foreign investment undertakings	208	239	137 <sup>1)</sup>	136	112	95	– 17
of which segmented	52	56	13	18	22	22	
with a total of segments (individual funds)	580	659	48	89	114	98	
Audit offices pursuant to the IUA	9	10	10	10	10	11	1
Entitled to market units pursuant to the IUA (from 1 Sept 2005)	–	–	6	8	11	12	1
<b>Insurance undertakings</b>							
Insurance undertakings domiciled in Liechtenstein	28	32	35	37	42	41	– 1
Audit offices pursuant to the ISA	10	10	10	9	9	9	0
<b>Insurance intermediaries</b>							
Insurance intermediaries (from 1 July 2006)	–	–	3	35	64	70	6
<b>Pension schemes</b>							
Pension schemes	40	41	39	36	34	33	– 1
Audit offices pursuant to the OPA	–	–	0	12	12	13	1
Pension insurance experts pursuant to the OPA	–	–	0	10	13	13	0
<b>Pension funds</b>							
Pension funds	–	–	0	2	4	5	1
<b>Other financial service providers</b>							
Professional trustees	82	86	84	88	85	83	– 2
Professional trustees with restricted license	23	27	27	27	28	26	– 2
Trust companies	284	295	277	257	260	262	2
Trust companies with restricted license	10	13	15	17	19	24	5
Auditors	23	24	24	23	23	24	1
Auditing companies	28	26	25	24	26	26	0
Lawyers	110	116	124	128	133	147	14
Registrable Liechtenstein lawyers	48	55	55	63	64	60	– 4
Resident European lawyers	18	18	19	20	27	25	– 2
Lawyer cooperatives	27	28	26	25	26	28	2
Branches of law firms	–	1	0	0	1	1	0
Trainee lawyers	58	64	71	65	71	66	– 5
Legal agents	5	5	5	5	5	5	0
Patent attorneys	12	13	13	10	10	10	0
Patent attorneys firms	5	5	4	4	4	3	– 1
Persons with a certification under art. 180a PGR	438	461	495	505	513	532	19
Exchange offices	1	1	2	2	0	0	0
Real estate brokers	*	16	18	18	21	24	3
Dealers in high-value goods and auctioneers	*	17	37	38	39	42	3
Casinos	*	0	0	0	0	0	0
Other persons subject to due diligence	*	21	27	28	30	32	2
<b>Total</b>	<b>1,634</b>	<b>1,816</b>	<b>1,898</b>	<b>2,089</b>	<b>2,214</b>	<b>2,288</b>	<b>74</b>

\* subject to DDA since 1 February 2005

<sup>1)</sup> the strong decrease in foreign investment undertakings is due to the fact that notified financial market participants were reported separately for the first time as of 1 December 2006.

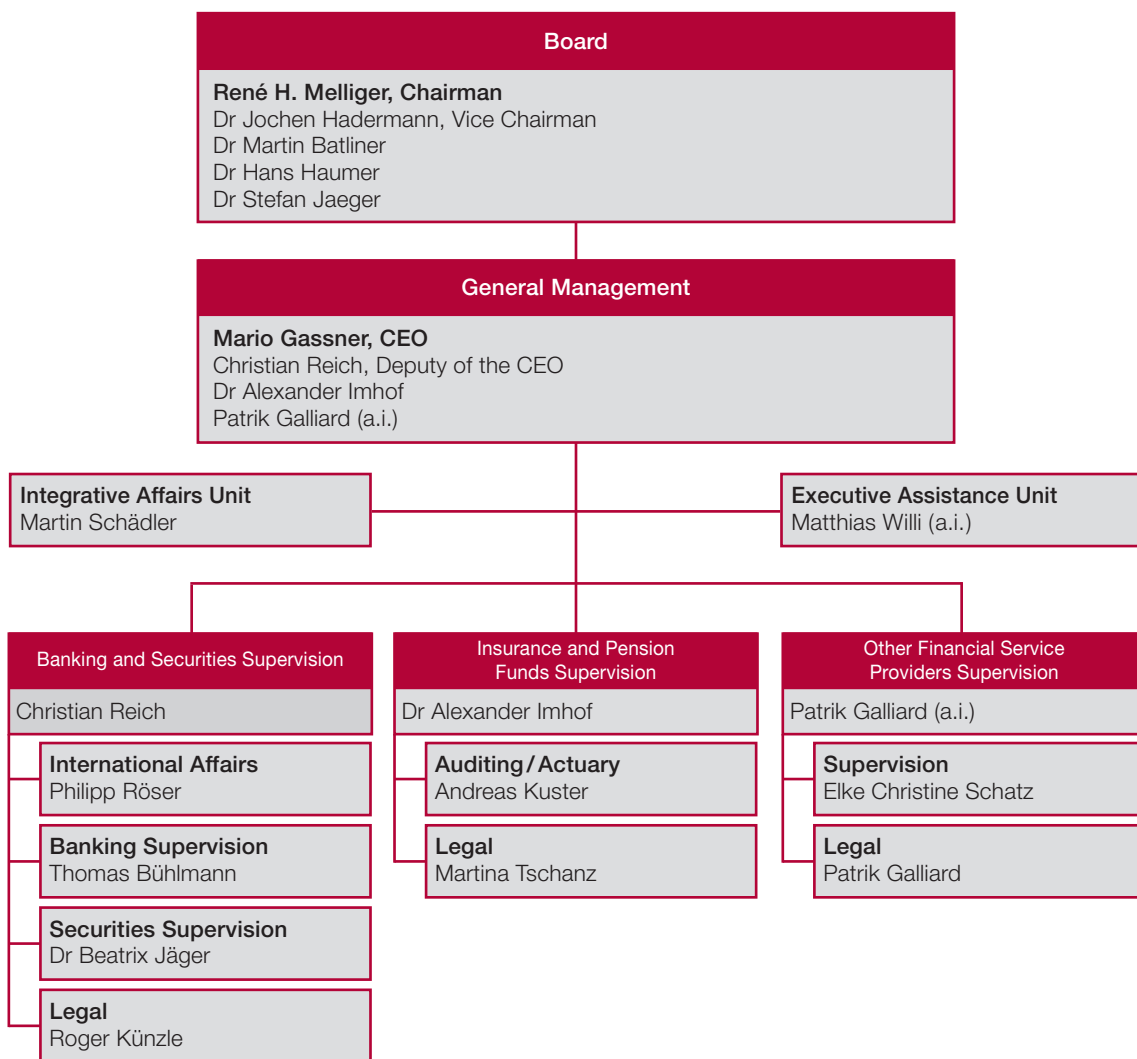
**Foreign financial market participants under the supervision of the FMA  
engaging in free movement of services as per 31 December 2009**

	2004	2005	2006	2007	2008	2009	increase 08/09
<b>Banks / Investment firms</b>							
Free movement of services of EEA banks	72	88	108	141	171	179	8
Free movement of services of EEA investment firms	653	737	840	1,049	1,624	1,699	75
Branches of EEA investment firms	0	1	1	1	1	0	-1
Free movement of e-banking institutions	-	-	-	5	7	7	0
Free movement of multilateral trading systems (from 1 November 2007)	-	-	-	2	2	2	0
<b>Insurance undertakings</b>							
Free movement of services of EEA and Swiss undertakings	201	225	240	271	346	375	29
Branches of Swiss undertakings	26	23	26	25	25	22	-3
Branches of EEA undertakings	1	1	1	1	1	1	0
<b>Management companies and investment undertakings</b>							
Free movement of services of EEA management companies	-	-	1	3	4	5	1
Free movement of services of EEA investment undertakings	-	-	103	110	107	95	-12
of which segmented	-	-	42	49	52	53	
with a total of segments (individual funds)	-	-	694	773	793	841	
Branches of EEA companies	-	-	0	0	0	0	0
<b>Other financial services providers</b>							
Auditors engaging in free movement of services	-	2	3	5	5	5	0
Auditing companies engaging in free movement of services	18	20	21	21	21	23	2
<b>TOTAL</b>	<b>971</b>	<b>1,097</b>	<b>1,344</b>	<b>1,634</b>	<b>2,314</b>	<b>2,413</b>	<b>99</b>

**Laws subject to the supervision and execution of the FMA as of 31 December 2009**

1. Law on Banking and Finance Companies (Banking Act)
2. Law on the Business of Electronic Money Institutions (E-Money-Act)
3. Law on the Liechtensteinische Landesbank
4. Payment Services Act (PSA)
5. Law on Efficiency of Finality in Payment and Securities Settlement Systems (Finality Act)
6. Law on the Disclosure of Information regarding Issuers of Securities (Disclosure Act)
7. Law on Securities Prospectus (Securities Prospectus Act; SPA)
8. Law on Investment Undertakings
9. Law on the Liechtenstein Postal Service (Postal Act)
10. Law on Lawyers
11. Law on Professional Trustees
12. Law on Auditors and Auditing Companies (Auditors and Auditing Companies Act; AACA)
13. Law on Patent Attorneys
14. Law on the Supervision of Insurance Undertakings (Insurance Supervision Act; ISA)
15. Law on Occupational Supervisory Obligation to prevent Money Laundering, Organized Crime and Terror Financing (Due Diligence Act; DDA)
16. Law on Occupational Pensions (OPA)
17. Law on Insurance Protection of Buildings against Fire Damage and Elementary Loss (Building Insurance Act; BIA)
18. Law on Asset Management (Asset Management Act; AMA)
19. Law on Insurance Mediation (Insurance Mediation Act; IMA)
20. Law on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act; PFA)
21. Law against Market Abuse in Trading of Financial Instruments (Market Abuse Act; MAA)
22. Law on Takeover Offers (Takeover Act)
23. Law on the Supplemental Supervision of Undertakings in a Financial Conglomerate (Financial Conglomerate Act; FCA)
24. Law on Occupational Pensions for State Employees (Pension Insurance Act; PIA)

**Organizational Structure**  
(as of 31 December 2009)



# Abbreviations

AACA	Auditors and Auditing Companies Act
AMC	Asset Management Companies
AMA	Asset Management Act
BankG	Bankengesetz (Law on Banking and Finance Companies [Banking Act])
CEBS	Committee of European Banking Supervisors
CESR	Committee of European Securities Regulators
CEIOPS	Committee of European Insurance and Occupational Pension Supervisors
DDA	Law on Occupational Supervisory Obligation to prevent Money Laundering, Organized Crime and Terror Financing (Due Diligence Act; DDA)
DDO	Due Diligence Ordinance
DGS	Deposit-Guarantee Scheme
EBC	European Banking Committee
EC	European Community
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFTA	European Free Trade Association
EIOPC	European Insurance and Occupational Pensions Committee
ESC	European Securities Committee
FATF	Financial Action Task Force
FINMA	Eidgenössische Finanzmarktaufsicht (Swiss Financial Market Supervisory Authority FINMA)
FIU	Financial Intelligence Unit
FL	Principality of Liechtenstein
FMA-CC	FMA-Complaints Commission
FSB	Financial Stability Board
IAIS	International Association of Insurance Supervisors
IPF	Insurance and Pension Funds Supervision (IPF)
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organisation of Securities Commissions
ISA	Law on the Supervision of Insurance Undertakings (Insurance Supervision Act; ISA)
ISS	Insurance and Securities Supervision
IU	Investment Undertaking
IUA	Investment Undertakings Act
IMA	Law on Insurance Mediation (Insurance Mediation Act; IMA)
IMF	International Monetary Fund
LA	Lawyers Act
LAFV	Liechtensteinischer Anlagefondsverband (Liechtenstein Investment Fund Association)
LBA	Liechtenstein Bankers Association
MC	Management Company
MiFID	Markets in Financial Instruments Directive
MMoU	Multilateral Memorandum of Understanding
Moneyval	Expert Committee of the Council of Europe to assess the measures taken to prevent money laundering
OECD	Organisation for Economic Co-operation and Development
OFSP	Other Financial Service Providers (Supervision)
OPA	Occupational Pensions Act (OPA)
PAA	Patent Attorneys Act
PCC	Protected Cell Companies
PEP	Politically Exposed Person
PFA	Law on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act; PFA)
PGR	Personen- und Gesellschaftsrecht (Persons and Companies Act)
PSA	Payment Services Act
PSD	Payment Services Directive
PSO	Payment Services Ordinance
PTA	Professional Trustees Act
SIA	Stabstelle für Integrative Aufgaben (Integrative Affairs Unit)
SPA	Securities Prospectus Act
TIEA	Tax Information Exchange Agreement
UCITS	Undertakings for Collective Investments in Transferable Securities
VGH	Verwaltungsgerichtshof des Fürstentums Liechtenstein (Administrative Court of the Principality of Liechtenstein)
VuVL	Verein unabhängiger Vermögensverwalter in Liechtenstein (Association of Independent Asset Managers in Liechtenstein)

### **Credits**

Publisher and Editor

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