



FMA

Financial Market Authority
Liechtenstein



Annual Report 2010

| | |
|---|----|
| CORE PRINCIPLES | 4 |
| BOARD OF DIRECTORS | 6 |
| EXECUTIVE BOARD | 12 |
| 1. SUPERVISION | 16 |
| 1.1 Banking Division | 17 |
| 1.2 Securities Division | 23 |
| 1.3 Insurance and Pension Funds Division | 30 |
| 1.4 Other Financial Intermediaries Division | 38 |
| 2. REGULATION | 44 |
| 2.1 Banking Division | 45 |
| 2.2 Securities Division | 46 |
| 2.3 Insurance and Pension Funds Division | 48 |
| 2.4 Other Financial Intermediaries Division | 50 |
| 3. EXTERNAL RELATIONS | 52 |
| 3.1 National external relations | 53 |
| 3.2 International external relations | 53 |
| 3.3 Bilateral cooperation | 62 |
| 4. ENTERPRISE | 64 |
| 4.1 Organization | 65 |
| 4.2 Corporate development | 66 |
| 4.3 Finances | 67 |
| 5. TEAM | 74 |
| ANNEX | 76 |

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

We supervise efficiently, consistently, and effectively.

We stand for sustainable regulation.

We pursue active dialogue.

We think and act entrepreneurially.

We respect and value each other within our team.

- – We are independent in the fulfillment of our supervisory mandate.
- We grant licenses in a responsible and speedy manner, and our supervision is risk-based, close to the market, comprehensible, and fair.
- We orient ourselves by the best methods and practices of an integrated supervisory authority.
- We fight abuse and consistently punish violations of regulations and laws. In this way, we protect the clients of the financial center and contribute to its good reputation and credibility.

- – We define minimum standards through regulation and further specify laws and ordinances with guidelines and instructions. For this purpose, we especially involve the professional and industry associations.
- We implement and enforce international standards. In doing so, we take account of the competitiveness and development of the financial center.
- We stand for a good regulatory framework for the financial center and advise the Government on questions relating to financial market strategy.

- – We engage in dialogue with our national and international stakeholder groups. We ensure that we are recognized as a competent and reliable supervisory authority in Liechtenstein and abroad.
- We contribute to international bodies and promote cooperation with other supervisory authorities. We represent Liechtenstein's interests in this regard.

- – We always follow the rules and practices of responsible and modern corporate governance. We employ our financial resources cost-effectively and efficiently.
- We offer our employees an environment where they enjoy to work for the long term, and we promote their skills through basic and continuing training.
- We communicate in a businesslike, transparent, and speedy manner as an enterprise.

- – We are a team, actively valuing each other in our interactions, and we identify with our goals and responsibilities.
- We are proud to make a contribution to the success of the FMA and the Liechtenstein financial center.

Michael Lauber
Chairman of the Board of Directors



The first year of the new term of the Board of Directors elected on 1 January 2010 by the Liechtenstein Parliament was shaped by the decision to reorganize the authority, the implementation of corporate governance projects, efforts to secure a sustainable basis of financing for the FMA, and revision of the administrative assistance rules relating to securities. The goal of these efforts is to position the FMA as a strong and internationally recognized supervisory authority and to strengthen the respect it enjoys at home.

The Board of Directors reviewed the organization, resource requirements, and processes of the FMA and optimized the enterprise. The Banking and Securities Division was split up into two autonomous divisions, and the Executive Office was strengthened with horizontal responsibilities. Efficiency gains have been achieved in the workflows of the individual divisions. The implemented measures have led to a staff reduction of 7% and lower material costs. With 73 staff member positions, the FMA has a personnel basis that allows it to meet its existing responsibilities.

Based on the relevant legal foundations set out in the Law on the Steering and Supervision of Public Enterprises (Public Enterprise Act, PEA) and the Financial Market Authority Act (FMA Act), the Board of Directors has implemented numerous requirements and targets relating to corporate governance. Based on the PEA, the Government enacted an owner's strategy for the FMA in March, implementation of which was immediately begun.

The Board of Directors attaches the greatest strategic importance to communication, i.e. to the systematic pursuit of dialogue between the FMA and its stakeholder groups. Accordingly, the Communications

office was allocated more staff as an immediate measure, and it has been integrated more closely in strategic and operational management. The Board of Directors believes that the development of a future-oriented IT environment is just as important as official communications. In spring, an IT strategy was thus adopted which will be implemented step-by-step over the coming years. During the reporting year, a Risk Management System was also established to control the risks affecting the FMA.

The Board of Directors mandated the Chief Executive Officer to prepare the bases for decision-making and to implement the reorganization and other projects. The requisite work was accomplished almost entirely using existing staffing resources.

In close cooperation with the Government and the associations, a constitutionally sound and sustainable basis for the FMA's funding was developed. In a short period of time, a proposal was presented to Parliament, based on the principle that the State and the financial sector should share the burden for official activities in a balanced way. The proposal, which was already adopted by Parliament in December, moreover implements the requirements set out by the Constitutional Court. Also within a short period of time, the provisions governing international administrative assistance in the field of securities were revised.

The most important factors for the success of the Liechtenstein financial center are its stability and its reputation. The Board of Directors believes that the key responsibility of the FMA is to ensure stability and thus credible supervision. For that purpose, the FMA must recognize risks and intervene early on. Good reputation is in turn an important factor for stability. During its term of office, the Board of

Office will deal especially with these two fields. This includes effective networking by the FMA as part of the newly created European supervisory structures.

Reorganization

At the beginning of 2010, the Board of Directors analyzed the organization and processes of the FMA in detail and decided on a reorganization. As part of this reorganization, the four supervision divisions – Banking, Insurance, Securities, and Other Financial Intermediaries – were created. The Executive Office was strengthened by inclusion of the horizontal functions Legal and International Affairs, thereby permitting more efficient management. The organization of the FMA reflects the structure of Liechtenstein's financial center and is comparable to that in Switzerland and Austria.

The reorganization entailed that the FMA was reduced to its basic substance in terms of staffing and cost structure. The Board of Directors is convinced that the FMA can fulfill its current responsibilities with the existing human and financial resources. The anticipated increase of its range of responsibilities in the medium term will not be manageable without additional resources, however, if a respected FMA is the goal.

Enactment and implementation of the owner's strategy

Based on the PEA and upon consultation with the Board of Directors, the Government adopted an owner's strategy in March of the reporting year. This strategy defines the Government's political, entrepreneurial, economic, and social goals for the FMA. Guidelines for action were also set out. The owner's strategy does not interfere with the legal powers and obligations of the FMA and in no way affects the independence of the authority in carrying out its supervisory activities.

The owner's strategy provides that the FMA shall define core principles within the stipulated framework. The Board of Directors therefore revised the already existing core principles and adjusted them to the new requirements. The core principles constitute the FMA's written declaration of its self-understanding and set out the target state.

Implementation of corporate governance

With entry into force of the PEA, the FMA took on various requirements and targets in the field of corporate governance as of 1 January 2010.

Based on the PEA, the Statutes and Rules of Organization of the FMA were enacted. The latter regulate in detail the constitution, decision-making procedure, and responsibilities of the Board of Directors and the Executive Board. In this connection, the Management Information System (MIS) was also revised. The MIS ensures that the Board of Directors regularly receives the necessary information from the Executive Board to be able to make the important decisions for the FMA in a reliable and timely manner.

In the reporting year, the development of a Risk Management System was initiated. The Risk Management System serves to identify incidents that potentially might impact the FMA as an enterprise. The goal is to master the risks to the extent possible and to ensure appropriate security in regard to achievement of the corporate goals. The Board of Directors considers risk management to be a key and strategic management instrument. In this connection and in accordance with the requirements of the owner's strategy, work was also begun on an Internal Control System (ICS). The system as a whole is intended to contribute essentially to the achievement of the FMA's goals by systematically controlling and monitoring operational business processes – especially



those of financial relevance. Risk management at the FMA is the responsibility of the Executive Board and is overseen by the Board of Directors.

As a further part of implementing the corporate governance targets, two standing committees have been created. The Nomination and Compensation Committee prepares all relevant agenda items of the Board of Directors relating to the appointment and compensation of members of the strategic and operational management level of the FMA. The Audit Committee reviews the organization of accounting and monitors assessment of the FMA's risks and investment policy. The Audit Committee also monitors business activities in terms of compliance with decisions by the Board of Directors and carries out a critical audit of interim financial statements. Each of the two committees is composed of three members of the Board of Directors.

Advising the Government

The FMA is mandated by law to advise the Government on questions relating to financial market strategy. In this connection, the owner's strategy states that the Government expects in particular to be kept informed on a timely basis of important developments affecting Liechtenstein's financial center. The Government also expects to receive bases for making decisions relating to the stability of the financial center. These responsibilities and cultivation of relationships necessary for that purpose are carried out directly by the Chairman of the Board of Directors.

Strategic projects

In the reporting year, the Board of Directors met for a total of 12 regular meetings. Additionally, a full-day workshop and a strategy day were held. To implement the legal mandates and the reorganization decisions, a total of 7 strategic projects were initiated. The work for each of these projects was assigned to 3 members

of the Board of Directors. In addition to the projects covering the transformation of the financial center and the resulting work for supervision and regulation, the IT projects and the already mentioned risk management are of note.

IT strategy of the FMA

Without a modern, secure and expandable IT infrastructure, a supervisory organization cannot be managed. In the spring and after a detailed review, the Board of Directors therefore approved an IT strategy for the FMA. In accordance with the targets of the owner's strategy, a more extensive use of the structures of the National Public Administration was considered in detail. In cooperation with the competent offices of the National Public Administration, a comprehensive service agreement was concluded at the end of the year. At the same time, a project was launched in collaboration with an external service provider to implement the development of the FMA's own IT infrastructure by the year 2014, in accordance with clear cost targets and subject to tight control by the FMA.

Basis of financing

In early summer of the reporting year, the Constitutional Court found that the legal basis for the financing of the FMA did not meet the requirements of the Constitution. It was the top priority of the Board of Directors to establish a constitutional state of affairs as soon as possible. For this purpose, a draft law was prepared on behalf of the Government and in close cooperation with the professional associations. This draft law was adopted by Parliament in December. As a basic principle, it assumes that the State and financial intermediaries shall split costs half-half that are necessary for the financing of the FMA. To achieve constitutionality of the proposal, an upper limit for supervisory taxes for the years 2011 to 2013 was introduced. Since it is foreseeable that

the framework conditions for the financial center will continue to change substantially and that the FMA will also be assigned further responsibilities, an overall report on the experiences with this financing model shall be prepared by the beginning of 2013.

Cost management

The Board of Directors ordered the FMA to implement a cost reduction program with strict requirements for review of the organization and workflows. In this way, urgent measures were able to achieve directly effective reductions of personnel and material costs of about CHF 1.9 million in the reporting year.

The 2010 accounts served as the basis for sustainable cost sensitization. New responsibilities assigned to the FMA require appropriate additional resources. In each case, the FMA now enumerates the expected costs. This measure serves to improve transparency of the FMA's cost structure and permits the Board of Directors to sensitize the Government and Parliament in a timely manner.

Adjustment of administrative assistance relating to securities

As part of implementing the owner's strategy and based on many years of experience in the field of international administrative assistance relating to securities supervision, preparatory work on new rules was begun in the 2nd quarter of the reporting year. On the one hand, the goal was to implement the requirements of the International Organization of Securities Commissions (IOSCO) in a pragmatic manner, and on the other hand the implementation was not allowed to violate any constitutional rights.

In close cooperation with the associations, the mechanism of retroactive complaints was developed. This mechanism does not adversely affect the core content of the constitutionally required right of complaint. At

the same time, by delaying the filing of complaints to a time when any threat of collusion can be ruled out, this innovation ensures that the IOSCO requirements are met. The corresponding amendments to the FMA Act entered into force on 1 January 2011. The Board of Directors considers this new regulation to be an important step toward securing the reputation of the financial center as well as international market access for Liechtenstein financial intermediaries.

International participation

Because of the financial crisis, many supervisory authorities have been dramatically strengthened and endowed with more far-reaching competences. At the same time, a trend toward internationalization of supervision of the financial markets and their participants can be observed, as the creation of European financial market supervision shows. The Board of Directors therefore believes that the FMA's participation in the various international supervisory bodies and its international networking are crucial for the purpose of preserving national autonomy in the supervision of the financial center and of receiving information on regulatory developments in a timely manner.



Mario Gassner
Chief Executive Officer

Enterprise

At the beginning of the reporting year, the Board of Directors mandated the CEO to prepare proposals for reorganizing the authority and to subsequently implement the agreed new organizational structure. This was the first reorganization of the FMA after beginning operational activities in 2005. The new organizational structure, which split up the Banking and Securities Division into two separate divisions and which strengthened the Executive Office with horizontal responsibilities, takes account of national and international developments. The FMA thus has an effective and efficient organizational structure at its disposal for the coming years.

The work relating to reorganization and other projects of the Board of Directors was generally carried out using internal resources. They demanded especially great commitment and flexibility of the Executive Board and the FMA's employees, alongside their usual supervisory and regulatory activities.

Entry into force of the PEA and the associated revision of the FMA Act was linked to various requirements and targets relating to corporate governance. After the establishment of a Risk Management System in 2010, an Internal Control System (ICS) will be introduced in 2011. The new legal foundations provide a modern basis for the FMA's future-oriented development.

With the FMA's relocation in December 2010 to its new headquarters at Landstrasse 109 in Vaduz, FMA employees are now again reunited under a single roof, which achieves a further important precondition for an efficient and effective integrated supervisory authority. The move into the new premises modernizes the FMA's visual appearance and unifies its

external image. Of fundamental importance to the corporate identity are the core principles. These were revised in the reporting year.

Supervision

The stability of the Liechtenstein financial center and its institutions remains secure in the reporting year. The number of supervised financial intermediaries has changed only modestly. The driver of changes in supervisory activity consisted of international developments in regulation and supervision in the wake of the financial crisis. The financial crisis uncovered numerous deficiencies in regulation and supervision of financial markets at the international level. With the goal of ensuring the stability of the financial markets, numerous regulatory projects were initiated as a consequence, and the supervisory authorities were strengthened. These global developments in regulation and supervision have a direct impact on the activities of the FMA, which supervises an internationally very strongly networked financial center. After globalization of the financial markets, a clear trend toward internationalization of the supervision thereof can now clearly be observed after an initial delay. For instance, three European financial market supervisory authorities have been created. The FMA responds to this development through targeted international networking and participation in the relevant international bodies. The goal is to preserve sovereignty in the supervision of the financial center through a recognized supervisory authority.

One insight from the crisis was that supervision across national borders must be strengthened. Only transnational cooperation makes effective supervision of an internationally operating financial institution possible. The supervisory authorities in the European Economic Area must henceforth establish "colleges

of supervisors” to strengthen efficient cross-border cooperation of the financial supervisory authorities. This intensifies the FMA’s cooperation with foreign partner authorities. The further development and expansion of consolidated supervision and of group supervision will constitute a focus area in 2011. The FMA is paying special attention to the cross-border risks of banks and insurances. Due to the limited local market, Liechtenstein institutions focus heavily on cross-border financial services. Legal and reputation risks arising therefrom must be monitored systematically. The FMA’s established risk dialogue with the financial intermediaries represents a key instrument in this regard.

A striking increase by about 70% was noted in requests for administrative assistance. In total, 46 requests were transmitted by foreign supervisory authorities to the FMA. Liechtenstein’s administrative assistance procedure, which had been strongly criticized in the past, was adjusted to international standards in the reporting year, while maintaining constitutionally guaranteed rights such as the requirement of informing the client and the client’s right of complaint. The revision entered into force on 1 January 2011. With this new legal basis, the FMA will now be able to grant administrative assistance more quickly. The procedure will be more work-intensive than before, however.

Along with the transformation process of the Liechtenstein financial center, the business models of financial intermediaries are also undergoing change. This gives rise to risks of abuse and circumvention. The FMA attaches the utmost priority to the early recognition and control of these risks, in order to prevent damage to the reputation of the financial center.

Regulation

Regulatory work was especially intensive in the reporting year. Numerous European directives in banking, securities and insurance supervision had to be implemented into national law, and the corresponding supervisory instruments had to be created.

Along with participation in regulatory projects, the regulatory work of the FMA is mainly characterized by the implementation of EU directives into Liechtenstein law and the integration thereof into supervisory activities. For these purposes, the FMA works closely together with the associations and the competent Government offices. Many of the pending regulatory projects date back to the time before the financial crisis. The financial crisis in turn has triggered a new flood of regulation that must be implemented in Liechtenstein over the coming years.

In the reporting year, the new funds legislation was circulated for consultations. It is scheduled to enter into force on 1 August 2011. The revision entails fundamental changes for the supervisory processes of the Securities Division, which must be defined and introduced in 2011. In the banking sector, the directives on capital requirements, deposit guarantees, and e-money transactions had to be implemented.

The Insurance and Pension Funds Division worked intensively on implementation of the Solvency II Directive. Solvency II is accompanied by a fundamental reform of insurance supervision law in Europe. Much of the insurance legislation in Liechtenstein is affected. The deadline for implementing the new solvency system has been fixed as January 2013. The insurance industry is being included early on in the legislative process.

One of the tasks of the Other Financial Intermediaries Division was to implement the Statutory Audit Directive and the creation of the Gambling Act. By delegating supervision of statutory auditors and auditing companies as well as the due diligence audits of casinos and providers of online gambling games to the FMA, the scope of responsibilities of the supervisory authority has been further expanded.

External relations

With the entry into force of the PEA in January 2010, supreme oversight passed from Parliament to the Government. The established dialogue between the FMA and the Finance Committee of Parliament and Members of Parliament has nevertheless been continued. The FMA views these regular exchanges with Parliament on organizational matters and specialized topics as very important. In March 2010, the Government defined the owner's strategy for the FMA envisaged in the PEA, including various stipulations concerning the nature of external relations. Regulatory projects in particular require close cooperation with professional associations and Government offices.

Of particular importance to international external relations was the adjustment of administrative assistance relating to securities supervision to accommodate international standards. This obviates the accusations of Liechtenstein's non-cooperation with regard to administrative assistance regularly leveled by foreign authorities and international organizations. With the new regulation, the obstacles to joining the International Organization of Securities Commissions and to attaining observer status in the European Securities and Markets Authority have been eliminated.

The FMA is paying especially close attention to the establishment of the new European supervisory authorities which began operational activities the beginning of 2011. Together with Norway and Iceland, Liechtenstein is working together with representatives of the EU to clarify the role of EEA/EFTA States within these new structures. The European supervisory authorities have been granted far-reaching powers.

Along with FINMA, the Swiss National Bank fulfills important responsibilities pertaining to financial market stability. In the reporting year, the FMA strengthened its contacts with the SNB and arranged regular meetings.

Team

24 employees left the FMA during the reporting year. The fluctuation arises from normal fluctuation, the reorganization, and the associated reduction of staff by 7%. The higher fluctuation resulted in greater loss of know-how. The preconditions have now been created, however, to ensure that staff fluctuation stabilizes at its normal level. Especially during this phase, it was seen that FMA staff members and their experience with public authorities are much in demand on the labor market. At the same time, the FMA succeeded in closing most of the gaps that had emerged. By the end of 2010, the Executive Board was complete again, except for the Director of the Other Financial Intermediaries Division. This division is headed on an interim basis by Patrik Galliard.

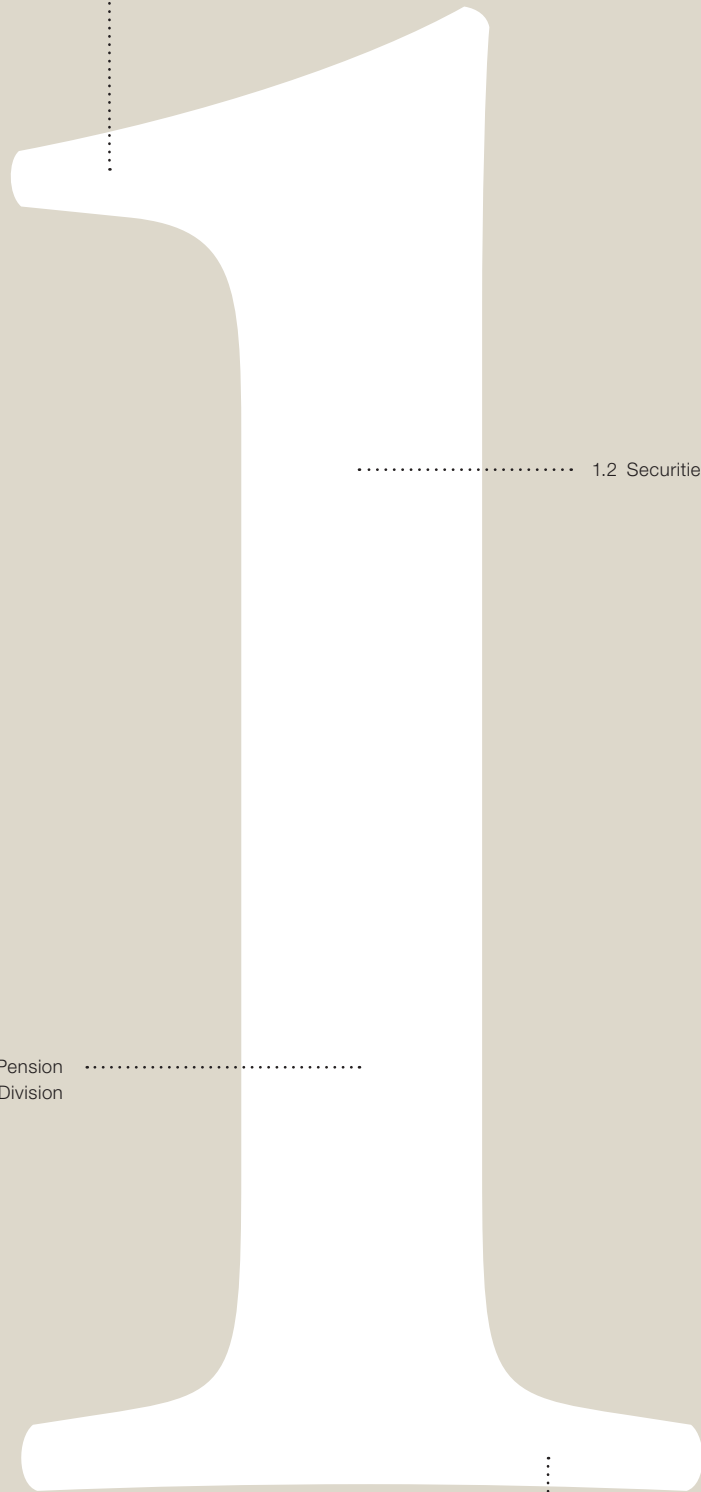
SUPERVISION
FMA Annual Report 2010

1.1 Banking Division

1.2 Securities Division

1.3 Insurance and Pension
Funds Division

1.4 Other Financial Intermediaries Division



1.1 Banking Division

1.1.1 Banks

Licenses

In 2009, Lamda Privatbank AG, Vaduz, received a license to operate as a bank. To be able to ensure orderly business activities, various start-up efforts were required, which were monitored and reviewed by the FMA. Once these efforts were complete, the bank was able to take up business activities in accordance with article 27 of the Banking Act on 23 November 2010.

In its decision of 29 March 2010, the FMA Complaints Commission granted Sigma Kreditbank Aktiengesellschaft, Triesen, a license to operate a bank with the banking activities of “lending of third-

party monies to an indeterminate circle of borrowers” as referred to in article 3(1) and 3(3)(b) of the Banking Act. The bank is not permitted to engage in the commercial operation of additional banking activities as referred to in article 3(3) of the Banking Act, especially the acceptance of deposits and other repayable monies as well as investment advisory services and asset management. The company took up banking operations on 2 November 2010.

The FMA received various inquiries in the reporting year concerning the founding of banks, investment firms, and a payment institution. However, none of these resulted in an application for a license in 2010.

The liquidation of Alpe Adria Privatbank AG, Schaan, which was voluntarily decided in 2009, continues to be closely accompanied by the FMA. Completion of the liquidation is not expected before 2012.

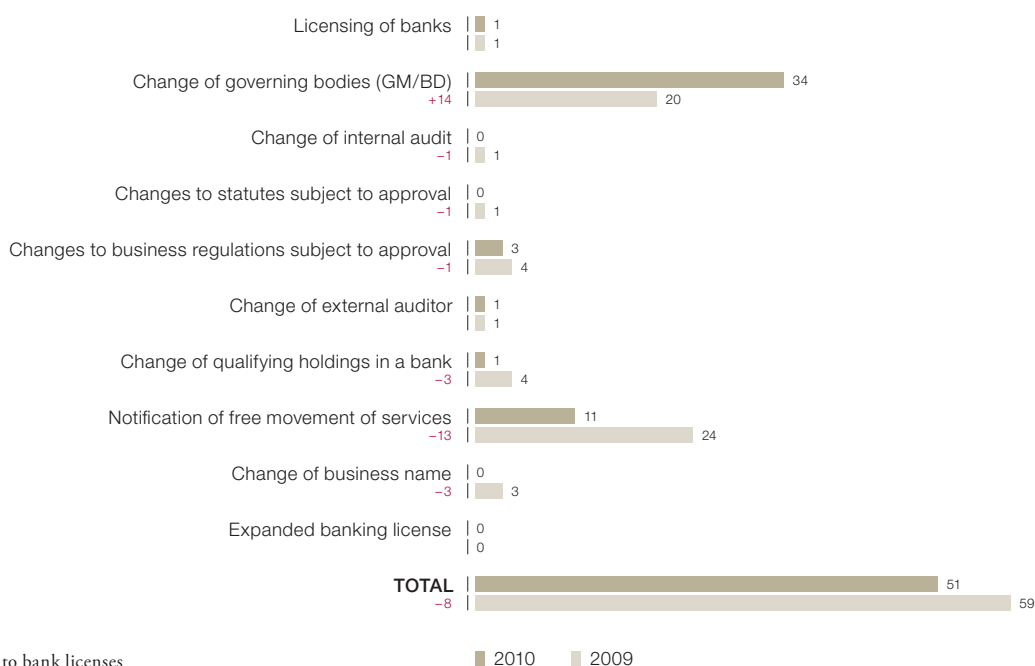


Figure 1
Changes to bank licenses

Ongoing supervision

Auditing

In its supervision of banks and investment firms under the dualistic supervision system, the FMA relies predominantly on reports by external auditors. Nevertheless, the FMA increasingly carries out its own audit activities at the financial intermediaries' premises. The analysis of audit reports under the Banking Act as of 31 December 2009 indicated that external auditors identified and objected to 14 deficiencies. This is a considerable decline in the number of objections since the previous year, when 34 objections were registered.

Management meetings

As in previous years, the FMA conducted a management meeting with each bank, in which a member of the general management and a member of the board of directors of the bank took part. Focus areas were current topics such as the business development of the bank, risks arising from cross-border activities of the banks, risks on the mortgage market and relating to government bonds in the Eurozone, as well as regulatory developments in Liechtenstein and the European economic area.

Inspections under the Due Diligence Act

Pursuant to the Due Diligence Act, regular inspections on behalf of the FMA are carried out by the external auditors. The number of objections fell from 21 in the previous year to 18. Additionally, the FMA carried out extraordinary inspections itself.

Accompanying of auditing companies

In the second quarter, the FMA accompanied four external auditors during their due diligence inspections, as in the previous year. In addition to the previous year, several audit activities were traced by the

FMA and subsequently discussed with the external auditor. The FMA deemed the audit quality to be good, and only minor objections had to be made.

Auditor workshops

The annual bank auditor workshop took place the end of March. Topics included risk-based supervision, FMA Communication 10/2009 (risk-adequate equity capital requirements as well as risk management and control, "Risk Communication"), risks in cross-border banking, and developments in regulation. Also discussed were the changes or upcoming changes to audit conditions due to implementation of the Statutory Audit Directive, the associated amendments to special legislation, and FMA Communication 12/2009 (reporting on bank audits).

At the beginning of October, a further workshop with the auditors took place, which discussed in detail the monitoring of risk management and the ICAAP (internal Capital Adequacy Assessment Process) by the external auditors. The goal here was to support the external auditors in their interpretation and application of the Risk Communication.

Reporting

Also in 2010, FMA-internal risk assessments took place on the basis of regular reporting. Core areas were again the capital adequacy of Liechtenstein banks, exposure in the interbank market and with respect to mortgage and Lombard lending, as well as various aspects concerning the banks' income situation. Although the year 2010 was, in the international context, characterized by highs and lows on the various markets, the analysis of reporting showed that the stability of Liechtenstein institutions is ensured and that they continue to rank at the top of the European field in terms of regulatory requirements (capital adequacy, liquidity, etc.).

As part of the regular reporting in 2010, the early information reporting requirement was expanded. The additional information served to generate additional assessments and analyses in various risk areas, which in turn were used for the preparation and as a basis for the newly established risk dialogue with the banks.

Further development of the reporting platform

Various further developments of the electronic reporting platform were implemented over the course of the year, some of which were based on feedback from external users. These include a simplified input screen, the user-friendly correction of wrongly transmitted forms by external users, and the additional release of new electronic forms for meeting periodic and case-based reporting requirements.

Within the FMA, various improvement measures were implemented on the database used for evaluating the periodic reports. The periodically reported figures now flow quickly and with a high level of precision into an internal reporting system across all levels, which in turn leads to greater efficiency in the evaluation and provision of information, e.g. for the risk assessment of the banks.

Supervisory practice

If, in the course of its ongoing supervision activities, the FMA gains knowledge of deficient implementation of banking law provisions, it seizes the necessary measures to restore a lawful state of affairs.

Measures were triggered by objections raised in audit reports, press releases, inquiries by other supervisory authorities, and other useful indications. In 2010, the FMA conducted investigations on suspicion of market abuse, deficient compliance with regulatory requirements, violations of the Due Diligence Act,

and deficits relating to internal governance. As part of its supervision of external auditors, the FMA continued to accompany on-site inspections by the auditing companies, as initiated in the previous year. Additionally, various information events for banks and auditors on current topics and risks were held.

Banking supervision did not have to impose any fines in the reporting year. However, it did report various violations to the Office of the Public Prosecutor and it reported violations to the FIU.

The supervision process for payment institutions was introduced in the reporting year. These financial market participants – newly governed by the Payment Services Act – have been able to apply for licenses in Liechtenstein since last year and thereby provide payment services throughout the entire European Economic Area.

Combating abuse

Providing banking services as referred to in article 3 of the Banking Act is subject to approval in Liechtenstein. These services may not be provided without an appropriate license, and violations are prosecuted before the Court of Justice. The FMA monitors compliance with these provisions. For this purpose, it pursues all indications of activities by non-licensed financial service providers. In particular, the FMA also receives reports by the individual financial market participants.

The FMA carried out numerous inquiries on the basis of various indications or its own observations in regard to suspicion of abuse. In contrast to the previous year, however, the FMA did not note any violations by persons carrying out banking activities without an appropriate license in the reporting year.

Operational focus areas

Risk dialogue

As part of the stronger focus of supervisory activities on essential risks, a risk dialogue was held with all banks in 2010. Industry- and institution-specific risks were discussed. As part of the risk dialogue, the FMA also introduced its risk classification system and the resulting measures.

Cross-border risks

In part due to the limited scope of the local market, the business model of Liechtenstein banks is heavily oriented toward cross-border financial services. The resulting risks may even be an existential threat, as the financial crisis showed. The FMA thus drew the banks' attention to the relevant risks in the currently significant markets and communicated its expectations that must be met in connection with the provision of cross-border services.

Systemic relevance

Systemic relevance, especially of banks, continued to be a major topic internationally in 2010. Also for Liechtenstein, with a low GDP in relation to the balance sheet totals of the banks, systemic relevance is of special importance. The FMA dealt with this topic intensively and prepared the discussion and the sensitization of stakeholders. The topic is currently being approached comprehensively in cooperation with the relevant authorities and markets. This approach aims to ensure the continued systemic stability of the Liechtenstein financial center.

Consolidated supervision

Within the context of the ongoing supervision of financial institutions engaged in cross-border business, a project was initiated last year that aims to incorporate the enhanced requirements on consolidated supervision, which were implemented pursuant to the legislative revisions, into supervisory practice.

As part of consolidated supervision, a joint on-site audit was carried out by the FMA Liechtenstein and a foreign supervisory authority for the first time. The insights gained in this connection are also incorporated directly into the project.

Payment service providers

With the implementation of Directive 2007/64/EC into the national Payment Services Act (PSA) as of 1 November 2009, a new financial intermediary referred to as "payment institution" was created. Payment institutions are subject to FMA supervision. For this purpose, a licensing and supervision process was developed in order to be prepared for any future license applications. Efforts were also undertaken to find a solution for the special situation of Liechtenstein regarding the Customs and Currency Treaty with Switzerland and its simultaneous membership in the EEA.

Supervision of audits

As part of the national implementation of Directive 2006/43/EC, the Statutory Audit Directive, external auditors will henceforth be required to conduct their audits according to the international audit standards set out in the Auditors and Auditing Companies Act. The FMA will now also exercise supervision of external auditors and, for instance, carry out quality controls. The resulting adjustments to processes and regulations were carried out in the reporting year.

Outlook

The topic of systemic stability will continue to concern the FMA in 2011, since the insights developed will now be discussed with market participants and authorities in working groups. Due to the small size of the country and the complexity of the topic, all participants will be called upon to find achievable solutions for Liechtenstein.

Further focus areas will include the expansion of consolidated supervision as well as strengthening of the network and cooperation with foreign supervisory authorities. The lessons learned from the financial crisis have created an awareness at the international level that the supervision of internationally operating banking groups can only function if such supervision can also be carried out smoothly across national borders. The current European regulations take account of this fact in part by requiring the supervisory authorities in the European Economic Area to establish “colleges of supervisors”. The preparatory work for establishing these colleges will also be carried out in 2011.

In 2011, the banks will be audited especially in regard to how well they are dealing with cross-border risks by implementing appropriate measures.

Due to the new rules governing administrative assistance and international developments, it is to be expected that the FMA’s workload in this field will continue to increase.

1.1.2 Administrative assistance

A total of 46 requests for administrative assistance were transmitted by foreign supervisory authorities to the FMA. 38 administrative assistance procedures (including requests from the previous year) were completed. Compared with the previous year, which already registered a high number of administrative assistance procedures, the number of administrative assistance procedures increased by about 70% (or 19 requests) in 2010, and the number of completed procedures increased by 26% (an increase of 8 procedures). This striking development represents an extraordinary growth over the previous years.

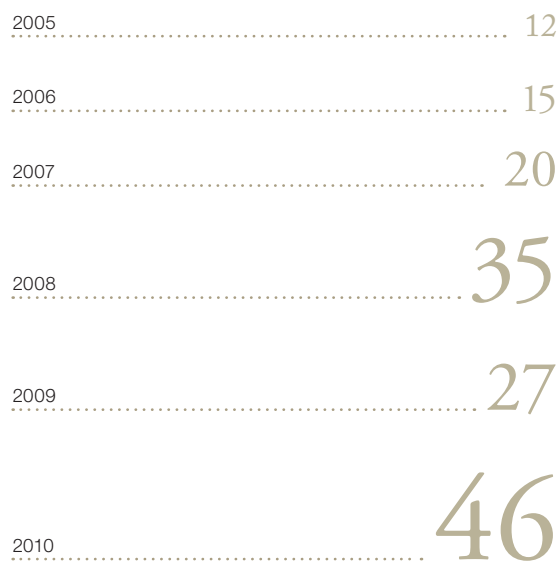


Figure 2
Number of requests
for administrative assistance received

Procedural requirements such as the obligation to inform the client and the client's right of complaint led to delays in administrative assistance again in 2010. This entailed an additional workload for the FMA, along with frustration by the requesting authorities regarding these rules. Despite the fact that, due to the circumstances, some of the procedures took several months, the average time between receipt of the request for administrative assistance and completion of the procedure was kept to three months.

Foreign authorities perceived Liechtenstein's administrative assistance procedure to be extremely cumbersome and time-consuming. This negative perception also hindered the FMA's efforts to join the International Organization of Securities Commissions (IOSCO). The Government therefore prepared a draft law for Parliament with the goal of meeting the standards in the field of administrative assistance expected by IOSCO and the CESR. The new administrative assistance rules set out in the FMA Act entered into force on 1 January 2011. In this way, the FMA is now able to provide administrative assistance more quickly in the case of sufficiently justified requests. However, the procedure is more work-intensive than it used to be. All requests for administrative assistance are reviewed by an individual judge of the Administrative Court before they can be executed by the FMA.

In 2010, 88 decrees were issued during the processing of requests. Sorting through the relevant procedural documents, some of which filled several file folders, complaints filed against nearly a third of the decrees, and participation in the complains proceedings (before the Administrative Court and the FMA Complaints Commission as well as the Constitutional Court) again required the deployment of considerable resources by the FMA. Especially in the international context, administrative assistance is a challenging supervisory responsibility and of the utmost importance to the reputation of the financial center.

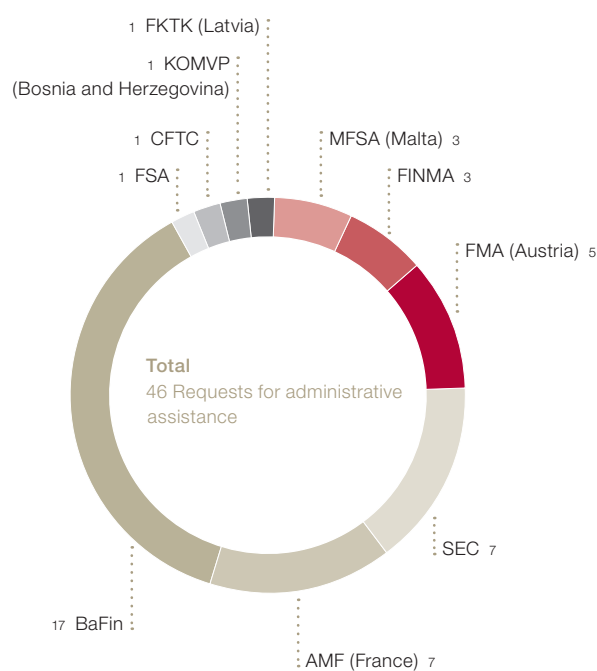


Figure 3
Requests for administrative assistance, by authority

1.2 Securities Division

1.2.1 Investment undertakings

Licenses and certifications

Licensing of domestic IUs

The FMA issued 43 licenses for domestic investment undertakings (IUs), one of which was for an investment company with variable capital, the others of which for investment funds in the legal form

of a collective trusteeship. Three IUs were issued as closed funds with a prospectus approved in accordance with the Securities Prospectus Act (SPA). No new fund managements were approved.

Taking liquidations and deletions into account, the number of Liechtenstein IUs rose by 58 to 469 by the end of 2010. At the end of 2010, 469 domestic IUs representing 693 individual funds were licensed. These are managed by 24 management companies (MCs), of which 21 are fund managements and 3 are self-managing investment companies.

| Category | 31.12.2007 | 31.12.2008 | 31.12.2009 | 31.12.2010 | +/- |
|--------------------------------------|------------|------------|------------|------------|-----|
| Active MCs | 27 | 28 | 27 | 24 | -3 |
| of which fund managements | 20 | 21 | 21 | 21 | 0 |
| of which investment companies | 7 | 7 | 6 | 3 | -3 |
| Domestic IUs | 303 | 363 | 411 | 469 | 58 |
| of which IUs for securities | 97 | 127 | 127 | 153 | 26 |
| of which IUs for other values | 137 | 157 | 173 | 171 | -2 |
| of which IUs for qualified investors | 69 | 79 | 111 | 145 | 34 |
| Foreign IUs | 246 | 219 | 191 | 193 | 2 |
| Auditing companies | 10 | 12 | 11 | 11 | 0 |

Figure 4
Management companies and investment undertakings
(number pursuant to Investment Undertakings Act)

More than 180 changes to prospectuses were approved (including changes of prospectuses for qualified investors). In total, 39 new segments were created, 57 delegations were changed, 13 changes were undertaken to custodian banks or external auditors, several foreign assets were transferred into Liechtenstein IUs, and 31 individual funds were renamed.

Licensing of foreign IUs

The number of foreign IUs licensed for marketing in Liechtenstein grew slightly, taking account of mergers, non-launches, and liquidations. At the end of 2010, 193 foreign IUs with a total of 1,079 individual funds were licensed for marketing. They encompassed 111 UCITS-compatible IUs and 82 non-UCITS from

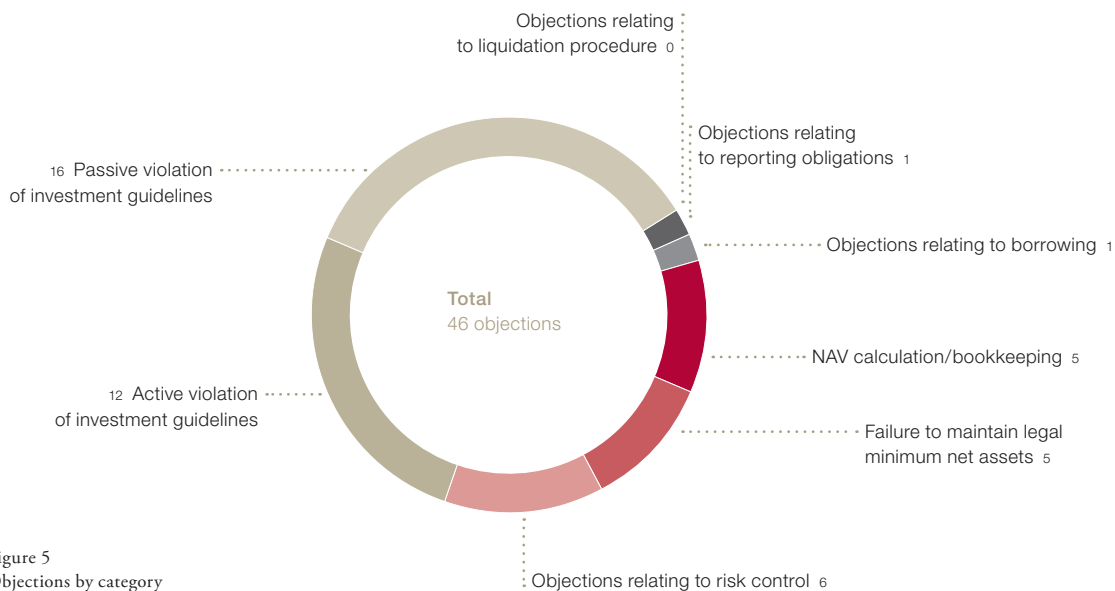


Figure 5
Objections by category

the EEA or IUs from third countries. Meanwhile 6 foreign MCs have notified their free movement of services in Liechtenstein.

Licensing of persons entitled to market units

In addition to the persons entitled to market fund units in Liechtenstein that are enumerated in the Investment Undertakings Act (IUA), 13 legal persons and 1 natural person were likewise entitled to market units at the end of 2010 pursuant to explicit approval.

Ongoing supervision

Auditing

As part of indirect supervision, 343 audit reports pursuant to the IUA were evaluated. The reports contained 46 objections. On the basis of recommendations made in the audit reports or abnormalities

in licensing applications, the securities supervision assigned several audit mandates to the statutory auditors. During the following regular audit, the facts in question were specially audited and noted separately in the audit report. As part of direct supervision, on-site inspections were also carried out and management meetings were held with management companies.

Reporting

In addition to the audit reports, MCs must submit additional periodic reports on the IUs they manage to the FMA or publish such reports. These include semi-annual and audited quarterly reports as well as quarterly notifications providing information on changes to net assets and the number of units. In 2010, 2,296 quarterly notifications were compiled and evaluated.

Supervisory practice

Where fund law provisions are violated or inadequately complied with, the securities supervision seizes prudential measures to restore a lawful state of affairs. The bulk of the seized measures were in connection with a failure to maintain the minimum net assets.

Combating abuse

In the context of combating abuse relating to investment undertakings, the focus has recently been on verifying the permissibility of the marketing modalities employed by domestic and foreign IUs and on the persons entitled to market IUs. In this connection, various companies were instructed to adjust their Internet appearances and other publicity measures to the legal requirements. Moreover, attention was paid that the terms “fund” and “Fonds” were used only for companies and products approved pursuant to the IUA.

Operational focus areas

Liquidation procedures

The securities supervision accompanies the dissolution of individual funds and IUs and releases the final payment to investors on the basis of the audited liquidation balance sheet. In 2010, the FMA released 39 final payments in accordance with the instructions governing liquidation procedures.

IU/AM database project

The newly conceived and introduced database in the field of IU supervision was continuously expanded in 2010 and endowed with additional functions. The installed collection of data mainly is used to opti-

mize and scale the monitoring processes. At the same time, the quality of services was improved, reporting frequencies were increased, and response times were reduced.

Outlook

UCITS Act/AIFM Act

The year 2011 is dedicated to implementation of the UCITS Act and AIFM Act proposals. According to the definition set out in European directives, a basic distinction is made between UCITS (= EU-compatible undertakings for collective investment in transferable securities pursuant to the UCITS Directive) and AIFs (alternative investment funds, i.e. all other funds, regardless of whether they are public funds or funds only for institutional investors, open or closed funds, irrespective of the legal form). From Liechtenstein's perspective, the UCITS Act and AIFM Act proposals together replace the IUA from 2005, which made the tripartite distinction among investment undertakings for transferable securities (UCITS), investment undertakings for other values (AIFs), and investment undertakings for real estate. The UCITS Act is scheduled to enter into force on 1 August 2011. The time of entry into force of the AIFM Act has not yet been determined.

Generally speaking, the principles enshrined in the new provisions – such as the contract principle, the supervision principle, the acceleration principle, and the ordinance principle – will entail greater demands on the FMA. The year 2011 will thus focus on these new provisions and the corresponding implementation measures.

1.2.2 Asset management companies

Licenses

At the end of 2010, 107 asset management companies (AMCs) were licensed in Liechtenstein. The total number of AMCs operating in Liechtenstein thus increased slightly over 2009. After entry into force of the Asset Management Act (AMA) as part of the implementation of Directive 2004/39/EC (MiFID) on 1 January 2006 and strong growth of the number of companies in the following years, consolidation continued in 2009 as well as 2010.

In 2010, the FMA issued 7 licenses for AMCs. Due to the retraction of 2 licenses, the total number of licensed AMCs grew by a net 5. 3 applications were withdrawn. The AMCs applied for or notified 66 changes to existing licenses. These encompassed 19 changes of qualifying holdings, 28 changes of governing bodies, 15 changes of the business name or statutes, and 2 changes of the external auditor. 59 notification applications were submitted to the FMA, and notifications were sent to 17 foreign supervisory authorities. For the first time, the establishment of a branch in the EEA was notified.

Within the context of granting licenses, the FMA was confronted with issues including the following:

- Absence of a head office of the company in Liechtenstein. Pursuant to talks and explanations of the legal requirements, the application was voluntarily retracted before the final decision on licensing was made.

- Failure to meet licensing condition requiring the company to have a suitable place of business in Liechtenstein in terms of staffing. The applicant intended to operate a resource-intensive business model with only modest staffing. After a clarifying discussion, the request was withdrawn.

Supervision of AMCs

Regular audits pursuant to the AMA

The FMA received 95 audit reports pursuant to the AMA. The selective audit focused on maintenance of data security by the AMCs. The auditing companies noted objections and recommendations in the case of 28 AMCs. All AMCs with objections were required by the FMA to comment.

Reporting

The AMCs discipline in reporting to the FMA improved. This positive development was also noted with regard to newly licensed AMCs. The FMA continues to remind the AMCs of their reporting obligations prior to the deadline.

Prudential measures

As of 31 December 2009, 5 AMCs again failed to meet their equity capital requirements. The FMA called upon the AMCs to restore a lawful state of affairs. By paying in capital and waiving shareholder debt, equity capital was restored. In the case of one AMC, the restoration is still open due to a deadline extension.

Despite receiving a license, one AMC did not take up business activities in 2009. The licenses therefore expired. The company is now prohibited from providing or arranging asset management services in accordance with article 3 of the AMA.

Figure 6
Objections as of
31 December 2009

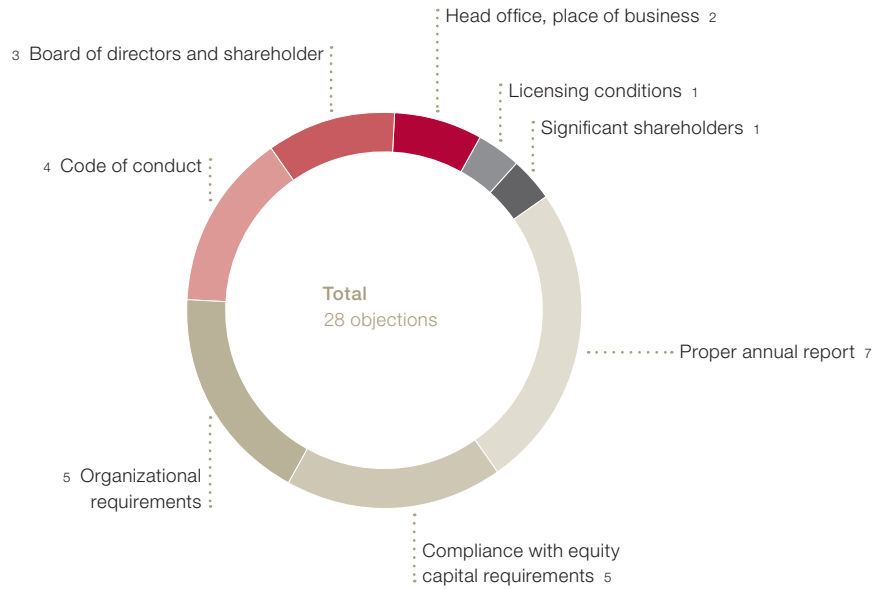
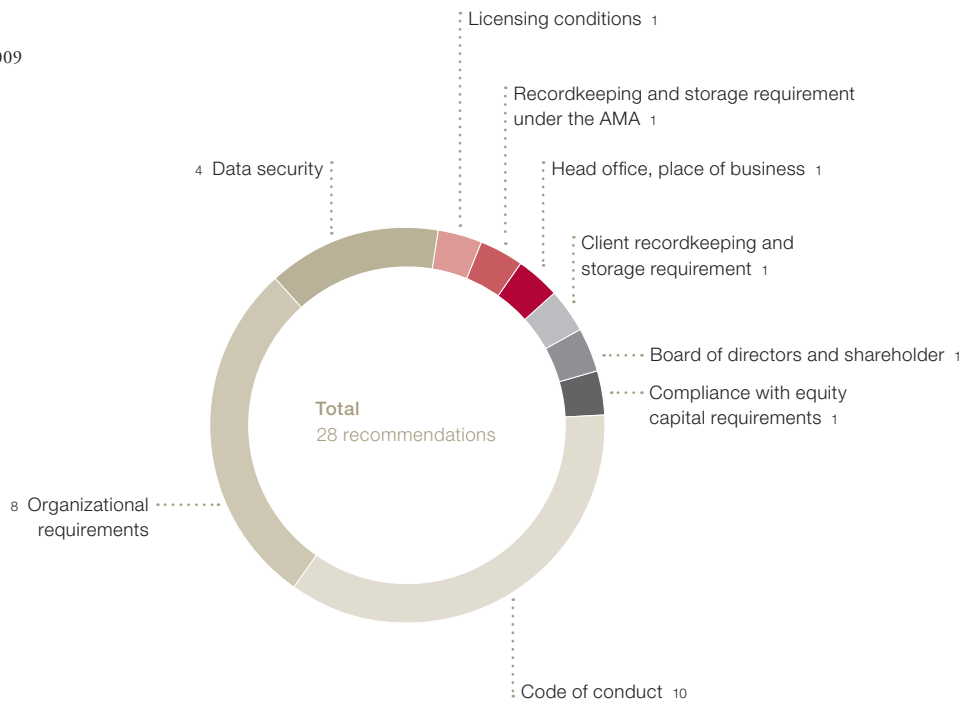


Figure 7
Recommendations
as of 31 December 2009



As already in the previous year, various AMCs failed to meet their reporting obligations with respect to changes to the general management or external audits. These AMCs were warned by the FMA, and the changes already published in the official notices of the Office of Land and Public Registration were retroactively approved.

Sanctions/referrals

The FMA submitted two criminal complaints to the Office of the Public Prosecutor during the reporting period. Other initiated investigations were concluded due to insufficient justified suspicion of a criminal offense.

Combating abuse

When combating abuse, the securities supervision investigates whether activities subject to a license, such as asset management or investment advice, are being carried out without an appropriate license in or from Liechtenstein. In addition to actively combating abuse, the FMA also relies on indications from the market. Enforcement of the AMA is especially demanding in regard to disentangling the historical links between professional trustees and asset managers. In 2010, the FMA called upon more than 20 companies to adjust their business purpose, business name, or Internet appearance, since the FMA had received indications raising suspicion of activities as an asset management company. Additionally, more on-site inspections and management meetings were held.

In its efforts to combat abuse, the FMA submitted two criminal complaints to the Office of the Public Prosecutor. In one case, the FMA gathered extensive documents concerning several natural and legal persons containing fact patterns relevant to both super-

visory law and criminal law. After carrying out its own investigations under supervisory law, the FMA forwarded the documents to the Office of the Public Prosecutor as part of a criminal complaint.

Another case leading to a criminal complaint against several members of a board of directors concerned a Liechtenstein group of companies investing assets primarily for Austrian investors without having a license issued by the FMA. As it subsequently turned out, a very large number of small investors were affected, who participated in the investment volume by way of index certificates. Only later did it turn out that the performance figures provided to investors were untrue. The trigger and tragic moment of the case was the suicide of the general manager of the companies in question.

Operational focus areas

Problem of shells

As part of its supervisory activities, the FMA is regularly confronted with the question of which organizational requirements a company must meet pursuant to the AMA and the Asset Management Ordinance. For this reason, the FMA prepared a Communication which will be circulated for consultations in 2011. In this FMA Communication, both the criteria for determining the head office and the interplay between the head office and the delegation of activities under the AMA will be illuminated.

Consolidation

After the years of growth and implementation of various statutory changes, the licensing and supervision processes were reviewed. The focus was on timely processing of dossiers and communication with supervised entities and their external auditors.



Outlook

In the field of licensing, more attention will be paid to the substance and sustainability of business models placed in Liechtenstein's asset management sector.

As a basis for ongoing supervision, periodic reports by the companies will be supplemented especially by audit reports received and any notifications/complaints by clients. In addition, direct contact with supervised entities will also be increasingly sought, in order to recognize risks of certain business models early on. On the basis of risk-based supervision, relevant international developments will be incorporated into the FMA's supervisory activities.

Great importance will continue to be attached to ongoing communication with external auditors, representatives of professional associations, and especially authorities in Liechtenstein and abroad, in order to recognize market trends and any associated risks early on.

1.2.3 Securities prospectuses

Approvals

Approval activities relating to securities prospectuses under the Securities Prospectus Act (SPA) continued to be rather insignificant in 2010. Two applications for approval were submitted to the FMA, one of which was approved (issue of debenture bonds), while the other (issue of shares) had to be denied by way of a decree. Additionally, a few securities prospectuses for closed investment undertakings were approved, and some were also supplemented with the required addendums.

Offers of foreign structured products notified from an EU country in Liechtenstein increased strongly again in 2010; one issuer in particular submitted documents for numerous products to the FMA for public offers in Liechtenstein. In 2010, the final conditions for a total of 225 structured products (previous year: 3) were submitted to the FMA. The notification by foreign supervisory authorities for basic prospectuses of issuers of structured products was within the range of the previous years. In many cases, however, no public offer was undertaken in Liechtenstein.

Combating abuse

The FMA was engaged in combating abuse under the SPA in one case. The case concerned a company domiciled in Liechtenstein suspected of publicly offering its own shares without having an approved securities prospectus. The FMA called upon the company to comment on the fact pattern to the FMA. The FMA's prudential measures have not yet been concluded in this case.

1.3 Insurance and Pension Funds Division

1.3.1 Insurance undertakings

Licenses

At the end of 2010, a total of 40 (previous year: 41) insurance undertakings with registered offices in Liechtenstein were active (21 life insurers, 14 non-life insurers, and 5 reinsurers). 12 undertakings were active as captives, 7 of which as direct insurers and 5 as reinsurers.

In 2010, two insurance undertakings expanded their insurance licenses pursuant to the Insurance Supervision Act (ISA) to include additional classes

of insurance. Additionally, one insurance undertaking was removed from supervision due to voluntary relinquishment of the license. At the end of the year, two applications for the formation of an insurance undertaking were being processed. The FMA is also responsible for the recognition of external auditors pursuant to special legislation. In 2010, one new auditing company was recognized as an external auditor pursuant to the ISA.

Cross-border provision of services

By the end of 2010, 212 insurance undertakings from various EEA countries and Switzerland had notified the FMA of their assumption of cross-border services in Liechtenstein via their home country supervisory authority.

Ongoing supervision

Audits pursuant to the ISA

As of 30 April 2010, the insurance undertakings were called upon to submit their documents to the FMA for reporting on the 2009 business year. The FMA's workload was greater due to the fact that 70% of the insurance undertakings had submitted no documents or only incomplete documents by the deadline, so that the FMA had to warn them to submit complete documents. The audit of the insurance companies' reporting generated the following results:

- In the case of one undertaking, it was determined that, due to unclear and in part inadequate calculation methods, the reporting gave a distorted picture of the income and asset situation of the undertaking. The undertaking was called upon to make the necessary corrections.

- In the case of a further undertaking (captive), it was determined that, due to a high level of claims, the solvency requirements were no longer fulfilled. The insurance undertaking has meanwhile suspended business and relinquished its license. No third parties suffered losses.
- In the case of a further undertaking, it was determined that the amount of equity capital failed to meet the legal requirements. The situation has meanwhile been remedied by concluding a financial reinsurance contract.

By inspecting reporting, the FMA also monitors the ongoing compliance with the licensing conditions. In this connection, the reporting did not give rise to any comments.

On-site inspections and management meetings

Like every year, the FMA conducted on-site inspections of insurance undertakings. In addition to the regular topics (business model, corporate strategy, and financial situation), the focus was on reinsurance policy, marketing organization, the risk management system, and the internal control system. At the same time, sample audits were conducted on compliance with due diligence obligations (in the case of life insurers), building security (access controls), and administrative systems. The results of the on-site inspections were predominantly positive.

Supplementing the on-site inspections, management meetings were again held with selected insurance undertakings. Here again, the business model, the corporate strategy, and the financial situation were key topics; in 2010, special emphasis was placed on legal risks in cross-border business. The goal here is to identify the risks in cross-border business together with the undertakings, especially also in connection

| Licensing categories | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Non-life insurance | 3 | 4 | 5 | 6 | 7 | 9 | 13 | 13 | 14 | 14 | 14 |
| Life insurance | 7 | 10 | 12 | 12 | 15 | 17 | 17 | 19 | 23 | 22 | 21 |
| Reinsurance | 4 | 5 | 4 | 5 | 6 | 5 | 5 | 5 | 5 | 5 | 5 |
| TOTAL licenses | 14 | 19 | 21 | 23 | 28 | 31 | 35 | 37 | 42 | 41 | 40 |

Figure 8
Number of insurance undertakings

with the issue of taxes, and to build on these insights to set up a risk inventory. The FMA will use the results as a basis for future management meetings and on-site inspections.

Audits pursuant to the DDA

Pursuant to Article 3(1)(d) of the Due Diligence Act, life insurance undertakings fall within the scope of the DDA. In the reporting year, regular due diligence inspections were carried out at 19 life insurance undertakings. Overall, objections were raised especially in regard to the policy governing PEPs (politically exposed persons) and reconciliation with the Taliban Ordinance and the Bush lists and similar black lists. According to the reports by the external auditors on the due diligence inspections in 2010, three life insurance undertakings submitted five reports to the FIU pursuant to article 17(1) of the DDA.

The FMA as a complaints body

In the reporting year, 39 complaints were filed by policyholders against a total of 11 undertakings. Many of the complaints referred to the negative performance of unit-linked life insurances and the calculation of redemption values, followed by complaints alleging poor advice given by the involved insurance intermediaries. The reviews of the complaints did not give rise to any objections against the insurers.

Compulsory building insurance

As of 31 December 2009, 17 insurance undertakings were offering compulsory building insurance (fire and natural hazard insurance) in Liechtenstein. Of these insurance undertakings, 5 were domiciled in an EEA member state and 12 in Switzerland. These building insurers operating in Liechtenstein must make a contribution to fire protection and the prevention of damages arising from natural hazards for the purposes of article 13 of the Building Insurance Act. The basis for calculating the contributions is the fire insurance sum of the individual undertakings.

Operational focus areas

Within the framework of operational activities, further preparation for Solvency II was a focus area. The 5th quantitative impact study QIS5, in which 13 undertakings representing about two thirds of the market according to gross premiums written in 2009 participated, was closely accompanied by the Liechtenstein Insurance Association and the FMA. A detailed evaluation of the results is being prepared.

A further operational focus area was the development and implementation of requirements for the supplementary report to the audit report and for the actuarial report for the insurance undertakings. After

consultations with the Liechtenstein Association of Auditors and the Insurance Association, a proposal was finalized in the autumn which is already being used as a pilot for auditing the 2010 business year.

Outlook

The preparations for Solvency II will continue to be a focus area in 2011. Implementation into national law and adjustment of supervisory practice to the requirements of Solvency II will be a priority. The consultation report on the total revision of the Insurance Supervision Act should be finalized by autumn 2011.

A further focus area is the cross-border risks project, the results of which are to be used in future as a basis for on-site inspections and management meetings.

Furthermore, the supplementary reports to the audit reports used for the first time for the 2010 accounts will be evaluated and, where necessary, improved.

1.3.2 Insurance intermediaries

Authorisations issued/withdrawn

A total of 6 licenses were issued in 2010. Additionally, 2 licenses were granted subject to conditions, which are expected to be met in the first quarter of 2011. 5 license holders discontinued their activities as insurance intermediaries. At the end of 2010, the FMA thus supervised a total of 71 licensed and registered insurance intermediaries, of which 61 were legal persons, 6 sole proprietorships, and 4 natural persons. Of the 71 registered insurance intermediaries, 58 work as insurance brokers and 13 as insurance agents.

Cross-border provision of services

Cross-border activities pursuant to the free movement of services were primarily carried out in Switzerland (50% of all insurance intermediaries), followed by Germany (27%) and Austria (23%). So far, no insurance intermediaries have operated pursuant to the freedom of establishment.

Ongoing supervision

Reporting

In 2010, the FMA received a total of 69 reports on the 2009 business year, which were concluded with the following results:

- 15 insurance intermediaries did not engage in business activities in 2009;
- 4 insurance intermediaries operated across borders, even though no prior notification was made to the FMA. 1 insurance intermediary operated across borders in a third country. The activities have been suspended until further notice;
- 4 insurance intermediaries did not notify a change of license pursuant to article 19(2) of the Insurance Mediation Act;
- 10 insurance intermediaries were unable to provide evidence of adequate continuing training as referred to in article 2(5) of the IMA for the purpose of maintaining their required professional qualifications;
- 2 insurance intermediaries were unable to fulfill the status of a broker;
- 1 insurance intermediary was unable to provide evidence of appropriate measures as referred to in article 17 of the IMA to ensure that payments made to the intermediary by a party to the insurance contract for the benefit of the other contract party can at all times be forwarded;

- the FMA submitted a report to the FIU pursuant to article 17 of the DDA against an insurance intermediary on suspicion of money laundering. The FMA also considered additional prudential measures.

Regular audits pursuant to the DDA

Insurance brokers with a license pursuant to the IMA are subject to the DDA, to the extent they arrange life insurances and other services with an investment purpose. In the reporting year, 10 insurance brokers were for the first time subject to a regular due diligence inspection.

In the case of one undertaking, the organizational measures to implement the DDA had not yet been implemented. The FMA therefore called upon the undertaking to establish a lawful state of affairs.

Overall, objections were raised especially with regard to the policy on PEPs (politically exposed persons), reconciliation with the Taliban Ordinance and the Bush lists and similar lists, as well as internal functions.

Regular on-site inspections

The audit areas in particular included compliance with the licensing conditions, the internal organization, the information and advisory obligations, and compliance with the DDA. During one on-site inspection, it was noted that the information and advisory obligations were not being met in a lawful manner, and that deficits exist with respect to DDA compliance. The FMA called upon the undertaking to establish a lawful state of affairs.

Combating abuse

In the reporting year, 4 undertakings were investigated with respect to whether they were carrying out or had carried out insurance mediation activities without an appropriate license. 3 cases of suspicion were not substantiated. Pursuant to article 26(2) of the IMA, the FMA filed a criminal complaint against the fourth undertaking with the Court of Justice on grounds of carrying out insurance mediation activities without the appropriate licenses pursuant to the IMA. The criminal proceedings have meanwhile been concluded with diversionary measures.

Abuse proceedings pending since 2009 against a company already in a state of bankruptcy was concluded on the part of the FMA by way of a criminal complaint. The court proceedings before the Court of Justice had not been concluded by the end of 2010.

Operational focus areas

Focus areas in 2010 were the annual reporting, the DDA inspections by the external auditing companies, and the continuing training of insurance intermediaries.

On the initiative of the Liechtenstein Insurance Brokers Associations, the training institute IIS (Insurance Institute of Switzerland) for the first time offered a continuing training course at the University of Liechtenstein entitled “Professional Studies for Brokers”. The course was deemed continuing training for purposes of the legislation governing insurance mediation activities. The content and goals of the broker course were the liability of brokers, the function and role of brokers, the legal foundations in the insurance sector, money laundering, and risk management.

Outlook

The operational focus areas in 2011 will be the complete implementation of the due diligence obligations of insurance brokers and intensification of on-site inspections. The draft revision of Directive 2002/92/EC on insurance mediation is expected in autumn 2011. The general goal is to further strengthen the interests of insured parties. Discussion points during the revision of the directive are the inclusion of employed field staff, disclosure of distribution fees, a new definition of the term “intermediary”, and modifications of the information and advisory obligations. The FMA is represented in the relevant working group.

1.3.3 Pension schemes

Ongoing supervision

Licenses

At the end of 2010, 33 (previous year: 33) pension schemes were under the FMA's supervision, of which 9 were collective foundations, 23 company pension schemes, and the pension insurance for state employees. 6 of these schemes have been in liquidation for some time.

Auditing

Auditing pursuant to the Occupational Pensions Act

The pension schemes were required to submit their report on business activities in the 2009 business year to the FMA by 30 June 2010. Pension schemes also gave rise to a considerably greater workload for the FMA, since more than 70% failed to submit complete documents or even any documents by the deadline.

Because of the reminders to submit or complete the reports, the audit work could not be completed until the end of September.

Despite the generally positive development of the financial situation of the pension schemes, four of these schemes continued to have a funding ratio of less than 100%. While in three cases, the failure to meet the required funding ratio was insignificant (funding ratio of at least 90%), the necessary restructuring measures are closely accompanied and supervised by the FMA in cooperation with the pension scheme. The pension schemes of three of the largest employers in Liechtenstein are domiciled in Switzerland and are therefore subject to Swiss supervision. In these cases, statistical data is reported to the FMA in coordination with the Swiss authority.

On-site inspections and management meetings

The FMA conducted on-site inspections and management meetings at the pension schemes. Like last year, the focus of the on-site inspections was on auditing the organization and administration, business management, the asset situation, and the development of the funding ratio. In addition, sample audits were conducted of reporting to the Swiss LOB Guarantee Fund and of the administrative system. The focus of the meetings was on evaluating the current situation, especially the development of the funding ratio, the investment situation, and the actuarial bases used. The audits and meetings carried out were satisfactory and did not give rise to any objections.

Vested benefits accounts

Cash payments of vested benefits

The FMA is responsible for cash payout applications pursuant to the Occupational Pensions Act (OPA). The FMA reviews whether any of the preconditions

for cash payout are met. Additionally, the FMA issues certifications for self-employed persons who are not subject to compulsory insurance pursuant to the OPA.

The FMA received a total of 257 (previous year: 247) applications for cash payout in 2010, of which 116 (previous year: 110) received a positive response and 58 (previous year: 62) a negative response. 83 applications were still pending at the end of 2010. The main reasons for cash payout were the assumption of self-employed work and departure from the Liechtenstein/Swiss economic area. In total, the FMA decided on vested benefits in the amount of CHF 9.16 million (previous year: 5.25 million).

Combating abuse

Verification of association with occupational pension scheme

Pursuant to article 4a(1) of the OPA and FMA Guideline 2008/1 (verification of association requirement pursuant to the OPA), the Old Age and Survivors' Insurance Authority (AHV) verifies whether the employers subject to its jurisdiction are properly associated with a pension scheme. The AHV calls upon employers who have not met their association obligation to retroactively join a pension scheme within two months. If the employer fails to do so, the AHV reports the employer to the FMA. The FMA then retroactively imposes the employer's association with a pension scheme. In the reporting year, the FMA imposed 2 such associations. Additionally, a total of 2 notifications of fact patterns were submitted to the Office of the Public Prosecutor.

The pension schemes must furthermore notify the FMA if an association contract with an employer is cancelled. In such cases, the FMA monitors whether the employer in question continues to employ staff subject to the insurance requirement and whether

the employer joins a new pension scheme. In 2010, the FMA was notified of 61 cancellations of association contracts.

Measures where employers fail to contribute

Under the OPA, pension schemes are required to notify the FMA within three months if the employer is late in making contribution payments to the pension scheme. In 2010, the FMA received 167 (previous year: 137) notifications of contribution defaults. In such cases, the FMA calls upon the employer to remedy the default, under threat of punishment. As a consequence of such contribution defaults, the FMA submitted a total of 6 (previous year: 21) notifications of fact patterns to the Office of the Public Prosecutor in the 2010 reporting year, based on article 25(1) of the OPA.

Operational focus areas

In addition to inspecting annual and semi-annual reports as well as on-site inspections and management meetings, the operational focus areas included development and implementation of requirements concerning the supplementary report to the audit report. With input by the Liechtenstein Association of Auditors, a proposal was prepared in autumn 2010 which was already used for the first time in the audit of the 2010 business year.

Outlook

In November 2010, the Liechtenstein Pension Scheme Association (LPSA) was established, thus creating a contact partner representing the interests of pension schemes in the 2nd pillar for the first time. The FMA welcomes this step and will engage in regular exchanges with the LPSA. Important topics will be discussed such as the issue of imposed associations and common solutions will be elaborated.



1.3.4 Pension Funds

Licenses

By the end of 2010, 5 pension funds were licensed in Liechtenstein. A further undertaking that submitted an application in November 2010 received a license the beginning of 2011.

Ongoing supervision

As part of the regular audit, the pension funds domiciled in Liechtenstein were called upon to submit their report on business activities in the year 2009 to the FMA by 30 April 2010 at the latest. The FMA reviewed the submitted documents and monitored compliance with the legal and regulatory provisions. The audit round for the 2009 business year was concluded in September 2010. Additionally, the semi-annual reporting of the pension funds was inspected.

Operational focus areas

In the reporting year, a reporting tool was developed which was employed in 2011 for the first time for the 2010 business year. The goal of this tool is to simplify the audit process, facilitate the compilation of statistical data, more intensively observe the development of the pension funds, and recognize any problems of individual pension funds in as timely a manner as possible.

Outlook

In 2010, the Government commissioned a study on the pension fund center. The goal of this study is to strengthen Liechtenstein as a pension fund center by analyzing the already existing, attractive framework conditions and by identifying optimization

potential. The FMA was closely included in this process; the implementation of the recommended measures, especially concerning regulation, will be a focus area in 2011.

1.4 Other Financial Intermediaries Division

The FMA is responsible for the due diligence supervision of professional trustees, lawyers, patent lawyers, and auditors, as well as their examination and professional qualifications for carrying out their activities in the financial center. Supervision also covers additional financial intermediaries such as persons with certifications under article 180a of the Law on Persons and Companies (PGR), dealers in goods, real estate brokers, and other persons subject to due diligence.

The following laws and associated implementing ordinances are enforced for that purpose: Law on Professional Due Diligence to Combat Money Laundering, Organized Crime, and Terrorist Financing (Due Diligence Act; DDA); Professional Trustees Act (PTA); Auditors and Auditing Companies Act (AACCA); Lawyers Act; Patent Lawyers Act (PLA). Since 1 January 2011, the FMA has also been responsible for the due diligence enforcement of the Gambling Act and the relevant implementing ordinances, and since 1 February 2011 for the supervision of auditors.

Admission to examinations/Licenses

Admission to examinations

Pursuant to the Lawyers Act, 3 applications for the EEA qualifying examination were registered, from which 1 person withdrew. The remaining 2 partici-

pants passed the qualifying examination. 18 applications for the licensing examination under the Lawyers Act were received, from which 4 persons withdrew. Of the remaining 14 participants, 10 passed the licensing examination and 4 failed.

24 persons were admitted to the licensing examination under the Professional Trustees Act, which 12 persons passed. 4 persons were admitted to the qualifying examination under the AACA, which half of the participants passed. One application for admission to an examination under the AACA had to be rejected.

Licenses

In 2010, 42 licenses were granted to natural or legal persons for activities in the financial market. Additionally, changes to already existing licenses were carried out upon application in 31 cases. In most cases, these were changes to the business name, changes of the responsible general manager, and extensions of licenses for apprentice lawyers. A total of 40 licenses were cancelled (2009: 48).

| Other financial intermediaries | 2008 | 2009 | 2010 |
|---|-------------|-------------|-------------|
| Professional trustees | 85 | 83 | 77 |
| Professional trustees with a restricted license | 28 | 26 | 23 |
| Trust companies | 260 | 262 | 264 |
| Trust companies with a restricted license | 19 | 24 | 28 |
| Auditors | 23 | 24 | 25 |
| Auditing companies | 26 | 26 | 26 |
| Lawyers | 133 | 147 | 150 |
| Liechtenstein lawyers eligible for registration | 64 | 60 | 66 |
| European lawyers established in Liechtenstein | 27 | 25 | 25 |
| Law firms | 26 | 28 | 28 |
| Branches of law firms | 1 | 1 | 1 |
| Apprentice lawyers | 71 | 66 | 67 |
| Legal agents | 5 | 5 | 4 |
| Patent lawyers | 10 | 10 | 9 |
| Patent law firms | 4 | 3 | 3 |
| Persons with a certification under article 180a PGR ¹⁾ | 513 | 532 | 546 |
| Real estate brokers ²⁾ | 21 | 24 | 25 |
| Dealers in goods ²⁾ | 39 | 42 | 42 |
| Other persons subject to due diligence ²⁾ | 30 | 32 | 35 |
| TOTAL | 1385 | 1420 | 1444 |

1) No guarantee of correctness

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

Figure 9
Other financial intermediaries
under the supervision of the FMA

Lawyers and other categories

As of 31 December 2010, a total of 341 persons were licensed under the Lawyers Act. This number includes lawyers (150), Liechtenstein lawyers eligible for registration (66), European lawyers established in Liechtenstein (25), apprentice lawyers (67), law firms (28) and branches of law firms (1), and legal agents (4). Compared with the previous year (2009: 332), a slight increase was again observed.

Professional trustees and trust companies

Compared with the previous year, 2 additional trust companies received a license and 4 additional trust companies received a restricted license. The number of professional trustees declined by 6, and the number of restricted professional trustees by 3. As of 31 December 2010, the total number of licenses under the Professional Trustees Act was 392 (2009: 395).

Patent lawyers and patent law firms

The number of patent lawyers declined by 1 in comparison with the previous year. The number of patent law firms remained unchanged. The total number of persons licensed under the Patent Lawyers Act was 12 as of 31 December 2010.

Auditors and auditing companies

The number of persons with a license under the AACA increased by 1. The number of licensed auditing companies remained unchanged. The number of auditors engaging in free movement of services also increased by 1, while the number of auditing companies declined by 1. The total number of persons licensed under the AACA was 79 as of 31 December 2010.

Supervision pursuant to the DDA

The due diligence inspections scheduled for 2010 were for the first time carried out in accordance with the totally revised due diligence law (DDA and DDO), which entered into force on 1 March 2009. In 2010, a total of 55 regular due diligence inspections were carried out, of which 12 were accompanied by the FMA, corresponding to 22% of all regular due diligence inspections.

On the one hand, accompanying of inspections by the FMA served to promote general understanding of standards under supervisory law and the guarantee thereof, as well as mutual exchange of information about the prevalent market circumstances. On the other hand, the FMA is also taking the recommendations of the IMF into account, according to which the supervisory authority should be included more strongly in the on-site inspections.

Regular due diligence inspections

In the 2010 audit round, a total of 361 financial intermediaries were approached. 168 intermediaries reported that they carried out activities pursuant to article 3(1) of the DDA. 55 regular due diligence audits were then carried out. In general, it was noted that the financial intermediaries exhibited a high level of sensitivity again in 2010 regarding compliance with and implementation of the due diligence obligations. The FMA views this as a sign that the persons subject to due diligence are striving to steadily increase quality, thus making a contribution to promoting and maintaining the reputation of the entire financial center.

There is still potential for improvement with respect to the profiles of the business relationship in terms of their expressiveness and up-to-dateness as well as the risk-adequate monitoring of the business relationship – especially the identification of politically exposed persons (PEPs). A total of 181 objections were raised, which represents a reduction compared with the previous year (230). A new audit report template was introduced for the 2010 audit round, which according to feedback by the due diligence auditors is easier to use and is more expressive for the FMA's purposes. Upon conclusion of the audit round, the financial intermediaries concerned were again informed in writing of the overall result of the inspection, which the FMA considered to be positive overall.

Extraordinary due diligence inspections

Additionally, 11 extraordinary due diligence inspections were carried out. This occurs when there are indications of doubt concerning compliance with due diligence obligations or when there are circumstances indicating that the reputation of the financial center is threatened. These extraordinary inspections resulted in 3 criminal complaints being submitted to the Office of the Public Prosecutor, demands to remedy the objections raised within a specified time period, or further measures by the FMA (e.g. order to restore a lawful state of affairs, time-limited prohibition of entering into business relationships).

Combating abuse

Combating abuse involves steps pursuant to supervisory law taken against natural and legal persons carrying out an activity subject to licensing under special legislation or employing a term in their business name that is reserved under special legislation without having an appropriate license. The FMA therefore monitors the abusive performance of activities or the abuse of declared business purposes. The objections were remedied quickly by the persons concerned. The FMA's activities in combating abuse make an important contribution to the protection of clients and to securing trust in the Liechtenstein financial center.

Operational focus areas

Focus areas in supervision were the accompanying of regular due diligence inspections and the evaluation of the subsequently submitted audit reports. The audit report template newly introduced in October 2009 was viewed as user-friendly by the due diligence auditors and met with a positive response. All submitted audit reports were discussed in a personal meeting with due diligence auditors.

The intensification of cooperation among the FMA, professional associations, and authorities of the National Public Administration initiated in 2009 was continued in 2010. This was in part also due to the creation of the Gambling Act and the associated implementing ordinances as well as implementation of the EU Statutory Audit Directive, which necessitated intensive cooperation.

With input by the relevant associations, the industry-specific instructions for lawyers, the FMA Communication for real estate brokers, the implementation of the EU Services Directive, and the supervision process in relation to the due diligence supervision of dealers in goods were also elaborated.

Outlook

With entry into force of the new Gambling Act and the associated implementing ordinances, a new category of persons subject to due diligence is now covered. On the one hand, these persons must be sensitized with regard to their due diligence obligations; on the other hand, the scope of responsibilities for the Other Financial Intermediaries Division is thereby expanded. Intensive preparatory work has already been necessary for this purpose.

For the first time, audits of dealers in goods and real estate brokers will also be conducted, to the extent they carry out or have carried out activities subject to due diligence. Here again, special attention will be paid to communication with persons subject to due diligence and the gathering of initial experiences.

A further key task will be the monitoring and supervision of auditors and auditing companies. In this connection, the top priorities will be the establishment of the supervision and quality assurance system, the maintenance of a register of auditors, and exercise of disciplinary powers over auditors and auditing companies.





In the wake of the financial crisis, the year 2010 continued to be characterized by a large number of regulatory discussions and initiatives at the international level. A wide range of multinational organizations, groups of states, and also individual countries have actively debated the expansion of supervision of the market markets and tightening of the regulatory requirements. It is foreseeable that these developments will have a strong impact on the FMA's work over the coming years.

Effective 1 January 2011, the new European financial market supervisory authorities (EBA, ESMA and EIOPA) and the European Systemic Risk Board began their work. Financial market supervision in the EU area, which until now relied strongly on national structures, will thus be strengthened with generous resources and far-reaching competences of the EU authorities. It is not yet entirely clear what rights and duties the EEA states will be accorded in this new system. The new European supervisory authorities are being endowed with various instruments to carry out their work. For instance, they will have the competence to issue "technical binding standards", conduct peer reviews, and initiate review procedures when EU law is violated. In this way, they will have a strong influence both directly and indirectly on the European financial centers and financial intermediaries. The FMA is following these regulatory projects and developments very closely, and will exert appropriate influence to preserve Liechtenstein interests.

The international regulatory trends are monitored and assessed by the FMA on an ongoing basis. Implementation into national law is carried out in close cooperation with the professional associations and the competent Government offices.

2.1 Banking Division

Pending regulatory projects

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

In the 2nd phase of implementation of the Deposit Guarantee Directive, the time periods for determining claims and making payouts under the deposit guarantee scheme will be strongly reduced. Also this 2nd phase will be implemented by a Government working group. The necessary adjustments at the level of laws and ordinances should enter into force throughout the EU on 1 January 2011; binding implementation for EEA states has not yet been scheduled.

Implementation of Directives 2009/27/EC, 2009/83/EC, 2009/111/EC and 2010/76/EU (CRD I, II and III)

The extensive CRD Directives (Capital Requirements Directives) I, II and III modify the Basel II Directives 2006/48/EC and 2006/49/EC by partially revising and supplementing the capital and risk management requirements contained therein. In addition, they expand the international cooperation of supervisory authorities and govern that cooperation in more detail. Finally, the compensation policy and practice of banks and investment firms are newly regulated, in addition to changes of technical provisions relating to the capital requirements regulation. The CRD complex should enter into force in Liechtenstein by 1 July 2011 at the latest. The first proposal to Parliament will be submitted in March 2011. Within a foreseeable time period, CRD IV and V are expected to be issued.

Completed regulatory projects

Adjustment of administrative assistance relating to securities

In the reporting year, Liechtenstein's administrative assistance procedure relating to securities was adjusted to the international IOSCO standards. By adjusting the FMA Act accordingly, access by Liechtenstein financial intermediaries to the international financial markets is to be ensured. The FMA Liechtenstein should be given the opportunity to attain member status at IOSCO and observer status at ESMA. The new rules governing administrative assistance entered into force on 1 January 2011 (see page 22).

Implementation of Directive 2009/44/EC

Directive 2009/44/EC (Settlement Finality Directive) governs the EEA-wide harmonized effectiveness of payment and securities settlement systems and the relevant financial collateral arrangements. Implementation of the Settlement Finality Directive will necessitate a modification of the Settlement Finality Act and of property law. The new, often technical provisions will be considered by Parliament for the first time in the reporting year and must be applied starting 1 July 2011 at the latest.

Implementation of Directive 2009/110/EC

With Directive 2009/110/EC (E-Money Directive), e-money transactions and in particular the supervision of e-money institutions are being made subject to new rules. While the previous rules were based primarily on banking regulation, the new E-Money Directive is dominated mainly by the reference to the provisions contained in the new Payment Services Directive. Transposition of the e-money directive was already dealt with by Parliament in the reporting year. Implementation must take place by mid-2011. On a supplementary basis, an E-Money Ordinance will be enacted for the first time.

2.2 Securities Division

Pending regulatory projects

Implementation of Directives 2009/65/EC and 2011/XX/EC

As part of adjustment of the legal rules governing undertakings for collective investment in transferable securities (UCITS) on the financial markets of the 21st century as well as within the framework of the European measures responding to the financial crisis, Directives 2009/65/EC (UCITS IV) and 2011/XX/EC (AIFM) including the relevant implementing enactments were adopted at the European level, and must be incorporated into the EEA Agreement. In the course of their implementation, the Investment Undertakings Act and Ordinance will be replaced by a newly enacted UCITS Act and its implementing ordinance as well as a new AIFM Act and its implementing ordinance. Transposition of the two directives and the associated implementing enactments of the Commission are taking place as part of the "Fund Center 2011" project of the Government with the participation of the FMA. The goal is to take advantage of the opportunities arising from implementation of the abovementioned enactments for the benefit of the Liechtenstein fund center.

Partial revision of the Takeover Act

Pursuant to two requests for information from the EFTA Surveillance Authority (ESA), in which the proper implementation of Directive 2004/25/EC (Takeover Directive) was called into question with respect to individual points, the Takeover Act will be subjected to a selective partial revision. At the same time, an ordinance with implementing provisions will be created. In addition to proper implementation of the Takeover Directive, the introduction of a competence clause concerning the exclusion of



minority shareholders is envisaged, according to which the Government may enact more detailed provisions concerning the procedure for squeezing out the remaining equity securities in accordance with article 17(4) of the Takeover Act.

FMA Communication regarding the term “head office” and delegation of activities pursuant to the Law of 25 November 2005 on Asset Management (AMA)

According to article 6(1)(b) in conjunction with article 1a of the AMA, the head office of an asset management company must be situated on a permanent basis in Liechtenstein. Given that the FMA has increasingly noted that the question of the location of the head office – and in particular the structure thereof – must be discussed more intensively and considered more critically in the context of licensing applications and also in the course of ongoing supervision, the term “head office” will be described in an FMA Communication, and the associated interpretive practice of the FMA will be explained. Furthermore, the Communication will serve to explain the interplay between the head office and the permissible delegation of activities in accordance with article 12 of the IMA in conjunction with article 9 of the Asset Management Ordinance (AMO) as well as Annex 6 of the Banking Ordinance and to explain the relevant interpretive practice of the FMA.

2.3 Insurance and Pension Funds Division

Pending regulatory projects: Private insurances Directive 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)

The risk-based approach of Solvency II entails a fundamental reorientation in the calculation of the own funds of insurance undertakings and a reform of the available supervisory measures and instruments. Under Solvency II, the supervisory provisions are based more strongly than before on qualitative measures. The supervision of insurance groups is also subject to new provisions.

Solvency II entails a total revision of the Insurance Supervision Act (ISA) and the Insurance Supervision Ordinance (ISO) as well as the amendment of additional laws, especially the Insurance Contract Act (ICA), the Law on International Insurance Contract Law, and the Pension Funds Act (PFA).

The Solvency II Directive will be amended in 2011 due to the new European supervisory structures. The deadline for implementing Solvency II will also be extended from 31 October 2012 to 1 January 2013. Over the coming months and into 2012, numerous implementing provisions for the framework directive will be enacted.

In light of the upcoming, comprehensive revision of the insurance supervision legislation, the Liechtenstein insurance industry will be included early on in the implementation process. A consultation on the draft revised Insurance Supervision Act is thus planned starting in June 2011.

FMA Guideline: Investment options within a unit-linked or fund-linked life insurance

The goal of this FMA Guideline is to further specify the permissible investments that may be made as part of a unit-linked or fund-linked life insurance. Taking account of various product characteristics, an overview of the permissible investment instruments will be given. The Guideline will apply to all undertakings subject to the Insurance Supervision Act (ISA) that offer products within the framework of unit-linked or fund-linked life insurance in accordance with class 3 in Annex 2 of the ISA.

Implementation of Directive 2004/113/EC

Among other goals, Directive 2004/113/EC implementing the principle of equal treatment between men and women in the access to and supply of goods and services sets out a prohibition of discrimination with regard to the calculation of premiums and benefits in private insurance. Consideration of gender as a factor may lead to discrepancies in premiums and benefits only if the divergent treatment is based on relevant and precise actuarial and statistical principles. The Directive will be implemented in particular by amending the Gender Equality Act (GEA).

Pending regulatory projects: Pension schemes

Implementation of Directive 2006/54/EC

The main goal of the Directive is to create more legal certainty in the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation. One of the aims is to implement the principle of equal treatment also with regard to occupational social security schemes. Extra-mandatory occupational pensions also fall within the scope of occupational social security schemes. A general prohibition

of discrimination in this area applies, especially with regard to the scope of application of such systems, the contribution requirement, and the calculation of contributions and benefits. In some areas, however, the Directive provides for exceptions that permit men and women to continue to be treated differently.

Implementation of this Directive is primarily undertaken by amending the Gender Equality Act. Any discrimination in occupational pension provision in terms of contribution requirement, calculation of contributions, and calculation of benefits is prohibited. What continues to be permissible in voluntary occupational pension provision is a differentiation of benefits based on actuarial calculation factors that may differ according to gender (e.g. life insurance and the associated conversion rate).

Pending regulatory projects:

Insurances and pension schemes

Creation of a Registered Partnership Act – Amendment of the Occupational Pensions Act and the Insurance Contract Act

By creating a Registered Partnership Act, Liechtenstein aims to achieve the equal treatment of registered partnerships and marriage in terms of inheritance law, social insurance law, immigration and naturalization law, tax law, and other public law.

In the area of occupational pensions, the proposal envisages complete equality with marriage. The equal treatment thus covers the following matters in particular: the division of entitlements from occupational pensions upon dissolution of the registered partnership, the option of buying back into the benefits of a pension scheme after division of the withdrawal benefits, a claim to survivors' benefits,

favorable treatment concerning vested benefits, and consent of the registered partner for cash payout of the vested benefits.

Additionally, an amendment of the Insurance Contract Act will be undertaken to realize the equal treatment of registered couples and married couples with respect to insurance contracts.

2.4 Other Financial Intermediaries Division

Completed regulatory projects

Implementation of the Statutory Audit Directive

The aim of EU Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts is to adjust the qualitative requirements of statutory audits to international practice. This is to ensure greater reliability of the accounting of companies. The Directive defines the duties applicable to the persons and companies entrusted with statutory audits in terms of licensing, continuing training, professional standards, quality assurance, and performance of the audit. Moreover, it provides for better supervision of statutory auditors and promotes international cooperation.

Implementation of this Directive was accomplished by partially revising the Auditors and Auditing Companies Act (AACA), the Law on Persons and Companies (PGR), and laws in the fields of banking, securities, asset management, and insurance supervision. A key feature is the introduction of quality assurance audits by the FMA of statutory audits performed by auditors. With the new disci-

plinary rules under the AACA, the FMA has for the first time been assigned disciplinary oversight of a liberal profession. Additionally, an electronic, publicly accessible register of auditors has been created. The adjustments enter into force on 1 February 2011.

Implementation of the Services Directive

The aim of EU Directive 2006/123/EC on services in the internal market is to achieve a true internal market for services for the benefit of undertakings and consumers. For this purpose, the national administrative procedures are to be simplified, obstacles to services reduced, and the trust between member states and service providers and consumers strengthened.

Implementation was accomplished primarily by creating a Services Act establishing the general legal framework for the provision of services. Focus areas are the creation of a uniform contact partner for service providers, an acceleration of procedures by way of shorter approval periods and a presumption of approval, improvement of cross-border administrative cooperation, and expansion of the information rights for recipients of services. In this connection, the Lawyers Act, Professional Trustees Act, Patent Lawyers Act, and Auditor and Auditing Companies Act were amended. At the same time, the existing residency requirement was abolished as part of implementation of the EEA rules. The adjustments entered into force on 9 December 2010.

Industry-specific instructions for lawyers

As part of implementation of the 3rd EU Money Laundering Directive 2005/60/EC, the PEP Directive 2006/70/EC and Regulation (EC) No 1781/2006, the

industry-specific instructions for lawyers were elaborated in cooperation with the Liechtenstein Chamber of Lawyers and the Financial Intelligence Unit.

The purpose of these instructions is to create uniformity and clarity with regard to interpretation and application of the DDA and DDO. It should serve as an aid to help persons subject to due diligence interpret the legal foundations. The instructions were enacted on 10 August 2010 with retroactive effect starting 1 March 2009.

FMA Communication 3/2010 (real estate brokers)

According to article 3(1)(p) of the DDA, real estate brokers are covered by the DDA. Accordingly, activities involving the acquisition or sale of real property trigger due diligence obligations. Since the DDO contains no detailed information in this regard, the FMA has issued a relevant Communication. It provides information on interpretation and practice in connection with the due diligence obligations of real estate brokers. The FMA Communication was issued on 28 October 2010.

Creation of a Gambling Act

In its session in June 2010, Parliament adopted a Gambling Act that governs all forms of gaming involving money or pecuniary advantages on a uniform basis, to the extent deemed necessary on grounds of social policy and policing.

Supervision and enforcement of the law are the responsibility of the Government and the Office of Economic Affairs. The FMA is responsible for monitoring compliance with the due diligence obligations of casinos and providers of online gambling games pursuant to the DDA and the Gambling Act,

but not for combating abuse. The Gambling Act and the Casino Ordinance entered into force on 1 January 2011.

Pending regulatory projects

Implementation of FATF Special

Recommendation IX on cash couriers

As part of a working group appointed by the Government, the FMA is working on implementation of FATF Special Recommendation IX to create rules governing the cross-border transportation of currency and bearer negotiable instruments. For purposes of combating money laundering and terrorist financing, the import and export of cash will be controlled by introducing an inquiry system. Implementation will be accomplished by amendments to the Police Act, the creation of an implementing ordinance, and a delegation agreement with the Swiss Border Corps.

Creation of an Online Gambling Ordinance (OGO)

As part of a working group, the FMA is working on the creation of an Online Gambling Ordinance (OGO), especially on the specification of the due diligence provisions governing providers of online gambling games pursuant to the DDA and the Gambling Act. The ordinance is scheduled to enter into force on 11 March 2011.

3.1 National external relations

3.2 International external relations

3.3 Bilateral cooperation



3.1 National external relations

In its supervisory and regulatory activities, the FMA maintains exchange relationships at the national level with financial intermediaries, professional and industry associations, the Government, authorities, Parliament, the media and other stakeholders. The owner's strategy approved by the Government in March 2010 contains various targets and statements regarding implementation of the strategy. For instance, the Government expects the FMA to cultivate systematic exchanges especially with the industry and professional associations, in particular for purposes of designing the regulatory framework. Professional communication with the financial sector should be efficient and take advantage of modern means of communication. The FMA's participation in regulatory projects requires close cooperation with authorities and the market. For this purpose, the owner's strategy envisages a service agreement between the Government and the FMA. It is expected to be concluded in spring 2011.

The strong personnel growth of the FMA in the years 2008 and 2009 was associated with increased public interest in the FMA. This created a need for public information about the future development of the FMA. The Board of Directors newly appointed by Parliament thus briefed the national media 100 days into its term about the results of the analysis, the reorganization, and the future strategic orientation of the FMA. In May, the media were briefed a second time during a second media talk.

The FMA's Internet appearance represents a key channel for communicating with financial intermediaries. In the reporting year, a new newsletter was established and the frequency of publication was massively

increased. The newsletter ensures timely briefing of financial intermediaries and other groups interested in FMA information.

3.2 International external relations

The developments at the international level in the reporting year 2010 were characterized by regulatory clean-up work after the global financial crisis. At the European level, the competences and powers of the new European supervisory authorities were negotiated between the EU institutions until the last moment. At the same time, the former supervisory committees (CEBS, CESR, CEIOPS) had to complete all preparations for the practical implementation of this new structure by 1 January 2011 under enormous time pressure. In this busy environment, the competent EEA/EFTA supervisory authorities (Norway, Iceland, and Liechtenstein) had to clarify their role within these new structures with representatives of the EU.

At the global level, the work following up on the G20 resolutions was continued. Of particular note in this connection are the reform of the global capital adequacy standards for the banks and the introduction of certain liquidity standards by the Basel Committee (Basel III).

Also significant is the revision of the FATF Recommendations, which should be completed by the end of 2011. Consultations with the private sector are currently being conducted. Implementation of the new standards should occur in 2012/13. The revision is expected to lead to the inclusion of tax offenses in the catalogue of predicate offenses and enhanced transparency requirements for legal persons and trusts.

The new rules governing administrative assistance were a significant milestone for the FMA's external relations. They were elaborated in record time and in close cooperation with the interest associations and adopted by Parliament with broad support. The rules address the points of criticism directed at Liechtenstein for years by IOSCO and CESR. They are intended to prepare the path for the FMA's membership in these bodies. These bodies are of essential importance to the international reputation of the Liechtenstein financial center and further access to securities markets.

3.2.1 Global cooperation

MONEYVAL

Moneyval is the committee of experts of the Council of Europe on combating money laundering and terrorist financing. At regular intervals, this body conducts country assessments to verify compliance with the FATF standards (40 + 9 Recommendations) by the individual members countries. Liechtenstein was last assessed by Moneyval in 2007 in cooperation with experts of the International Monetary Fund (IMF). At the Moneyval plenary meeting in December 2010, Liechtenstein had to report on progress in implementation of the recommendations made in the 2007 assessment report. The Liechtenstein delegation headed by the Financial Intelligence Unit was in particular able to refer to the measures taken in the course of implementation of the 3rd EU Money Laundering Directive and the recent expansion of the catalogue of predicate crimes as well as the introduction of criminal liability of legal persons. These measures were expressly welcomed by the plenary meeting.

In addition to country assessments, Moneyval conducts typological studies on methods, trends, and techniques of money laundering and terrorist findings. The relevant studies in the fields of Internet gambling, money transfer services/currency exchange, and criminal payment flows on the Internet (cyber-crime) were continued in 2010.

International Organization of Securities Commissions (IOSCO)

IOSCO is the international standard setter in the field of securities supervision. Membership of IOSCO increasingly is viewed as a prerequisite for access to international securities markets. The absolute condition for membership in IOSCO is compliance with the administrative assistance standards set out in the IOSCO Multilateral Memorandum of Understanding (IOSCO MMoU), e.g. relating to insider investigations. Liechtenstein until recently did not fully meet these standards. For this purpose, the Liechtenstein administrative assistance rules were adjusted to the IOSCO MMoU requirements by amending the FMA Act.

The new rules expand the permissible offenses subject to administrative assistance to include all areas envisaged by the IOSCO MMoU and provide for a downstream right of complaint. This means that the affected client is not initially informed of the request for administrative assistance. All administrative assistance requests are however reviewed by a judge of the Administrative Court before they can be executed by the FMA. The requesting authority subsequently receives the information needed for the investigation without delay. As soon as the requesting authority notifies the FMA Liechtenstein, after receipt of the information, that the investigation is concluded (but at the latest after 2 years), the affected client receives an appealable final decree by the FMA.

EXTERNAL RELATIONS

FMA-Geschäftsbericht 2010



Schellenberg

Thanks to these adjustments, Liechtenstein's long envisaged membership in IOSCO has been put on track. The criticism of the threat of collusion associated with the old procedure and of the time delay of the administrative assistance procedure has been addressed with the new solution. The first international reactions to the new rules have been very positive. IOSCO will decide officially in April 2011 whether to grant the FMA membership.

International Association of Insurance Supervisors (IAIS)

As a member of the International Association of Insurance Supervisors, Liechtenstein took part in the members' annual conference. The focus was on topics such as financial market stability, systemic risks in the insurance sector, a common supervision framework for internationally operating insurance groups (ComFrame), and national guarantee systems in the insurance sector. To promote worldwide, cross-border cooperation, the IAIS adopted a Multilateral Memorandum of Understanding on Cooperation and Information Exchange (IAIS MMoU) in 2007, thus creating a uniform framework for the exchange of information. In 2010, the FMA applied to join the IAIS MMoU.

International Organisation of Pension Supervisors (IOPS)

IOPS is the international umbrella organization of supervisory authorities for occupational pension schemes. In the 2010 reporting period, regular meetings of the technical committee took place as well as the annual general meeting of IOPS, followed by the annual OECD/IOPS Global Forum on Private Pensions.

Enlarged Contact Group on the Supervision of Collective Investment Funds (ECG)

The ECG, which was established as an informal group of international fund supervisors in 1979, met in Jersey in 2010 for its annual exchange of experiences. This meeting is used in particular to jointly discuss current regulatory developments and technical questions arising from supervisory practice. Liechtenstein has been a member of this group since 2006.

The participants' discussions were shaped by the regulatory changes at the European level (especially UCITS IV and AIFM). The participants also informed each other of changes to the national framework conditions.

Liechtenstein will host the ECG's meeting in the autumn of 2011. The meeting will also be used to acquaint the members of this international body with the Liechtenstein fund and financial center and to position it accordingly.

3.2.2 European cooperation

Level 2

The "Level 2" committees (EBC, ESC, EIOPC) support the Commission in the elaboration of technical implementing provisions for the framework legislation enacted by the EU bodies at Level 1. These committees also advise the Commission on technical questions. As an EEA member, Liechtenstein has observer status in the committees. This allows the FMA to gain first-hand background information about ongoing regulatory projects at the European level.

European Banking Committee (EBC)

The EBC supported the Commission especially with regard to the amendments of the Capital Requirements Directive. After publication of the final version of the new capital and liquidity requirements (Basel III) by the Basel Committee, the main goal was to integrate these new requirements into the European Capital Requirements Directive. Moreover, the EBC accompanied the work on an EU framework for crisis management, revision of the Deposit Guarantee Directive, and the Financial Conglomerates Directive. The work program also included possible framework rules for future bank collapses.

European Securities Committee (ESC)

The ESC met a total of five times in 2010. The work of the committee focused especially on the implementing provisions and technical advice to the Commission relating to the UCITS IV Directive and the Securities Law Directive. Another key topic was the elaboration of new rules for rating agencies and uniform rules for short sales and trading practices involving credit default swaps (CDSs). The regulation of investment products for small investors and a review of the Transparency Directive were further work areas of the ESC.

European Insurance and Occupational Pensions Committee (EIOPC)

The focus areas during the three meetings of the EIOPC in the reporting year were the implementing measures for the Solvency II Framework Directive and the Fifth Quantitative Impact Study (QIS5). Further regulatory projects on the 2010 agenda included the upcoming revision of the Insurance Mediation Directive, the Green Paper on Pensions, and the White Paper on Insurance Guarantee Schemes.

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

This committee supports the Commission on questions relating to combating money laundering and terrorist financing. In the reporting period, the committee dealt in particular with the differences in requirements between the 3rd Money Laundering Directive and the FATF Recommendations that surfaced during various FATF country assessments. In this connection, the European implementation of FATF Special Recommendation IX (cash couriers) and Special Recommendation VII on wire transfers was likewise discussed.

Also of interest were the ongoing revision of the FATF Recommendations and its impact on EEA member countries. The committee also discussed a possible revision of the Common Understanding on Third Country Equivalence. On behalf of the Commission, the CPMLTF moreover participated in the realization of an external study on application of the 3rd Money Laundering Directive.

Level 3

The task of the “Level 3” committees (CESR, CEBS, CEIOPS) is to ensure a consistent and equivalent implementation and application of the rules elaborated at Level 1 and Level 2 throughout Europe by developing (so far non-binding) standards and guidelines and in that way to develop a uniform supervisory practice. With the creation of the new European supervisory structure, these committees were upgraded into the three new European supervisory authorities with their own legal personality effective 1 January 2011. Their range of responsibilities, their competences, and the control rights

assigned to them accordingly have been expanded considerably (see section on the new European supervisory structure). Accordingly, all three committees were substantially concerned with the organizational preparations for implementation of the new supervisory structure in 2010.

Committee of European Banking Supervisors (CEBS)

CEBS became known to a broader public especially because of the second stress test carried out in July 2010 on behalf of ECOFIN. 91 European banks were tested in cooperation with the European Central Bank, the European Commission, and the national supervisory authorities of the EU.

In addition, CEBS developed a guideline on remuneration policy, recommendations for the management of operational risks, and guidelines for cross-border cooperation in the assessment of the capital adequacy of banking groups. Further focus areas included the framework recommendations for supervisory disclosure and guidelines on advanced risk management approaches in banks. In addition, CEBS carried out a Basel III impact study.

Committee of European Securities Supervisors (CESR)

In the reporting period, CESR worked especially on recommendations in connection with the revision of the Markets in Financial Instruments Directive (MiFID) planned by the EU Commission and published two packages in this regard with extensive proposals for changes. Additional technical advice on implementing measures were also finalized with respect to the future UCITS IV Directive. Finally, CESR published a template and guidelines for the

Key Investor Information Document (KIID), which is to replace the simplified prospectus for UCITS from 2012.

Furthermore, CESR transmitted to the EU Commission its recommendations for a binding, pan-European disclosure regime for net short positions. The body also published consolidated information on the liabilities of custodian banks in all member states.

Committee of European Insurance and Occupational Pension Supervisors (CEIOPS)

As for the Level 2 committee EIOPC, the implementation of Solvency II was also the central topic for CEIOPS, the committee of European insurance supervisors. In particular, the approach and the results of the Fifth Quantitative Impact Study/QIS5 were discussed. The debates in the Commission concerning revision of the Insurance Mediation Directive and the creation of new rules concerning Packaged Retail Investment Products (PRIIPs) were further points on the CEIOPS agenda.

New European supervisory structure

Since the outbreak of the global financial crisis in October 2008, a reform of European financial supervision has been an urgent priority at the European level. Already in September 2009, the EU Commission tabled proposals that were adopted only a year later. Until the last minute, there were vehement debates on how far the new authorities' powers should go. Within the EU Council, there were fears that the European supervisory authorities might receive too many powers. The EU Parliament, however, wanted to establish the strongest possible supervision. In

the end, many of the powers demanded by the EU Parliament were granted to the European supervisory authorities. The Council, in turn, achieved that the Council may itself decide (with a qualified majority) when a crisis situation exists and when the European supervisory authorities may thus intervene directly.

The new European supervisory structure, which entered into effect on 1 January 2011, consists of the European Systemic Risk Board (ESRB) and the three new European financial supervisory authorities: the European Banking Authority (EBA) headquartered in London, the European Insurance and Occupational Pensions Authority (EIOPA) headquartered in Frankfurt, and the European Securities and Markets Authority (ESMA) headquartered in Paris. The new authorities are composed of representatives of the 27 national supervisory authorities.

The new supervisory structure is based on two foundational pillars: macro-prudential supervision by the ESRB and micro-prudential supervision by a network consisting of the European and the national supervisory authorities. Within the framework of macro-prudential supervision, the ESRB will establish an early warning mechanism for risks accruing throughout the entire financial system and, where appropriate, make recommendations for measures to deal with these risks. The member states must notify the ESRB and the Council which measures have been seized for implementation in this regard or why a recommendation has not been implemented (“comply or explain” principle).

The three new European financial supervisory authorities (EBA, EIOPA, and ESMA) work within a network and in consultation with the existing national

supervisory authorities, in order to ensure financial soundness at the level of the individual financial institutions as well as client protection. The European financial supervisory authorities are for this purpose endowed with the following powers in particular:

- development of binding technical standards;
- enactment of guidelines and recommendations;
- direct powers of supervision vis-à-vis national authorities (or secondarily vis-à-vis financial market participants) in the event of
 - a) violation of Union law (including technical standards)
 - b) cases of crisis (as defined by the Council)
 - c) differences of opinion between national authorities in cross-border cases
 - d) issuing of warnings and provisional prohibition of certain financial activities where the integrity of the financial markets or the stability of the financial system is threatened;
- obtaining of requisite information concerning financial market participants;
- immediate supervisory powers for ESMA with respect to rating agencies.

Impact on Liechtenstein

Ongoing discussions and negotiations with the EU Commission concern the form in which EEA/EFTA states can participate in the new European supervisory authorities as well as the associated obligations. The impact on Liechtenstein can therefore not yet be gauged conclusively. In the context of incorporation of the relevant legal acts into the EEA Agreement, the main questions concern the EEA-compatible adjustment of the authorities’ direct responsibilities and

decision-making powers as well as the information rights of the new European supervisory authorities vis-à-vis the EEA/EFTA states.

As a general matter, it must be expected that the new structures will initially raise many practical questions. Especially the interplay between the EU supervisory authorities and the national authorities will give rise to challenges. It must be assumed that the direct supervisory powers will initially play a subordinate role due to the tightly delineated scope of application and a “budget policy protective clause” (budget policy powers of the member states may not be affected by the European authorities’ direct decisions). The power to issue binding technical standards will likely be more significant. The regulatory net will certainly become denser. The practical implementation of these binding standards could result in great challenges for smaller supervisory authorities and smaller financial institutions. National leeway will probably be further restricted.

3L3 – Anti Money Laundering Task Force (AMLTF)

The AMLTF was founded in 2006 by the three Level 3 committees (CEBS, CESR, CEIOPS) and has since dealt with cross-sector issues relating to the fight against money laundering and terrorist financing.

During the reporting period, the focus was on implementation issues relating to the 3rd Money Laundering Directive. In various FATF country assessments, the concept of simplified due diligence obligations as contained in the 3rd Money Laundering Directive was called into question. For this reason, a detailed survey was conducted by the AMLTF on how individual member countries have implemented this topic. Furthermore, an EEA-wide survey of the supervisory practices concerning the identification and verification of beneficial owners and the associ-

ated questions of interpretation was undertaken. A key topic of the AMLTF also related to questions of competence in connection with money laundering supervision and suspicious activity reports of agents of payment service providers in host member states. The AMLTF meetings were also used for regular exchange of experiences in connection with enforcement of Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds.

Passport Experts Group

The Passport Experts Group is composed of experts from the competent supervisory authorities of all EEA countries in the fields of banking, insurance, and securities supervision. The annual meetings serve to improve the cooperation of supervisory authorities in the context of the European notification regime.

EFTA Working Group on Financial Services (WGFS)

At the EFTA level, the FMA regularly took part in the meetings of the WGFS, in which the EU legislation is discussed whose incorporation into the EEA Agreement is imminent. This body offers the valuable opportunity to discuss implementation issues arising in the context of ongoing European regulatory projects with representatives of the EU Commission and the other EFTA member states.

4-country meeting

The Austrian Financial Market Authority hosted this year’s annual 4-country meeting of the German-speaking supervisory authorities in Vienna. During this meeting, the supervisory authorities from Switzerland, Germany, Austria, and Liechtenstein considered supervisory questions in the context of Solvency II as well as monitoring of financial reporting. International and national regulatory developments in connection with systemic institutions were also discussed.



3.3 Bilateral cooperation

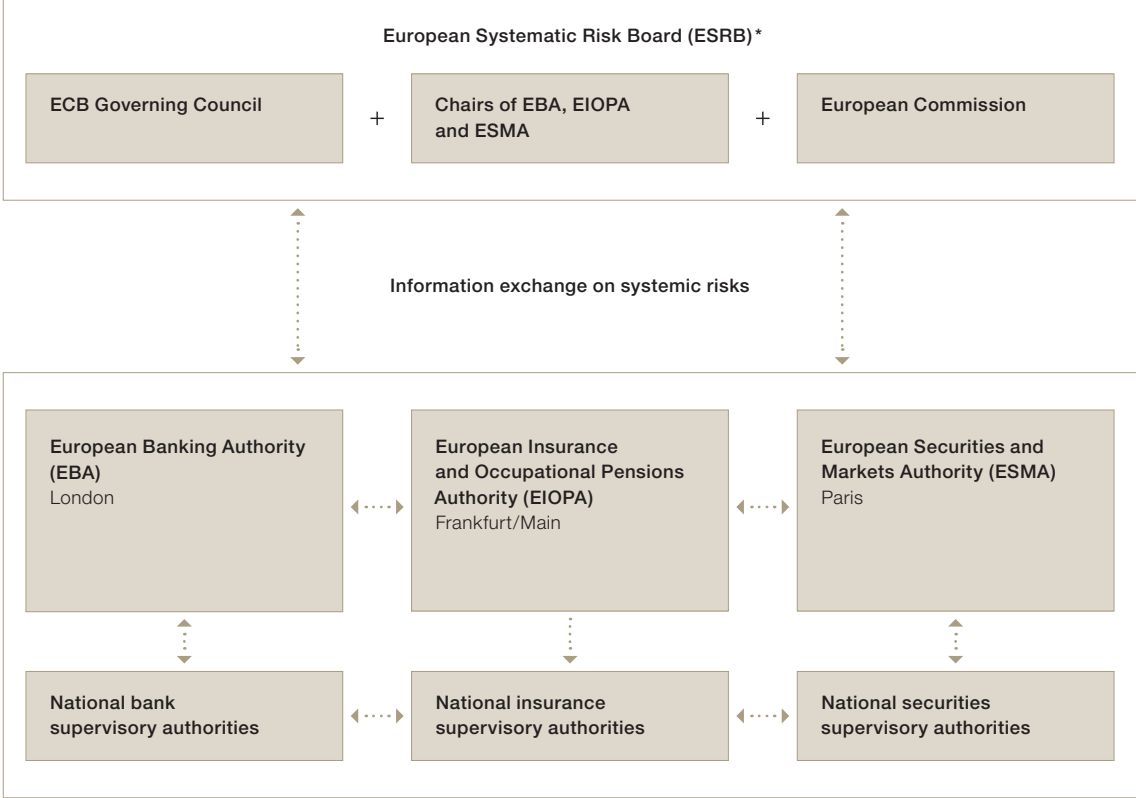
In the reporting year, the FMA cultivated numerous bilateral contacts with important partner authorities. At meetings with FINMA, the Swiss National Bank, the FMA Austria, the Austrian National Bank, and the Luxembourg supervisory authority (Commission de surveillance du secteur financier), questions were discussed in particular in connection with consolidated supervision, regulatory projects, and current developments in the financial markets in question.

As part of the existing agreement between Liechtenstein and Switzerland on direct insurance and insurance intermediaries, various insurance-specific questions were again discussed with FINMA in the reporting year in connection with the cross-border business of Liechtenstein and Swiss insurance undertakings and insurance intermediaries.

At the International Conference of Banking Supervisors hosted by the Basel Committee, contacts were also cultivated with non-European countries where subsidiaries of Liechtenstein institutions are located. This regular information exchange with the most important host supervisors is an important trust-building measure and facilitates the activity of Liechtenstein institutions abroad. At the same time, this exchange of information makes it possible to obtain a complete picture of risk management at the group level.

Additionally, the official state visits in China and India in the company of the Hereditary Prince and the Prime Minister permitted contacts at the highest level with finance ministries and supervisory authorities.

Finally, the FMA received numerous foreign delegations in Liechtenstein and, in this context, acquainted foreign experts with Liechtenstein's supervisory system. These meetings offer a valuable opportunity to provide information internationally about the supervisory standards applied in Liechtenstein.



*The General Board of the ESRB also includes (non-voting) representatives of the national supervisory authorities.

Figure 10
New European supervisory structure

4.1 Organization

4.2 Corporate development

.....
4.3 Finances

4.1 Organization

PEA

On 1 January 2010, the Public Enterprise Act (PEA) entered into force. The law governs the steering and monitoring of public enterprises in the Principality of Liechtenstein. Its purposes include ensuring the constitutionally mandated supreme oversight by the Government of the corporations, establishments, and foundations under public law as well as legal certainty. Supreme oversight of the FMA thus was transferred from Parliament to the Government. The creation of the PEA also necessitated amendments to the Financial Market Authority Act (FMA Act). The FMA Act governs the organization, responsibilities, and competences of the supervisory authority.

Board of Directors

At the beginning of January 2010, the Board of Directors appointed by Parliament began its 2010–2014 term. It is composed of Chairman Michael Lauber, Vice-Chairman Prof. Dr. Roland Müller, and members Peter Huber, Bernhard Lampert, and Dr. Michael Ritter.

Reorganization

After a detailed analysis, the Board of Directors decided on a reorganization of the FMA. The Banking and Securities Division was split up into a Banking Division and a Securities Division. The International Affairs unit, previously located within the Banking and Securities Division, was integrated into the

Executive Office. The Executive Office also took over legal tasks previously carried out by the individual supervisory divisions. The corporate communications staff was strengthened. The reorganization entailed a reduction of positions by 7% to 73.4.

Owner's strategy

Based on the PEA, the Government issued an owner's strategy for the FMA in March 2010. The owner's strategy defines the Government's political, entrepreneurial, economic and social goal for the FMA and provides clear guidelines for the FMA's strategy. The owner's strategy creates clarity and reliability for stakeholder groups in terms of the authority's orientation. The FMA's independence in the performance of its activities is not affected by the owner's strategy.

Basis of financing

In the early summer, the Constitutional Court found that the legal basis for the FMA's financing was unconstitutional. On behalf of the Government, a draft law was elaborated in close cooperation with the professional and industry associations that met the constitutional requirements. The law was adopted by Parliament already in December.

Core principles

During the reporting year, the core principles defined upon the establishment of the FMA in 2005 were revised and specified in more detail. The core principles are the FMA's written declaration of its self-understanding.

4.2 Corporate development

Human resources management

To ensure attractive and competitive conditions for the FMA as an employer, a new salary guideline was developed in the reporting year. Additionally, the FMA staff regulations have been completely revised. The new regulations entered into effect on 1 January 2011. To make salary administration more efficient, a separate client was set up for the FMA on the National Public Administration's salary system. Changes are now carried out directly by the FMA. The National Public Administration continues to administer the payment of salaries.

Infrastructure and security

In December 2010, the FMA relocated to its new location at Landstrasse 109 in Vaduz. Until December 2010, the FMA was likewise domiciled in Vaduz in its two locations at Heiligkreuz 8 and Austrasse 59. With the relocation to the new premises, the FMA staff members are now united under a single roof and they have modern infrastructure at their disposal. The security system was designed so that visitors encounter an FMA that is as open as possible without endangering security in any way. The visitor and office zones are now strictly separated for this purpose in terms of rooms and security technology.

Information technology

In spring 2010, the Board of Directors approved the FMA's IT strategy. The IT strategy takes account of the requirements set out in the owner's strategy, according to which the FMA's communication must be based on the newest standards of communications technology; in particular, specialized communication with the financial sector must be efficient and take advantage of modern means of communication.

In the reporting year, a modern IT architecture was developed, and the foundations for future IT governance were created. In parallel, further measures to improve IT security have been implemented. Additional IT initiatives were initiated in the last quarter; the redesign of the FMA's website is of particular importance in this regard. An important step was also the conclusion of a new service agreement with the National Public Administration, which in particular sets out new rules for the provision of IT services by the State.

The relocation to the new headquarters was smooth also from the perspective of IT. The new premises offer the necessary infrastructure for a sustainable development and expansion of the FMA's IT resources.

4.3 Finances

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

In November 2009, Parliament approved the proposed budget for the 2010 business year with total expenses in the amount of CHF 18,400,000 and a loss of CHF 2,300,000. The State contribution was fixed at CHF 10,700,000. The actual expenses for 2010 amounted to CHF 16,518,620. They are thus CHF 1,881,380 (10.2%) below budget.

Income amounted to CHF 21,489,390. Minus the total expenses of CHF 16,518,620, the accounts closed with an annual surplus of CHF 4,970,770. This surplus is mainly due to three factors:

- Cost-reduction program: In February 2010, the Board of Directors adopted a cost-reduction program. Savings in personnel expenses and material expenses in the amount of CHF 1,738,369 (9.7%) were realized.
- Income related to other periods: In the 2010 business year, income related to other periods from financial intermediaries associated with two concluded supervision cases in the amount of CHF 1,044,349 accrued. At the time of budgeting, both the time of conclusion of the supervision cases and the amount of payments were unsure.

- Supervisory taxes: The supervisory taxes booked in the 2010 business year amounted to CHF 8,807,276. They were CHF 5,107,276 higher than the budgeted revenue in the amount of CHF 3,700,000. This surplus revenue is of a bookkeeping nature, since the supervisory taxes of two years (2009 and 2010) were booked in the 2010 business year due to a system change. Previously, the supervisory fees of a given year were invoiced and booked in the following year. Now, the supervisory taxes for the current year are invoiced and booked in the same year.

Personnel expenses in the 2010 business year amounted to CHF 12,870,606, i.e. CHF 474,394 (3.6%) lower than budgeted. As part of the reorganization, the number of positions was reduced by about 7%. Various positions were also vacant. Accordingly, expenses for salaries and social security contributions were about CHF 1,141,597 (9.1%) lower than budgeted.

Material expenses at CHF 3,286,025 were CHF 1,263,975 (27.8%) lower than budgeted. These savings were achieved by lower expenses relating to expert fees and opinions, premises (later relocation to new premises than planned), public outreach, and events.

The surplus from the 2010 business year will be allocated to reserves. The amount of reserves as of 31 December 2010 was CHF 9,346,857. This nearly exhausts the legally stipulated maximum amount of reserves. The accrued reserves can be used to compensate future fluctuations.

Balance sheet as of 31 December 2010 (in CHF)

| Assets | | 2010 | 2009 |
|--------------------------|---|----------------------|---------------------|
| Fixed assets | | | |
| Tangible assets | – IT equipment | 121,868.47 | 124,164.89 |
| | – Furnishings | 334,093.31 | 125,948.38 |
| | – Operating equipment | 892,559.29 | – |
| Current assets | | | |
| Liquid assets | – Cash | 240.40 | 466.65 |
| | – Bank | 7,067,247.56 | 6,037,066.72 |
| Receivables | – Debtors | 25,000.00 | 419,604.60 |
| | – National Public Administration offset account | – | 1,094,279.96 |
| Accrued items | | | |
| | – Accounts paid in advance | 5,332,142.60 | 325,824.74 |
| TOTAL ASSETS | | 13,773,151.63 | 8,127,355.94 |
| Liabilities | | 2010 | 2009 |
| Equity capital | | | |
| | – Endowment | 2,000,000.00 | 2,000,000.00 |
| | – Reserves as of 1 January | 4,376,086.49 | 1,506,086.49 |
| | – Allocation to reserves | 4,970,770.11 | 2,870,000.00 |
| | – Own funds | 11,346,856.60 | 6,376,086.49 |
| Provisions | | | |
| | – Provisions | 50,000.00 | 50,000.00 |
| Accounts payable | | | |
| | – Creditors | 1,556,215.60 | 1,701,269.45 |
| | – National Public Administration offset account | 801,446.66 | – |
| Deferred items | | | |
| | – Accounts received in advance | 18,632.77 | – |
| TOTAL LIABILITIES | | 13,773,151.63 | 8,127,355.94 |

Income statement from 1 January 2010 to 31 December 2010 (in CHF)

| Expenses | Actual 2010 | Budget 2010 | Deviation | Actual 2009 |
|--|----------------------|----------------------|----------------------|----------------------|
| Personnel expenses | | | | |
| Wages | 9,332,431.92 | 10,220,000.00 | -887,568.08 | 8,794,494.76 |
| Social security contributions | 2,040,971.45 | 2,295,000.00 | -254,028.55 | 1,588,684.03 |
| Secondments | - | - | - | 603,762.50 |
| Insurance (sickness daily allowances) | 142,584.45 | 70,000.00 | 72,584.45 | 64,401.90 |
| Insurance benefits (sickness daily allowances) | -83,524.75 | - | -83,524.75 | - |
| Other personnel expenses | 533,785.90 | 230,000.00 | 303,785.90 | 619,943.60 |
| Basic and continuing training | 222,060.60 | 230,000.00 | -7,939.40 | 222,109.85 |
| Basic compensation for Board of Directors | 528,720.24 | 300,000.00 | 228,720.24 | 338,173.17 |
| Consulting fees for Board of Directors | 153,576.00 | - | 153,576.00 | - |
| Total personnel expenses | 12,870,605.81 | 13,345,000.00 | -474,394.19 | 12,231,569.81 |
| Material expenses | | | | |
| Office expenses | 183,965.80 | 250,000.00 | -66,034.20 | 201,331.25 |
| Travel expenses | 284,867.45 | 325,000.00 | -40,132.55 | 280,414.50 |
| Expert fees/opinions | 657,749.45 | 1,270,000.00 | -612,250.55 | 1,442,742.20 |
| Auditing companies | - | - | - | 4,455,525.45 |
| Reimbursements from auditing companies | - | - | - | -4,133,084.85 |
| Premises | 1,026,425.40 | 1,450,000.00 | -423,574.60 | 759,179.15 |
| Insurance | 47,694.30 | 30,000.00 | 17,694.30 | - |
| IT costs | 641,897.60 | 590,000.00 | 51,897.60 | 628,083.30 |
| Public outreach | 126,107.65 | 250,000.00 | -123,892.35 | 239,235.95 |
| Events and representation | 23,585.85 | 130,000.00 | -106,414.15 | 25,678.20 |
| Membership fees for associations/institutions | 63,665.55 | 50,000.00 | 13,665.55 | 41,134.60 |
| Examination expenses | 74,808.80 | 75,000.00 | -191.20 | 59,180.49 |
| Other expenses | 155,257.07 | 130,000.00 | 25,257.07 | 412,764.30 |
| Total material expenses | 3,286,024.92 | 4,550,000.00 | -1,263,975.08 | 4,412,184.54 |
| Write-downs | | | | |
| Depreciation on IT equipment | 151,103.37 | 195,000.00 | -43,896.63 | 47,053.67 |
| Depreciation on furnishings | 111,712.27 | 310,000.00 | -198,287.73 | 158,702.29 |
| Depreciation on operating equipment | 99,173.26 | - | 99,173.26 | - |
| Write-downs on debtors | - | - | - | - |
| Total write-downs | 361,988.90 | 505,000.00 | -143,011.10 | 205,755.96 |
| TOTAL EXPENSES | 16,518,619.63 | 18,400,000.00 | -1,881,380.37 | 16,849,510.31 |
| Annual surplus (allocated to reserves) | 4,970,770.11 | - | 4,970,770.11 | 2,870,000.00 |
| | 21,489,389.74 | 18,400,000.00 | | 19,719,510.31 |
| Income | | | | |
| Licensing fees | 688,930.00 | 1,400,000.00 | -711,070.00 | 895,950.00 |
| Supervisory taxes* | 8,807,276.35 | 3,700,000.00 | 5,107,276.35 | 4,121,763.95 |
| Examination fees | 74,808.80 | 40,000.00 | 34,808.80 | 59,180.49 |
| Other fees | 74,100.00 | 220,000.00 | -145,900.00 | 354,178.55 |
| Other income | 99,925.29 | 40,000.00 | 59,925.29 | 368,903.31 |
| Income related to other periods (reimbursements) | 1,044,349.30 | - | 1,044,349.30 | 2,003,327.30 |
| Total income | 10,789,389.74 | 5,400,000.00 | 5,389,389.74 | 7,803,303.60 |
| State contribution | 10,700,000.00 | 10,700,000.00 | - | 11,916,206.71 |
| TOTAL INCOME | 21,489,389.74 | 16,100,000.00 | 5,389,389.74 | 19,719,510.31 |
| Annual deficit (dissolution of reserves) | - | 2,300,000.00 | - | - |
| | 21,489,389.74 | 18,400,000.00 | | 19,719,510.31 |

* Supervisory taxes 2009: CHF 4,154,776.35/Supervisory taxes 2010: CHF 4,652,500.00

Notes on the 2010 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) (article 32(2) 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 guideline sets out the following durations of use:

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

Figure 11
Duration of use

Receivables are calculated at par value, minus any required value adjustments. No value adjustments were necessary in the 2010 business year.

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

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

Foreign exchange rates

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

Receivables

All receivables have a maturity of less than one year.

Fixed assets

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

| Tangible assets | Acquisition costs | | | | Depreciation | | | | Amortized value | |
|---------------------|----------------------------|---------------------|--------------|------------------------------|-------------------|-------------------|--------------|--------------------|-------------------|---------------------|
| | Acquisition costs 1.1.2010 | Acquisitions | Divestitures | Acquisition costs 31.12.2010 | Balance 1.1.2010 | Acquisitions | Divestitures | Balance 31.12.2010 | Balance 1.1.2010 | Balance 31.12.1020 |
| IT equipment | 185,271.35 | 148,806.95 | 0.00 | 334,078.30 | 61,106.46 | 151,103.37 | 0.00 | 212,209.83 | 124,164.89 | 121,868.47 |
| Furnishings | 238,704.15 | 319,857.20 | 0.00 | 558,561.35 | 112,755.77 | 111,712.27 | 0.00 | 224,468.04 | 125,948.38 | 334,093.31 |
| Operating equipment | 0.00 | 991,732.55 | 0.00 | 991,732.55 | 0.00 | 99,173.26 | 0.00 | 99,173.26 | 0.00 | 892,559.29 |
| TOTAL | 423,975.50 | 1,460,396.70 | 0.00 | 1,884,372.20 | 173,862.23 | 361,988.90 | 0.00 | 535,851.13 | 250,113.27 | 1,348,521.07 |

Figure 12
Assets analysis

Provisions

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

Long-term liabilities

In December 2010, the FMA moved into a new building. A rental contract was signed for this purpose between a general contractor and the FMA. A rental term of 20 years was agreed. The annual rent amounts to approximately CHF 1.8 million (including ancillary costs).

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

a) Board of Directors

Total remuneration for the members of the Board of Directors in the 2010 business year was CHF 682,296.24. This amount consists of basic compensation in the amount of CHF 528,720.24 and consulting fees in the amount of CHF 153,576.00. The members of the Board of Directors were elected by Parliament in its meeting of 17 December 2009 for a term from 2010 to 2014.

In its decision RA 2010/687-0314 of 30 March 2010, the Government specified the following remuneration:

- Basic compensation for the Chairman
- Basic compensation for the Vice-Chairman
- Basic compensation for other members
- Attendance fee for each full day

b) Executive Board

The gross remuneration of the members of the Executive Board in the 2010 business year was CHF 1,279,278.26 without social security contributions.

The members of the Executive Board are appointed by the Board of Directors.

As of 31 December 2010, the Executive Board was composed of the following members:

- Mario Gassner, Chief Executive Officer
- Dr. Alexander Imhof, Deputy of the CEO and Head of the Insurance and Pension Funds Division
- Rolf Brüggemann, Head of the Banking Division
- Tobias Wanner, Head of the Securities Division
- Patrik Galliard, Head of the Other Financial Intermediaries Division (a.i.)

On 8 March 2010, Christian Reich resigned as Head of the Banking and Securities Division and Deputy of the CEO. The employment relationship ended on 30 September 2010. Pursuant to the reorganization, the Banking and Securities Division was split up into the Banking Division and the Securities Division. Until the appointment of the new division heads, CEO Mario Gassner headed both divisions ad interim. Effective 15 September 2010, the Board of Directors appointed Rolf Brüggemann as the new Head of the Banking Division and Member of the Executive Board. Tobias Wanner was appointed new Head of the Securities Division and Member of the Executive Board effective 1 December 2010.

Dr. Alexander Imhof was appointed as Deputy of the CEO in November 2010; he had held this office on an interim basis since the departure of Christian Reich. Dr. Roger Quaderer, Head of the Other Financial Intermediaries Division and Member of the Executive Board, resigned from his functions on 12 October 2010. The employment relationship will end on 30 April 2011. Until a successor is appointed, Patrik Galliard is filling this position ad interim.

Workforce

As of 31 December 2010, the FMA had a total of 71 staff members. Of these, 59 had permanent full-time contracts, and 12 had part-time contracts. In total, the FMA had 66.6 full-time equivalents as of 31 December 2010.

| Category | Persons | Positions |
|---|-----------|-------------|
| Permanent full-time | 59 | 59 |
| Permanent part-time | 12 | 7.6 |
| TOTAL full-time positions filled | 71 | 66.6 |
| Temporary appointments | 0 | 0 |
| Workforce as of 31.12.2010 | 71 | 66.6 |
| Vacant positions | | 6.8 |
| TOTAL FMA | | 73.4 |

Figure 13
Workforce

Attestation of the National Audit Office



FINANZKONTROLLE
FÜRSTENTUM LIECHTENSTEIN

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

As the Audit Office within the meaning of article 19 of the Law on the Financial Market Authority (FMA Act), we have audited the accounting, the annual financial statement (balance sheet, income statement, and notes) and the annual report of the Financial Market Authority (FMA) Liechtenstein for the business year ending 31 December 2010.

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

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

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

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

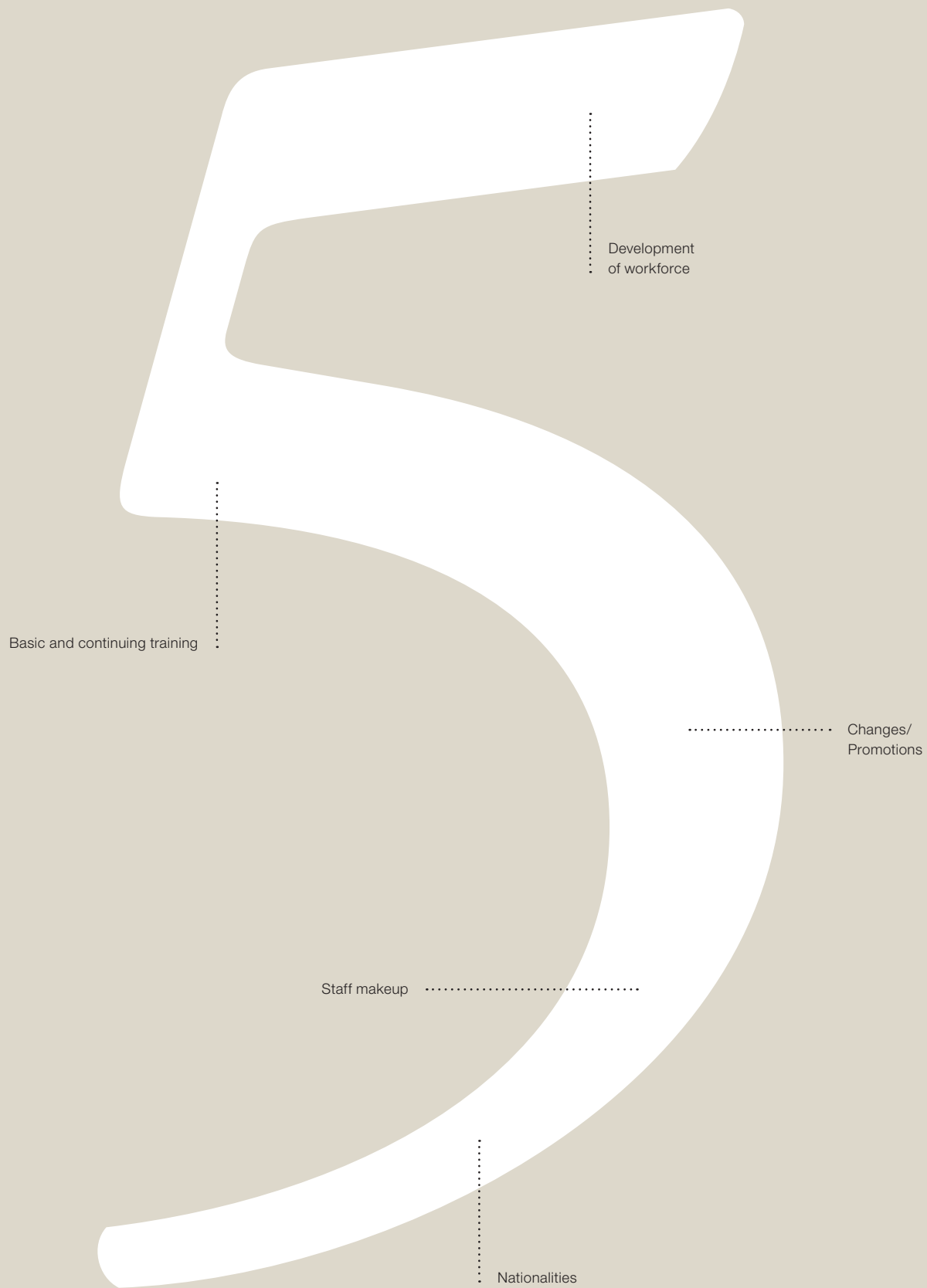
We recommend that the present annual financial statement be approved.

NATIONAL AUDIT OFFICE
of the Principality of Liechtenstein

Cornelia Land
Director

Oliver Hermann
Deputy Director

Vaduz, 11 March 2011



Development of the workforce

As of 31 December 2010, the FMA employed 71 staff members (previous year: 78). The share of women was 42%. 59 staff members were employed full-time and 12 part-time. An equivalent of 66.6 full-time positions were filled as of 31 December 2010. 24 staff members left the FMA. Except for 6.8 full-time equivalents, all vacant positions were able to be filled. The increased fluctuation was due to the reorganization, the associated staff reduction by 7%, and normal fluctuation.

As a measure to reduce fluctuation, management courses were conducted over the course of 2011. These contribute to a uniform management understanding and convey foundations for confident and successful management of employees. New staff regulations were also developed in 2010, which entered into effect on 1 January 2011. Attractive incentives strengthen employees' loyalty to the FMA. With the relocation to the new premises, the FMA now has optimal infrastructure at its disposal, which further improves the situation.

Basic and continuing training

As part of basic and continuing training, internal course offerings were established which contribute to the promotion and maintenance of know-how in specialized, entrepreneurial, and Liechtenstein-specific subject matters. The courses were held in 2011 for the first time. Additionally, numerous specialized continuing training courses were offered in 2010.

Changes/Promotions

On 8 March 2010, Christian Reich resigned as Head of the Banking and Securities Division and Deputy of the CEO. The employment relationship ended on 30 September 2010. Pursuant to the reorganization, the Banking and Securities Division was split up into the Banking Division and the Securities

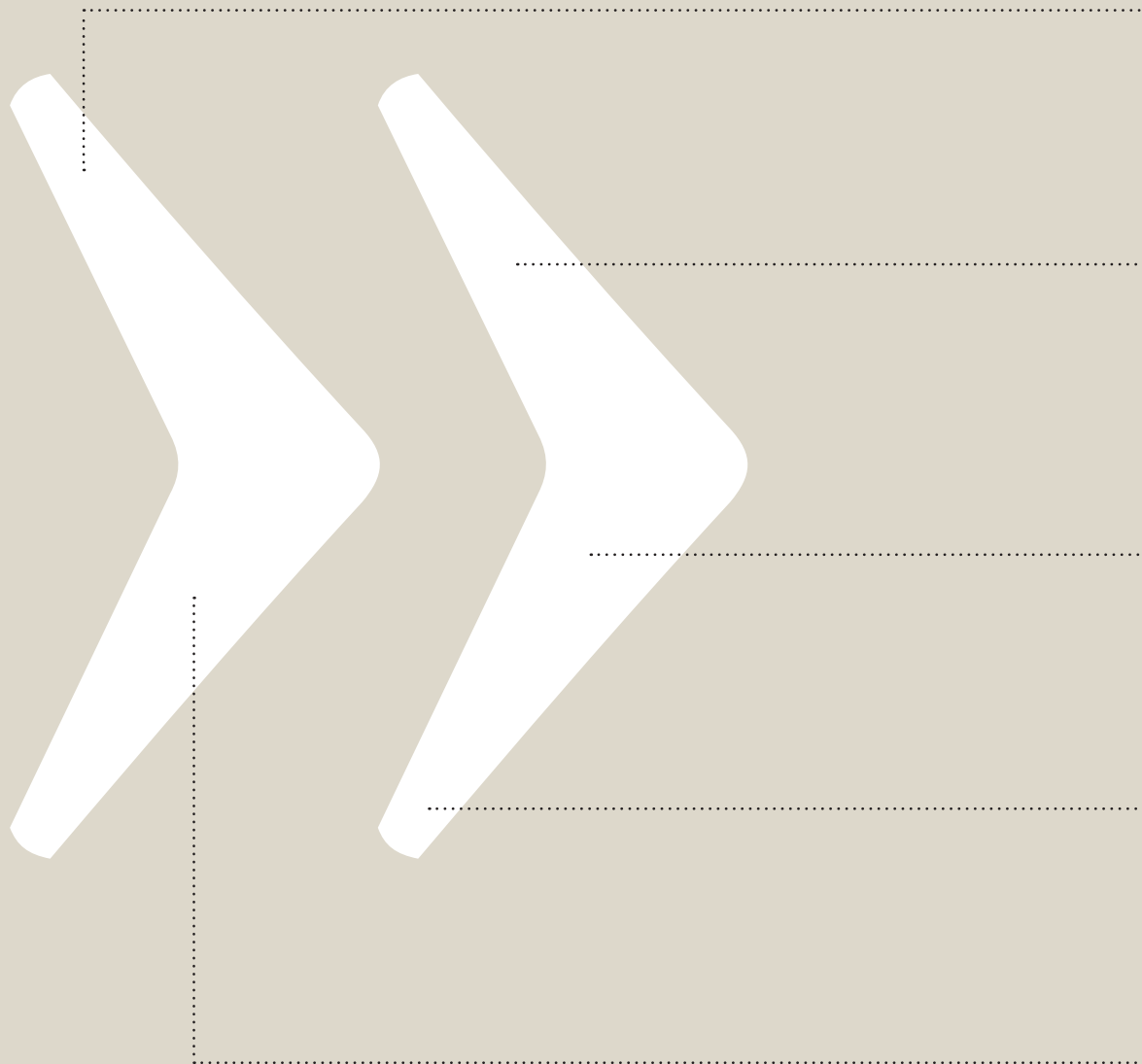
Division. Until the appointment of the new division heads, CEO Mario Gassner headed both divisions ad interim. Effective 15 September 2010, the Board of Directors appointed Rolf Brüggemann as the new Head of the Banking Division and Member of the Executive Board. Tobias Wanner was appointed new Head of the Securities Division and Member of the Executive Board effective 1 December 2010. Dr. Alexander Imhof was appointed as Deputy of the CEO in November 2010; he had held this office on an interim basis since the departure of Christian Reich. Dr. Roger Quaderer, Head of the Other Financial Intermediaries Division and Member of the Executive Board, resigned from his functions on 12 October 2010. The employment relationship will end on 30 April 2011. Until a successor is appointed, Patrik Galliard is filling this position ad interim.

Staff makeup

The staff is made up of approximately 45% jurists and 24% economists. In addition, 10% are specialists such as auditors, banking experts, and actuaries. 21% of the employees are officers or have a different educational background.

Nationalities

25% of employees were Liechtenstein citizens, 38% Swiss citizens, 30% Austrian citizens, and 7% German citizens. The share of Liechtenstein employees increased by 7% over the previous year.



..... Financial market participants under the supervision of the FMA

..... Financial market participants under the supervision
of the FMA pursuant to the free movement of services

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

..... Organizational chart as of 31 December 2010

..... Abbreviations

Financial market participants under the supervision of the FMA as of 31 December 2010

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | +/- |
|---|-------------|-------------------|-------------|-------------|-------------|-------------|-------------|-----------|
| Banks/Investment firms/Liechtenstein Postal Service | | | | | | | | |
| Banks | 16 | 16 | 16 | 16 | 15 | 16 | 17 | 1 |
| Investment firms (from 1.11.2007) | – | – | – | 0 | 0 | 0 | 0 | 0 |
| Payment institutions (from 1.11.2009) | – | – | – | – | – | – | 0 | 0 |
| Liechtenstein Postal Service | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 |
| Audit offices pursuant to the Banking Act | 9 | 9 | 9 | 10 | 8 | 8 | 8 | 0 |
| Asset management companies | | | | | | | | |
| Asset management companies (from 1.1.2006) | – | – | 48 | 90 | 102 | 102 | 107 | 5 |
| Investment undertakings | | | | | | | | |
| Active management companies | – | – | 28 | 27 | 28 | 27 | 24 | -3 |
| of which fund managements | | | 19 | 20 | 21 | 21 | 21 | |
| of which investment companies | | | 9 | 7 | 7 | 6 | 3 | |
| Domestic investment undertakings | 141 | 166 | 208 | 303 | 364 | 411 | 469 | 58 |
| of which segmented | 42 | 45 | 48 | 59 | 67 | 78 | 91 | |
| with a total of segments (individual funds) | 141 | 156 | 179 | 224 | 252 | 285 | 315 | |
| Foreign investment undertakings | 208 | 239 ¹⁾ | 137 | 136 | 112 | 95 | 82 | -13 |
| of which segmented | 52 | 56 | 13 | 18 | 19 | 22 | 20 | |
| with a total of segments (individual funds) | 580 | 659 | 48 | 89 | 92 | 98 | 114 | |
| Audit offices pursuant to the IUA | 9 | 10 | 10 | 10 | 10 | 11 | 11 | 0 |
| Entitled to market units pursuant to the IUA (from 1.9.2005) | – | – | 6 | 8 | 11 | 12 | 14 | 2 |
| Insurance undertakings | | | | | | | | |
| Insurance companies domiciled in Liechtenstein | 28 | 32 | 35 | 37 | 42 | 41 | 40 | -1 |
| Audit offices pursuant to the ISA | 10 | 10 | 10 | 9 | 9 | 9 | 10 | 1 |
| Insurance intermediaries | | | | | | | | |
| Insurance intermediaries (from 1.7.2006) | – | – | 3 | 35 | 64 | 70 | 71 | 1 |
| Pension schemes | | | | | | | | |
| Pension schemes | 40 | 41 | 39 | 36 | 34 | 33 | 33 | 0 |
| Audit offices pursuant to the OPA | – | – | 0 | 12 | 12 | 13 | 14 | 1 |
| Pension insurance experts pursuant to the OPA | – | – | 0 | 10 | 13 | 13 | 14 | 1 |
| Pension funds | | | | | | | | |
| Pension funds | – | – | 0 | 2 | 4 | 5 | 5 | 0 |
| Other financial intermediaries | | | | | | | | |
| Professional trustees | 82 | 86 | 84 | 88 | 85 | 83 | 77 | -6 |
| Professional trustees with restricted license | 23 | 27 | 27 | 27 | 28 | 26 | 23 | -3 |
| Trust companies | 284 | 295 | 277 | 257 | 260 | 262 | 264 | 2 |
| Trust companies with restricted license | 10 | 13 | 15 | 17 | 19 | 24 | 28 | 4 |
| Auditors | 23 | 24 | 24 | 23 | 23 | 24 | 25 | 1 |
| Auditing companies | 28 | 26 | 25 | 24 | 26 | 26 | 26 | 0 |
| Lawyers | 110 | 116 | 124 | 128 | 133 | 147 | 150 | 3 |
| Liechtenstein lawyers eligible for registration | 48 | 55 | 55 | 63 | 64 | 60 | 66 | 6 |
| European lawyers established in Liechtenstein | 18 | 18 | 19 | 20 | 27 | 25 | 25 | 0 |
| Law firms | 27 | 28 | 26 | 25 | 26 | 28 | 28 | 0 |
| Branches of law firms | – | 1 | 0 | 0 | 1 | 1 | 1 | 0 |
| Apprentice lawyers | 58 | 64 | 71 | 65 | 71 | 66 | 67 | 1 |
| Legal agents | 5 | 5 | 5 | 5 | 5 | 5 | 4 | -1 |
| Patent lawyers | 12 | 13 | 13 | 10 | 10 | 10 | 9 | -1 |
| Patent law firms | 5 | 5 | 4 | 4 | 4 | 3 | 3 | 0 |
| Persons with a certification under article 180a PGR ²⁾ | 438 | 461 | 495 | 505 | 513 | 532 | 546 | 14 |
| Exchange offices ³⁾ | 1 | 1 | 2 | 2 | 0 | 0 | 0 | 0 |
| Real estate brokers ³⁾ | * | 16 | 18 | 18 | 21 | 24 | 25 | 1 |
| Dealers in goods ³⁾ | * | 17 | 37 | 38 | 39 | 42 | 42 | 0 |
| Casinos | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other persons subject to due diligence ³⁾ | * | 21 | 27 | 28 | 30 | 32 | 35 | 3 |
| TOTAL (including double counts) | 1634 | 1816 | 1898 | 2089 | 2214 | 2287 | 2364 | 77 |

* Subject to the DDA since 1 February 2005

1) 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.

2) No guarantee of correctness

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

Figure 14
Financial market participants under the supervision
of the FMA as of 31 December 2010

Financial market participants under the supervision of the FMA pursuant to the free movement of services as of 31 December 2010

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | +/- |
|--|------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------|
| Banks/Investment firms | | | | | | | | |
| Free movement of services of EEA banks | 72 | 88 | 108 | 141 | 171 | 179 | 187 | 8 |
| Free movement of services of EEA investment firms | 653 | 737 | 840 | 1049 | 1624 | 1699 | 1787 | 88 |
| Free movement of services of EEA payment institutions | 0 | 0 | 0 | 0 | 0 | 0 | 31 | 31 |
| Branches of EEA investment firms | 0 | 1 | 1 | 1 | 1 | 0 | 0 | 0 |
| Free movement of services of e-money institutions | - | - | - | 5 | 7 | 7 | 7 | 0 |
| Free movement of services of multilateral trading systems (from 1.11.2007) | - | - | - | 2 | 2 | 2 | 2 | 0 |
| Insurance undertakings | | | | | | | | |
| Free movement of services of EEA and Swiss undertakings | 201 | 225 | 240 | 271 | 346 | 375 | 229 | -146 |
| Branches of Swiss undertakings | 26 | 23 | 26 | 25 | 25 | 22 | 34 | 12 |
| Branches of EEA undertakings | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 |
| Management companies and investment undertakings | | | | | | | | |
| Free movement of services of EEA management companies | - | - | 1 | 3 | 4 | 5 | 6 | 1 |
| Free movement of services of EEA investment undertakings | - | - | 103 | 110 | 107 | 95 | 111 | 16 |
| of which segmented | - | - | 42 | 49 | 52 | 53 | 60 | |
| with a total of segments (individual funds) | - | - | 694 | 773 | 793 | 841 | 965 | |
| Branches of EEA management companies | - | - | 0 | 0 | 0 | 0 | 1 | 1 |
| Other financial intermediaries | | | | | | | | |
| Auditors engaging in free movement of services | - | 2 | 3 | 5 | 5 | 5 | 6 | 0 |
| Auditing companies engaging in free movement of services | 18 | 20 | 21 | 21 | 21 | 23 | 22 | 1 |
| TOTAL | 971 | 1097 | 1344 | 1634 | 2314 | 2413 | 2160 | 11 |

Figure 15
Financial market participants under the supervision of the FMA pursuant to the free movement of services as of 31 December 2010

Laws subject to supervision and enforcement by the FMA as of 31 December 2010

1. Law on Banks and Investment Firms (Banking Act)
2. Law on the Business of E-Money Institutions (E-Money Act)
3. Law on the Liechtensteinische Landesbank
4. Payment Services Act (PSA)
5. Law on Settlement Finality in Payment and Securities Settlement Systems (Settlement Finality Act; SFA)
6. Law on the Disclosure of Information concerning the Issuers of Securities (Disclosure Act)
7. Securities Prospectus Act (SPA)
8. Investment Undertakings Act (IUA)
9. Law on the Liechtenstein Postal Service (Postal Act)
10. Lawyers Act
11. Professional Trustees Act (PTA)
12. Auditors and Auditing Companies Act (AACCA)
13. Patent Lawyers Act (PLA)
14. Law on the Supervision of Insurance Undertakings (Insurance Supervision Act; ISA)
15. Law on Professional Due Diligence to Combat Money Laundering, Organized Crime, and Terrorist Financing (Due Diligence Act; DDA)
16. Occupational Pensions Act (OPA)
17. Law on Insurance Protection of Buildings against Fire Damage and Damage from Natural Hazards (Building Insurance Act; BIA)
18. Asset Management Act (AMA)
19. 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 the Trading of Financial Instruments (Market Abuse Act; MAA)
22. Law on Takeover Bids (Takeover Act)
23. Law on the Supplemental Supervision of Undertakings in a Financial Conglomerate (Financial Conglomerates Act; FCA)
24. Law on Pension Insurance for State Employees (Pension Insurance Act; PIA)

Organizational chart as of 31 December 2010

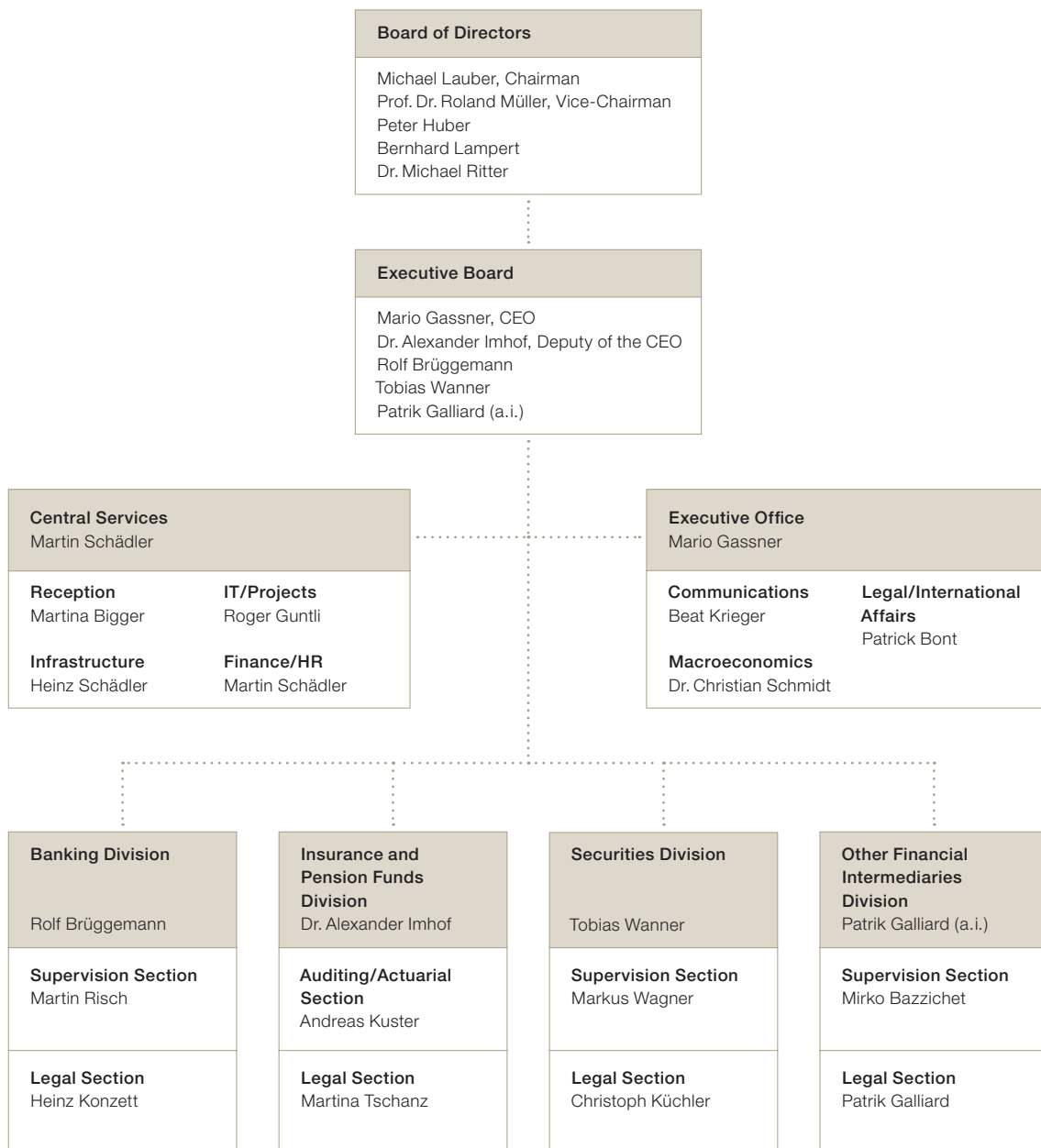


Figure 16
Organizational chart

Governing bodies of the FMA

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

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

| Board of Directors | |
|---|--|
| Chairman Michael Lauber, Zurich, elected from 2010 to 2014 | Members Peter Huber, Egg (Zurich), elected from 2010 to 2014 Bernhard Lampert, Schaan, elected from 2010 to 2014 Dr. Michael Ritter, Eschen, elected from 2010 to 2014 |
| Vice-Chairman Prof. Dr. Roland Müller, Staad, elected from 2010 to 2014 | |

| Executive Board | |
|--|--|
| Chief Executive Officer Mario Gassner, Triesenberg | Head of Banking Division Rolf Brüggemann, Stäfa |
| Deputy of the CEO and Head of Insurance and Pension Funds Division Alexander Imhof, Schaan | Head of Securities Division Tobias Wanner, Neftenbach |
| | Head of Other Financial Intermediaries Division Patrik Galliard (a.i.), Chur |

| Audit Office |
|---|
| Applying article 19(4) of the Financial Market Act, the Government transferred the function of Audit Office to the National Audit Office by its decision of 2 March 2010 (RA 2010/463). The responsibilities of the Audit Office are generally governed by the specific provisions relating to the National Audit Office. |
| The National Audit Office performs this function until the Government decides otherwise. |

Figure 17
Governing bodies of the FMA

Abbreviations

| | |
|---------|--|
| AACA | Auditors and Auditing Companies Act |
| AIFM | Alternative Investment Fund Manager |
| AMA | Asset Management Act |
| AMC | Asset management company |
| CEBS | Committee of European Banking Supervisors |
| CEIOPS | Committee of European Insurance and Occupational Pension Supervisors |
| CESR | Committee of European Securities Regulators |
| CRD | Capital Requirements Directive |
| DDA | Law on Professional Due Diligence to Combat Money Laundering, Organized Crime, and Terrorist Financing (Due Diligence Act) |
| DDO | Due Diligence Ordinance |
| EBA | European Banking Authority |
| EBC | European Banking Committee |
| EC | European Community |
| ECG | Enlarged Contact Group on the Supervision of Collective Investment Funds |
| ECOFIN | Economic and Financial Affairs Council |
| EEA | European Economic Area |
| EFTA | European Free Trade Association |
| EIOPA | European Insurance and Occupational Pensions Authority |
| EIOPC | European Insurance and Occupational Pensions Committee |
| ESA | EFTA Surveillance Authority |
| ESC | European Securities Committee |
| ESMA | European Securities and Markets Authority |
| ESRB | European Systemic Risk Board |
| FATF | Financial Action Task Force |
| FINMA | Swiss Financial Market Supervisory Authority |
| FIU | Financial Intelligence Unit |
| FMA Act | Financial Market Authority Act |
| FMA-CC | FMA Complaints Commission |
| IAIS | International Association of Insurance Supervisors |
| IMA | Insurance Mediation Act |
| IMF | International Monetary Fund |
| IOSCO | International Organization of Securities Commissions |
| ISA | Law on the Supervision of Insurance Undertakings (Insurance Supervision Act) |
| IU | Investment Undertaking |
| IUA | Investment Undertakings Act |
| LBA | Liechtenstein Bankers Association |
| LIFA | Liechtenstein Investment Fund Association |

| | |
|----------|---|
| MAA | Market Abuse Act |
| MC | Management Company |
| MiFID | Markets in Financial Instruments Directive |
| MMoU | Multilateral Memorandum of Understanding |
| Moneyval | Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism |
| OECD | Organisation for Economic Co-operation and Development |
| OFI | Other Financial Intermediaries |
| OPA | Occupational Pensions Act |
| PEA | Public Enterprise Act |
| PEP | Politically Exposed Person |
| PFA | Law on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act) |
| PGR | Law on Persons and Companies |
| PLA | Patent Lawyers Act |
| PSA | Payment Services Act |
| PSD | Payment Services Directive |
| PSO | Payment Services Ordinance |
| PTA | Professional Trustees Act |
| QIS5 | Fifth Quantitative Impact Study |
| SPA | Securities Prospectus Act |
| TIEA | Tax Information Exchange Agreement |
| UCITS | Undertakings for Collective Investments in Transferable Securities |
| VuVL | Verein unabhängiger Vermögensverwalter in Liechtenstein (Association of Independent Asset Managers in Liechtenstein) |

Publisher and Editors

Financial Market Authority Liechtenstein
Landstrasse 109
P.O. Box 279
9490 Vaduz
Principality of Liechtenstein

Telephone +423 23673 73
Fax +423 23673 74

info@fma-li.li
www.fma-li.li

Concept and Design

Leone Ming, Visible Marketing, Schaan

Photographs

Roland Korner/Close up, Triesen

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

